

FORTISBC

FortisBC Inc.

**Annual Information Form
For the Year Ended December 31, 2006**

March 8, 2007

TABLE OF CONTENTS

GLOSSARY	4
THE CORPORATION	7
THE BUSINESS OF FORTISBC.....	7
A. GENERAL	7
B. SALES AND SERVICE TERRITORY	8
C. GENERATION AND POWER SUPPLY	9
D. TRANSMISSION AND DISTRIBUTION	12
E. REGULATION	13
F. MAJOR CAPITAL PROJECTS	14
G. OTHER OPERATIONS AND ASSETS	15
H. UNREGULATED ACTIVITIES.....	15
I. OTHER MATERIAL CORPORATE ISSUES.....	15
BRITISH COLUMBIA’S ELECTRICITY INDUSTRY	20
REGULATION OF BRITISH COLUMBIA’S ELECTRICITY INDUSTRY	22
MARKET FOR SECURITIES.....	25
CAPITAL STRUCTURE.....	25
DIVIDEND POLICY	28
RISK FACTORS	28
DIRECTORS AND OFFICERS.....	29
EXECUTIVE COMPENSATION.....	31
SECURITIES AUTHORIZED FOR ISSUANCE UNDER UNIT COMPENSATION PLANS.....	33
INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS	33
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	33
MANAGEMENT CONTRACTS	33
MATERIAL CONTRACTS	33
LEGAL PROCEEDINGS.....	34
AUDITOR, TRUSTEE AND PAYING AGENT	34
INTEREST OF EXPERTS	34
ADDITIONAL INFORMATION.....	34

All figures are expressed in Canadian dollars unless otherwise noted.

Except as otherwise stated, the information in this Annual Information Form is given as of December 31, 2006.

FORWARD LOOKING INFORMATION

Certain sections of this Annual Information Form contain forward-looking information within the meaning of applicable securities laws in Canada (“forward-looking information”). The words “anticipates”, “believes”, “budgets”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “might”, “plans”, “projects”, “schedule”, “should”, “will”, “would” and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information in this Annual Information Form concerns the Corporation’s business and anticipated results, trends, developments, earnings growth and capital project expenditures. The forecasts and projections that make up the forward-looking information are based on estimates and assumptions, which are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: increased costs of services and equipment; increased regulatory requirements; the Corporation’s ability to arrange sufficient and cost-effective financing; uncertainties faced by regulated companies, including approval by the BCUC of customer rates; a decline in British Columbia’s economy; the effects of severe weather conditions and other acts of nature; the Corporation’s ability to obtain adequate insurance against storm damage and other natural disasters; the effect of interest rates on the Corporation’s business; labour relations; potential environmental damage and associated costs; the costs of litigation, damages awarded and mitigation measures; weather related loss of demand for the Corporation’s services; and other risks described in this Annual Information Form under the section heading “Risk Factors”. For additional information with respect to these and other risk factors, reference should be made to the section entitled “Business Outlook – Business Risk Management” in the Corporation’s Management Discussion & Analysis for the year ended December 31, 2006, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference. All forward-looking information in this Annual Information Form is qualified in its entirety by this cautionary statement and the Corporation undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

GLOSSARY

Except as otherwise defined, or unless the context otherwise requires, the following terms have the meanings set forth below.

“2007 System Development Plan Update” means the update System Development Plan, filed on July 26, 2006 with the BCUC;

“BC Hydro” means British Columbia Hydro and Power Authority, a provincial Crown corporation and electric utility serving the majority of British Columbia residents;

“BC Hydro PPA” means the 200 MW power purchase agreement between the Corporation and BC Hydro terminating in 2013;

“BCTC” means the British Columbia Transmission Corporation, a provincial Crown corporation which operates and maintains the transmission assets of BC Hydro;

“BCUC” means the British Columbia Utilities Commission;

“Board” means the Board of Directors of FortisBC;

“Brilliant Plant” means the 149 MW hydroelectric generating plant jointly owned by CPC and CBT through the Brilliant Power Corporation;

“Brilliant PPA” means the 129 MW power purchase agreement between the Corporation and Brilliant Power Corporation terminating in 2056;

“Brilliant Upgrade” means the additional ongoing agreement to purchase 20 MW of power pursuant to the Brilliant PPA;

“Canal Plant” means the Kootenay Canal Plant, a hydroelectric generating plant on the Kootenay River system owned by BC Hydro;

“CBT” means Columbia Basin Trust;

“COPE” means Canadian Office and Professional Employees Union;

“Corporation” or **“FortisBC”** means FortisBC Inc.;

“CPC” means Columbia Power Corporation, a British Columbia Crown corporation;

“CPCN” means a Certificate of Public Convenience and Necessity issued by the BCUC;

“CPI” means consumer price index;

“DBRS” means Dominion Bond Rating Service Limited;

“Dividends” means all dividends declared and paid by the Corporation, each of which has been designated as an eligible dividend for federal and provincial dividend tax credit purposes;

“Energy Plan” means the 2001 energy policy of the government of British Columbia entitled “Energy For Our Future: A Plan For B.C.”;

“Entitlement” means a generating facility’s fixed annual entitlement of capacity and energy under the Original CPA and the 2005 CPA;

“Entitlement Parties” or **“EPs”** means, collectively, Brilliant Power Corporation, Teck Cominco Metals Ltd. and FortisBC;

“Fortis” means Fortis Inc.;

“FortisAlberta” means FortisAlberta Inc.;

“Fortis Pacific” means Fortis Pacific Holdings Inc.;

“FortisWest” means FortisWest Inc.;

“GWh” means a gigawatt hour, which is a measure of energy that is equal to 1,000,000,000 watts used over a one-hour period;

“IBEW” means International Brotherhood of Electrical Workers Union;

“Indenture” means the trust indenture dated as of November 30, 2004 between the Corporation and Computershare Trust Company of Canada, as Trustee, as supplemented and amended from time to time;

“KWh” means a kilowatt hour, which is a measure of energy that is equal to 1,000 watts used over a one-hour period;

“Moody’s” means Moody’s Investors Service;

“MW” means a megawatt, which is a measure for power that is equal to 1,000,000 watts;

“MWh” means a megawatt hour, which is a measure of energy that is equal to 1,000,000 watts used over a one-hour period;

“Original CPA” means the Canal Plant Agreement dated August 1, 1972 between BC Hydro, Teck Cominco Metals Ltd. and the Corporation, and **“2005 CPA”** means the amended and restated Canal Plant Agreement made as of July 1, 2005;

“PBR” means the performance-based rate setting methodology for regulation of public utilities;

“PIF” means productivity improvement factor;

“Rate Base Assets” means all generation, transmission and distribution and other utility assets that are used or required to be used to provide service to utility customers, which are included in the determination of the Corporation’s revenue requirement and are subject to a regulated rate of return;

“ROE” means return on deemed equity, as approved by the BCUC;

“RPS” means the Corporation’s resource plan study;

“System Development Plan” means the Transmission and Distribution System Development Plan of FortisBC filed on November 26, 2004 with the BCUC;

“Task Force” means the Task Force on Energy Policy commissioned by the government of British Columbia in 2001;

“Treaty” means the 1961 Columbia River Treaty between Canada and the United States;

“Utilities Commission Act” means the British Columbia *Utilities Commission Act*, as amended; and

“Walden Power Plant” means the 16 MW hydroelectric plant owned by the Walden Power Partnership.

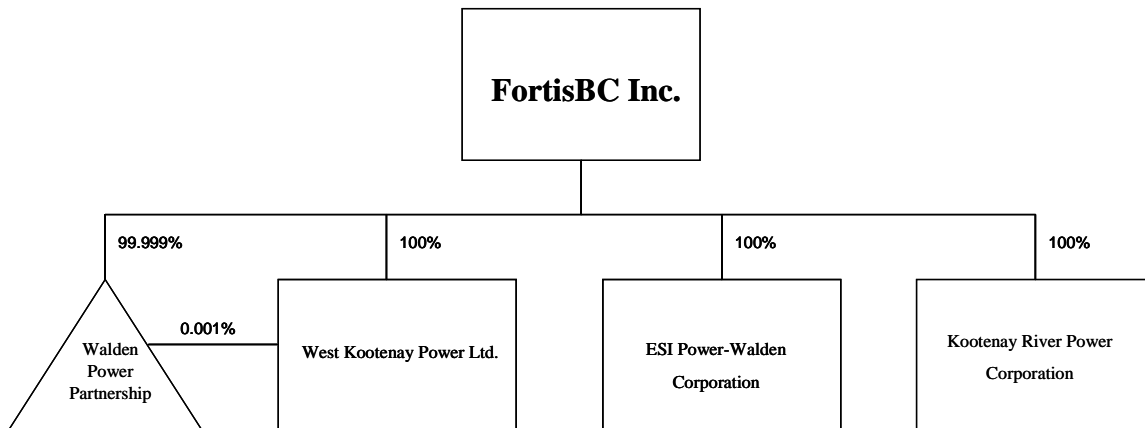
THE CORPORATION

Corporate Structure

FortisBC was incorporated as West Kootenay Power and Light Company, Limited pursuant to the *West Kootenay Power and Light Company, Limited, Act 1897* (British Columbia), as amended. The Corporation's name was changed to West Kootenay Power Ltd. on September 1, 1988, to UtiliCorp Networks Canada (British Columbia) Ltd. on October 22, 2001, to Aquila Networks Canada (British Columbia) Ltd. on May 31, 2002 and to FortisBC Inc. on June 1, 2004.

FortisBC's head office and records office is located at 5th Floor, 1628 Dickson Avenue, Kelowna, British Columbia V1Y 9X1.

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a diversified, international electricity utility holding company having investments in distribution, transmission and generation utilities, as well as real estate and hotel operations. As of January 1, 2007, FortisBC has three corporate subsidiaries and is a partner in the Walden Power Partnership along with West Kootenay Power Ltd., as set out in the chart below. On December 31, 2006, FortisBC acquired all of the issued and outstanding shares of Princeton Light & Power Company, Limited (a regulated public utility serving the community of Princeton) from its parent company, Fortis Pacific for common share consideration of approximately \$3.9 million and the assumption of \$4.5 million in bank debt. On January 1, 2007, the Corporation wound up PLP and assumed its assets, liabilities and operations. The bank debt assumed on the acquisition was repaid in full in early January 2007, and the facility was cancelled. All of the remaining subsidiaries are organized pursuant to the laws of the Province of British Columbia, except for Kootenay River Power Corporation, which is organized pursuant to the laws of the Province of Nova Scotia. Kootenay River Power Corporation is non-operating and is in the process of being wound up. Percentages indicated in the chart below represent ownership of voting shares or partnership interest, as applicable.



All assets relating to the operation of FortisBC's regulated utility business are directly owned by FortisBC. The Walden Power Plant, a 16 MW run-of-the-river hydroelectric station that sells all of its output to BC Hydro pursuant to a long-term contract, is owned and operated by the Walden Power Partnership. ESI Power-Walden Corporation has legal ownership of the real property assets used by the Walden Power Partnership in the operation of the Walden Power Plant.

