

FORTISBC

FortisBC Inc.

**Annual Information Form
For the Year Ended December 31, 2009**

February 24, 2010

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION	3
GLOSSARY	4
CORPORATE STRUCTURE	6
THE BUSINESS OF FORTISBC	6
A. GENERAL	6
B. SALES AND SERVICE TERRITORY	7
C. GENERATION AND POWER SUPPLY	8
D. TRANSMISSION AND DISTRIBUTION	10
E. REGULATION	11
F. MAJOR CAPITAL PROJECTS	12
G. OTHER OPERATIONS AND ASSETS	12
H. OTHER ACTIVITIES	12
I. OTHER MATERIAL CORPORATE ISSUES	13
BRITISH COLUMBIA'S ELECTRICITY INDUSTRY	16
REGULATION OF BRITISH COLUMBIA'S ELECTRICITY INDUSTRY	17
MARKET FOR SECURITIES	21
CAPITAL STRUCTURE	21
DIVIDEND POLICY	24
RISK FACTORS	24
DIRECTORS AND OFFICERS	25
EXECUTIVE COMPENSATION	27
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS	33
INDEBTEDNESS OF EXECUTIVE OFFICERS, DIRECTORS, AND EMPLOYEES	33
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	34
MATERIAL CONTRACTS	34
LEGAL PROCEEDINGS	35
AUDITOR, TRUSTEE AND PAYING AGENT	35
INTEREST OF EXPERTS	35
ADDITIONAL INFORMATION	35

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, 2009.

FORWARD-LOOKING INFORMATION

Certain statements contained in 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 and the information incorporated herein by reference includes, but is not limited to, statements regarding: the Corporation’s expected level of capital expenditures; expectations regarding power output in the event that the CPA is terminated, expectations under take-or-pay contracts, expectations of cost of compliance with environmental laws and expectations regarding the cost of alternative energy supply compared to the Corporation’s regulated wholesale and industrial rates.

The forecasts and projections that make up the forward-looking information are based on assumptions, which include, but are not limited to: receipt of applicable regulatory approvals and requested rate orders; continued electricity demand; absence of adverse weather conditions, natural disasters and equipment breakdown; no significant decline in interest rates; the ability to arrange sufficient and cost effective financing; the ability to maintain and renew collective bargaining agreements on acceptable terms; absence of environmental damage; the First Nations’ settlement process does not adversely affect the Corporation; the adequacy of the Corporation’s existing insurance arrangements; that counterparties do not default on power supply contracts; no weather related demand loss; ability to maintain and obtain applicable permits; climate change does not reduce water flows; and, no material adverse increase in employee future benefit costs.

The forward-looking information is 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: regulatory approval and rate orders risk; electricity demand risk; weather and natural disasters, equipment breakdown, operating and maintenance risk; interest rates risk; capital resources risk; labour relations risk; environmental matters risk; First Nations’ land matters risk; underinsured and uninsured losses; power supply contracts risk; weather related demand loss; permits risk; climate change risk; employee future benefits risk; and, other risks described in this Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled “Business Risk Management” in the Corporation’s Management Discussion & Analysis for the year ended December 31, 2009, which is filed on SEDAR at www.sedar.com, and is incorporated herein by reference.

All forward-looking information in this Annual Information Form and the information incorporated herein by reference is qualified in its entirety by this cautionary statement and, except as may be required by law, 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.

“BC Hydro” means British Columbia Hydro and Power Authority, a British Columbia 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 British Columbia 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 149 MW power purchase agreement between the Corporation and Brilliant Power Corporation terminating in 2056;

“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.;

“CPA” means the amended and restated Canal Plant Agreement made as of July 1, 2005 among BC Hydro, the Corporation, Teck Comino Metals Ltd. (now known as Teck Metals Ltd.), Brilliant Power Corporation, Brilliant Expansion Corporation and Waneta Expansion Power Corporation;

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

“CPI” means BC Consumer Price Index;

“DBRS” means DBRS 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 2007 energy policy of the government of British Columbia entitled “The BC Energy Plan: A Vision for Clean Energy Leadership”;

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

“Entitlement Parties” means, collectively, Brilliant Power Corporation, Brilliant Expansion Power Corporation, Teck Cominco Metals Ltd. (now known as Teck Metals Ltd.) and FortisBC;

“Fortis” means Fortis Inc.;

“Fortis Pacific” means Fortis Pacific Holdings Inc.;

“FortisWest” means FortisWest Inc.;

“Full Time Equivalent Employees” means all FortisBC full time employee equivalents except those employees on long term disability or maternity leave as determined on the final FortisBC payroll date in the year 2009.

“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;

“MTN Indenture” means the trust indenture dated as of May 27, 2009 between the Corporation and Computershare Trust Company of Canada, as Trustee, as supplemented and amended from time to time;

“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;

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

“PCBs” means polychlorinated biphenyls.

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

“Rate Design Application” means the Rate Design and Cost of Service Application of FortisBC filed on October 30, 2009 with the BCUC;

“Resource Plan” means the 2009 Resource Plan of FortisBC filed on May 29, 2009 with the BCUC;

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

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

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

CORPORATE STRUCTURE

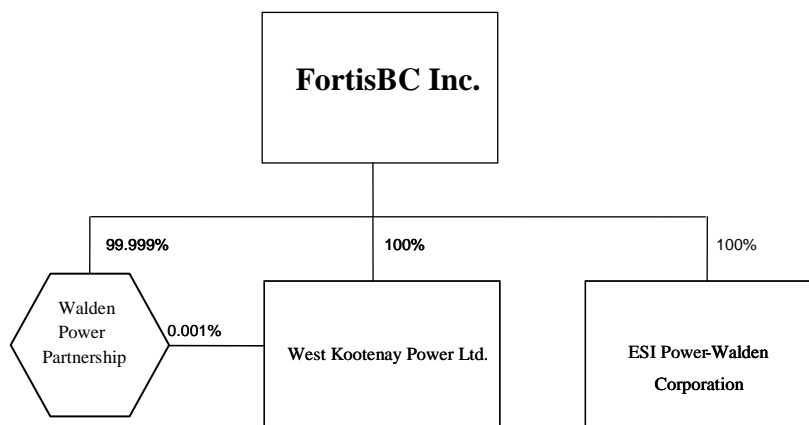
Name, Address and Incorporation

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 registered and records office is located at Suite 100, 1975 Springfield Road, Kelowna, British Columbia V1Y 7V7.

Inter-corporate Relationships

The Corporation is an indirect, wholly-owned subsidiary of Fortis, a diversified, international distribution utility holding company having investments in distribution, transmission and generation utilities, as well as commercial real estate and hotel operations. FortisBC has two corporate subsidiaries and is a partner in the Walden Power Partnership along with West Kootenay Power Ltd., as set out in the chart below. All of the subsidiaries are organized pursuant to the laws of the Province of British Columbia. The percentages indicated in the chart below represent percentage 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 generating plant 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 building new infrastructure. FortisBC plans to invest approximately \$650 million (net of customer contributions), 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, 2009 FortisBC served, directly and indirectly, a diverse base of approximately 159,000 customers. Customers are comprised of residential, general service, 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 2009, the Corporation sold 3,157,000 MWh of electricity to its customers, 928,000 MWh of which was purchased by FortisBC's seven wholesale customers. The Corporation had a peak demand of 714 MW in 2009, 32 MW lower than the historical peak demand of 746 MW.

