



FortisBC Energy Inc.

An indirect subsidiary of Fortis Inc.

Condensed Consolidated Interim Financial Statements
For the three and six months ended June 30, 2018 and 2017
(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	June 30, 2018	December 31, 2017
Current assets		
Cash	\$ 4	\$ -
Accounts receivable (notes 7 and 9)	128	231
Inventories	28	50
Prepaid expenses	1	3
Regulatory assets (note 7)	33	79
Total current assets	194	363
Property, plant and equipment, net	4,467	4,356
Intangible assets, net	122	124
Regulatory assets	752	746
Other assets (note 7)	9	9
Goodwill	913	913
TOTAL ASSETS	\$ 6,457	\$ 6,511
LIABILITIES AND EQUITY		
Current liabilities		
Credit facility	\$ 55	\$ 111
Accounts payable and other current liabilities (notes 7 and 8)	219	287
Income taxes payable	4	15
Other taxes payable	53	38
Current portion of capital lease and finance obligations	31	32
Regulatory liabilities (note 7)	101	90
Total current liabilities	463	573
Long-term debt (note 7)	2,376	2,376
Capital lease and finance obligations	57	59
Regulatory liabilities	154	160
Deferred income taxes	457	450
Other liabilities (notes 5 and 7)	223	230
Total liabilities	3,730	3,848
Equity		
Common shares	1,211	1,171
Additional paid-in capital	1,245	1,245
Retained earnings	261	237
Shareholder's equity	2,717	2,653
Non-controlling interests	10	10
Total equity	2,727	2,663
TOTAL LIABILITIES AND EQUITY	\$ 6,457	\$ 6,511

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements.

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

	Three months ended		Six months ended	
	2018	2017	2018	2017
Revenues				
Revenue from contracts with customers	\$ 208	\$ 225	\$ 642	\$ 677
Alternative revenue	12	-	6	-
Other revenue	7	3	7	-
Total revenues (notes 2 and 9)	227	228	655	677
Expenses				
Cost of natural gas	51	73	185	254
Operation and maintenance	59	56	117	112
Property and other taxes	17	17	34	34
Depreciation and amortization	56	51	112	102
Total expenses	183	197	448	502
Operating income	44	31	207	175
Other income	45	50	61	63
Finance charges	78	73	126	110
Earnings before income taxes	11	8	142	128
Income tax (recovery) expense	(7)	(9)	23	12
Net earnings	\$ 18	\$ 17	\$ 119	\$ 116

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

	Common Shares	Additional Paid-in Capital	Non- controlling Interests	Retained Earnings	Total
As at December 31, 2016	\$ 1,171	\$ 1,245	\$ 10	\$ 178	\$ 2,604
Net earnings	-	-	-	116	116
Dividends on common shares	-	-	-	(84)	(84)
As at June 30, 2017	1,171	1,245	10	210	2,636
As at December 31, 2017	1,171	1,245	10	237	2,663
Net earnings	-	-	-	119	119
Issuance of common shares	40	-	-	-	40
Dividends on common shares	-	-	-	(95)	(95)
As at June 30, 2018	\$ 1,211	\$ 1,245	\$ 10	\$ 261	\$ 2,727

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 six months ended June 30
(in millions of Canadian dollars)

	Three months ended		Six months ended	
	2018	2017	2018	2017
Operating activities				
Net earnings	\$ 18	\$ 17	\$ 119	\$ 116
Adjustments for non-cash items				
Depreciation and amortization	56	51	112	102
Equity component of allowance for funds used during construction	-	(4)	(1)	(8)
Change in long-term regulatory assets and liabilities	(26)	(5)	(17)	29
Change in other long-term liabilities	2	1	2	1
Change in non-cash working capital (note 6)	84	77	99	86
Cash from operating activities	134	137	314	326
Investing activities				
Property, plant and equipment additions (note 6)	(111)	(97)	(194)	(187)
Intangible asset additions	(4)	(5)	(6)	(8)
Contributions in aid of construction	1	2	2	2
Change in other assets and other liabilities	(2)	(6)	(2)	(1)
Restricted cash	-	-	-	5
Cash used in investing activities	(116)	(106)	(200)	(189)
Financing activities				
Net (repayment of) proceeds from credit facility	(12)	14	(56)	(46)
Deposit received for development expenditures (note 8)	4	-	4	-
Repayment of capital lease and finance obligations	(1)	(1)	(3)	(3)
Net distributions to non-controlling interest	-	(1)	-	(1)
Issuance of common shares	40	-	40	-
Dividend on common shares	(48)	(42)	(95)	(84)
Cash used in financing activities	(17)	(30)	(110)	(134)
Net change in cash	1	1	4	3
Cash at beginning of period	3	2	-	-
Cash at end of period	\$ 4	\$ 3	\$ 4	\$ 3

Supplementary Information to Condensed Consolidated Statements of Cash Flows (note 6).

