



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

**Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2017 and 2016
(Unaudited)**

Prepared in accordance with accounting principles generally accepted in the United States of America

FortisBC Energy Inc.
Condensed Consolidated Balance Sheets (Unaudited)
As at
(in millions of Canadian dollars)

ASSETS	September 30, 2017	December 31, 2016
Current assets		
Cash	\$ 4	\$ -
Accounts receivable (note 9 and 11)	113	228
Inventories	67	54
Prepaid expenses	20	3
Income taxes receivable	5	7
Regulatory assets (note 9)	55	73
Total current assets	264	365
Restricted cash	-	5
Property, plant and equipment, net	4,331	4,131
Intangible assets, net	119	122
Regulatory assets	710	749
Other assets	15	15
Goodwill	913	913
TOTAL ASSETS	\$ 6,352	\$ 6,300
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Credit facility (note 5)	\$ 260	\$ 194
Accounts payable and other current liabilities (note 9, 11 and 12)	310	349
Other taxes payable	17	38
Current portion of capital lease and finance obligations	5	6
Regulatory liabilities	68	83
Total current liabilities	660	670
Long-term debt	2,205	2,205
Capital lease and finance obligations	88	92
Regulatory liabilities	132	89
Deferred income taxes	422	431
Other liabilities (note 9)	213	209
Total liabilities	3,720	3,696
Equity		
Common shares	1,171	1,171
Additional paid-in capital	1,245	1,245
Retained earnings	206	178
Shareholder's equity	2,622	2,594
Non-controlling interest	10	10
Total shareholder's equity	2,632	2,604
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 6,352	\$ 6,300

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of (Loss) Earnings (Unaudited)
For the three and nine months ended September 30
(in millions of Canadian dollars)

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Revenues				
Natural gas revenue	\$ 151	\$ 144	\$ 828	\$ 737
Other revenue	5	7	5	20
Total revenues	156	151	833	757
Expenses				
Cost of natural gas	38	29	292	204
Operation and maintenance (note 11)	48	53	158	161
Property and other taxes	15	16	49	48
Depreciation and amortization	50	50	152	152
Total expenses	151	148	651	565
Operating income	5	3	182	192
Other income	49	42	110	71
Finance charges (note 6 and 11)	73	71	183	156
(Loss) earnings before income taxes	(19)	(26)	109	107
Income tax (recovery) expense	(16)	(16)	(4)	13
Net (loss) earnings	(3)	(10)	113	94
Net earnings attributable to non-controlling interest	1	1	1	1
Net (loss) earnings attributable to controlling interest	\$ (4)	\$ (11)	\$ 112	\$ 93

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the nine months ended September 30
(in millions of Canadian dollars)

	Common Shares	Additional Paid-in Capital	Non- controlling Interest	Retained Earnings	Total
As at December 31, 2015	\$ 1,141	\$ 1,245	\$ 10	\$ 128	\$ 2,524
Net earnings	-	-	1	93	94
Issuance of common shares	30	-	-	-	30
Net distribution to Mt. Hayes Storage LP partners	-	-	(1)	-	(1)
Dividends on common shares	-	-	-	(80)	(80)
As at September 30, 2016	\$ 1,171	\$ 1,245	\$ 10	\$ 141	\$ 2,567
As at December 31, 2016	1,171	1,245	10	178	2,604
Net earnings	-	-	1	112	113
Net distribution to Mt. Hayes Storage LP partners	-	-	(1)	-	(1)
Dividends on common shares	-	-	-	(84)	(84)
As at September 30, 2017	\$ 1,171	\$ 1,245	\$ 10	\$ 206	\$ 2,632

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FortisBC Energy Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three and nine months ended September 30
(in millions of Canadian dollars)