The Corporation's regulated generation assets consist of four hydroelectric generating plants on the Kootenay River with an aggregate capacity of 223 MW and an annual gross energy entitlement of approximately 1,591,000 MWh. 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 and the costs of which are flowed through to customers. The Corporation's regulated transmission and distribution assets consist of approximately 7,000 kilometres of transmission and distribution power lines and 66 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 other 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 unregulated Walden Power Plant.

B. SALES AND SERVICE TERRITORY

The following map outlines the Corporation's service area:



FortisBC operates in the southern interior of British Columbia serving approximately 111,000 direct customers in communities including Kelowna, Oliver, Osoyoos, Trail, Castlegar, Creston and Rosland. In addition, FortisBC indirectly serves approximately 48,000 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. The service territory is primarily residential but also contains key industries served by FortisBC including lumber, pulp and paper, mining, agriculture and manufacturing.

The following chart compares 2009 and 2008 regulated revenue, electricity sales, and number of customers by customer class:

	Electricity Revenue ⁽¹⁾				Electricity Sales ⁽¹⁾				Customers ⁽³⁾			
	2009		2008		2009		2008		2009		2008	
	\$ millions	%	\$ millions	%	GWh	%	GWh	%	#	%	#	%
Residential Service	112.1	47.0	102.6	46.4	1,293	41.0	1,221	39.5	96,565	87.0	95,502	87.0
General Service ⁽²⁾	62.5	26.2	58.2	26.4	733	23.2	722	23.4	14,248	13.0	14,174	13.0
Wholesale	49.9	20.9	45.6	20.7	928	29.4	892	28.9	7	0.0	7	0.0
Industrial	14.1	5.9	14.5	6.5	203	6.4	252	8.2	33	0.0	36	0.0
Total	238.6	100	220.9	100	3,157	100	3,087	100.0	110,853	100	109,719	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 3,186 GWh and 3,120 GWh for the years ended December 31, 2009 and 2008 respectively. Including electricity revenue from the Corporation's unregulated business, total electricity revenue was \$240.2 million and \$222.7 million for the years ended December 31, 2009 and 2008 respectively.
- (2) General Service includes Street Lights and Irrigation.
- (3) Direct customers.

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. The Corporation owns four regulated hydroelectric generating plants with an aggregate capacity of 223 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 fifteen separate generating units. Generation assets represent approximately 14% of the Corporation's Rate Base Assets. Under the 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. Since 1998, eleven of fifteen FortisBC hydroelectric generation units have been subject to a life extension and upgrade program which is forecast to conclude in 2012.

Canal Plant Agreement

FortisBC's four hydroelectric generating plants are governed by the CPA. The CPA is a multi-party agreement that enables the five separate owners of eight major hydroelectric generating plants (having a combined capacity of approximately 1,600 MW and all located in relatively close proximity to each other) to coordinate the operation and dispatch of their generating plants. The plants and their respective capacity and owners are:

Plant	Capacity (MW)	Owners
Canal Plant	580	BC Hydro
Waneta Dam	493	Teck Cominco Metals Ltd. (now known as Teck Metals Ltd.)
Kootenay River System	223	FortisBC
Brilliant Dam	149	Brilliant Power Corporation
Brilliant Expansion	120	Brilliant Expansion Power Corporation

The CPA enables BC Hydro and the Entitlement Parties, through coordinated use of water flows, subject to the 1961 Columbia River Treaty between Canada and the United States, and coordinated operation of storage reservoirs and generating plants, to generate more power from their respective generating plants than they could if they operated independently. Under the CPA, BC Hydro takes into its system all power actually generated by the seven plants owned by the Entitlement Parties. In exchange for permitting BC Hydro to determine the output of these plants, the Entitlement Parties are each contractually entitled to their

Entitlements, which are based on 50-year historical water flows. The Entitlement Parties receive their Entitlements irrespective of actual water flows to the Entitlement Parties' generating plants.

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

The Corporation, however, retains rights to its original water licences and flows in perpetuity. Should the 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 CPA. The 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 generating plants, which are included in the Corporation's Rate Base Assets. The CPA 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.

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;
- (b) the BC Hydro PPA; and
- (c) 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 forecast and incurred costs thereunder flow through to customers through electricity rates. 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 forecast and incurred, are recovered through rates.

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 CPA. Under the Brilliant PPA, 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 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 an amount that covers the operation and maintenance costs of the Brilliant 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 provided FortisBC with approximately 26% of its energy requirements in 2009.

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 provided approximately 24% of FortisBC's energy requirements in 2009. 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 by FortisBC from its consumers as a normal power purchase expense for which flow-through treatment applies.

Small Power Purchase Contracts

FortisBC has a number of small power purchase contracts with independent power producers, which collectively provided approximately 1% of the Corporation's energy supply requirements in 2009. The majority of these contracts have been approved by the BCUC.

Spot Market and Contracted Capacity Purchases

During 2009, the Corporation entered into various arrangements to purchase capacity and energy from the market 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. Spot market purchases provided 4% of the Corporation's energy supply requirements in 2009.

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 36% of the Corporation's Rate Base Assets. The FortisBC transmission system is being replaced or upgraded in a number of locations.

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 are situated on lands owned by FortisBC or occupied pursuant to statutory rights of way, licences or other permits.

FortisBC's transmission substations 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 substations 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 11 base transmission substations, 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. There are also four additional substations with generator step-up transformers associated with the four generating plants.

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 51 distribution substations and approximately 5,600 kilometres of overhead and underground distribution lines. Currently, distribution assets represent approximately 36% 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.

E. REGULATION

On April 19, 2006, FortisBC and a group of intervenors concluded negotiations on the Corporation's 2006 Revenue Requirements application. In addition to an agreement on the increase to customer rates required for 2006, the settlement agreement set 2006 as the base year for a PBR term from 2006 to 2008, with an option to extend the term to 2009. The settlement agreement was approved by the BCUC on May 23, 2006. The significant terms of the PBR agreement are as follows:

- annual gross operating and maintenance expenses before capitalized overhead will be set by formula incorporating customer growth and inflation (CPI for British Columbia) minus a productivity improvement factor ("PIF") of 2% in 2007, 2% in 2008 and, if applicable, 3% in 2009;
- annual capitalized overhead will be set at 20% of the BCUC approved gross operating and maintenance expense;
- other components of revenue requirements will be forecast annually; and
- a 2% collar has been set around the allowed ROE whereby variances (adjusted for certain revenue and cost variances which flow through to customers) as a result of actual financial performance, positive or negative, will be shared equally between customers 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.

As part of the approval of 2009 Revenue Requirements on December 11, 2008, the PBR agreement was extended for 2009 to 2011. The terms of the settlement are consistent with the May 23, 2006 PBR agreement except that annual 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 3% in 2009, 1.5% in 2010 and 1.5% in 2011. Should inflation be in excess of 3%, the excess is added to the PIF which effectively caps the CPI at 3%. Following a negotiated settlement process with intervenors, the BCUC also approved a 4.6% rate increase effective January 1, 2009. The rate increase was primarily the result of the Corporation's ongoing investment in infrastructure and increasing power purchases driven by customer growth and increased demand for electricity. Rates for 2009 reflect an allowed ROE of 8.87%.

In August of 2009, FortisBC applied for and received BCUC approval for a 2.2% rate increase effective September 1, 2009. This increase was due to increased power purchase costs charged by BC Hydro to the Corporation relating to their BCUC approved 2008 and 2009 rate increases.