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 six months ended June 30, 2018 and 2017

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 1,017,000 residential, commercial, 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 2017 Annual Audited Consolidated Financial Statements. In management's opinion, the Condensed Consolidated Interim Financial Statements include all adjustments that are necessary to present fairly the consolidated financial position of the Corporation.

With the exception of the new accounting policies listed below, 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, 2017.

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 interests. All intercompany transactions and balances have been eliminated upon consolidation.

An evaluation of subsequent events through July 30, 2018, the date these Condensed Consolidated Interim Financial Statements were 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 June 30, 2018. Subsequent events have been appropriately disclosed in these Condensed Consolidated Interim Financial Statements.

New Accounting Policies

Revenue from Contracts with Customers

Effective January 1, 2018, FEI adopted Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which supersedes 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 enables users of financial statements to better understand and consistently analyze an entity's revenues across industries and transactions. The Corporation adopted the new revenue recognition guidance using the modified retrospective transition method, under which comparative periods are not restated and the cumulative impact of applying the standard is recognized at the date of initial adoption supplemented by additional disclosures. Upon adoption, there were no adjustments to the opening balance of the Corporation's retained earnings as there were no changes to the timing of how revenue is recognized.

The adoption of this standard did not materially change the Corporation's accounting policy for recognizing revenue. The Corporation's revenue recognition policy, effective January 1, 2018, is as follows:

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The majority of the Corporation's revenue is derived from natural gas sales to residential, commercial, industrial, and transportation customers. Most of the Corporation's contracts have a single performance obligation, the delivery of natural gas. Substantially all of the Corporation's performance obligations are satisfied over time as natural gas is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, gigajoules ("GJ") delivered. The billing of natural gas sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month.

The Corporation disaggregates revenue by type of customer, as disclosed in note 9. This represents the level of disaggregation used by the Corporation to evaluate performance.

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

Effective January 1, 2018, the Corporation adopted Accounting Standards Update ("ASU") No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires current service costs to be disaggregated and grouped in the statement of earnings with other employee compensation costs arising from services rendered. The other components of net periodic benefit costs must be presented separately and outside of operating income. Additionally, only the service cost component is eligible for capitalization. On adoption, the Corporation applied the presentation guidance retrospectively and the capitalization guidance prospectively. This resulted in a retrospective \$1 million and \$2 million reclassification from operation and maintenance expense to other income for the three and six months ended June 30, 2017, respectively, in these Condensed Consolidated Interim Financial Statements (note 5).

Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2018, the Corporation adopted ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. Principally, it requires: (i) equity investments in unconsolidated entities not accounted for using the equity method to be measured at fair value through earnings; however, entities may 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 liabilities to be presented separately in the financial statement notes, grouped by measurement category and form. Adoption of this ASU did not impact these Condensed Consolidated Interim Financial Statements.

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.

Leases

ASU No. 2016-02, *Leases* (ASC Topic 842), was issued in February 2016, is effective for FEI January 1, 2019 with earlier adoption permitted, and is to be applied using a modified retrospective approach with practical expedient options. Principally, it requires balance sheet recognition of a right-of-use asset and a lease liability by lessees for those leases that are classified as operating leases along with additional disclosures.

FEI expects to elect a package of practical expedients that will allow it to not reassess whether any expired or existing contract is a lease or contains a lease, the lease classification of any expired or existing leases, and the initial direct costs for any existing leases. FEI also expects to elect an additional practical expedient that permits entities to not evaluate existing land easements that were previously not accounted for as leases.

FEI continues to assess the impact of adoption and monitor standard-setting activities that may affect the transition requirements.

Measurement of Credit Losses on Financial Instruments

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, is effective for FEI January 1, 2020, and is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. FEI is assessing the impact of adoption.