	Three months ended		Nine months ended	
	2017	2016	2017	2016
Cash flows provided by (used for)				
Operating activities				
Net (loss) earnings	\$ (3)	\$ (10)	\$ 113	\$ 94
Adjustments for non-cash items				
Depreciation and amortization	50	50	152	152
Equity component of allowance for funds used during construction ("AFUDC")	(6)	(4)	(14)	(11)
Deferred income taxes	(1)	-	(1)	-
Amortization of debt issue costs	1	-	1	-
Change in long-term regulatory assets and liabilities	20	7	49	3
Change in other long-term liabilities	-	-	1	-
Change in non-cash working capital (note 8)	(39)	(52)	47	27
Total operating activities	22	(9)	348	265
Investing activities				
Property, plant and equipment (note 8)	(130)	(83)	(317)	(242)
Intangible assets (note 8)	(2)	(3)	(10)	(8)
Contributions in aid of construction	-	1	2	3
Change in other assets and other liabilities	1	3	-	2
Restricted cash	-	-	5	-
Total investing activities	(131)	(82)	(320)	(245)
Financing activities				
Net proceeds from (repayment of) credit facilities	112	204	66	(118)
Deposit received for development expenditures (note 12)	-	63	-	63
Proceeds from issuance of long-term debt	-	-	-	300
Repayment of long-term debt	-	(200)	-	(205)
Repayment of capital lease and finance obligations	(2)	(2)	(5)	(5)
Debt issuance costs	-	-	-	(2)
Net distributions to non-controlling interests	-	(1)	(1)	(1)
Issuance of common shares	-	30	-	30
Dividends on common shares	-	-	(84)	(80)
Total financing activities	110	94	(24)	(18)
Net increase in cash	1	3	4	2
Cash at beginning of period	3	2	-	3
Cash at end of period	\$ 4	\$ 5	\$ 4	\$ 5

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 8).

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

1. DESCRIPTION OF THE BUSINESS

FortisBC Energy Inc. ("FEI" or the "Corporation") is a wholly-owned subsidiary of FortisBC Holdings Inc. ("FHI"), which is a wholly-owned subsidiary of Fortis Inc. ("Fortis"), a Canadian public company.

The Corporation is the largest distributor of natural gas in British Columbia ("BC"), serving approximately 999,000 residential, commercial and industrial and transportation customers in more than 135 communities. The Corporation provides transmission and distribution services to its customers, and obtains natural gas supplies on behalf of most residential, commercial and industrial customers. Gas supplies are sourced primarily from northeastern BC and, through the Corporation's Southern Crossing Pipeline, from Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These condensed consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for condensed consolidated interim financial statements and are presented in Canadian dollars unless otherwise specified. As a result, these condensed consolidated interim financial statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Corporation's 2016 annual audited consolidated financial statements prepared in accordance with US GAAP. In management's opinion, the condensed consolidated interim financial statements include all adjustments that are of a recurring nature and necessary to present fairly the consolidated financial position of the Corporation.

The accounting policies and methods of application used in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies used in FEI's annual audited consolidated financial statements as at December 31, 2016.

In 2014, Canadian securities regulators approved the extension of the Corporation's exemptive relief to continue reporting under US GAAP instead of International Financial Reporting Standards ("IFRS") until the earlier of January 1, 2019 and the effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with activities subject to rate regulation.

The condensed consolidated interim financial statements include the accounts of the Corporation and its subsidiaries and its 85 per cent interest in the Mt. Hayes Storage Limited Partnership ("MHLP"). The Corporation consolidates 100 per cent of its subsidiaries and recognizes 15 per cent of the MHLP as a non-controlling interest. All inter-company transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through November 3, 2017, the date these condensed consolidated interim financial statements were available to be issued, was completed to determine whether any circumstances warranted recognition and disclosure of events or transactions in the condensed consolidated interim financial statements as at September 30, 2017. Subsequent events have been appropriately disclosed in these condensed consolidated interim financial statements.

New Accounting Policies

Simplifying the Test for Goodwill Impairment

Effective January 1, 2017, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-04, *Simplifying the Test for Goodwill Impairment*. The amendments in this update simplify the subsequent measurement of goodwill by eliminating step two in the current two-step goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The above-noted ASU was applied prospectively and did not impact the Corporation's condensed consolidated interim financial statements for the three and nine months ended September 30, 2017.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Accounting Pronouncements

FEI considers the applicability and impact of all ASUs issued by the Financial Accounting Standards Board ("FASB"). The following updates have been issued by FASB, but have not yet been adopted by FEI. Any ASUs not included below were assessed and determined to be either not applicable to the Corporation or are not expected to have a material impact on the consolidated financial statements.