FortisBC filed its Preliminary 2010 Revenue Requirements Application on October 1, 2009 which was updated by the Corporation on November 2, 2009. Following a negotiated settlement process with intervenors, the BCUC approved the settlement agreement on December 18, 2009.

In May 2009, Terasen Gas Inc. ("TGI"), Terasen Gas (Vancouver Island) Inc. and Terasen Gas (Whistler) Inc. (collectively the "Terasen Utilities"), which are all related parties to FortisBC, applied to the BCUC for, among other things, a review of the current ROE mechanism applicable to regulated utilities in British Columbia.

The BCUC issued the Terasen Utilities ROE Decision dated December 16, 2009, setting the ROEs for the Terasen Utilities and maintained that TGI will continue to serve as a benchmark for calculating the ROE allowed in rates for certain utilities regulated by the BCUC including FortisBC. The ROE for FortisBC in 2010 will be 9.90% which is an increase from its 2009 level of 8.87%. The BCUC also determined that the automatic adjustment mechanism that was used to determine the ROE on an annual basis will no longer apply, and the ROE as determined in the decision will apply until changed by the BCUC. FortisBC's equity component of capital structure remains unchanged at 40%.

On December 30, 2009 the BCUC approved a 6.0% rate increase effective January 1, 2010 which included the impacts of the 2010 Revenue Requirements negotiated settlement process and the Terasen Utilities ROE

Decision. The 6.0% rate increase is primarily the result of the Corporation's ongoing investment in infrastructure, the higher cost of capital and increasing power purchases driven by customer growth and increased demand for electricity

As at December 31, 2009, FortisBC had total assets of \$1,147 million and Rate Base Assets of \$908 million. Rate Base Assets in the 2010 Revenue Requirements are \$975 million. For the year ended December 31, 2009, FortisBC had revenues of \$244.1 million, net income of \$36.2 million and spent approximately \$110 million (net of customer contributions) 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 "expansionary", which are primarily required to accommodate customer and load growth within the FortisBC service area. 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 \$650 million (net of customer contributions) on capital projects, subject to BCUC approval, over the next five years.

On June 27, 2008, FortisBC applied to the BCUC for approval of its 2009-2010 Capital Expenditure Plan ("2009-2010 CEP"). On February 27, 2009, the BCUC approved 2009 capital expenditures of approximately \$151 million (net of \$14 million in customer contributions) and 2010 capital expenditures of approximately \$141 million (net of \$15 million in customer contributions). The capital expenditures are necessary to ensure the ability to provide service, public and employee safety and reliability of supply to the Corporation's growing customer base. The most significant areas of expenditure are those required to expand and upgrade the bulk transmission and distribution system to keep pace with load growth, and to continue the life extension program at FortisBC's generating plants.

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 twenty-four 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 14% of the Corporation's Rate Base Assets.

H. OTHER ACTIVITIES

FortisBC's other activities are relatively small in comparison to its regulated electricity 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 operations, maintenance and management services relating to the 493 MW Waneta hydroelectric generation plant owned by Teck Cominco Metals Ltd. (now known as Teck Metals Ltd.), the Brilliant Plant and the 120 MW Brilliant Expansion Plant owned by CPC and CBT through Brilliant Expansion 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, CPC and CBT. 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 an unregulated 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

British Columbia's traditional regulatory model does not support retail competition for customers, which 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 could be required to reimburse FortisBC for any stranded costs created as a result of their departure. Second, currently available alternative sources of supply are, or are expected to be, 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' liability insurance for the benefit of the Corporation. The Corporation self-insures against the risk of damage to transmission and distribution poles, wires and related equipment. 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 industry practices.

Employees

As of December 31, 2009, the Corporation had 540 Full Time Equivalent Employees. FortisBC has a collective agreement with COPE Local 378 expiring on January 31, 2011 and a collective agreement with the IBEW Local 213 expiring on January 31, 2013. The two collective agreements cover 413 employees.

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, 2009, the fair value of the defined benefit plans and supplemental pension arrangements assets was \$99.7 million and the accrued benefit obligation was \$126.7 million resulting in a deficit of \$27.0 million. For the year ended December 31, 2009, the Corporation contributed \$5.0 million to the defined benefit plans and supplemental pension arrangements. FortisBC provides certain other post-retirement benefits to its retired employees including certain health and dental coverage and life insurance. These plans are not funded and the accrued liability at December 31, 2009 was \$12.0 million.

Intellectual Property

Fortis owns the trademark "FortisBC", which it has licensed the Corporation to use. FortisBC owns the trademark "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, First Nations' lands 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. If the Corporation becomes aware of a situation in which it has not acquired the requisite usage rights, it will attempt to come to an agreement to secure usage rights with the landowner. The Corporation has the power to expropriate land if necessary.

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 government regulation relating to the protection of the environment with respect to activities in and around water and the generation, storage, transportation, disposal and release of various substances. The Corporation implements environmental assessments which are designed to improve planning and identify and mitigate potential environmental impacts of projects and undertakings prior to their commencement.

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 environmental management system is the "plan, check, do, review" cycle, which is the core of continual improvement. This 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 environmental aspects of the Corporation's business and operations, a summary of relevant environmental legislation and an internal reporting system, which includes the Board.

Permits, Licences and Approvals

Various federal and provincial statutes, including the *Environmental Management Act* (British Columbia), the *Water Act* (British Columbia), the *Wildlife Act* (British Columbia), the *Fisheries Act* (Canada), the *Environmental Assessment Act* (British Columbia) and the *International Rivers Improvements Act* (Canada) require the Corporation to obtain and maintain specified permits, licences and approvals. These permits, licences and approvals relate to, among other things, waste disposal, 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. 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 rates.

Environmental Expenditures

In 2009, the Corporation incurred costs relating to compliance with environmental laws and regulations of approximately \$1.2 million which included a large capital expenditure transmission project. The Corporation incurred approximately \$0.2 million for the operation and maintenance of the Corporation's environmental

management system. In addition, the Corporation incurred environmental compliance and environmental management system related capital expenditures in connection with construction costs for capital projects that are not reasonably quantifiable. In general, compliance with environmental laws and regulations did not have a material effect on the capital expenditures, earnings or competitive position of the Corporation in 2009 and, based on current laws, facts and circumstances, is not expected to have a material effect on such matters in the future. Prudently incurred operating and capital costs associated with complying with environmental laws and regulations are generally recoverable by the Corporation through rates.

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's field personnel have been trained to deal with emergency conditions.

Hazardous Substances

The Corporation manages hazardous substances such as PCBs and herbicides. 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 disposes of it in an environmentally sound manner. Federal PCB regulations specify deadlines for the elimination of PCB containing equipment. With the exception of pole-top transformers and their auxiliary equipment, PCB containing equipment having levels of PCBs greater than 500 ppm or those with PCB levels between 50 ppm and 500 ppm located in sensitive areas have been removed from service by the end of 2009. FortisBC is compliant with the PCB regulation for all primary equipment. For certain auxiliary equipment FortisBC has made application to extend the end of use date to December 31, 2014. All other electrical equipment with PCB levels greater than 50 ppm must be removed from service by December 31, 2025.
- (b) *Herbicides* - 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.

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 through rates.

Remediation of the South Slokan Pole yard which had historically been used to treat utility poles with oil-based preservatives was completed in 2007. The Confirmation of Remediation Report is currently under review by the Minister of Environment and the issuance of a Certificate of Compliance is expected upon completion of the review.