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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 2016, the BCUC issued its decision on FEI’s 2017 delivery rates. The decision resulted 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.

In December 2017, the BCUC issued its decision on FEI’s 2018 delivery rates. The decision resulted in a 2018 average rate base of approximately \$4,370 million (excluding the rate base of approximately \$11 million for Fort Nelson) and no increase in customer delivery rates. While there was an overall increase in the forecasted 2018 cost of service, primarily due to a higher investment in regulated assets, this was more than offset by forecasted growth in customers and throughput for 2018. As a result, 2018 rates would have otherwise decreased had there not been approval to defer a revenue surplus for the year. The revenue surplus amounts derived from FEI’s 2018 and 2017 delivery rate decisions are expected to be refunded to customers in future rates.

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. 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 June 30 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2018	2017	2018	2017
Service costs	5	5	1	1
Interest costs	6	5	1	1
Expected return on plan assets	(9)	(7)	-	-
Amortization:				
Actuarial losses	1	1	-	1
Past service credit	(1)	(1)	-	(1)
Net benefit cost	2	3	2	2

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5. EMPLOYEE FUTURE BENEFITS (continued)

The net benefit cost for the six months ended June 30 was as follows:

(\$ millions)	Defined Benefit Pension and Supplemental Plans		OPEB Plans	
	2018	2017	2018	2017
Service costs	10	10	2	2
Interest costs	12	11	2	2
Expected return on plan assets	(17)	(15)	-	-
Amortization:				
Actuarial losses	2	1	-	1
Past service credit	(1)	(1)	-	(1)
Regulatory adjustment	(1)	-	-	-
Net benefit cost	5	6	4	4

As a result of adopting ASU No. 2017-07, the components of net benefit cost, other than the service cost component, are included in other income in the Condensed Consolidated Statements of Earnings for both comparable periods.

During 2018, the Corporation expects to contribute \$14 million for defined benefit pension plans and make payments of \$2 million for OPEB plans.

6. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The supplementary information to the Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30 was as follows:

Significant Non-Cash Transactions

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Change in fair value of derivative instruments (note 7)	16	3	49	9
Change in accrued capital expenditures	2	(21)	(4)	(16)
Change in regulated asset for deferred income taxes	(5)	(10)	(7)	(1)

Change in Non-Cash Working Capital

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Accounts receivable	126	117	114	85
Inventories	(9)	(23)	21	12
Prepaid expenses	1	1	2	2
Accounts payable and other current liabilities	(17)	4	(43)	(32)
Income taxes payable	(19)	(13)	(11)	14
Other taxes payable	(7)	(7)	15	12
Net current regulatory assets and liabilities	9	(2)	1	(7)
Change in non-cash working capital per Statements of Cash Flows	84	77	99	86

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

(\$ millions)	2018	2017
Accrued capital expenditures	19	38

FortisBC Energy Inc.
Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
For the three and six months ended June 30, 2018 and 2017

7. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The Corporation categorizes financial instruments into the three-level hierarchy based on inputs used to determine the fair value:

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

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the Corporation's assets and liabilities accounted for at fair value on a recurring basis, all of which are Level 2 of the fair value hierarchy:

(\$ millions)	June 30, 2018	December 31, 2017
Assets		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	12	2
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	3	4
Total assets	15	6
Liabilities		
<i>Current</i>		
Natural gas contracts subject to regulatory deferral ¹	(14)	(47)
<i>Long-term</i>		
Natural gas contracts subject to regulatory deferral ¹	-	(7)
Total liabilities	(14)	(54)
Total assets (liabilities), net	1	(48)

¹ Derivative 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.

The Corporation has elected gross presentation for its derivative contracts under master netting agreements, which applies only to its natural gas derivatives. The table below presents the potential offset of counterparty netting and cash collateral:

	Gross Amount Not Offset in the Balance Sheet			
	Gross Amount Recognized in the Balance Sheet	Counterparty Netting of Natural Gas Contracts ¹	Cash Collateral (Received) /Posted	Net Amount
June 30, 2018				
(\$ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	12	(3)	6	15
Other assets	3	-	-	3
Accounts payable and other current liabilities	(14)	3	-	(11)

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

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Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
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7. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (continued)

	Gross Amount Recognized in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
		Counterparty Netting of Natural Gas Contracts ¹	Cash Collateral (Received)/ Posted	
December 31, 2017 (\$ millions)				
Natural gas contracts subject to regulatory deferral:				
Accounts receivable	2	(1)	7	8
Other assets	4	(1)	-	3
Accounts payable and other current liabilities	(47)	1	-	(46)
Other liabilities	(7)	1	-	(6)

¹ Positions, by counterparty, are netted where the intent and legal right to offset exists.