Revenue from Contracts with Customers

ASU No. 2014-09 was issued in May 2014 and the amendments in this update create Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the codification. This standard clarifies the principles for recognizing revenue and can be applied consistently across various transactions, industries and capital markets. In 2016, a number of additional ASUs were issued that clarify implementation guidance in ASC Topic 606. This standard, and all related ASUs, is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim periods beginning after December 15, 2016. The Corporation has elected not to early adopt.

The new guidance permits two methods of adoption: (i) the full retrospective method, under which comparative periods would be restated, and the cumulative impact of applying the standard would be recognized as at January 1, 2017, the earliest period presented; and (ii) the modified retrospective method, under which comparative periods would not be restated and the cumulative impact of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Corporation expects to adopt the guidance using the modified retrospective method.

The majority of the Corporation's revenue is generated from natural gas sales to customers based on published tariff rates, as approved by the BCUC, and is considered to be in scope of ASU No. 2014-09. FEI has assessed tariff revenue and expects that the adoption of this standard will not change the Corporation's accounting policy for recognizing retail and wholesale tariff revenue and, therefore, will not have an impact on earnings. FEI continues to assess whether this standard will have an impact on its remaining revenue streams. The Corporation has not disclosed the expected impact of the adoption of this standard on its consolidated financial statements as it is not expected to be material.

Alternative revenue programs of rate regulated utilities are outside the scope of this standard as they are not considered contracts with customers. Revenues arising from alternative revenue programs will be presented separately from revenues in scope of the new guidance. The Corporation also expects to add additional disclosures to address the requirements to provide more information regarding the nature, amount, timing and uncertainty of revenue and cash flows. FEI is in the process of drafting these required disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued in January 2016 and the amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Most notably, the amendments require the following: (i) equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value through earnings; however, entities will be able to elect to record equity investments without readily determinable fair values at cost, less impairment, and plus or minus subsequent adjustments for observable price changes; and (ii) financial assets and financial liabilities to be presented separately in the notes to the consolidated financial statements, grouped by measurement category and form of financial asset. This update is effective for annual and interim periods beginning after December 15, 2017. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

ASU No. 2016-02 was issued in February 2016 and the amendments in this update create ASC Topic 842, *Leases*, and supersede lease requirements in ASC Topic 840, *Leases*. The main provision of ASC Topic 842 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. For operating leases, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; (ii) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (iii) classify all cash payments within operating activities in the statement of cash flows. These amendments also require qualitative disclosures along with specific quantitative disclosures. This update is effective for annual and interim periods beginning after December 15, 2018 and is to be applied using a modified retrospective approach with practical expedient options. Early adoption is permitted. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016 and the amendments in this update require entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for annual and interim periods beginning after December 15, 2019 and is to be applied on a modified retrospective basis. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, was issued in March 2017 and the amendments in this update require that an employer disaggregate the current service costs component of net benefit cost and present it in the same statement of earnings line item as other employee compensation costs arising from services rendered. The other components of net benefit cost are required to be presented separately from the service cost component and outside of operating income. Additionally, the amendments allow only the service cost component to be eligible for capitalization when applicable. This update is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, however, early adoption must be within the first interim period of a reporting year. The amendments in this update should be applied retrospectively for the presentation of the net periodic benefit costs and prospectively, on and after the effective date, for the capitalization in assets of only the service cost component of net periodic benefit costs. FEI is assessing the impact that the adoption of this update will have on its consolidated financial statements and related disclosures.