Electro-Magnetic Fields

Electric and magnetic fields exist wherever electricity is used or transmitted, including electric power facilities such as transmission and distribution lines and within every building 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 confirmed its position that there are no known health risks from power lines.

BRITISH COLUMBIA'S ELECTRICITY INDUSTRY

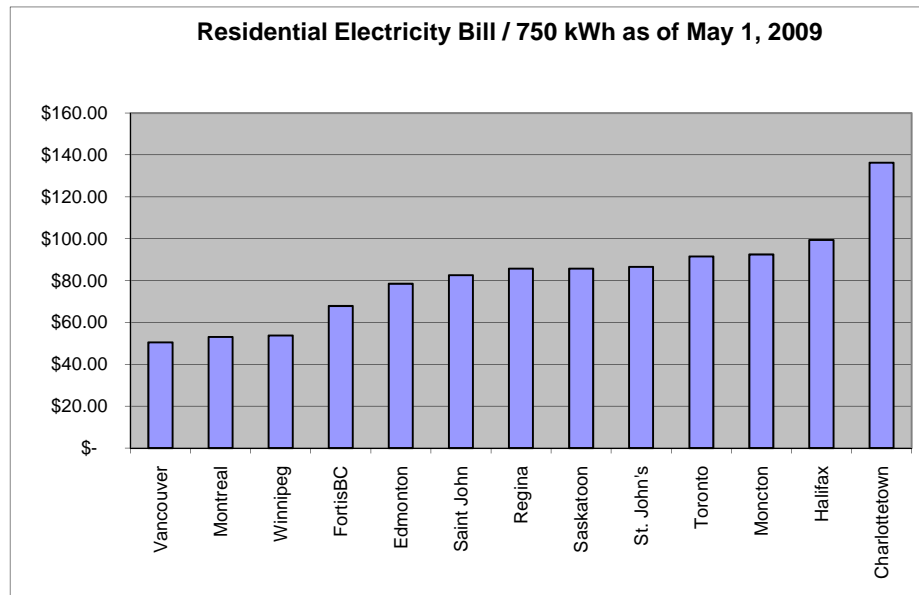
In general, the electricity industry is made up of the following three principal components:

- (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 industries. BC Hydro owns approximately 85% of the aggregate provincial generating capacity. The balance is owned by Alcan Inc. (896 MW), CPC and CBT (454 MW), Teck Cominco Metals Ltd. (now known as Teck Metals Ltd.) (493 MW), FortisBC (223 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).
- (b) *Transmission* - Transmission is the conveyance of electricity at high voltages. British Columbia's transmission system or grid is composed of approximately 20,000 kilometres of transmission lines, the vast majority of which are owned by BC Hydro and managed, operated and maintained by the BCTC. 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 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.

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, a retail rate structure was introduced in the BC Hydro service territory in 2006, which 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 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, 2009 in FortisBC's service territory and various cities throughout Canada:



Source: Manitoba Hydro

The British Columbia provincial government released its Energy Plan on February 27, 2007. The plan is a natural progression from the previous plan with a strong focus on environmental leadership, energy conservation and efficiency, and investment in innovation. This focus manifests itself by setting specific goals and timelines in these three areas. In particular, the Energy Plan outlines various measures to address the challenges of global warming including that all electricity produced in British Columbia will be required to have zero net greenhouse gas emissions by 2016. The plan places a great deal of responsibility on British Columbians to conserve energy by acquiring 50% of the province's incremental resource needs through conservation by 2020. The plan emphasizes efficiency by requiring BC Hydro to eliminate electricity imports and become fully self-sufficient by 2016. The Energy Plan also states that 90% of British Columbia's electricity will come from renewable resources and that British Columbia will become the first jurisdiction in North America to require 100% carbon sequestration for any coal-fired electricity project. Many of the principles of the Energy Plan were incorporated into the BC regulatory framework upon the British Columbia Legislature's adoption of the *Utilities Commission Amendment Act, 2008*.

FortisBC has conveyed its general support of the Energy Plan to the provincial government. The Energy Plan directly influenced the development of the Corporation's Resource Plan and Rate Design Application, both filed with the BCUC in 2009.

REGULATION OF BRITISH COLUMBIA'S ELECTRICITY INDUSTRY

Overview

The regulatory framework in British Columbia allows electric utilities to earn a fair 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 a final decision. 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. 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 fair 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. See "The Business of FortisBC – Regulation" for information specific to FortisBC.

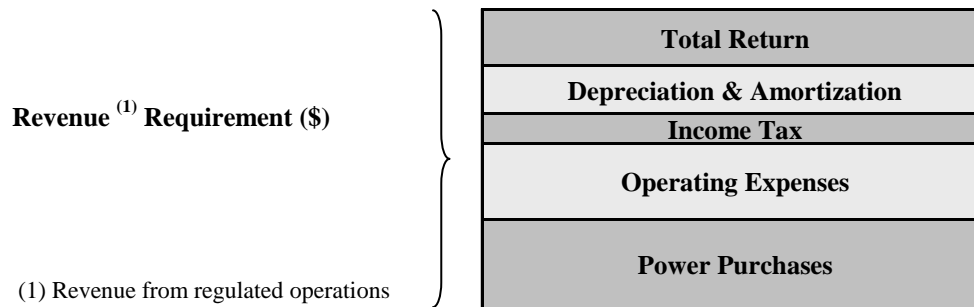
Cost-of-Service Methodology

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 fair ROE. The BCUC must ensure that the utility's tariff is just and reasonable and is not unduly preferential, arbitrary or unjustly discriminatory.

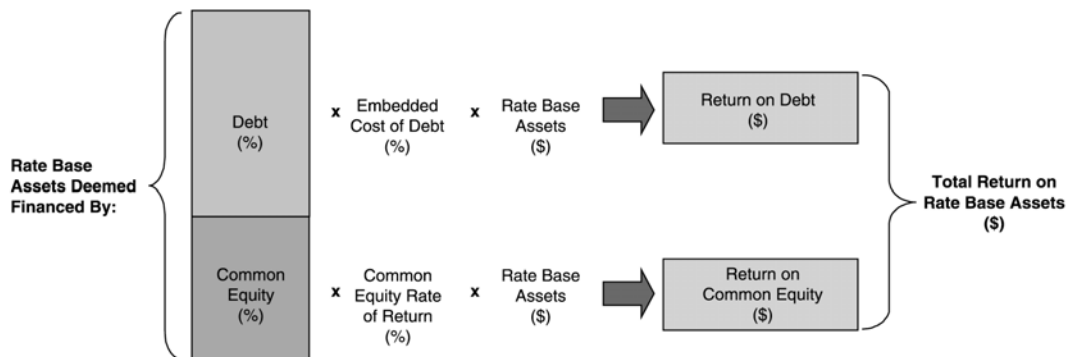
A cost-of-service regulatory process usually proceeds through two phases. A utility's total revenue requirement is determined in phase one. In phase two, specific rates to be charged to different classes of consumers are determined, which establishes the rate structure.