THE BUSINESS OF FORTISBC

A. GENERAL

FortisBC is an integrated, regulated electric utility that owns hydroelectric generating plants, high voltage transmission lines, and a large network of distribution assets, all of which are located in the southern interior of British Columbia. The Corporation has been in continuous operation since 1897. In addition to operating and maintaining its existing electricity infrastructure, the Corporation is also a major builder of new

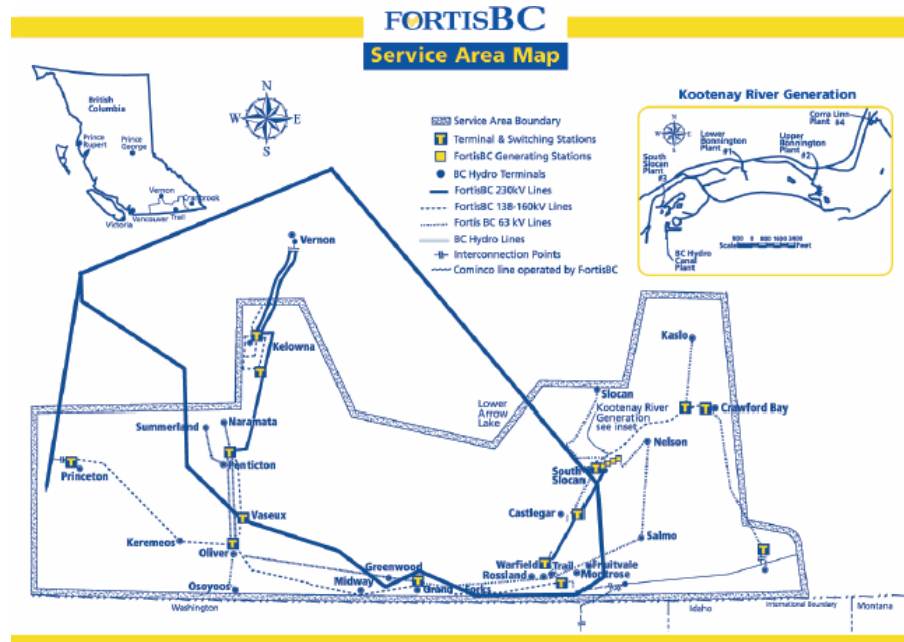
infrastructure. FortisBC plans to invest approximately \$500.0 million, subject to BCUC approval, over the next five years to enhance the reliability of FortisBC's electrical systems and meet the needs of a growing population in its service territory.

As at December 31, 2006 FortisBC served, directly and indirectly, a diverse base of more than 152,000 customers. Customers are comprised of residential, commercial, wholesale and industrial consumers of electricity located in the cities and rural regions of the southern interior of British Columbia. The majority of FortisBC's customers are located in urban centres. In 2006, the Corporation sold 3,040,000 MWh of electricity to its customers, 948,000 MWh of which was purchased by FortisBC's eight (including purchases from PLP for 2006) wholesale customers. The Corporation had a peak demand of approximately 718 MW in 2006, equal to the historical highest peak demand experienced in 2004.

The Corporation's regulated generation assets consist of four hydroelectric generating plants on the Kootenay River with an aggregate installed capacity of 235 MW and an annual gross energy entitlement of approximately 1,580,000 MWh (gross energy entitlement is the entitlement prior to adjustments for outages). FortisBC meets the remainder of its customers' energy and capacity requirements through a portfolio of long-term and short-term power purchase contracts the majority of which have been approved by the BCUC, the costs of which are flowed through to customers. The Corporation's regulated transmission and distribution assets consist of approximately 6,750 kilometres of transmission and distribution power lines and 64 substations. With the exception of BC Hydro, FortisBC is the only integrated, regulated electric utility operating in British Columbia. FortisBC also conducts a small amount of unregulated activity relating primarily to the operation and management of third-party owned hydroelectric generation, transmission and distribution systems located within the FortisBC service area, as well as the operation of the Walden Power Plant.

B. SALES AND SERVICE TERRITORY

The following map outlines the Corporation's service area:



FortisBC is allowed to operate in a 90,000 square kilometre service territory in the southern interior of British Columbia serving approximately 102,000 direct customers in communities including Kelowna, Oliver, Osoyoos, Trail, Castlegar, Creston and Rossland. In addition, FortisBC indirectly serves approximately 50,000 customers through the wholesale supply of power to municipal distributors in the communities of Summerland, Penticton, Kelowna, Grand Forks and Nelson, as well as to BC Hydro at two points and PLP up until the acquisition on December 31, 2006. The service territory is primarily residential but also contains industries served by FortisBC including lumber, pulp and paper, mining, agriculture and manufacturing.

The following chart compares 2006 and 2005 revenue, electricity sales, and number of customers by customer class:

	Electricity Revenue ⁽¹⁾				Electricity Sales ⁽¹⁾				Customers ⁽²⁾⁽³⁾			
	2006		2005		2006		2005		2006		2005	
	\$millions	%	\$millions	%	GWh	%	GWh	%	#	%	#	%
Residential Service	87.4	43.0	79.2	43.2	1,091	35.9	1,068	35.9	89,181	87.1	86,870	87.1
General Service ⁽⁴⁾	50.7	24.9	44.5	24.3	657	21.6	632	21.3	13,187	12.9	12,828	12.9
Wholesale ⁽⁵⁾	46.3	22.8	41.5	22.7	948	31.2	914	30.8	8	0.0	8	0.0
Industrial	18.9	9.3	17.9	9.8	344	11.3	357	12.0	37	0.0	39	0.0
Total	203.3	100	183.1	100	3,040	100	2,971	100	102,413	100	99,745	100

Notes:

- (1) Electricity revenue and electricity sales reflect regulated amounts only. Including electricity sales from the Corporation's unregulated business, total electricity sales were 3,070 GWh and 3,009 GWh for the years ended December 31, 2006 and 2005 respectively. Including electricity revenue from the Corporation's unregulated business, total electricity revenue was \$204.8 million and \$185.0 million for the years ended December 31, 2006 and 2005 respectively.
- (2) Direct customers.
- (3) Certain comparative figures have been restated to comply with current year's presentation.
- (4) General Service includes street lights and irrigation.
- (5) Wholesale includes PLP for 2005 and 2006.

C. GENERATION AND POWER SUPPLY

FortisBC meets the electricity supply requirements of its customers through a mix of owned-generation and short-term and long-term power purchase contracts. FortisBC owns four regulated hydroelectric generating plants with an aggregate capacity of 235 MW, which provide about 45% of the energy and 30% of the capacity needs of FortisBC.

The four hydroelectric generation plants are located on the Kootenay River and contain 15 separate generating units. Generating assets represent approximately 20% of the Corporation's Rate Base Assets.

Under the 2005 CPA, as described below, these generating facilities are dispatched by BC Hydro in exchange for Entitlement. However, the generating units are required to be maintained and available for dispatch. The Corporation's generating units have a history of reliable operating performance.

Since 1998, the FortisBC hydroelectric generation facilities have been subject to a life extension and upgrade program which is forecast to conclude in 2011. Newly-installed equipment is projected to enhance reliability and efficiency, while the use of standardized components is predicted to reduce future maintenance and capital expenditures.

FortisBC Owned Regulated Generation Facilities

Plant	Location	Year Installed	Completion Year of Refurbishment	Entitlement Capacity (MW)	Number of Units	2006 Net Entitlement (MWh)
No. 1	Lower Bonnington	1924	1998 ⁽¹⁾ , 2006 ⁽¹⁾	66	3	298,799
No. 2	Upper Bonnington	1907	2004 ⁽²⁾	66	6	465,233
No. 3	South Slocan	1928	2001 ⁽³⁾	54	3	414,302
No. 4	Corra Linn	1932	2000 ⁽⁴⁾	49	3	311,028
Totals				235	15	1,489,362

Notes:

- (1) In 1998, Unit 2 was refurbished. In 2006, Unit 1 was refurbished.
- (2) In 2004, Unit 5 and Unit 6 were refurbished.
- (3) In 2001, Unit 2 was refurbished.
- (4) In 2000, Unit 3 was refurbished.

Canal Plant Agreement

In 1961, Canada and the United States signed the Columbia River Treaty to provide for and share the benefits of flood control and power production by regulating the flow of water in the Columbia River. In order to regulate the flow of the Columbia River, the Treaty required Canada to build the Duncan dam (completed in 1968), the Arrow dam (completed in 1969 and renamed the Keenleyside dam) and the Mica dam (completed in 1973). The Treaty also allowed the United States to exercise the option to build the Libby dam (completed in 1973) in Montana. Among other benefits, the Treaty caused water flows on the Kootenay River to be regulated by the Duncan and Libby dams. This regulation of the river ensured a more even flow of water throughout the year which created the possibility of constructing a new generating plant on the Kootenay River. In 1972, the provincial government designated BC Hydro as the entity that would build the generating plant on the Kootenay River, referred to as the Canal Plant. However, the Canal Plant could only be built at the optimal size if BC Hydro had the ability to divert through the Canal Plant water otherwise destined, pursuant to existing water licenses, for the then-existing powerhouses on the Kootenay River owned, respectively, by the Corporation and Teck Cominco Metals Ltd. These factors led BC Hydro to negotiate and enter into the Original CPA with the Corporation and Teck Cominco Metals Ltd.

The parties to the Original CPA and their assignees negotiated the terms of an amended and restated Canal Plant Agreement as of July 1, 2005 (the “2005 CPA”). The 2005 CPA preserves, without substantive change, the benefits and obligations reflected in the Original CPA, although it is different in form and in its treatment of certain procedural issues. The 2005 CPA became effective on April 12, 2006 and continues in force until terminated by any of the parties by giving no less than five years’ notice at any time on or after December 31, 2030.

The 2005 CPA is a multi-party agreement that enables the four separate owners of seven major hydroelectric generating plants (having a combined capacity of approximately 1,400 MW and all located in relatively close proximity to each) to coordinate the operation and dispatch of their plants. The plants and their owners are:

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta	450	Teck Cominco Metals Ltd.
Kootenay River System Plants	235	FortisBC
Brilliant Dam	149	Brilliant Power Corporation

The 2005 CPA enables BC Hydro and the Entitlement Parties (“EPs”), through coordinated use of Treaty water flows and storage reservoirs and through coordinated operation of generating plants, to generate more power from their respective generating resources than they could if they operated independently. Under the 2005 CPA, BC Hydro takes into its system all power actually generated by all of the six third-party owned plants. In exchange for permitting BC Hydro to determine the output of these facilities, the EPs are each contractually entitled to their Entitlements, which are based on 50-year historical water flows. The EPs receive their Entitlements irrespective of actual water flows to the EPs’ generating plants and are thus insulated from the hydrology risk of water availability.

BC Hydro enjoys the benefits of the additional power generated through coordinated operation and optimal use of water flows. The EPs benefit by knowing years in advance the amount of power that they will receive from their generating plants and, as a result of contractually fixed Entitlements, do not face hydrology variability in generation supply planning. All parties to the 2005 CPA gain more through this arrangement than they could gain if they operated independently.

The Corporation, however, retains rights to the original water licences and flows in perpetuity. Should the 2005 CPA be terminated, the output of the Corporation’s Kootenay River System plants would, with the water and storage authorized under its existing licences and on a long-term average, be approximately the same power output as the Corporation receives under the 2005 CPA.

The 2005 CPA does not affect the Corporation's ownership of its physical generation assets. The Corporation continues to own and operate its four Kootenay River System plants, which are included in the Corporation's Rate Base Assets.

Power Purchase Agreements

The majority of the Corporation's electricity supply not supplied by its own generating plants is acquired through long-term power purchase contracts consisting of the following:

- (a) the Brilliant PPA which is a 129 MW long-term power purchase agreement with Brilliant Power Corporation terminating in 2056;
- (b) the Brilliant Upgrade which is an additional ongoing agreement to purchase 20 MW of power pursuant to the Brilliant PPA (also terminating in 2056);
- (c) the BC Hydro PPA which is a 200 MW power purchase agreement with BC Hydro terminating in 2013; and
- (d) a number of small power purchase contracts with certain independent power producers.

The majority of these power purchase contracts have been approved by the BCUC and prudently incurred costs thereunder flow through to customers through electricity rates. FortisBC believes the contracts provide it with the flexibility to respond to changes in demand and the ability to manage commodity exposure.

Although FortisBC can currently meet the majority of its customer supply requirements from its own generation and the major power purchase agreements described above, a portion of the customer load during the summer and winter peak demand periods may need to be supplied from the market in the form of short-term power purchases. Costs related to such purchases, provided they are prudently incurred and accurately forecast, are recovered through rates. FortisBC generally makes arrangements prior to the winter season to acquire power at known prices should the need arise. In this way, the risk of forecasting an accurate price is minimized. In order to ensure that energy and capacity requirements in the long term continue to be met in the most economical manner, FortisBC filed the RPS along with its 2005 Revenue Requirements application, which will be used to determine whether it is advisable to supplement existing power supply resources with other power purchases, demand-side management or other generating facilities.