3. REGULATORY MATTERS

Multi-year Performance Based Ratemaking Plan for 2014 to 2019 (“2014 PBR Application”)

In September 2014, the British Columbia Utilities Commission (“BCUC”) issued its decision on FEI’s 2014 PBR Application. The approved PBR Plan incorporates an incentive mechanism for improving operating and capital expenditure efficiencies. Operation and maintenance expenses and base capital expenditures during the PBR period, 2014 to 2019, are subject to an incentive formula reflecting incremental costs for inflation and half of customer growth, less a fixed productivity adjustment factor of 1.1 per cent each year. The PBR Plan also includes a 50/50 sharing of variances (“Earnings Sharing Mechanism”) from the formula-driven operation and maintenance expenses and capital expenditures over the PBR period, and a number of service quality measures designed to ensure FEI maintains service levels. It also sets out the requirements for an annual review process which provides a forum for discussion between FEI and interested parties regarding its current performance and future activities.

In December 2015, the BCUC issued its decision on FEI’s 2016 delivery rates. The decision resulted in a 2016 average rate base of approximately \$3,693 million (excluding the rate base of approximately \$11 million for Fort Nelson) and a customer delivery rate increase of 1.79 per cent over 2015 rates.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

3. REGULATORY MATTERS (continued)

In December 2016, the BCUC issued its decision on FEI's 2017 delivery rates. The decision results in a 2017 average rate base of approximately \$3,705 million (excluding the rate base of approximately \$11 million for Fort Nelson) and no increase in customer delivery rates. 2017 rates would have otherwise decreased had there not been approval to defer a revenue surplus for the year.

4. SEASONALITY OF OPERATIONS

Interim results fluctuate due to the seasonal demands for natural gas, the movements of natural gas prices and the timing and recognition of regulatory decisions. FEI's operations generally produce higher net earnings in the first and fourth quarters of the fiscal year and lower net earnings in the second quarter, which are partially offset by net losses in the third quarter. These fluctuations in quarterly net earnings are generally the result of changes in revenue from customer load as a result of weather while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result of the seasonality, interim net earnings are not indicative of net earnings on an annual basis.

5. CREDIT FACILITY AND DEBENTURES

Credit Facility

As at September 30, 2017, the Corporation had a \$700 million syndicated credit facility available. In July 2017, the credit facility was amended such that it now matures in August 2022.

The following summary outlines the Corporation's credit facility:

(\$ millions)	September 30, 2017	December 31, 2016
Credit facility	700	700
Draws on credit facility	(260)	(194)
Letters of credit outstanding	(56)	(52)
Credit facility available	384	454

Debentures

On October 20, 2017, the Corporation filed a short form base shelf prospectus to establish a Medium Term Note Debenture ("MTN Debentures") Program and entered into a Dealers Agreement with certain affiliates of a group of Canadian Chartered Banks. The Corporation may from time to time during the 25 month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to \$650 million. The establishment of the MTN Debenture Program has been approved by the BCUC.

On October 26, 2017, FEI entered into an agreement with the dealers listed in the Dealers Agreement to sell \$175 million of unsecured MTN Debentures Series 30. The MTN Debentures Series 30 bear interest at a rate of 3.69 per cent to be paid semi-annually and mature on October 30, 2047. The closing of the issuance occurred on October 30, 2017, with net proceeds being used to repay existing credit facilities.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

6. FINANCE CHARGES

Finance charges for the three and nine months ended September 30 were as follows:

(\$ millions)	Three months ended		Nine months ended	
	September 30	2016	September 30	2016
Interest on long-term debt, capital leases and finance obligations ¹	31	36	93	103
Finance charges paid to FHI (note 11)	44	38	96	59
Interest on short-term debt	2	-	4	2
Debt component of AFUDC	(4)	(3)	(10)	(8)
Total finance charges	73	71	183	156

¹ Includes amortization of debt issuance costs.

7. EMPLOYEE FUTURE BENEFITS

The Corporation is a sponsor of pension plans for eligible employees. The plans include registered defined benefit pension plans and supplemental unfunded arrangements. The Corporation also provides post-employment benefits ("OPEB") other than pensions for retired employees.