Derivative Instruments

The Corporation generally limits the use of derivative instruments to those that qualify as accounting or economic hedges, or those that are approved for regulatory recovery. The Corporation records all derivative instruments at fair value, with certain exceptions including those derivatives that qualify for the normal purchase and normal sale exception.

FEI enters into physical natural gas supply contracts and financial commodity swaps to fix the effective purchase price of natural gas, as the majority of the natural gas supply contracts have floating, rather than fixed, prices. Swap contracts are agreements between two parties to exchange streams of payments over time according to specified terms. Swap contracts require receipt of payment for the notional quantity of the commodity based on the difference between a fixed price and the market price on the settlement date. The fair value of the natural gas derivatives is calculated using the present value of cash flows based on published market prices and forward curves for natural gas.

Natural gas contracts held by FEI are subject to regulatory recovery through rates. As at June 30, 2018, these natural gas contracts were not designated as hedges and any unrealized gains or losses associated with changes in the fair value of the derivatives were deferred as a regulatory asset or liability for recovery from, or refund to, customers in future rates, as permitted by the BCUC, and as shown in the following table:

(\$ millions)	June 30, 2018	December 31, 2017
Unrealized net gain (loss) recorded to current regulatory liabilities (assets)	1	(48)

Cash inflows and outflows associated with the settlement of all derivative instruments are included in operating cash flows on the Corporation's Condensed Consolidated Statements of Cash Flows.

Volume of Derivative Activity

As at June 30, 2018, the Corporation had various natural gas derivative contracts subject to regulatory deferral that will settle on various expiration dates through 2021. The volumes related to these natural gas derivatives are outlined below:

(petajoules)	June 30, 2018	December 31, 2017
Natural gas physically-settled supply contracts	225	219
Natural gas financially-settled commodity swaps	51	47

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7. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (continued)

Financial Instruments Not Carried At Fair Value

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. The Corporation uses the following methods and assumptions for estimating the fair value of financial instruments:

- The carrying values of cash, accounts receivable, accounts payable, other current assets and liabilities and borrowings under the credit facility on the Condensed Consolidated Balance Sheets of the Corporation approximate their fair values due to short-term nature of these financial instruments. These items have been excluded from the table below.
- For long-term debt, the Corporation uses 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.

The use of different estimation methods and market assumptions may yield different estimated fair value amounts. The following table includes the carrying value and estimated fair value of the Corporation's long-term debt:

(\$ millions)	Fair Value Hierarchy	June 30, 2018		December 31, 2017	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Liabilities					
Long-term debt ¹	Level 2	2,395	2,902	2,395	2,955

¹ Carrying value excludes unamortized debt issuance costs.

8. GUARANTEES

The Corporation had letters of credit outstanding at June 30, 2018 totaling \$52 million (December 31, 2017 - \$56 million) primarily to support its unfunded supplemental pension benefit plans.

As at June 30, 2018, there is \$6 million of cash deposits in accounts payable and other current liabilities, of which \$4 million was received during the second quarter of 2018. These funds are being held as security for future development expenditures for the Eagle Mountain Woodfibre Gas Pipeline Project.

9. REVENUE RECOGNITION

The majority of the Corporation's revenue is derived from natural gas sales to residential, commercial, industrial, and transportation customers. Most of the Corporation's contracts have a single performance obligation, the delivery of natural gas, as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and therefore not distinct. Substantially all of the Corporation's performance obligations are satisfied over time as natural gas is delivered because of the continuous transfer of control to the customer, generally using an output measure of progress, GJ delivered. The billing of natural gas sales is based on the reading of customer meters, which occurs on a systematic basis throughout the month. The BCUC approved tariff states the billing terms with the customer. The majority of contracts have payment terms of 30 days from the date the bill is rendered. Any payment not received by the due date is considered delinquent and incurs a late payment finance charge. No component of the transaction price is allocated to unsatisfied performance obligations.