Brilliant Power Purchase Agreement

The Brilliant Plant is a hydroelectric generating plant jointly owned by CPC and CBT through the Brilliant Power Corporation. The Brilliant Plant is allocated Entitlement energy of 985,000 MWh and capacity of 149 MW pursuant to the 2005 CPA. Under the 60-year Brilliant PPA, which expires in 2056, FortisBC has agreed to purchase from Brilliant Power Corporation, on a long-term basis (a) the Entitlement allocated to the Brilliant Plant and (b) after the expiration of the Original CPA or the 2005 CPA, the actual electrical output generated by the Brilliant Plant. While the total entitlement is 985,000 MWh, FortisBC does not purchase the approximately 60,000 MWh of regulated flow upgrade entitlement. The Brilliant PPA uses a take-or-pay contract structure which requires that FortisBC pay for the Brilliant Plant's Entitlement, irrespective of whether FortisBC actually takes it. FortisBC does not foresee any circumstances under which the Corporation would be required to pay for power that it does not require. During the first 30 years of the Brilliant PPA term, FortisBC pays to Brilliant Power Corporation, in fixed monthly payments, an amount that covers the operation and maintenance costs of the plant and provides a return on capital, including original purchase costs, sustaining capital costs and any life extension investments. During the second 30 years of the Brilliant PPA term (commencing in 2026), an adjustment using a market price mechanism based on the depreciated value of the Brilliant Plant and then-prevailing operating costs will be made to the amounts payable by FortisBC. The Brilliant PPA provides FortisBC with approximately 26% of its energy requirements in its service territory.

Between 2000 and 2002, the Brilliant Plant's four turbines were replaced with modern designs that increased the output of the generating plant by 20 MW of capacity and 125,000 MWh of energy per year. FortisBC

acquired that electricity pursuant to an amendment to the Brilliant PPA. However, CPC/CBT had the right to recall a portion of the energy from the upgrade, approximately 60,000 MWh, and have done so effective November 1, 2005. FortisBC continues to purchase the remaining 65,000 MWh of energy as well as the 20 MW of capacity.

The terms and conditions of the Brilliant PPA were accepted by the BCUC on May 3, 1996 and costs arising from the Brilliant PPA have been included in rates on a flow-through basis since that date. FortisBC operates and maintains the Brilliant Plant for Brilliant Power Corporation in return for a management fee.

Power Purchases from BC Hydro

FortisBC is a party to the BC Hydro PPA, which provides the Corporation with additional electricity for purposes of supplying its load requirements, up to a maximum demand of 200 MW. Energy bought pursuant to the BC Hydro PPA provides approximately 27% of FortisBC's energy requirements. The current term of the BC Hydro PPA extends until 2013 and provides FortisBC with electricity at BCUC approved tariffs for that term. Since the rates under the BC Hydro PPA are approved by the BCUC and form part of BC Hydro's filed tariff, any rate increases are tied to BC Hydro's regulated rate increases and can be recovered from consumers as a normal power purchase expense for which flow-through treatment applies.

In connection with the Energy Plan, certain of BC Hydro's hydroelectric assets have been designated as "heritage assets" which are expected to be subject to regulated rates that will be determined by the BCUC. The energy supply requirements of FortisBC have been included in BC Hydro's long-term demand plan.

Small Power Purchase Contracts

FortisBC has a number of small power purchase contracts with independent power producers, collectively providing approximately 2% of the Corporation's energy supply requirements. The majority of these contracts are approved by the BCUC.

Spot Market and Contracted Capacity Purchases

In 2006, the Corporation entered into various arrangements to purchase capacity and energy from the market, including, during winter months, the purchase of sufficient capacity to meet its peak energy requirements. Such purchases were at prevailing market prices, which were sourced from the United States and are typically linked to the Dow Jones Mid-Columbia Index in the U.S. Pacific Northwest. In the past the Corporation has made various types of advance purchases including capacity purchases, call options and fixed price energy purchases to help mitigate the risks of market volatility and availability.

D. TRANSMISSION AND DISTRIBUTION

FortisBC's transmission system is a high voltage system that operates at the 230 kV, 161 kV, 138 kV and 63 kV levels while transmitting electricity to customers directly connected to the transmission grid. The transmission system is highly integrated and operates synchronously with the BC Hydro system operated by BCTC. It consists of approximately 1,400 kilometres of transmission lines and includes major substations throughout the service territory connected solely to the Corporation's transmission lines and distribution system. Currently, transmission assets represent approximately 30% of the Corporation's Rate Base Assets. The FortisBC transmission system is being replaced or upgraded in a number of locations. This process is expected to enhance reliability and optimize operating costs.

FortisBC's transmission lines consist of conductors, wood and steel support structures, foundations, insulators, connecting hardware and grounding systems. The transmission lines are primarily overhead lines that are interconnected with the transmission system owned by BC Hydro and operated by BCTC and are situated on lands owned by FortisBC or occupied pursuant to statutory rights of way, licences or other permits.

FortisBC's transmission stations are required to integrate the transmission lines into a network and transform the voltage of the electricity being transmitted to the voltage requirements of the end user. These stations are

frequently located at points at which power from two or more transmission lines can be combined and re-routed in different directions. Currently, most transmission stations consist of multiple circuits and step-down transformers that are meant to ensure that the failure of any one element will not result in a permanent loss of supply. FortisBC has eleven base transmission stations, the components of which include high voltage power transformers, power circuit breakers, high voltage switches, capacitor and reactor banks, protection and control systems, metering and monitoring systems, together with site infrastructures such as buildings and security systems.

Electricity produced at generating plants is moved across transmission lines to terminal stations and transformers and then distributed at lower voltages to customers. FortisBC's distribution system is comprised of 49 distribution substations and approximately 5,350 kilometres of overhead and underground distribution lines. Currently, distribution assets represent approximately 40% of the Corporation's Rate Base Assets. The FortisBC distribution system is being upgraded in a number of locations over several years in order to renew obsolete components at or near the end of their useful life, to establish a standard voltage and to accommodate load growth that has caused load on the existing system to approach design capacity. Other planned projects over the next five years include reliability upgrades in the Kelowna, Creston, Osoyoos and Slocan Valley regions.

E. REGULATION

FortisBC filed its 2006 Revenue requirement application in the fourth quarter of 2005, applying to the BCUC for an increase in customer rates of 5.9% for 2006. The rate increase is primarily driven by the ongoing capital program. The 2006 Revenue Requirement application included a proposal for a new PBR mechanism covering the years 2006 through to 2009 (see "Regulation of British Columbia's Electricity Industry" for a general description of performance-based regulation), a change in the estimate of depreciation rates as a result of a depreciation study on the estimated useful lives of the Corporation's property, plant and equipment, as well as a change in the estimate of capitalized overhead costs. FortisBC and a group of interveners concluded negotiations on April 19, 2006, leading to a settlement agreement which was approved by the BCUC on May 23, 2006.

In June 2005, a British Columbia utility applied to the BCUC for, among other things, a review of the current ROE mechanism applicable to regulated utilities in British Columbia. On March 2, 2006 the BCUC issued an order approving adjustments to the ROE mechanism, which resulted in the 2006 ROE for FortisBC increasing from 8.69% (which was reflected in the 2006 Revenue Requirements application filed in the fourth quarter of 2005) to 9.20%. The increased ROE is reflected in the 2006 Revenue Requirements negotiated settlement agreement which is discussed below.

The significant terms of the settlement agreement are as follows:

- a) 2006 customer rate increase of 5.9% effective January 1, 2006;
- b) 2006 ROE of 9.2%;
- c) 2006 will become the base year for a PBR term from 2006 to 2008, with an option to continue the term for 2009;
- d) the composite depreciation rate increased from 2.6% in 2005 to 3.2% effective January 1, 2006; and
- e) for the PBR term:
 - gross operating and maintenance expenses before capitalized overhead will be set by formula incorporating customer growth and inflation (CPI for British Columbia) minus a PIF of 2% in 2007, 2% in 2008 and 3% in 2009;
 - capitalized overhead will be set at 20% of BCUC approved gross operating and maintenance expense;
 - a 2% collar has been set around the allowed ROE whereby variances (adjusted for certain cost variances which flow through to the customer) as a result of actual financial performance, positive or negative, will be shared equally between the customer and the shareholder. If the variance exceeds the 2% collar, the excess will be placed in a deferral account for review and disposition during the next rate setting process. The Corporation's portion of the incentive is subject to the Corporation meeting certain performance standards and BCUC approval; and

- other components of revenue requirements will be forecast annually.

The PBR mechanism also contains a provision whereby the Corporation may apply for cost recovery for specific, non-controllable events, such as changes in taxation or other legislation, generally accepted accounting principles, force majeure events, or other extraordinary events as may be approved by the BCUC. The Corporation's capital expenditures will be tested in a separate process throughout the PBR term.

FortisBC filed its 2007 Preliminary Revenue Requirement application on September 29, 2006, applying to the BCUC for an increase in customer rates of 2.9% for 2007. The rate increase is primarily driven by the ongoing capital program. On December 19, 2006 a 2007 updated Revenue Requirements was filed applying for a 1.2% increase which was approved by the BCUC on December 20, 2006. The difference between the two filings was a lower ROE at 8.77% (previously 8.79%), increased incentives owing to customers and reduced power purchase costs due to BC Hydro reducing their rate increases for 2006 and 2007 pursuant to the BCUC decision on their Revenue Requirements.

The BCUC has ordered a separate submission concerning a change in the treatment of utility assets under construction for rate-setting purposes. If the BCUC orders a change to the Corporation's proposed treatment, there could be a material impact to 2007 customer rates.

Further details of the 2006 and 2007 Revenue Requirements negotiated settlement agreements can be found on the BCUC website.

As at December 31, 2006, FortisBC had total assets of \$815.0 million and Rate Base Assets of approximately \$680.0 million. For the year ended December 31, 2006, FortisBC had revenues of \$207.6 million, net income of \$26.5 million and spent \$101.1 million on capital assets.

F. MAJOR CAPITAL PROJECTS

The Corporation plans and implements programs for sustaining and enhancing its regulated generation, transmission and distribution assets. Capital projects are typically identified as being one of two types: (a) "sustaining", which are directed at adequately maintaining asset condition and modernizing equipment; and (b) "growth" or "expansive", which are primarily required to accommodate customer and load growth within the FortisBC service area. The Corporation prepared its System Development Plan, which was filed with the BCUC in 2004 and updated by the 2007 System Development Plan Update. Developing the priorities for the transmission and distribution system involves an assessment of both asset condition and maintenance needs and system contingency analysis. The latter involves a modeling and simulation of system impacts following several possible and different system event scenarios.

FortisBC is focused on responding to customer growth and enhancing system reliability and safety through its extensive capital program. FortisBC plans to spend approximately \$500.0 million on capital projects, subject to BCUC approval, over the next five years. Due to the size of the forecast capital program relative to the size of the Corporation, its implementation, financing and customer rate impacts present key challenges to the Corporation. FortisBC filed its 2007 – 2008 Capital Plan ("Capital Plan") application in July 2006. The plan outlines capital expenditures of \$128.6 million in 2007 and \$111.6 million in 2008, which address the expansion and upgrade of the transmission and distribution systems to keep pace with load growth, improve customer service, and continue the life extension program at the Corporation's generating plants. On November 24, 2006, the BCUC approved the Capital Plan, with six projects totaling \$61.2 million subject to further approval processes (of which \$18.8 million relates to 2007 and \$42.4 million relates to 2008).

FortisBC's planned capital expenditure program, subject to BCUC approval, is expected to add approximately \$500.0 million to FortisBC's Rate Base Assets over the 2007 to 2011 period. The Corporation will file capital budget applications over this period, as well as individual CPCN applications where required by the BCUC for certain major projects, and expects that it will be allowed to recover capital expenditures incurred in order to implement approved projects through its rates.

G. OTHER OPERATIONS AND ASSETS

Other Operations

FortisBC carries out monitoring, control and real-time management of its generation, transmission and distribution facilities through its control centre in Warfield, British Columbia. The control centre coordinates with BCTC to ensure that appropriate monitoring and control of transmission equipment is maintained 24 hours a day.

Other Assets

Other assets of the Corporation include those supporting the ongoing maintenance and operation of the system, such as office and service buildings, transport and work equipment and other office and information technology assets. Other assets represent approximately 10% of the Corporation's Rate Base Assets.