The net benefit cost for the three months ended September 30 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2017	2016	2017	2016
Service costs	5	4	1	1
Interest costs	6	6	2	1
Expected return on plan assets	(8)	(7)	-	-
Amortization:				
Actuarial losses	1	1	-	-
Past service credit	-	-	(1)	(1)
Regulatory adjustment	(1)	1	-	1
Net benefit cost	3	5	2	2

The net benefit cost for the nine months ended September 30 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2017	2016	2017	2016
Service costs	15	13	3	3
Interest costs	17	17	4	3
Expected return on plan assets	(23)	(21)	-	-
Amortization:				
Actuarial losses	2	3	1	1
Past service credit	(1)	-	(2)	(2)
Regulatory adjustment	(1)	2	-	3
Net benefit cost	9	14	6	8

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

8. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the condensed consolidated statements of cash flows for the three and nine months ended September 30 was as follows:

Significant Non-Cash Transactions

(\$ millions)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Fair value of natural gas derivatives	(3)	(9)	6	9
Change in accrued capital expenditures	22	-	6	11
Regulated asset for deferred income taxes	9	-	8	(11)

Change in Non-Cash Working Capital

(\$ millions)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Accounts receivable	32	16	117	116
Inventories	(25)	(26)	(13)	10
Prepaid expenses	(19)	(20)	(17)	(17)
Current regulatory assets and liabilities	-	(35)	(7)	(54)
Accounts payable and other current liabilities	17	58	(15)	22
Other taxes payable	(33)	(31)	(21)	(20)
Income taxes receivable	(11)	(14)	3	(30)
Change in non-cash working capital per statements of cash flows	(39)	(52)	47	27

The non-cash investing activities balances as at September 30 were as follows:

(\$ millions)	2017	2016
Accrued capital expenditures	16	10

During 2017, restricted cash of \$5 million held in escrow as at December 31, 2016 was released.

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Corporation engages in price risk management activities to limit the exposure to fluctuations in natural gas prices.

In June 2016, the BCUC approved the Corporation's Price Risk Management Application to implement specific price risk management tools and strategies to limit the exposure to fluctuations in natural gas prices for customers who receive commodity supply from FEI. These included enhancements to the commodity rate setting mechanism as well as the use of derivative instruments based on pre-defined market price targets and maximum volume limits. Since July 2016, FEI's future commodity rate setting has incorporated the rate setting enhancements and FEI implements derivative instruments if the market price targets are reached for terms out to March 2019. During the nine months ended September 30, 2017, there were occasions when the market price targets approved by the BCUC were reached and the Company entered into fixed price financial swaps to hedge against the physical natural gas contracts. These fixed price financially settled natural gas commodity swaps were recognized as derivative instruments. In June 2017, the Corporation filed the 2017 Price Risk Management Plan with the BCUC requesting further enhancements to its price risk management tools.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

9. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Volume of Derivative Activity

As at September 30, 2017, the Corporation had the following notional volumes of outstanding natural gas commodity derivatives that are expected to be settled as outlined below:

(petajoules)	2017	2018	2019	2020	2021	Thereafter
Natural gas physically-settled supply contracts	40	82	31	28	22	43
Natural gas financially-settled fixed price commodity swaps	1	18	-	-	-	-

Presentation of Derivative Instruments in the Financial Statements

In the Corporation's consolidated balance sheets, derivative instruments are presented on a gross basis.

At September 30, 2017, the Corporation's outstanding derivative balances, which consisted of physically-settled natural gas supply contracts, financially-settled natural gas commodity swaps and foreign exchange forward contracts, were as follows:

(\$ millions)	Gross Derivatives Balance ¹	Gross Amounts Not Offset in the Balance Sheet ²	Total Net Derivatives Balance
Natural gas supply contracts and commodity swaps:			
Accounts payable and other current liabilities	8	-	8
Other liabilities	1	-	1
Foreign exchange forward contracts:			
Accounts receivable	1	-	1

¹ See note 10 for a discussion of the valuation techniques used to calculate the fair value of these instruments.

² Positions, by counterparty, are netted where the intent and legal right to offset exists.