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 previously prescribed an annual automatic adjustment mechanism to determine the allowed return on common equity for a low-risk benchmark utility. The adjustment formula was based on long-term Canada bond yields. Effective January 1, 2006, the ROE automatic adjustment mechanism was determined as follows:

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

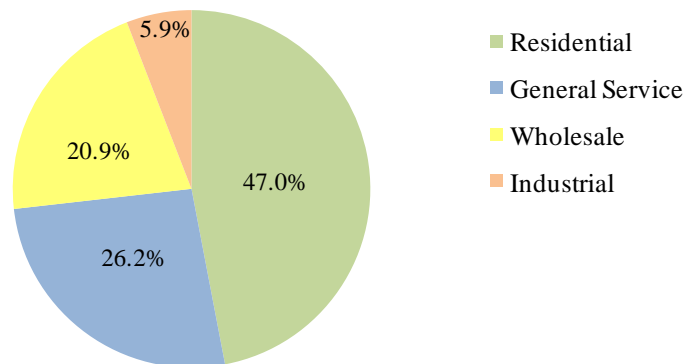
Following determination of the rate of return on common equity for the low-risk benchmark utility, an additional risk premium particular to each utility relative to the low-risk benchmark was also incorporated. For FortisBC, a risk premium of 0.40% was applied to the benchmark low-risk utility ROE.

On December 16, 2009, the BCUC ordered that the automatic adjustment mechanism be eliminated, however Terasen Gas Inc. will continue to serve as the benchmark utility, with an approved ROE of 9.5%, for the purpose of setting the Corporation’s ROE. FortisBC’s ROE of 9.9% effective January 1, 2010 continues to recognize a risk premium of 0.40%. The BCUC also directed Terasen Gas Inc. to complete a study by December 31, 2010 of possible alternative formulae to re-establish an automatic adjustment mechanism.

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 2009 allocation of 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 "rebasing" 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 BCUC 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.

On June 2, 2009, the Corporation issued \$105.0 million principal amount of 6.10% Medium Term Note Debentures (“MTN Debentures”) due June 2, 2039.

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, 2009 consists of 1,918,510 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 two series of secured debentures in an aggregate principal amount of \$40.0 million outstanding as at December 31, 2009. The \$3.8 million principal amount 11% Series E debentures were repaid December 1, 2009. The remaining secured debentures Series F and G 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 \$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. Both series of debentures are secured against the real and personal property of the Corporation and are guaranteed by FortisWest.

Unsecured Debentures – Series H, I and J

The Corporation had three series of debentures which were converted to unsecured debentures on November 30, 2004 pursuant to the terms of the Secured Trust Deed. Two of these unsecured debentures in an aggregate principal amount of \$50.0 million are outstanding as at December 31, 2009. The \$50.0 million principal amount 6.75% Series J debentures were repaid July 31, 2009. The remaining unsecured debentures Series H

and I were issued under indentures supplemental to the deed of trust (together with all supplemental indentures, the “Unsecured Trust Deed”) 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 and \$25.0 million principal amount 7.81% Series I debentures due December 1, 2021. Both series of unsecured debentures are guaranteed by FortisWest.

Unsecured Debentures – Series 04-1, 05-1 and 07-1

The Corporation has three series of unsecured debentures outstanding in an aggregate principal amount of \$345.0 million as at December 31, 2009, all 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. Series 07-1 is comprised of 5.90% senior unsecured debentures in the principal amount of \$105.0 million due July 4, 2047. Obligations of the Corporation under the Series 04-1, Series 05-1 and Series 07-1 unsecured debentures are not guaranteed by FortisWest or Fortis.

Unsecured Medium Term Note Debentures

On May 22, 2009 the Corporation filed a short form base shelf prospectus to establish a MTN Debentures Program and entered into a Dealer Agreement with certain affiliates of a group of Canadian Chartered banks. Upon filing the shelf prospectus, the Corporation may from time to time during the 25 month life of the shelf prospectus, issue MTN Debentures in an aggregate principal amount of up to \$300.0 million.

On May 28, 2009, FortisBC entered into an agreement with the dealers listed in the Dealer Agreement to sell \$105.0 million of senior unsecured MTN Debentures under the MTN Indenture. The MTN Debentures bear interest at a rate of 6.10% to be paid semi-annually and mature on June 2, 2039. The closing of the issuance occurred on June 2, 2009, with net proceeds of \$104.5 million being used to repay existing indebtedness and finance the capital expenditure program and working capital requirements.

Obligations of the Corporation under the unsecured MTN Debentures are not guaranteed by FortisWest or Fortis.

Walden Power Partnership Indebtedness

Walden Power Partnership has outstanding indebtedness in the principal amount of \$3.7 million as at December 31, 2009, 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 Credit Facility

On April 30, 2009, the Corporation amended its operating credit facility provided by a syndicate of Canadian chartered banks. The amended operating credit facility is comprised of a \$50.0 million, three-year revolving facility maturing on May 9, 2012 (“Facility A”) and a \$100.0 million, 364-day revolving facility maturing on May 6, 2010 (“Facility B”). Two years prior to the current Facility A maturity date, the Corporation may request an extension of the maturity date for Facility A for a further period of 364 days and if the request for extension is not granted, all amounts outstanding under Facility A become due on the Facility A maturity date. Similarly, prior to the current Facility B maturity 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 that will mature six months from that date. The operating credit facility also allows the Corporation to request that the lenders provide up to \$50.0 million of additional financing under Facility A or Facility B or a combination of these two facilities. As at December 31, 2009, \$35.0 million had been drawn on Facility A and \$nil had been drawn on Facility B.

Borrowings under the operating credit facility may be made in Canadian dollars and bear interest based on the prime rate or certificate of deposit rate offered for bankers’ acceptances plus, in each case, a margin based on

FortisBC's debt ratings provided by its credit rating agencies. The operating credit facility is also available to support letters of credit. As at December 31, 2009, the Corporation had \$nil outstanding letters of credit. Obligations of the Corporation under the operating 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, 2009, \$2.9 million has been drawn on the overdraft facility. Borrowings under the Overdraft Facility bear interest at the prime rate. 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 Limited	BBB (high), Stable Trend	Secured and Unsecured Debentures
Moody's Investors Service	Baa2, 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 \$14.5 million during the year ended December 31, 2009, \$13.4 million during the year ended December 31, 2008 and \$11.8 million during the year ended December 31, 2007.

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 Risk Management" in the Corporation's Management Discussion & Analysis for the year ended December 31, 2009, 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, 2009 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 period during which each director has served as a director of the Corporation and when his or her term expires:

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 at the next annual general meeting ⁽⁴⁾	<i>Best Western Inn (Penticton, BC)</i> Owner 2000 to present	
William (Bill) J. Daley ⁽²⁾ Ontario, Canada	Commencing February 12, 2008, term expires at the next annual general meeting ⁽⁴⁾	<i>FortisOntario Inc.</i> 2002 to present	President and Chief Executive Officer
Richard (Kim) D. Deane ⁽²⁾ British Columbia, Canada	Commenced September 6, 2005 and resigned effective February 19, 2009	<i>Retired</i> 2000 to February 19, 2009	
Walter E. Gray ⁽¹⁾ British Columbia, Canada	Commencing June 1, 2006, term expires at the next annual general meeting ⁽⁴⁾	<i>Retired</i> December 2005 to present <i>City of Kelowna, BC</i> Mayor 1996 to December 2005	
R.L. (Randy) Jespersen ⁽¹⁾ British Columbia, Canada	Commencing May 1, 2007, term expires at the next annual general meeting ⁽⁴⁾	<i>Terasen Gas Inc.</i> May 2007 to present <i>Terasen Gas Inc.</i> April 2002 to May 2007	President and Chief Executive Officer President
H. Stanley Marshall ⁽¹⁾ Newfoundland and Labrador, Canada	Commencing May 31, 2004, term expires at the next annual general meeting ⁽⁴⁾	<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 at the next annual general meeting ⁽⁴⁾	<i>Mayer Ranch</i> 1979 to present	Owner
John S. McCallum ⁽²⁾ Manitoba, Canada	Commencing October 25, 2004, term expires at the next annual general meeting ⁽⁴⁾	<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 at the next annual general meeting ⁽⁴⁾	<i>Vintage Consulting Group Inc.</i> May 1, 2008 to present <i>Sumac Ridge Estate Winery Ltd.</i> 1980 to April 30, 2008	President President
John C. Walker British Columbia, Canada	Commencing April 1, 2005, term expires at the next annual general meeting ⁽⁴⁾	<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