H. UNREGULATED ACTIVITIES

FortisBC's unregulated activities are relatively small in comparison to its regulated operations but provide an opportunity to leverage the utilization of FortisBC's utility operation, maintenance and management resources under service contracts to third parties. FortisBC provides certain unregulated operations, maintenance and management services relating to the 450 MW Waneta hydroelectric generation plant owned by Teck Cominco Metals Ltd. and the 149 MW Brilliant Plant owned by CBT and CPC through Brilliant Power Corporation. Fortis Pacific, the direct parent of the Corporation, provides services of a similar nature to various third parties such as the City of Kelowna, CBT and CPC. FortisBC provides staff and material resources to Fortis Pacific in order for it to carry out the services required under the contracts and charges Fortis Pacific its cost plus a mark-up as compensation.

In addition, FortisBC owns the Walden Power Partnership, an independent power producer which owns and operates a 16 MW run-of-the-river, hydroelectric power plant near Lillooet, British Columbia. The Walden Power Plant commenced operating in 1992 and sells 100% of its output to BC Hydro under a long-term contract expiring in 2013. The Walden Power Plant is financed by a mortgage on the Walden Power Plant.

I. OTHER MATERIAL CORPORATE ISSUES

Competition

The Energy Plan addressed private sector participation in the electricity industry but did not create commodity competition at the retail level. Retail access would give customers the right to purchase electricity from suppliers other than the utility to which they are directly connected. FortisBC has a form of retail access for its wholesale and industrial customers supplied at transmission voltage. This retail access has not led to a loss of any of FortisBC's wholesale or industrial customers for two reasons. First, those customers might be required to reimburse FortisBC for any stranded costs created as a result of their departure. Second, currently available alternative sources of supply are generally more expensive than FortisBC's regulated wholesale and industrial rates.

Insurance

The Corporation, through Fortis, maintains insurance coverage including liability, all risk property, boiler and machinery, and directors' and officers' risk insurance for the benefit of the Corporation. Insurance coverage on damage to transmission and distribution poles, wires and related equipment due to weather and natural disasters is, however, self-insured. FortisBC also maintains insurance coverage that is required by provincial statute, which covers automobile liability, fire fighting expense and non-owned aircraft liability. Management believes that the coverage, amounts and terms of the Corporation's insurance agreements are consistent with prudent industry practices.

Employees

As at December 31, 2006, the Corporation had 573 employees (including PLP). FortisBC has two separate collective agreements with the IBEW Local 213 (one expiring January 31, 2008 and the other expiring March 31, 2009) and one collective agreement with COPE Local 378 (expiring January 31, 2011). The three collective agreements cover 456 employees (including PLP).

Pensions

The Corporation provides pension arrangements to substantially all employees through either a defined contribution or defined benefit arrangement. The Corporation sponsors three contributory defined benefit pension plans, one of which is closed to new entrants. The plans provide benefits based on a percentage of employee's final average earnings and the number of years of service. The Corporation's policy is to fund the defined benefit plans on an actuarial basis in accordance with pension standards legislation, in order to accumulate assets sufficient to meet the benefits to be paid. The Corporation reports the financial position of its pension plans in accordance with Section 3461 of the CICA Handbook using a measurement date three months prior to the reporting date. As of December 31, 2006, the fair value of the defined benefit plans' assets was \$94.7 million and the accrued benefit obligation was \$117.9 million resulting in a deficit of \$23.2 million. For the year ended December 31, 2006, the Corporation contributed \$5.1 million to the defined benefit plans. FortisBC provides certain other post-retirement benefits to its retired employees including certain health, dental coverage and life insurance. These plans are not funded and the accrued liability at December 31, 2006 was \$7.0 million.

Intellectual Property

Fortis owns the trademark "FortisBC", which it has licensed the Corporation to use. FortisBC owns the trademark "West Kootenay Power", which has historically been used to identify the Corporation's integrated utility business and "PowerSense", which has been used in the promotion by the Corporation of energy efficiency and energy awareness programs.

Real Property

Certain of the Corporation's transmission and distribution facilities cross over land that is owned by the governments of Canada or British Columbia. The Corporation believes it has obtained appropriate access rights from the relevant governments through Crown leases, statutory rights of way, land use permits, licences of occupation and low voltage permits. Where transmission or distribution lines extend over waterways, various provincial and federal government bodies must approve the installation of those lines. Agreements and permits in this respect have been obtained from the appropriate government body. The Corporation's transmission and distribution lines at times also cross over or run parallel to lands owned by various railway companies. In these circumstances, appropriate access rights, generally referred to as crossing agreements, have been obtained from the relevant railway company. Some of the Corporation's transmission and distribution lines are located on lands owned by other persons, including local governments, corporations and individuals. The Corporation believes it has obtained or is in the process of obtaining the rights to use these lands through working with the property owner to come to an agreement (such as statutory rights of way) permitting land usage.

The Corporation also has transmission and distribution lines that are located on First Nations' lands. Agreements are either already in place or will, as necessary, be negotiated to ensure that the Corporation is legally authorized to place its lines on First Nations' lands.

It is possible that the Corporation has transmission and distribution lines over land to which it has not acquired the requisite rights. If the Corporation becomes aware of such a situation, the Corporation will attempt to come to an agreement to secure usage rights with the landowner. The Corporation has the power to expropriate land if necessary.

The Corporation's generating assets are located on land owned by the Corporation.

Environmental Matters

Although primarily regulated at the provincial level, Canadian federal, provincial and local governments share jurisdiction over the environment. As a result, the Corporation is subject to extensive federal, provincial and local regulation relating to the protection of the environment with respect to air emissions, water discharges and the generation, storage, transportation, disposal and release of various substances. In addition, both the federal and provincial governments have environmental assessment legislation which is designed to foster better planning and identify and mitigate potential environmental impacts of projects and undertakings prior to their commencement.

The primary federal legislation is the *Canadian Environmental Protection Act, 1999* which regulates the use, import, export and storage of toxic substances, including polychlorinated biphenyl (“PCB”) and ozone-depleting substances, specifically to enable pollution prevention and the protection of the environment and human health in order to contribute to sustainable development. Federal environmental assessments are governed by the *Canadian Environmental Assessment Act* (Canada). Another important piece of federal legislation is the *Fisheries Act* (Canada) which prohibits the deposit of deleterious substances into waters that may be inhabited by fish and the destruction of fish habitat. One of the Corporation’s hydroelectric plants, the Corra Linn plant, is also subject to the *International River Improvements Act* (Canada), which governs use and modification of water flows on international waterways.

In December 2002, the federal government ratified the Kyoto Protocol. This protocol calls for Canada to reduce its greenhouse gas emissions to 6% below the 1990 levels by 2012. The protocol is expected to affect the operation of all industries in Canada. Under the proposed Clean Air Regulatory Agenda the federal government plans to amend the *Canadian Environmental Protection Act, 1999* and introduce new regulations thereunder to address air pollutants from certain consumer products and vehicles. New regulations, targets and timelines will be set to facilitate reductions in air pollution and greenhouse gas emissions, as well as new standards for energy efficiency. Potential automobile fuel efficiency and emission standards could directly affect all corporations. Although the impact of the Kyoto agreement on the Corporation cannot be fully determined at this point, as an integrated utility with hydroelectric assets, the Corporation expects that the overall impact should be minimal.

In British Columbia, the primary provincial legislation includes the *Environmental Management Act* (British Columbia), the *Environmental Assessment Act* (British Columbia), the *Water Act* (British Columbia) and the *Forest and Range Practices Act* (British Columbia). The *Environmental Management Act* (British Columbia) is an omnibus piece of legislation that regulates most aspects of the environment, including substance releases, waste storage and remediation standards. The *Forest and Range Practices Act* (British Columbia) (which will fully replace the *Forest Practices Code of British Columbia Act*) and the *Forest Act* (British Columbia) are intended to ensure sustainable use of Crown forests and range land through planning, stewardship and protection initiatives. The *Water Act* (British Columbia) is intended to coordinate the overall management of water through coordination of licences and permits to divert, use and store water.

Municipal regulation is primarily relevant in the context of discharges of industrial sewage and storm water run-off to the municipal sewer system.

Environmental Management System

ISO 14001 is an international standard for environmental management systems. The Corporation has developed an environmental management system that is consistent with the ISO 14001 standard. The intent of the system is to provide a framework that allows for the monitoring of performance and the establishment of processes to enhance that performance. The essence of the Corporation’s management system is the “plan, check, do, review” cycle, which is the core of continuous improvement. This environmental system is continually being refined in order to enhance the Corporation’s environmental performance and to reflect organizational changes as they occur.

The Corporation’s environmental management system includes an environmental policy, a summary of the major environmental aspects of the Corporation’s business, a summary of relevant environmental legislation

and an internal reporting system, which includes the Board. The programs designed to achieve the objectives, measures and targets of the environmental management system are in various stages of implementation. Reporting procedures and an environmental information management system are being developed, tested and implemented.

Permits, Licences and Approvals

Various federal and provincial statutes, including the *Environmental Management Act* (British Columbia), the *Water Act* (British Columbia), the *Fisheries Act* (Canada), the *Environmental Assessment Act* (British Columbia) and the *International Rivers Improvement Act* require the Corporation to obtain and maintain specified permits, licences and approvals. These permits, licences and approvals relate to, among other things, waste disposal, air emissions, discharges to water, impacts on aquatic habitat at river and stream crossings and the flows and water level at the Canada-U.S. international boundary.

The scope, timing and cost of environmental assessments at the federal or provincial level depend on the type of project and its potential for environmental impact. Environmental assessments are intended to improve the decision-making process by identifying potential environmental impacts and proposing alternative mitigation measures prior to the initiation of the project. Projects undertaken or proposed by the Corporation requiring environmental permits or approvals from the federal government, including projects that use federal lands, such as reserves and other lands for the benefit of a band and subject to the *Indian Act* (Canada), will be subject to federal environmental assessment under the *Canadian Environmental Assessment Act*. Federal environmental assessment legislation provides class definitions for projects that occur frequently, are small in scale and have predictable and easily mitigated impacts, for which a “screening” review can be used to streamline the assessment process. Larger projects may trigger a “comprehensive” environmental assessment if impacts are found to be significant or if public concern warrants a more detailed review and public hearing. Comprehensive assessments are completed as prescribed under the *Canadian Environmental Assessment Act*. Some projects will be subject to provincial environmental assessment as a result of the designation of a project by provincial regulation. “Reviewable projects” are prescribed by the *Reviewable Projects Regulation* (British Columbia) which categorizes them according to a variety of criteria such as size, potential for adverse effects, type of industry or type of project. Projects that are “reviewable projects” must undergo an environmental assessment and cannot proceed without an environmental assessment certificate. The federal government and the British Columbia provincial government have executed an agreement on environmental assessment cooperation (effective until 2009), which streamlines the environmental assessment process where both the federal and provincial legislation applies.

Pursuant to the *Water Act* (British Columbia), water rental rates apply to the use of water for power generation. Water rental rates in British Columbia are levied on the basis of both total station capacity and on total station generation. FortisBC is able to recover all water rental costs through regulation.

Releases

Federal, provincial and municipal environmental legislation operate to regulate the release of substances into the environment through the prohibition of discharges that have an adverse effect or a potentially adverse effect on the environment. FortisBC believes the potential for spills, and resulting prosecutions under existing release legislation, is reduced through implementation of inspection, spill prevention, material handling and emergency response programs and incident management processes. The potential for an adverse effect resulting from an inadvertent spill is further reduced by tracking all incidents and potential incidents in an incident reporting database to facilitate continuous learning and improvement. Spill response guidelines have been developed by FortisBC and FortisBC field personnel have been trained to deal with emergency conditions.