At December 31, 2016, the Corporation's outstanding derivative balances, which consisted of physically-settled natural gas supply contracts, were as follows:

(\$ millions)	Gross Derivatives Balance ¹	Gross Amounts Not Offset in the Balance Sheet ²	Total Net Derivatives Balance
Natural gas supply contracts:			
Accounts payable and other current liabilities	10	-	10
Other liabilities	4	-	4

¹ See note 10 for a discussion of the valuation techniques used to calculate the fair value of these instruments.

² Positions, by counterparty, are netted where the intent and legal right to offset exists.

The following table shows the cumulative unrealized losses at September 30, 2017 and December 31, 2016, with respect to all derivative instruments:

(\$ millions)	September 30, 2017	December 31, 2016
Unrealized loss on natural gas supply contracts and commodity swaps ¹	9	14
Unrealized gain on foreign exchange forward contracts ¹	(1)	-

¹ Unrealized gains and losses on derivative instruments are recorded in current regulatory assets or liabilities rather than being recorded to the consolidated statement of earnings. Accordingly, net earnings were not impacted by unrealized amounts on these instruments.

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's consolidated statements of cash flows.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

10. FAIR VALUE MEASUREMENT

Fair value is the price at which a market participant could sell an asset or transfer a liability to an unrelated party. A fair value measurement is required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. A fair value hierarchy exists that prioritizes the inputs used to measure fair value. The Corporation is required to record all derivative instruments at fair value except those which qualify for the normal purchases and normal sales exception.

The three levels of the fair value hierarchy are defined as follows:

- Level 1: Fair value determined using unadjusted quoted prices in active markets.
- Level 2: Fair value determined using pricing inputs that are observable.
- Level 3: Fair value determined using unobservable inputs only when relevant observable inputs are not available.

The fair values of the Corporation's financial instruments, including derivatives, reflect a point-in-time estimate based on current and relevant market information about the instruments as at the balance sheet dates. The estimates cannot be determined with precision as they involve uncertainties and matters of judgment and, therefore, may not be relevant in predicting the Corporation's future consolidated earnings or cash flows.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable and other current liabilities and credit facility – the carrying values on the consolidated balance sheets of the Corporation approximate their fair values because of the short maturity of these instruments.

Long-term debt - the fair value is estimated using quoted market prices when available. When quoted market prices are not available, the fair value is determined by discounting the future cash flows of the specific debt instrument at an estimated yield to maturity equivalent to benchmark government bonds or treasury bills, with similar terms to maturity, plus a market credit risk premium equal to that of issuers of similar credit quality. Since the Corporation does not intend to settle the long-term debt prior to maturity, the fair value estimate does not represent an actual liability and, therefore, does not include exchange or settlement costs.

Natural gas commodity derivatives – the fair values are estimates of the amounts that the Corporation would receive or pay to terminate the outstanding contracts as at the balance sheet date. None of the natural gas commodity derivatives were designated as hedges of the natural gas supply contracts. However, any changes in the fair value of the natural gas commodity derivatives are deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC.

Foreign exchange forward contracts – the fair value is estimated using quoted forward foreign exchange rates.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

10. FAIR VALUE MEASUREMENT (continued)

The following table summarizes the fair value measurements of the Corporation's long-term debt, natural gas supply contracts, commodity swaps and foreign exchange forward contracts as of September 30, 2017 and December 31, 2016, all of which are Level 2 of the fair value hierarchy and recorded on the consolidated balance sheets at their carrying value or fair value:

(\$ millions)	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
<i>Current</i>				
Foreign exchange forward contracts ¹	1	1	-	-
Liabilities				
<i>Current</i>				
Natural gas supply contracts ¹	3	3	10	10
Natural gas commodity swaps ¹	5	5	-	-
<i>Long-term</i>				
Long-term debt ²	2,220	2,664	2,220	2,687
Natural gas supply contracts ¹	1	1	4	4

¹ Natural gas supply contracts, commodity swaps and foreign exchange forward contracts that are "in the money" are included in accounts receivable or other assets, and "out of the money" are included in accounts payable and other current liabilities or other liabilities.