Notes:

- (1) Member of the Governance, Human Resources & Environment Committee.
- (2) Member of the Audit & Risk Committee.
- (3) Chair of the Board.
- (4) The Articles of the Corporation provide that if Corporation does not hold an annual general meeting in accordance with the *Business Corporations Act*, the Directors then in office shall be deemed to have been elected or appointed as Directors on the last day on which the annual general meeting could have been held pursuant to the *Business Corporations Act* (British Columbia), and they may hold office until other Directors are appointed or elected or until the day on which the next annual general meeting is held.

Officers

The following table sets forth at December 31, 2009 the name, province and country of residence of each executive officer of the Corporation, their respective position and office with the Corporation and his or her principal occupation 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
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	Vice President, Finance and Chief Financial Officer Manager of Tax
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	Vice President, Customer and Corporate Services Vice President, Customer and Corporate Services
David C. Bennett British Columbia, Canada	Vice President, Regulatory Affairs, General Counsel and Corporate Secretary	<i>FortisBC Inc.</i> February 2007 to present <i>FortisBC Inc.</i> May 2005 to February 2007 <i>FortisBC Inc.</i> October 2004 to May 2005	Vice President, Regulatory Affairs, General Counsel and Corporate Secretary General Counsel and Corporate Secretary Corporate Solicitor
Doyle Sam British Columbia, Canada	Vice President, Engineering and Operations	<i>FortisBC Inc.</i> February 2008 to present <i>FortisBC Inc.</i> February 2005 to February 2008 <i>FortisBC Inc.</i> May 2004 to February 2005	Vice President, Engineering and Operations Vice President, Transmission and Distribution Director, Transmission and Distribution
Donald L. Debiegne British Columbia, Canada	Vice President, Power Supply and Strategic Planning	<i>FortisBC Inc.</i> February 2008 to present <i>FortisBC Inc.</i> February 2007 to February 2008 <i>FortisBC Inc.</i> February 2006 to February 2007 <i>FortisBC Inc.</i> February 2005 to February 2006 <i>FortisBC Inc.</i> June 2004 to February 2005	Vice President, Power Supply and Strategic Planning Vice President, Generation Vice President, Generation and Regulatory Affairs Vice President, Generation Vice President, Operations

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

Compensation Discussion & Analysis

The objectives of executive compensation practices at FortisBC are specifically designed to:

- Motivate executives to deliver strong business performance;
- Retain and attract highly qualified executives;
- Balance executive compensation paid for short-term and long-term strategic results;
- Ensure a significant portion of executive compensation is dependent upon individual and corporate performance; and
- Keep the executive compensation program simple to communicate and administer.

As a general policy, the Corporation compensates its executives, and in particular, each person who served as the Chief Executive Officer or Chief Financial Officer during the most recently completed financial year and the three most highly compensated executive officers of the Corporation during the most recently completed financial year (the “Named Executive Officers” or “NEOs”) at a level generally equivalent to the median of practice among a broad reference group of comparable Canadian commercial industrial companies. This Reference Group of approximately 200 companies, entitled “Commercial Industrial Comparator Group” is compiled by Hay Group Limited. The reference group does not include organizations in the financial service and broader public sectors, but does include organizations from the energy, mining and manufacturing sectors. Upon recommendation by the Governance, Human Resources & Environment Committee, the Board uses the median compensation data from the reference group as a comparative measure and the total compensation paid to each individual NEO may be more or less than the median amount.

Considering the objectives described above, NEOs are rewarded for performance through the following elements of compensation:

Compensation Element (<i>Eligibility</i>)	Description	Compensation Objectives
Annual Salary & Annual Incentive		
Annual Salary (<i>all NEOs</i>)	- Salary is a market-competitive, fixed level of compensation.	- Retain and attract highly qualified executives - Motivate strong business performance
Annual Incentive (<i>all NEOs</i>)	- Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity. - Annual incentive payout depends on individual and corporate performance.	- Retain and attract highly qualified executives - Motivate strong business performance - Simple to communicate and administer - Compensation dependent on individual and corporate performance
Stock Options		
(<i>all NEOs</i>)	- Annual equity grants are made in the form of stock options for common shares of Fortis. - The amount of annual grant is dependent on the level of the executive, their salary and their current share ownership levels. - Planned grant value is converted to the number of shares granted by dividing the planned value by the pre-determined, formulaic planning price. - Options vest over a 4 year period.	- Retain and attract highly qualified executives - Motivate strong business performance - Simple to communicate and administer - Balance compensation for short and long-term strategic results

Pension Plans		
Defined Benefit Pension Plans (<i>certain NEOs</i>)	- Payout upon retirement based on the number of years of credited service and actual pensionable earnings.	- Retain highly qualified executives - Simple to communicate and administer
Defined Contribution Retirement Plan (<i>certain NEOs</i>)	- Contribution to self-directed defined contribution pension plan or a registered retirement savings plan equal to 6.5% of a member's base salary which is matched by the member up to the maximum contribution limit allowed by the Canada Revenue Agency.	- Retain highly qualified executives - Simple to communicate and administer
Defined Contribution Supplemental Employee Retirement Plan (<i>all NEOs</i>)	- Accrual of 13% of base salary and annual incentive in excess of the allowed Canada Revenue Agency limit. - At time of retirement, paid in one lump sum or in equal payments over 15 years.	- Retain highly qualified executives - Simple to communicate and administer

Annual Salary

Base salaries paid to the Corporation's NEOs are determined by the Board upon recommendation by the Governance, Human Resources & Environment Committee and are established annually by reference to the range of salaries paid at approximately the median of the salaries paid to executives in comparably rated positions of comparable Canadian commercial industrial companies.

Annual Incentive

NEOs participate in a short-term incentive plan which provides for annual cash bonuses which are determined by way of an annual assessment of corporate and individual performance in relation to targets approved by the Board upon recommendation by the Governance, Human Resources & Environment Committee. The Corporation's annual earnings must reach a minimum threshold level before any payments are made.

Corporate performance is determined with reference to the performance of the Corporation relative to weighted targets in respect of financial performance, safety, customer satisfaction, reliability, and regulatory performance. There were five targets in 2009 which included (i) projected regulated earnings of \$32.2 million (30.0% weighting); (ii) an all injury frequency rate of 2.13 calculated in accordance with industry standards (15% weighting); (iii) a customer service index of 8.5 measured by quarterly customer surveys (12.5% weighting); (iv) a system average interruption duration index of 2.61 calculated in accordance with industry standards (12.5% weighting); and (v) regulatory performance measured subjectively (30.0% weighting). Individual performance is determined with reference to individual contribution to corporate objectives, elements of which are subjective.