Hazardous Substances

The Corporation manages a number of hazardous substances, such as PCBs, herbicides and wood preservatives. In addition, some facilities contain substances that are designated for special treatment under occupational health and safety legislation, such as asbestos, lead and mercury. The Corporation has environmental management programs in place to deal with the following substances:

- (a) *PCBs* - PCBs are used as coolants and lubricants in transformers, capacitors and other electrical equipment. Current management plans for PCBs focus on the identification, safe handling, transportation, storage and ultimate disposal of PCB containing equipment. As equipment becomes obsolete and is taken out of service, FortisBC intends to dispose of it in an environmentally sound manner. Environment Canada proposes to revise PCB regulations to specify deadlines for eliminating the use of PCB-containing equipment and for the destruction of PCBs held in storage. PCB-containing equipment having high levels of PCBs or located in sensitive areas are proposed to be eliminated by the end of 2009, while equipment with lower levels of PCBs are proposed to be eliminated by the end of 2014. Certain electrical equipment will be exempt until the end of 2025. Newly stored PCBs are proposed to be destroyed within one year after being placed in storage. Should this regulation be promulgated, our existing PCB management program will comply with these requirements.
- (b) *Herbicide* - The Corporation uses herbicides primarily for the control of incompatible vegetation on rights-of-way, along transmission and distribution lines and on station sites. The Corporation uses an integrated approach toward vegetation management using manual and mechanical cutting, natural competition from compatible vegetation, together with the selective use of herbicides. Patrols occur to monitor vegetation growth and assess appropriate maintenance activities. Site-specific conditions, including tree species, tree density, height, terrain, prevailing wind directions, and adjacent land uses, are considered by the Corporation in determining the appropriate overall vegetation management plan. Herbicides are applied in accordance with strict federal and provincial legislation, which governs application, notification and reporting.
- (c) *Wood Preservatives* - In the past, electrical utilities have used poles that were impregnated with creosote, pentachlorophenol, or copper, chromium and arsenic mixtures. Each of these preservatives can pose an adverse effect if it leaches from the pole. At this time there is an industry-wide effort to quantify the extent of the leachability and to develop mitigation strategies for these compounds. Utility best practice is to purchase wooden power poles which have been treated with wood preserving chemicals to resist rot and insect attacks and, thus, have a significantly longer service life than untreated wood. Wood preservation facilitates the minimizing of electrical service interruption, reducing the costs of pole replacement, and optimizing the use of wood resources.

Site Investigation and Remediation

Spills and leaks of substances may have occurred in the normal course of the Corporation's operations and could result in future clean-up costs being incurred in connection with these releases. The Corporation has voluntarily, from time to time, investigated and remediated sites for potential contamination (including PCBs). It is possible that remediation costs could be incurred due to potential contamination at sites and the Corporation expects that costs incurred for site remediation can be recovered in rates.

The Corporation commissioned a Preliminary (Phase I) and Detailed (Phase II) Environmental Site Investigations of a historic pole treatment site at South Slokan. The Phase I study investigated records, literature and maps to collect pertinent environmental information on the site, as well as a site surface survey. Collated information relevant to past and present environmental conditions, potential contamination and liabilities, and identified areas of concern required further investigation under a Phase II study. Sampling and testing were conducted in the Phase II study in order to establish the nature, quantity, location and extent of any material, substance or event that was considered to be of environmental concern, as identified in Phase I. Hydrocarbons consistent with wood preservatives were identified on the South Slokan site. The Phase II analytical data based on current British Columbia legislation was completed in 2006. The review confirmed the location of hydrocarbons and suggested Phase III and further risk assessment work be done to characterize the site risk and closure options. The Corporation is in the process of developing a plan to address the issue.

Electro-Magnetic Fields

Electro and magnetic fields exist wherever electricity is used or transmitted, including electric power facilities such as transmission and distribution lines and within every building in British Columbia that has electrical service. Scientists and public health experts in North America and abroad are studying the possibility that exposure to electro-magnetic fields may cause health problems. FortisBC understands there is no conclusive

evidence of any harm caused by exposure at levels normally found in Canadian living and working environments. Electro-magnetic fields are not currently regulated by the federal or provincial governments and the Corporation is unaware of any plans to regulate electro-magnetic fields. Health Canada has recently confirmed its position that there are no known health risks from power lines.

BRITISH COLUMBIA'S ELECTRICITY INDUSTRY

Overview

In general, the electricity industry is made up of the following three principal components:

- (a) *Generation* - Generation is the production of electric power. Electric power may be generated by hydroelectric power, fossil fuels, geothermal power, nuclear power, wind or other alternative sources of energy. In British Columbia, approximately 90% of the installed generation capacity consists of hydroelectric facilities, with the remaining capacity largely coming from gas-based or biomass-based cogeneration facilities that are integrated with British Columbia's resource-based industry. BC Hydro owns approximately 85% of the aggregate provincial generating capacity. The balance is owned by Alcan Inc. (896 MW), Teck Cominco Metals Ltd. (450 MW), CPC and CBT (330 MW), FortisBC (235 MW) and a number of independent power generating facilities that currently supply approximately 9% of annual provincial system power requirements. FortisBC, through the Walden Power Partnership, owns one of these independent power generating facilities, the Walden Power Plant (16 MW). As discussed below, the share of generation provided by the private sector is expected to grow as BC Hydro is expected to meet some of its future requirements by purchasing power from independent power producers.
- (b) *Transmission* - Transmission is the conveyance of electricity at high voltages. British Columbia's transmission system or grid is composed of over 20,000 kilometres of transmission lines, the vast majority of which are owned by BC Hydro and operated by the BCTC. BCTC is a provincial Crown corporation that was incorporated in May 2003 in part for the purpose of managing, maintaining and operating BC Hydro's transmission assets. British Columbia's transmission grid conveys electricity from generating facilities to distribution networks and directly connected end-users. The transmission grid is interconnected with the grids of Alberta and Washington State, allowing power to be sold and purchased outside of the province. FortisBC's transmission system makes up part of the international transmission grid in Western North America and interconnects with the BC Hydro system at six locations. British Columbia's primary market for the sale or purchase of power is the Pacific Northwest market in the United States.
- (c) *Distribution* - Distribution is the conveyance of electricity at lower voltages. Distribution networks are composed of low voltage power lines and related facilities that convey electricity from transmission systems to consumers. British Columbia has over 60,000 kilometres of distribution lines, most of which are owned and operated by BC Hydro, FortisBC and various municipalities.

Restructuring

In most parts of North America, the trend in the electricity industry over the past decade has been to move away from the vertically-integrated regulated model pursuant to which single companies generate, transmit, distribute and sell electricity in a specific geographic area at regulated prices to a model where the generation, transmission and distribution of electricity is unbundled and the generation of electricity is open to competition. The drivers for electricity restructuring have included policy objectives of decreasing government investment in the electricity sector and increasing competition so as to reduce customer rates.

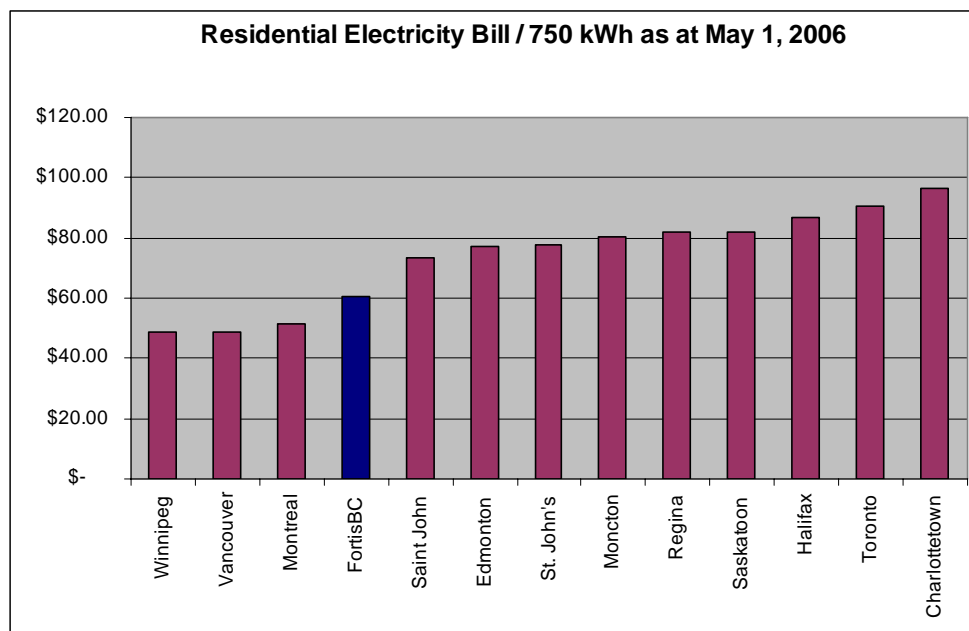
In many parts of Canada, however, the availability of vast, accessible and inexpensive hydroelectric resources has suppressed end-user electricity rates and muted the incentives for deregulation. This is particularly the case in the provinces of British Columbia, Manitoba, Québec and Newfoundland and Labrador. The provinces of Alberta, Ontario and New Brunswick, on the other hand, have taken significant steps towards restructuring their electricity systems in accordance with the deregulated market model.

Recently, the British Columbia provincial government has taken limited steps toward restructuring which are outlined in its Energy Plan. The Energy Plan, however, provides strong assurance that deregulation of the British Columbia electric industry, and the consequent unbundling of generation, transmission, distribution and retail ownership which has occurred in certain jurisdictions in the United States and Canada, will not occur in British Columbia in the foreseeable future.

In British Columbia, the government has decided to maintain public ownership of BC Hydro’s generation, transmission and distribution assets. The government has sought to introduce some modest incentives to generation investment by ensuring open transmission access and by limiting BC Hydro’s generation investment to maintaining and upgrading its existing facilities. This policy is intended to encourage independent power producers to invest for the purpose of selling directly to BC Hydro, large industrial or transmission rate customers and export markets.

British Columbia’s traditional regulatory model does not support full retail competition for customers, and so, retail and customer service functions for consumers are typically carried out by the relevant distribution utility in a particular service area. However, in connection with the British Columbia Energy Policy, a retail rate structure was introduced in 2006 in BC Hydro’s service territory that permits large industrial or transmission rate customers to self-generate electricity or purchase electricity from independent power producers. In the FortisBC service territory, large-volume customers already may avail themselves of FortisBC’s open access transmission tariff if they wish to buy their energy from suppliers other than FortisBC. However, market conditions and relatively competitive prices from FortisBC have so far precluded such an option from being a practical alternative. If such an alternative did become practical, customers would nonetheless be obliged to reimburse the Corporation for its stranded costs, if any, under pre-defined terms.

The following diagram sets out the approximate cost of electricity to residential end-users as at May 1, 2006 in FortisBC’s service territory and various cities throughout Canada:



Source: Manitoba Hydro

Since 1997, BC Hydro has opened its transmission system to third parties as part of the requirement to obtain a U.S. Federal Energy Regulatory Commission licence. In 2001, a Task Force was commissioned by the provincial government, which involved consultation with stakeholders and the public. The Task Force submitted a final report in March 2002, outlining 26 recommendations on energy conservation, alternative energy and electricity, oil, gas and coal regulation. The Energy Plan was the provincial government’s response to the Task Force’s report. The four cornerstones of the Energy Plan are (a) low electricity rates and public ownership of BC Hydro, (b) secure reliable supply, (c) increased private sector opportunities and (d)

environmental responsibility with no nuclear power sources. In February 2007, the British Columbia provincial government issued the BC Energy Plan: A Vision for Clean Energy Leadership (“2007 Energy Plan”). The 2007 Energy Plan is a natural progression from the previous Energy Plan with consistent principles and with a strong focus on energy conservation, environmental leadership and provincial energy self sufficiency. This focus manifests itself in the 2007 Energy Plan in the setting of several specific goals and timelines in these three areas. The 2007 Energy Plan is available on the following website: www.energyplan.gov.bc.ca.

In August 2003, the province separated BC Hydro into two separate Crown corporations. The first, BC Hydro, retains ownership of BC Hydro’s generation, transmission and distribution assets and continues to be responsible for generation and distribution services. The second, BCTC, is responsible for managing, maintaining and operating the provincial high voltage transmission system which interconnects with Alberta and Washington State. In addition to managing, maintaining and operating BC Hydro’s transmission assets, BCTC also serves as control area operator for British Columbia, transmission services scheduling agent and the bulk transmission system operator.

REGULATION OF BRITISH COLUMBIA’S ELECTRICITY INDUSTRY

Overview

The regulatory framework in British Columbia allows electric utilities to earn a reasonable return on investment and recover their costs, including those associated with tax and depreciation. The BCUC is the chief provincial regulator of the British Columbia energy industry. It is responsible for setting rates and safety requirements.