² Carrying value excludes unamortized debt issuance costs of \$15 million (2016 - \$15 million).

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation transacts with its parent, FHI, ultimate parent, Fortis, and other related companies under common control, including FortisBC Inc. ("FBC") and Aitken Creek Gas Storage ULC ("ACGS"), in financing transactions and to provide or receive services and materials. The following transactions were measured at the exchange amount unless otherwise indicated.

Related Party Recoveries

The amounts charged to the Corporation's parent and other related parties under common control for the three and nine months ended September 30 were as follows:

(\$ millions)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Operation and maintenance expense charged to FBC (a)	1	1	3	3
Operation and maintenance expense charged to FHI (b)	-	1	1	1
Other income received from FHI (c)	44	38	96	59
Operation and maintenance expense charged to ACGS (d)	1	-	1	-
Total related party recoveries	46	40	101	63

(a) The Corporation charged FBC for natural gas sales, office rent, management services and other labour.

(b) The Corporation charged FHI for management services, labour and materials.

(c) As part of a tax loss utilization plan ("TLUP"), the Corporation received dividend income from FHI relating to a \$2,500 million (2016 - \$1,900 million) investment in preferred shares. A TLUP is a series of transactions, whereby the Corporation sets up an investment in an affiliate's preferred shares and issues subordinated debt to that affiliate; these two financial instruments are shown on a net basis. The Corporation receives non-taxable dividend income on the preferred shares and pays tax deductible interest on the debt. The effect of this transaction is to transfer tax losses between affiliated entities.

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and nine months ended September 30, 2017 and 2016

11. RELATED PARTY TRANSACTIONS (continued)

The dividend income associated with the TLUP was previously recognized in other revenue for the three and nine months ended September 30, 2016 and was subsequently reclassified to other income for the year ended December 31, 2016 and for the three and nine months ended September 30, 2017.

(d) The Corporation charged ACGS for management services and labour.

Related Party Costs

The amounts charged by the Corporation's parent and other related parties under common control for the three and nine months ended September 30 were as follows:

(\$ millions)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Operation and maintenance expense charged by FBC (a)	1	2	5	5
Operation and maintenance expense charged by FHI (b)	3	3	9	10
Finance charges paid to FHI (c)	44	38	96	59
Gas storage and purchases charged by ACGS (d)	5	4	18	9
Total related party costs	53	47	128	83

(a) FBC charged the Corporation for electricity purchases, management services and other labour.

(b) FHI charged the Corporation for Board of Director costs, management services, labour and materials.

(c) As part of a TLUP, the Corporation paid FHI interest on \$2,500 million (2016 - \$1,900 million) of intercompany subordinated debt.

(d) ACGS charged the Corporation for the lease of natural gas storage capacity and natural gas purchases.

Balance Sheet Amounts

The amounts due from related parties, which are included in accounts receivable on the consolidated balance sheets, and the amounts due to related parties which are included in accounts payable and other current liabilities on the consolidated balance sheets, are as follows:

(\$ millions)	September 30, 2017		December 31, 2016	
	Amount Due From	Amount Due To	Amount Due From	Amount Due To
FHI	-	(3)	-	-
FBC	1	(1)	-	(1)
ACGS	-	(2)	-	(3)
Total due from (due to) related parties	1	(6)	-	(4)

12. GUARANTEES

The Corporation has letters of credit outstanding at September 30, 2017 totaling \$56 million (December 31, 2016 - \$52 million) primarily to support its unfunded supplemental pension benefit plans.

As of September 30, 2017, FEI has received cash of approximately \$63 million as security for development expenditures incurred on the Eagle Mountain Woodfibre Gas Pipeline Project. This form of security replaces a letter of credit that was previously held. If the project proceeds, the full amount or a portion of the cash deposit received may be refunded and replaced by a letter of credit. Alternatively, if the project does not proceed, the cash deposit will be used to offset FEI's development expenditures incurred relating to the project. The \$63 million of cash deposits were primarily used to repay FEI's credit facilities and is recognized as a deposit in accounts payable and current liabilities.