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9. REVENUE RECOGNITION (continued)

Disaggregation of Revenues

As a result of adopting ASC Topic 606 using the modified retrospective approach, 2017 comparative figures have not been restated in the Condensed Consolidated Statements of Earnings. The following table presents the disaggregation of the Corporation's revenues by type of customer for the three and six months ended June 30, 2018 and 2017. 2017 figures that are disclosed in this table in accordance with the new revenue guidance are provided for information purposes only.

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Residential	111	131	367	425
Commercial	55	65	180	212
Industrial	7	6	15	13
Transportation	27	24	63	59
Other	8	9	17	16
Revenue from contracts with customers	208	235	642	725
Alternative revenue	12	(7)	6	(41)
Other revenue (expense)	7	-	7	(7)
Total revenues	227	228	655	677

Revenue from contracts with customers

The Corporation's tariff-based sales to residential, commercial, industrial, and transportation customers are regulated by the BCUC and recognized when gas is delivered at the amount of consideration that the Corporation expects to receive in exchange. Revenue from contracts with customers include an estimate for unbilled revenues from service that has been provided but not yet billed by the end of an accounting period. At the end of the month, amounts of gas delivered since the last meter reading are estimated and the corresponding unbilled revenue is calculated using customer tariff rates. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of tariff sales and customer usage patterns. The Corporation then records revenue for each customer class based on the approved tariff rates.

Other revenue from contracts with customers includes fees charged for utility customer connections, which is recognized as revenue when billed to the customer, as well as agreements with utility customers to provide firm and interruptible transportation of natural gas and agreements with certain customers to provide transportation of natural gas over utility owned infrastructure, which are both recognized as revenue as natural gas is delivered, using an output measure of progress, GJ delivered.

Alternative revenue

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by the BCUC are met. The Corporation has identified its Earnings Sharing Mechanism, Revenue Stabilization Adjustment Mechanism, and Flow-through variances related to industrial customer revenue as alternative revenue.

The Earnings Sharing Mechanism allows for a 50/50 sharing of variances from the formula-driven operation and maintenance expenses and capital expenditures approved as part of the annual revenue requirements. This mechanism is in place until the expiry of the current performance based rate setting plan in 2019. In addition, FEI captures variances in the forecast versus actual customer use rate for residential and commercial customers throughout the year in a Revenue Stabilization Adjustment Mechanism, which is either refunded to or recovered from customers in rates within two years. Variances in the forecast versus actual customer use rate for industrial customer revenue are recognized in a flow-through deferral account to be either refunded to or recovered from customers in rates within two years.

Amounts collected from or refunded to customers for alternative revenue programs are presented in revenue from contracts from customers.

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9. REVENUE RECOGNITION (continued)

Other revenue (expense)

Other revenue is primarily comprised of regulatory deferral adjustments resulting primarily from cost recovery variances in regulated forecasts used to set rates for natural gas revenue. As part of the PBR Decision received, effective January 1, 2014 and effective through to the end of the PBR term the Corporation has a flow-through deferral account that captures variances from regulated forecast items, excluding formulaic operation and maintenance costs, that do not have separately approved deferral mechanisms, and flows those variances through customer rates in the following year.

Accounts receivable

The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable. The opening and closing balances of the Corporation's accounts receivable were as follows:

(\$ millions)	June 30, 2018	December 31, 2017
Billed accounts receivable from contracts with customers	57	93
Accrued unbilled revenue from contracts with customers	31	114
Fair value of derivative instruments (note 7)	12	2
Cash collateral posted (note 7)	6	7
Gas cost mitigation receivables ¹	22	12
Receivables for third party services and other ¹	8	10
Allowance for doubtful accounts	(8)	(7)
Total accounts receivable	128	231

¹ Representative of receivables not related to contracts with customers.

Practical Expedients

The Corporation has elected three practical expedients in implementing ASC 606, *Revenue from Contracts with Customers*. The Corporation has applied a portfolio approach in evaluating consideration from residential and commercial customers. The Corporation has also applied a practical expedient to consideration received from certain customers on a tariff schedule and has not adjusted the promised amount of consideration for the effect of a significant financing component because FEI expects that the period between the transfer of natural gas to the customer and the customer's payment for that service will be one year or less. Finally, FEI has elected to recognize revenue in the amount to which FEI has a right to invoice the customer.