For the President and Chief Executive Officer, 70% of the annual cash bonus is based upon corporate targets and 30% is based upon personal targets. For each of the other NEOs, 50% of the annual cash bonus is based upon corporate targets and 50% is based upon personal targets.

At the discretion of the Board, executives may be awarded up to an additional 50% of target incentive pay in recognition of exceptional performance contributions.

The Board determined that the Corporation substantially met or exceeded its Corporate performance goals and accordingly has awarded incentive compensation to the NEOs as set out in the Summary Compensation Table.

Stock Option Plans

The 2006 Stock Option Plan was approved by the shareholders of Fortis on May 2, 2006 for the purposes of granting options in the common shares of Fortis to certain eligible persons, which includes the Corporation's NEOs (the "Eligible Persons") in order to encourage increased share ownership by key employees as an incentive to maximize shareholder value. The directors of Fortis or any of its subsidiaries are not eligible to

participate in the 2006 Stock Option Plan. No options may be granted under the 2006 Stock Option Plan if, together with any other security based compensation arrangement established or maintained by Fortis, such granting of options could result, at any time, in (a) the number of common shares issuable to insiders of Fortis, at any time, exceeding 10% of the issued and outstanding common shares and, (b) the number of common shares issued to insiders of Fortis, within any one year period, exceeding 10% of the issued and outstanding common shares.

The 2006 Stock Option Plan is administered by the Human Resources Committee of Fortis. Pursuant to the 2006 Stock Option Plan, the determination of the exercise price of options is made by the Human Resources Committee of Fortis at a price not less than the volume weighted average trading price of the common shares of Fortis determined by dividing the total value of the common shares traded on the TSX during the last five trading days immediately preceding the date by the total volume of the common shares traded on the TSX during such five trading days. Options may not be amended to reduce the option price. The Human Resources Committee of Fortis determines: (i) which Eligible Persons are granted options; (ii) the number of common shares covered by each option grant based on the salary level of an Eligible Person; (iii) the price per share at which common shares may be purchased; (iv) the time when the options will be granted; (v) the time when the options will vest; and (vi) the time at which the options will be exercisable.

Options granted pursuant to the 2006 Stock Option Plan have a maximum term of seven years from the date of grant and the options will vest over a period of not less than four years from the date of grant, provided that no option will vest immediately upon being granted. Options granted pursuant to the 2006 Stock Option Plan will expire no later than three years after the termination, death or retirement of an Eligible Person.

Eligible Persons are granted stock options based on salary levels. In 2009, the President and Chief Executive Officer of the Corporation was granted an option entitling him to purchase that number of common shares of Fortis having a market value at the time of grant equal to 300% of his base salary. Each of the other NEOs were granted an option entitling each NEO to purchase that number of common shares having a market value at the time of grant equal to 150% of such NEO's base salary, however, where a NEO has been granted options for five or more prior years, the maximum number of shares for which options will be granted in any calendar year will not exceed the minimum number of shares held by the NEO since the beginning of the previous year.

Pension Plans

Mr. Walker participates in a defined benefit registered pension plan (the "DB RPP"). The DB RPP provides for an annual accrual of 1.33% up to final average years maximum pensionable earnings ("YMPE") as defined under the Canada Pension Plan and 2% in excess of the final average YMPE up to the NEOs best average earnings. The best average earnings are based on the 36 consecutive months of service during which earnings were highest. The final average YMPE is based on the final 36 months of service. The DB RPP provides a payout upon retirement based on the number of years of credited service and actual pensionable earnings and has a maximum accrual period of 35 years.

Mr. Walker also participates in a defined benefit pension uniformity plan (the "DB PUP"). The DB PUP provides the portion of the calculated pension that cannot be provided under the DB RPP due to limits prescribed by the Income Tax Act. For the purposes of the DB PUP, the recognized earnings are limited to the base earnings rate that was in effect at December 31, 1999.

Ms. Leeners, Mr. Mulcahy, Mr. Bennett and Mr. Sam participate in a defined contribution retirement plan which requires the Corporation to contribute to a self-directed defined contribution pension plan or a registered retirement savings plan equal to 6.5% of a member's base salary which is matched by the member up to the maximum contribution limit allowed by the Canada Revenue Agency. In 2009, the Corporation contributed \$10,500 for each of the NEOs participating in the defined contribution retirement plan.

All of the NEOs participate in a defined contribution supplemental employee retirement plan (the "DC SERP"). The DC SERP provides for the accrual by FortisBC of an amount equal to 13% of the annual base

salary of a participant and an annual cash incentive in excess of the allowed Canada Revenue Agency limit to a notional account which accrues interest equal to the rate of a 10-year Government of Canada Bond plus a premium of 0% to 3% dependent upon years of service. At the time of retirement, the notional amounts accumulated under the DC SERP may be paid to the participant in one lump sum or in equal payments over fifteen years.

Summary Compensation Table

The following table sets forth the compensation information for the financial years indicated below for the Named Executive Officers.

Name and principal position	Year	Salary (\$)	Option-based awards (\$) ⁽¹⁾⁽²⁾	Annual incentive plans ⁽³⁾⁽⁷⁾	Pension value (\$) ⁽⁴⁾	All other compensation (\$) ⁽⁵⁾⁽⁶⁾	Total compensation (\$)
John C. Walker President and CEO	2009	385,000	212,462	231,000	68,997	63,831	961,290
	2008	360,000	181,851	205,000	73,735	31,271	851,857
Michele I. Leeners VP Finance and CFO	2009	230,000	63,468	105,000	21,250	11,091	430,809
	2008	215,000	54,302	95,000	20,040	12,227	396,569
Michael A. Mulcahy VP Customer and Corporate Services	2009	230,000	49,216	105,000	20,600	62,461	467,277
	2008	215,000	54,302	90,000	20,040	76,705	456,047
David C. Bennett VP Regulatory Affairs, General Counsel and Corporate Secretary	2009	225,000	62,090	105,000	21,250	34,675	448,015
	2008	202,000	51,027	100,000	17,960	56,769	427,756
Doyle Sam VP Engineering and Operations	2009	230,000	63,468	105,000	20,600	13,605	432,673
	2008	215,000	54,302	90,000	20,560	17,054	396,916

Notes:

- (1) Represents the fair value of options granted in 2009 to be \$4.10 per option using the Black-Scholes Option Pricing Model.
- (2) Represents the fair value of options granted in 2008 to be \$4.76 per option using the Black-Scholes Option Pricing Model.
- (3) Represents amounts earned under the Corporation's short-term non-equity incentive program in recognition of performance for that year and paid in the following year.
- (4) Represents compensation paid or accrued relating to the DB RPP, DB PUP and /or the DC SERP.
- (5) Includes, where applicable, contributions to a defined contribution retirement plan, vacation payouts, relocation allowances, employee benefit payouts, Corporation-paid life insurance premiums, Corporation-paid contributions regarding employee share purchase plans and loans. Only includes perquisites, including property or other personal benefits provided to a Named Executive Officer that are not generally available to all employees, and that are in the aggregate worth of \$50,000 or more, or are worth 10% or more of a Named Executive Officer's salary.
- (6) In 2008 Mr. Mulcahy received an automobile taxable benefit in the sum of \$19,594 that exceeded 25% of the value of the total perquisites he received from the Corporation in 2008.
- (7) Includes, where applicable for certain Named Executive Officers, an additional discretionary incentive paid in recognition of exceptional performance contributions.