Structure of the BCUC and the Regulatory Process

The BCUC is an independent regulatory agency of the provincial government. Its jurisdiction is defined by the *Utilities Commission Act* and the *Pipeline Act* (British Columbia), which provide the BCUC with specific jurisdiction over, among other things, the setting of utility rates, assessment and approval of new facilities and extensions of existing facilities, authorizing the issue of securities by utilities, supervising the consolidation, amalgamation and mergers of utilities and authorizing power supply and natural gas supply purchase agreements between utilities and third parties. In addition to the direct regulation of specific utilities, the provincial government can request that the BCUC conduct an independent public review and report on its findings and recommendations on any matter. Such a request is ordinarily accompanied by terms of reference that define the scope of the review and, although the BCUC’s recommendations are not binding, the BCUC can assist the government in addressing or evaluating complex and important public policy issues related to the utility sector.

The BCUC functions as a quasi-judicial administrative tribunal and is composed of commissioners who adjudicate on matters pursuant to the powers vested in them under the *Utilities Commission Act*. The BCUC is also composed of staff whose responsibility it is to provide technical and administrative support to the commissioners. Decisions and orders of the BCUC may be appealed to the British Columbia Court of Appeal.

The BCUC is responsible for ensuring that customers receive safe, reliable and non-discriminatory energy services at fair rates from utilities that it regulates and that the shareholders of these utilities are afforded a reasonable opportunity to earn a fair return on their invested capital. As a tribunal, the BCUC must use its discretion to ensure that the decisions it makes are fair. This may require that a public hearing be held, that there be adequate public notice for such a hearing, that participants be given an opportunity to cross-examine witnesses, or that the tribunal itself issue written reasons when it makes its final decision on the issue based on the public record. The rate-setting process often involves a sequence of public disclosure, hearing, review, comment and decision-making steps.

Rate applications may take a number of months to progress from the original application through a hearing process and ultimately to a final decision. As an alternative, applicants may seek to accelerate this process by

negotiating settlements with interested parties. Negotiated settlements, however, still require review and final approval by the BCUC. During the period that the BCUC is considering an application, the BCUC may grant rate increases on an interim, refundable basis, meaning that the utility is permitted to increase rates to customers near levels expected to be prescribed by the BCUC following completion of the regulatory process, but subject to retroactive adjustment should the process conclude differently.

The Regulatory Framework

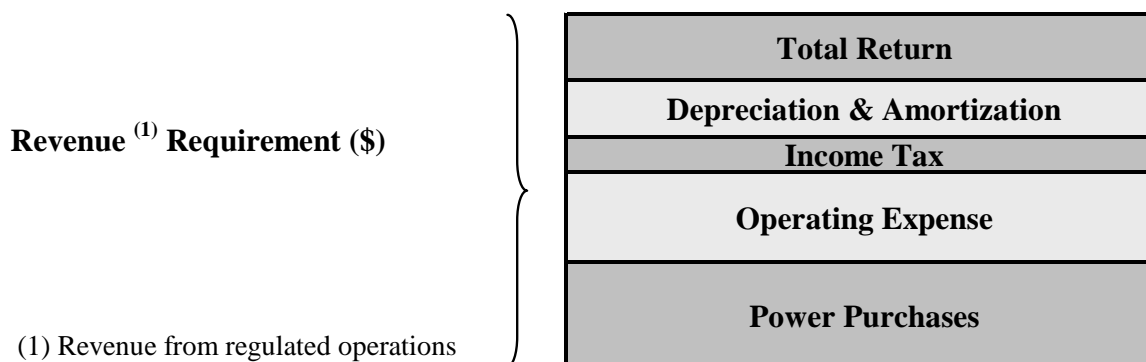
Utility rates are established pursuant to a cost-of-service methodology and in many cases a PBR framework, which are described in general terms below. See “The Business of FortisBC - Regulation” for information specific to FortisBC’s circumstances in 2006 and 2007. In short, the rate process first requires a utility to establish and have its annual revenue requirements approved by the BCUC. These annual revenue requirements include the recovery of prudently incurred operating expenses, power purchase costs, depreciation and amortization, income tax, interest on debt and a reasonable ROE. Second, an appropriate customer rate structure is established. The purpose of the rate structure is to charge fair rates to each customer class and to permit the utility to recover its approved revenue requirements. The PBR framework is intended to encourage efficiency in operations by permitting shareholders and customers to share in costs savings if specific targets are met.

Cost-of-Service Methodology

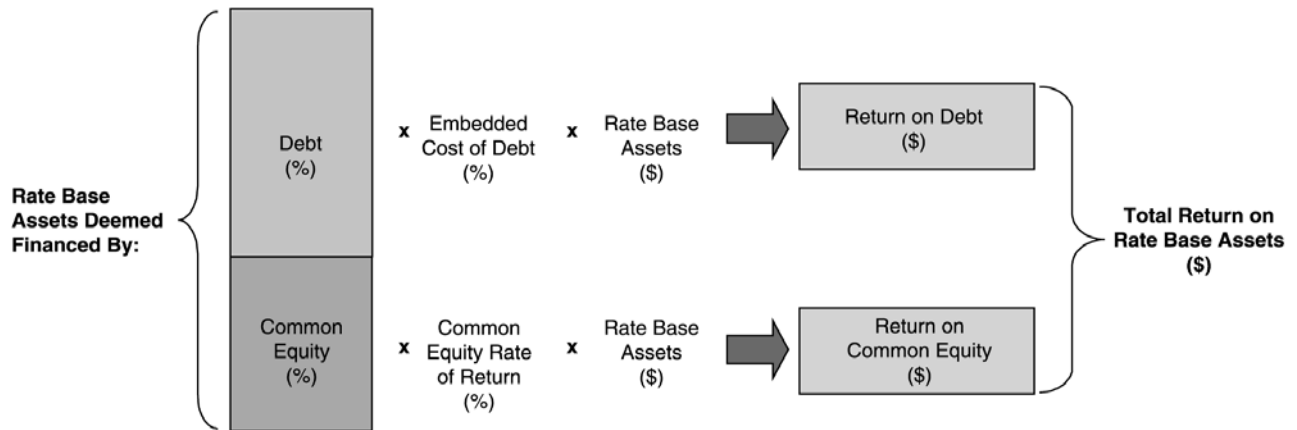
In a cost-of-service regulatory model, the BCUC seeks to provide the regulated utility with an opportunity to recover all prudently incurred power purchases, operating expenses, depreciation and amortization, income tax, interest on debt supporting rate base assets and earn a reasonable ROE. The BCUC must ensure that the utility’s tariff is just and reasonable and is not unduly preferential, arbitrary or unjustly discriminatory.

A cost-of-service regulatory process usually proceeds through two phases. A utility’s total revenue requirement is determined in phase one. In phase two, specific rates to be charged to different classes of consumers are determined, which establishes the rate structure.

The principal components of an approved revenue requirement are as follows (the diagram does not necessarily represent the relative size of such principal components, within an approved revenue requirement):



Total return is the return on capital invested by the utility in its approved Rate Base Assets financed through a deemed capital structure comprised of debt and equity calculated, as a matter of general practice, as set out below (the diagram does not necessarily represent all the components, or the relative size of such components, within an approved revenue requirement total return on Rate Base Assets).



Rate Base Assets generally include the book value of utility assets, net of customer contributions and accumulated depreciation, plus an allowance for capital invested in working capital for the business.

The BCUC has prescribed an annual automatic adjustment mechanism to determine the allowed return on common equity for a low-risk benchmark utility. The adjustment formula is based on long-term Canada bond yields. Effective January 1, 2006, the ROE automatic adjustment mechanism is described by the following:

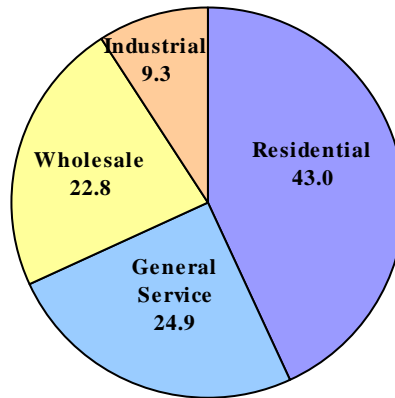
- The appropriate ROE for a benchmark low risk utility is 9.15% when the forecast long Canada bond yield is 5.25%; and
- ROE will be adjusted by 75% of changes in forecast long Canada bond yields.

Following determination of the rate of return on common equity for the low-risk benchmark utility, an additional risk premium particular to each utility relative to the low-risk benchmark is also incorporated. For FortisBC, a risk premium of 0.40% is applied to the benchmark low-risk utility ROE.

Once a total revenue requirement is determined and approved by the BCUC, a rate structure resulting in rate schedules applicable to different customer classes as well as terms and conditions that govern the services provided to customers is determined. The determination of the rate structure is complex and typically involves the allocation of the total revenue requirement to customer classes based on various class characteristics, followed by the design of specific rates to recover the allocated costs in a reasonable and equitable manner. Rates are designed based on a set of rate design principles, with the primary principle being to collect revenue from a particular customer class based on the costs that are attributable to that class. The revenue by customer class is determined by multiplying the approved rates by billing determinants which are structured and applied differently to each customer class in order to reflect the major cost drivers associated with them or to recognize other rate design criteria such as simplicity and rate stability.

Billing determinants are either fixed or variable, with fixed billing determinants providing more revenue stability and minimizing the impact of fluctuations in volume of electricity. Revenue is derived from billing determinants which include (a) energy (variable charges), (b) demand (largely fixed charges) and (c) basic monthly charges (fixed charges). Generally, the applicability of the above charges depends on the type of customer or the customer class. For example, monthly charges to residential customers are based on a basic monthly charge (\$/month) plus all energy (¢/kWh) delivered, whereas charges to large industrial customers are based on monthly peak demand (\$/kW/month), energy delivered (¢/kWh) and a basic monthly charge. In principle, the rate structure is designed to ensure that the costs of operating the utility system, a significant portion of which is fixed, is recovered through the fixed component, while electricity used is charged at actual cost incurred by the Corporation in acquiring such electricity. The following chart provides the Corporation's 2006 allocation of electricity revenue by customer class.

Allocation of 2006 Electricity Revenue by Customer Class



Performance-Based Rate Setting

The PBR framework uses a cost-of-service methodology, as described above, to establish periodic revenue requirements and customer rates for a base year. In subsequent years, for a pre-defined PBR term some or all components of rates may be determined automatically by a prescribed formula, such as that applied to FortisBC's gross operating and maintenance expense described in "The Business of FortisBC - Regulation". The periodic "rebasings" of revenue requirements provides for recovery of prudently incurred operating costs and an appropriate return on capital, and generally includes a mechanism for the recovery of extraordinary costs or costs outside the control of management.

In a PBR framework, the shareholder is afforded the opportunity to enhance its returns by sharing cost savings with its customers. In order to ensure that a utility does not compromise quality of service in an effort to realize increased shareholder returns, non-financial performance standards are defined, and may serve as thresholds for retaining a share of financial incentives.

FortisBC maintains and reports to the regulator and stakeholders its performance in the areas of system reliability, safety and health, generator reliability and customer service. Meeting satisfactory standards of performance in these areas generally leads to the BCUC approving FortisBC's participation in any achieved savings. A failure to achieve satisfactory standards of performance does not lead to financial penalties against the Corporation. In general, the Corporation has met the standards set by the BCUC since its initial PBR term beginning in 1996.

MARKET FOR SECURITIES

None of the issued and outstanding shares of the Corporation or any of its debentures are listed on any exchange.

CAPITAL STRUCTURE

FortisBC's business requires the Corporation to have ongoing access to capital to allow it to build and maintain the electrical systems in its service territory. In order to ensure that this access to capital is maintained and in accordance with BCUC requirements, the Corporation targets a long-term capital structure that includes 40% equity and 60% debt.

Share Capital

The Corporation's authorized share capital consists of 500 million common shares with a par value of \$100 each and 500 million preferred shares with a par value of \$25 each, of which 20,000 shares have been designated as Preferred Shares - Series 1, and 480,000 shares have been designated as Cumulative

Redeemable Retractable Preferred Shares - Series 2. The issued and outstanding share capital of FortisBC as at December 31, 2006 consists of 1,518,510 common shares and no preferred shares. Fortis owns all the issued common shares through its indirect wholly-owned subsidiary, Fortis Pacific.

Holders of common shares of the Corporation are entitled to receive Dividends as and when declared by the Board, subject to the rights of holders of the preferred shares, and are entitled to one vote per share on all matters to be voted on at all meetings of shareholders except those meetings at which only the holders of shares of another class or of a particular series are entitled to vote. Upon the liquidation, dissolution or winding-up of the Corporation, the holders of common shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities and subject to the rights of the holders of the preferred shares. The common shares do not have exchange, conversion, redemption or retraction rights.

Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, designation, rights and restrictions determined by the Board. Preferred shares are entitled to priority over the common shares with respect to the payment of Dividends and distributions of assets in the event of the liquidation, dissolution or winding-up of the Corporation. Except in respect of a meeting of holders of the preferred shares or of a particular series of the preferred shares, or except as may otherwise be provided in the rights attached to any series of preferred shares, holders of the preferred shares will not be entitled to vote at any meetings of shareholders.

Secured Debentures – Series E, F, and G

The Corporation has three series of secured debentures outstanding in an aggregate principal amount of \$45.3 million as at December 31, 2006. The secured debentures were issued under indentures supplemental to the deed of trust and mortgage (together with all supplemental indentures, the “Secured Trust Deed”) dated as of March 15, 1983 made between the Corporation and The Canada Trust Company (since replaced by the Computershare Trust Company of Canada), as trustee and are comprised of \$5.3 million principal amount 11% Series E sinking fund debentures due December 1, 2009, \$15.0 million principal amount 9.65% Series F debentures due October 16, 2012 and \$25.0 million principal amount 8.8% Series G debentures due August 28, 2023. The Series E debentures require annual sinking fund payments in the amount of \$750,000 to be made against the outstanding principal. All three series of debentures are secured against all of the real and personal property of the Corporation and are guaranteed by FortisWest.

Unsecured Debentures – Series H, I, and J

The Corporation has three series of debentures which were converted to unsecured debentures on November 30, 2004 pursuant to the terms of the Secured Trust Deed. These unsecured debentures are outstanding in an aggregate principal amount of \$100.0 million as at December 31, 2006. The unsecured debentures were issued under indentures supplemental to the deed of trust dated as of February 1, 1996 made between the Corporation and Montreal Trust Company (since replaced by Computershare Trust Company of Canada), as trustee and are comprised of \$25.0 million principal amount 8.77% Series H debentures due February 1, 2016, \$25.0 million principal amount 7.81% Series I debentures due December 1, 2021 and \$50.0 million principal amount 6.75% Series J debentures due July 31, 2009. The Series H, I and J unsecured debentures are guaranteed by FortisWest.

Unsecured Debentures – Series 04-1 and 05-1

The Corporation has two series of unsecured debentures outstanding in an aggregate principal amount of \$240.0 million as at December 31, 2006, both of which were issued under the Indenture. Series 04-1 is comprised of 5.48% senior unsecured debentures in the principal amount of \$140.0 million due November 28, 2014. Series 05-1 is comprised of 5.60% senior unsecured debentures in the principal amount of \$100.0 million due November 9, 2035.

Obligations of the Corporation under the Series 04-1 and Series 05-1 unsecured debentures are not guaranteed by FortisWest or Fortis.

Walden Power Partnership Indebtedness

Walden Power Partnership has outstanding indebtedness in the principal amount of \$5.8 million as at December 31, 2006, secured by a first mortgage against the Walden Power Plant as well as a pledge by the Corporation of all of its partnership interest and units in the Walden Power Partnership. The mortgage bears interest at 9.44% per annum and is due on October 31, 2013.

Revolving/Non-Revolving Operating Facility

On May 14, 2004, a syndicate of Canadian chartered banks made available to the Corporation an operating credit facility which is an unsecured term credit facility (the “Operating Credit Facility”) for its general working capital and capital expenditure requirements.

On May 12, 2005 the Operating Credit Facility was amended and restated by an amended and restated credit facility (the “Amended and Restated Credit Facility”). The Amended and Restated Credit Facility is comprised of a \$100.0 million, 3-year revolving facility maturing on May 12, 2008 (“Facility A”) and a \$50.0 million, 364-day revolving facility originally maturing on May 11, 2006 (“Facility B”). At any time not more than 90 days and not less than 60 days prior to the then current Facility B conversion date, the Corporation may request the lenders to extend the term for an additional 364 days and if the request for extension is not granted, Facility B will automatically convert into a non-revolving term credit facility (“Conversion”) that will mature six months from the date of Conversion. In May 2006 the Facility B maturity date was extended to May 10, 2007. As at December 31, 2006 the cumulative total amount outstanding for Facility A and Facility B was \$21.0 million.

Borrowings under the Amended and Restated Credit Facility may be made in Canadian dollars and bear interest based on the prime rate or certificate of deposit offered rate for bankers’ acceptances plus, in each case, a margin based on FortisBC’s debt ratings provided by credit rating agencies. The Amended and Restated Credit Facility is also available to support letters of credit. As at December 31, 2006, the Corporation had outstanding letters of credit in the amount of \$4.6 million.

Obligations of the Corporation under the Amended and Restated Credit Facility are not guaranteed by FortisWest or Fortis.

\$10 Million Overdraft Facility

A Canadian chartered bank has made available to the Corporation a \$10.0 million uncommitted unsecured demand credit facility (the “Overdraft Facility”) to be used by the Corporation for working capital purposes. The Overdraft Facility is available by way of current account overdrafts in Canadian or U.S. dollars. As at December 31, 2006, \$7.2 million has been drawn on the overdraft facility and outstanding cheques of \$14.4 million have been issued. Borrowings under the Overdraft Facility bear interest at prime.

Obligations of the Corporation under the Overdraft Facility are not guaranteed by FortisWest or Fortis.

Ratings

The following table discloses the Corporation’s debenture ratings:

Rating Agency	Rating	Debt Rated
DBRS	BBB (high), Stable Trend	Secured and unsecured debentures
Moody’s	Baa3, Stable Outlook	Unsecured debentures

Ratings are not recommendations to purchase, hold or sell debentures, because ratings do not comment as to market price or suitability for a particular investor. The Corporation understands that ratings are based on, among other things, information furnished to the rating agencies by the Corporation and information obtained by the rating agencies from public sources. Ratings may be changed, suspended or withdrawn as a result of

changes in, or unavailability of, that information.

DBRS's long-term debt ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities. The assignment of a "(high)" or "(low)" modifier within each rating category indicates relative standing within that category. DBRS states that its long-term debt ratings are meant to give an indication of the risk that the borrower will not fulfill its obligations in a timely manner with respect to both interest and principal commitments. DBRS ratings do not take factors such as pricing or market risk into consideration and are expected to be used by purchasers as one part of their investment process. Every DBRS rating is based on quantitative and qualitative considerations that are relevant for the borrowing entity. According to DBRS, a rating of BBB by DBRS is in the middle of three subcategories and within the fourth highest of nine major categories. A credit rating of BBB is generally an indication of adequate credit quality as defined by DBRS. Protection of interest and principal is considered acceptable, but the entity is considered to be fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

Moody's long-term debt ratings are on a rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities. In addition, Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa to Caa to indicate relative standing within such classification. The modifier 1 indicates that the security ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the security ranks in the lower end of its generic rating category. Moody's long-term debt ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default. According to Moody's, a rating of Baa is the fourth highest of nine major categories; such a debt rating is assigned to debt instruments considered to be medium-grade. Debt instruments rated Baa are subject to moderate credit risk and may possess certain speculative characteristics.

DIVIDEND POLICY

The declaration and payment of Dividends is at the discretion of the Board and will be influenced by ongoing capital structure management.

The Corporation paid Dividends on its common shares of \$10.2 million during the year ended December 31, 2006, \$8.0 million during the year ended December 31, 2005, and \$9.7 million during the year ended December 31, 2004.

Certain of the Corporation's debt covenants contain restrictions on the payment of Dividends if consolidated debt exceeds 70% of consolidated capitalization, if the Dividends are not in the ordinary course of business or if the cumulative Dividends paid since the date that certain debt instruments were issued exceeds thresholds based on the cumulative net earnings of the Corporation.

RISK FACTORS

For more information with respect to risks and uncertainties to which the Corporation is subject, see the section entitled "Business Outlook – Business Risk Management" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2006, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

DIRECTORS AND OFFICERS

Directors

The following table sets forth as at December 31, 2006, the name, province and country of residence of each director of the Corporation, his or her respective position and office with the Corporation, his or her principal occupation during the five preceding years, and the date upon which each director first became a director of the Corporation and when his or her term ends:

Name, Province and Country of Residence	Term as a Director	Principal Occupation for Past 5 years	
Beth D. Campbell ⁽¹⁾ British Columbia, Canada	Commencing September 6, 2005, term expires March 31, 2008	<i>Best Western Inn (Penticton, BC)</i>	Owner 2000 to present
Richard (Kim) D. Deane ⁽²⁾ British Columbia, Canada	Commencing September 6, 2005, term expires March 31, 2009	<i>Retired</i>	2000 to present
Walter E. Gray ⁽¹⁾ British Columbia, Canada	Commencing June 1, 2006, term expires March 31, 2009	<i>Retired</i>	December 2005 to present <i>City of Kelowna, BC</i> 1996 to December 2005 Mayor
Philip G. Hughes ⁽¹⁾ Alberta, Canada	Commencing May 31, 2004, term expires March 31, 2007	<i>Fortis Alberta Inc.</i> June 2004 to present <i>Fortis BC Inc.</i> June 2004 to March 2005 <i>Fortis West Inc.</i> November 2003 to August 2004 <i>Newfoundland Power Inc.</i> May 1997 to December 2003	President and Chief Executive Officer President and Chief Executive Officer President and Chief Executive Officer President and Chief Executive Officer
H. Stanley Marshall ⁽¹⁾ Newfoundland and	Commencing May 31, 2004, term expires March 31, 2008	<i>Fortis Inc.</i> May 1996 to present	President and Chief Executive Officer
Roger M. Mayer ⁽²⁾ British Columbia, Canada	Commencing February 14, 2006, term expires March 31, 2008	<i>Mayer Ranch</i> 1979 to present	Owner
Dr. John S. McCallum ⁽²⁾ Manitoba, Canada	Commencing October 25, 2004, term expires March 31, 2009	<i>University of Manitoba</i> 1973 to present	Professor of Finance, Faculty of Management
R. Harry McWatters ⁽¹⁾⁽³⁾ British Columbia, Canada	Commencing September 6, 2005, term expires March 31, 2007	<i>Sumac Ridge Estate Winery Ltd.</i> 1980 to present	President
Barry V. Perry ⁽²⁾ Newfoundland and Labrador, Canada	Commencing August 1, 2004, term expires March 31, 2008	<i>Fortis Inc.</i> January 2004 to present <i>Newfoundland Power Inc.</i> April 2000 to December 2003 <i>Abitibi Consolidated Inc.</i> April 1999 to March 2000	Vice President, Finance and Chief Financial Officer Vice President, Finance and Chief Financial Officer Vice President / Treasurer
John C. Walker British Columbia, Canada	Commencing April 1, 2005, term expires March 31, 2007	<i>Fortis BC Inc.</i> April 2005 to present <i>Fortis Properties Corporation</i> January 1996 to March 2005	President and Chief Executive Officer President and Chief Executive Officer

Notes:

- (1) Member of the Governance & Human Resources Committee.
- (2) Member of the Audit, Risk & Environment Committee.
- (3) Chair of the Board.

Officers

The following table sets forth at December 31, 2006 the name, province and country of residence of each executive officer of the Corporation, their respective position and office with the Corporation during the five preceding years.

Name, Province and Country of Residence	Office Held	Principal Occupation or Employment for Past 5 years	
John C. Walker British Columbia, Canada	President and Chief Executive Officer	<i>FortisBC Inc.</i> April 2005 to present <i>Fortis Properties Corporation</i> January 1996 to March 2005	President and Chief Executive Officer President and Chief Executive Officer
Donald L. Debiegne British Columbia, Canada	Vice President, Generation and Regulatory Affairs	<i>FortisBC Inc.</i> February 2006 to present <i>FortisBC Inc.</i> February 2005 to February 2006 <i>FortisBC Inc.</i> June 2004 to February 2005 <i>Aquila Networks Canada</i> September 2000 to June 2004	Vice President, Generation and Regulatory Affairs Vice President, Generation Vice President, Operations Vice President, Operations
Michael A. Mulcahy British Columbia, Canada	Vice President, Customer and Corporate Services	<i>FortisBC Inc.</i> July 2005 to present <i>Newfoundland Power Inc.</i> January 2003 to July 2005 <i>Fortis Properties Corporation</i> January 2000 to January 2003	Vice President, Customer and Corporate Services Vice President, Customer and Corporate Services Vice President, Hospitality Services
Michele I. Leeners British Columbia, Canada	Vice President, Finance and Chief Financial Officer	<i>FortisBC Inc.</i> June 2005 to present <i>Northrock Resources Ltd.</i> July 2001 to June 2005 <i>Northrock Resources Ltd.</i> January 2000 to July 2001	Vice President, Finance and Chief Financial Officer Manager of Tax Manager of Financial Reporting
Doyle Sam British Columbia, Canada	Vice President, Transmission and Distribution	<i>FortisBC Inc.</i> February 2005 to present <i>FortisBC Inc.</i> May 2004 to February 2005 <i>Aquila Networks Canada</i> January 2003 to May 2004 <i>TransAlta</i> April 2002 to December 2002 <i>TransAlta</i> November 1999 to March 2002	Vice President, Transmission and Distribution Director, Transmission and Distribution Director, Asset Management Operations Transition Leader, Transmission General Manager, Wabamun Generating Plant
David Bennett British Columbia, Canada	General Counsel and Corporate Secretary	<i>FortisBC Inc.</i> October 2004 to present <i>Pushor Mitchell LLP</i> April 2003 to October 2004 <i>Allen & Overy</i> January 2001 to February 2003 <i>Worthington, Simm & David</i> September 1997 to December 2000	General Counsel and Corporate Secretary Associate Lawyer Associate Lawyer Associate Lawyer

Conflicts of Interest

Other than as disclosed herein, to the knowledge of management of the Corporation, there are no existing or potential material conflicts of interest among the Corporation or a subsidiary of the Corporation and any director or officer of the Corporation or such subsidiary.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the compensation information for the financial years indicated below for each person who served as the Chief Executive Officer or Chief Financial Officer during the most recently completed financial year and for the three other most highly compensated executive officers of the Corporation (the “Named Executive Officers”).

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	All Other Compensation ⁽⁵⁾
		Salary ⁽¹⁾	Bonus ⁽²⁾	Other ⁽³⁾	Securities Under Options Granted ⁽⁴⁾	
John C. Walker ⁽⁶⁾ President & CEO	2006	\$314,519	\$180,000	-	34,329	\$5,811
	2005	\$213,039	\$200,000	-	39,392	\$53,895
	2004	-	-	-	-	-
Don L. Debienne ⁽⁷⁾ VP Generation & Regulatory Affairs	2006	\$199,837	\$95,000	-	13,078	\$17,600
	2005	\$191,500	\$110,000	-	15,608	\$523,813
	2004	\$150,377	\$65,799	-	-	\$12,703
Michele I. Leeners ⁽⁸⁾ VP Finance & CFO	2006	\$174,615	\$80,000	-	11,443	\$20,230
	2005	\$88,231	\$60,000	-	11,168	\$11,733
	2004	-	-	-	-	-
Michael M. Mulcahy ⁽⁹⁾ VP Customer & Corporate Services	2006	\$194,846	\$90,000	-	12,751	\$42,751
	2005	\$90,623	\$60,000	-	15,240	\$46,321
	2004	-	-	-	-	-
Doyle Sam VP Transmission & Distribution	2006	\$174,615	\$80,000	-	11,443	\$11,256
	2005	\$155,704	\$85,000	-	11,408	\$20,605
	2004	\$133,150	\$45,517	-	-	\$1,371

Notes:

- (1) Reflects actual base salary received for the year.
- (2) Reflects actual bonus received under the short-term incentive program in recognition of performance for that year and paid in the following year.
- (3) Not reported when the aggregate of Other Annual Compensation is less than 50,000 and 10% of the Named Executive Officer's salary plus bonus.
- (4) Reflects the number of stock options granted for Fortis common shares as adjusted for stock splits.
- (5) Includes, where applicable, the value of company contributions to the Defined Contribution Pension Plan or Group RRSP Plan, vacation payouts, relocation allowance, discretionary cash awards and the value of company-paid life insurance premiums. Mr. Debienne received a lump sum payment pursuant to a Change in Control Agreement in the amount of \$498,000 in 2005.
- (6) Mr. Walker joined FortisBC as President and Chief Executive Officer on April 1, 2005.
- (7) Mr. Debienne was the Vice President Operations for FortisAlberta and FortisBC prior to June 1, 2004 and only 50% of his compensation from January 1, 2004 to May 31, 2004 was directly charged to FortisBC. The amounts in the table above reflect actual amounts paid by FortisBC only. Mr. Debienne's 2004 total salary was \$191,500 and his total bonus was \$81,597.
- (8) Ms. Leeners joined FortisBC as Vice President Finance and Chief Financial Officer on June 1, 2005.
- (9) Mr. Mulcahy joined FortisBC as Vice President Customer and Corporate Services on June 30, 2005.

Option Grants During the Most Recently Completed Financial Year

The following table sets out the total number of options granted in Fortis stock during the year to the Named Executive Officers and the percentage of those holdings out of all employees of the Corporation. It should be noted that effective October 21, 2005 a four for one stock split occurred. The table below includes stock option information that is reflected on a post-split basis.

Name	Options Granted (#) ⁽¹⁾	Percentage of Total Options Granted to Employees in Financial Year ⁽²⁾	Exercise Price (\$)	Market Value of Securities Underlying Options on the Date of Grant (\$)	Expiration Date
John Walker	34,329	41%	\$22.94	\$787,507	February 28, 2016
Michele Leeners	11,443	14%	\$22.94	\$262,502	February 28, 2016
Michael Mulcahy	12,751	15%	\$22.94	\$292,508	February 28, 2016
Don Debienne	13,078	16%	\$22.94	\$300,009	February 28, 2016
Doyle Sam	11,443	14%	\$22.94	\$262,502	February 28, 2016

Notes:

- (1) No grant of options during the most recently completed financial year was as a result of the repricing of options.
(2) Reflected as to the percentage of options granted to FortisBC employees only.

Aggregate Option Exercises During the Most Recently Completed Financial Year and Financial Year End Option Values

The following table sets out the aggregate value of options exercised, if any, during the year by the Named Executive Officers. The aggregate value is based on a share price at December 31, 2006 of \$29.77. The table below includes stock option information that is reflected on a post-split basis.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at FY-End		Value of Unexercised in-the-Money Options at FY-End	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
John Walker	-	-	130,371	98,810	\$2,174,257	\$1,107,201
Don Debienne	-	-	3,902	24,784	\$44,346	\$222,361
Michele Leeners	-	-	2,792	19,819	\$24,988	\$153,121
Michael Mulcahy	-	-	48,276	38,279	\$790,954	\$434,150
Doyle Sam	-	-	2,852	19,999	\$32,413	\$175,395

Termination of Employment, Change in Responsibilities and Employment Contracts

There are written employment contracts between the Corporation and the Named Executive Officers which contain the basic provisions of employment including, among other things, base salary, short-term incentive, vacation and benefits. At December 31, 2006 there is no compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive more than \$100,000 from the Corporation or its subsidiaries, including periodic payments or instalments, in the event of the resignation, retirement or any other termination of the Named Executive Officer employment, a change of control of the Corporation or any of its subsidiaries or a change in the Named Executive Officer's responsibilities following a change in control.

Compensation of Directors

In 2006, the Corporation paid each of its directors, other than directors who are also officers or employees of FortisBC, an annual retainer of \$12,500 up to and including June 30, 2006 and \$13,500 commencing July 1, 2006 on a pro rata basis, as well as additional remuneration of \$1,000 for each directors' meeting attended and \$1,000 for each committee meeting attended. The Chairman of the Board received additional

remuneration of \$32,000 up to and including June 30, 2006 and \$34,000 commencing July 1, 2006 on a pro rata basis. The Chairperson of the Audit, Risk & Environment Committee received additional remuneration of \$2,000 per year up to and including June 30, 2006 and \$4,000 commencing July 1, 2006 on a pro rata basis. The Chairperson of the Governance and Human Resources Committee received additional remuneration of \$2,000 per year. The directors of the Corporation are also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation and an additional \$1,000 for travel time for each group of meetings attended in person commencing July 1, 2006.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER UNIT COMPENSATION PLANS

The Corporation does not have a compensation plan under which securities of the Corporation are authorized for issuance.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at December 31, 2006, no director, executive officer, employee and no former director, executive officer and employee of the Corporation or any of its subsidiaries is indebted to the Corporation or indebted to another entity where such indebtedness is the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by the Corporation, other than routine indebtedness.

No individual who is, or at any time during the most recently completed financial year was, a director or executive officer of the Corporation, proposed nominee for election as a director of the Corporation or an associate of any such director, executive officer or proposed nominee is, or at any time since the beginning of the Corporation's most recently completed financial year has been, indebted to the Corporation or any of its subsidiaries or indebted to another entity where such indebtedness is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries, other than routine indebtedness.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Corporation, or person or company that is the direct or beneficial owner of, or who exercises control over, more than 10% of any class or series of the Corporation's outstanding voting securities, nor any associate of the foregoing persons, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years of the Corporation or during the current financial year of the Corporation that has materially affected or will materially affect the Corporation.

MANAGEMENT CONTRACTS

There are no management functions of the Corporation or any of its subsidiaries which are to any substantial degree performed by a person other than the directors or executive officers of the Corporation or a subsidiary, other than management functions performed by a subsidiary for another subsidiary.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, or those that were entered into before January 1, 2002, which have been entered into by the Corporation within the Corporations' most recently completed financial year, or before the most recently completed financial year but is still in effect:

- the Indenture (see "Capital Structure – Unsecured Debentures – Series 04-1 and 05-1");
- the Amended and Restated Credit Facility (see "Capital Structure – Revolving / Non-Revolving Operating Facility"); and

- the 2005 CPA (see “The Business of FortisBC – Generation and Power Supply”).

Copies of these agreements may be inspected at the office of FortisBC, 5th Floor, 1628 Dickson Avenue, Kelowna, British Columbia V1Y 9X1, subject to compliance with the Corporation’s confidentiality obligations.

LEGAL PROCEEDINGS

The Provincial Ministry has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC. The Company is currently communicating with the Ministry and its insurers. In addition, the Company has been served with two filed Writs and Statements of Claim by private land owners in relation to the same matter. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

FortisBC has been served a Writ and Statement of Claim filed with the B.C. Supreme Court under the Class Proceedings Act, 1995 on behalf of a class consisting of all persons who are or were customers of FortisBC and who paid or have been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim is that forfeitures of the prompt payment discount offered to customers constitute "interest" within the meaning of s. 347 of the Criminal Code and, since the effective annual rate of such interest exceeds 60%, they are illegal and void. In the action the Plaintiff seeks damages and restitution of all late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff has filed an appeal of the decision with the Court of Appeal of British Columbia. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

AUDITOR, TRUSTEE AND PAYING AGENT

Ernst & Young LLP, Chartered Accountants is the auditor of the Corporation and was appointed effective as at March 31, 2005.

Computershare Trust Company of Canada, at its office located at Vancouver, British Columbia, is the Trustee under the Indenture. Registers for the registration and transfer of debentures issued under the Indenture are kept at the offices of the Trustee in Vancouver, British Columbia. The Trustee is also the paying agent for such debentures.

INTEREST OF EXPERTS

The Corporation’s auditor, Ernst & Young, has prepared the audit report attached to the audited consolidated financial statements for the Corporation’s financial year ended December 31, 2006. As of January 26, 2007, Ernst & Young was independent with respect of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional financial information is also provided in the Corporation’s financial statements for the financial year ended December 31, 2006, and management’s discussion and analysis of such financial results. A copy of such documents and additional information relating the Corporation is contained on SEDAR at www.sedar.com.