There are written employment contracts between the Corporation and each of the Named Executive Officers which contain the basic provisions of employment including, among other things, base salary, short-term incentive bonus, vacation and benefits.

Incentive Plan Awards

The following table sets forth the total number of options granted in Fortis common shares to the Named Executive Officers. The aggregate value is based on the difference between the Fortis share price at December 31, 2009 of \$28.68 and the exercise price of the options. The table below includes stock option information that is reflected on a post-split basis.

Name	Option-based awards			
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)
John C. Walker	49,764	12.810	March 13, 2013	789,754.68
	44,992	15.280	March 10, 2014	602,892.80
	39,392	18.405	March 1, 2015	404,752.80
	34,329	22.940	February 28, 2016	197,048.46
	36,184	28.190	May 7, 2014	17,730.16
	38,204	28.270	February 26, 2015	15,663.64
	51,820	22.290	March 11, 2016	331,129.80
	294,685			2,358,972.34
Michele I. Leeners	11,443	22.940	February 28, 2016	65,682.82
	10,908	28.190	May 7, 2014	5,344.92
	11,408	28.270	February 26, 2015	4,677.28
	15,480	22.290	March 11, 2016	98,917.20
	49,239			174,622.22
Michael A. Mulcahy	19,940	12.035	May 14, 2012	331,901.30
	20,856	12.810	March 13, 2013	330,984.72
	17,768	15.280	March 10, 2014	238,091.20
	15,240	18.405	March 1, 2015	156,591.00
	12,751	22.940	February 28, 2016	73,190.74
	10,908	28.190	May 7, 2014	5,344.92
	11,408	28.270	February 26, 2015	4,677.28
	12,004	22.290	March 11, 2016	76,705.56
	120,875			1,217,486.72
David C. Bennett	5,608	28.190	May 7, 2014	2,747.92
	10,720	28.270	February 26, 2015	4,395.20
	15,144	22.290	March 11, 2016	96,770.16
	31,472			103,913.28
Doyle Sam	11,443	22.940	February 28, 2016	65,682.82
	10,908	28.190	May 7, 2014	5,344.92
	11,408	28.270	February 26, 2015	4,677.28
	15,480	22.290	March 11, 2016	98,917.20
	49,239			174,622.22

The following table sets forth the value of option based awards and non-equity incentive plan compensation vested or earned by the Named Executive Officers during the most recently completed financial year. The aggregate value of the option based awards vested during the year is based on the difference between the Fortis share price on the vesting date of any options that vested during 2009 and the exercise price of the options.

Name	Option-based awards - Value vested during 2009 (\$) ⁽¹⁾	Non-equity incentive plan compensation - Value earned during 2009 (\$)
John C. Walker	64,381	231,000
Michele I. Leeners	3,061	105,000
Michael A. Mulcahy	24,766	105,000
David C. Bennett	1,550	105,000
Doyle Sam	3,061	105,000

Note:

(1) No value was attributed to options that were out of the money on the vesting date.

Pension Plan Benefits

The following table sets forth the details of the DB RPP and DB PUP for respective Named Executive Officer.

Name	Year	Number of years credited service (#)	Annual benefits payable (\$)		Accrued obligation at start of year (\$)	Compensatory change (\$)	Non-compensatory change (\$)	Accrued obligation at year end (\$) ⁽¹⁾
			at year end	at age 65				
John C. Walker	2009	26.66	89,058	116,908	476,181	15,957	142,936	635,074

Note:

(1) The accrued obligation of the DB PUP at December 31, 2009 was \$nil.

The following table sets forth the details of the DC SERP for respective Named Executive Officers.

Name	Year	Accumulated value at start of year (\$)	Compensatory (\$)	Non-compensatory (\$)	Accumulated value at year end (\$)
John C. Walker	2009	448,597	53,040	35,412	537,049
Michele I. Leeners	2009	61,396	21,250	3,323	85,969
Michael A. Mulcahy	2009	68,823	20,600	5,311	94,734
David C. Bennett	2009	36,183	21,250	2,266	59,699
Doyle Sam	2009	69,558	20,600	4,500	94,658

Termination and Change of Control Benefits

There are no contracts, agreements, plans or arrangements that provide for payments to a Named Executive Officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Corporation or a change in a Named Executive Officer's

responsibilities (excluding perquisites and other personal benefits if the aggregate of this compensation is less than \$50,000).

Director Compensation

During the most recently completed financial year, the Corporation paid each of its directors, other than directors who are also officers or employees of FortisBC, an annual retainer of \$18,000 as well as additional remuneration of \$1,000 for each director's meeting attended and \$1,000 for each committee meeting attended. The Chairman of the Board received an annual retainer of \$45,000. The Chairperson of the Audit & Risk Committee received additional remuneration of \$4,000 and the Chairperson of the Governance, Human Resources & Environment Committee received additional remuneration of \$2,000 per year. The directors of the Corporation were also reimbursed for miscellaneous out-of-pocket expenses incurred in carrying out their duties as directors of the Corporation and paid an additional \$1,000 for travel time for each group of meetings attended in person. The following table sets forth individual director compensation for 2009.

Name	Fees earned (\$)
Beth D. Campbell	33,000
William (Bill) J. Daley	32,000
Richard (Kim) D. Deane ⁽¹⁾	8,500
Walter E. Gray	29,000
R.L. (Randy) Jespersen	31,000
H. Stanley Marshall	31,000
Roger M. Mayer	33,000
John S. McCallum	33,000
R. Harry McWatters	59,000

Note:

(1) Resigned from the Board of Directors and the Audit & Risk Committee effective February 19, 2009.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The Corporation does not have a compensation plan under which securities of the Corporation are authorized for issuance. See "Executive Compensation – Stock Option Plans" for a description of the Fortis 2006 Stock Option Plan.

INDEBTEDNESS OF EXECUTIVE OFFICERS, DIRECTORS, AND EMPLOYEES

The following table sets forth details of the aggregate indebtedness of all executive officers, directors, and employees and former executive officers, directors and employees outstanding at February 24, 2010 to the Corporation or any of its subsidiaries in connection with (i) the purchase of securities and (ii) all other indebtedness, other than routine indebtedness.

Aggregate Indebtedness (\$)		
Purpose	To the Corporation or its Subsidiaries	To Another Entity
Share purchases	99,743.12 ⁽¹⁾	Nil
Other	N/A	N/A

Note:

(1) Amount of \$99,743.12 represents a stock option exercise loan that is secured by the share certificates held by the officer, bears interest equal to the amount of dividends received on the shares and is due within 10 years of the grant date or within one year following cessation of employment, whichever occurs first.

The following table sets forth details on each individual who is, or at any time during the Corporation's most recently completed financial year was, a director or executive officer of the Corporation or an associate of any such director or executive officer that is, or at any time during the Corporation's most recently completed financial year was, indebted to (i) the Corporation or any of its subsidiaries, or (ii) 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, or other than routine indebtedness.

Indebtedness of Directors and Executive Officers Under (1) Securities Purchase and (2) Other Programs						
Name & Principal Position	Involvement of Corporation or Subsidiary	Largest Amount Outstanding During 2009 (\$)	Amount Outstanding as of February 24, 2010 (\$)	Financially Assisted Securities Purchases During 2009 (#)	Security for Indebtedness	Amount Forgiven During 2009 (\$)
Securities Purchase Programs						
David C. Bennett, VP Regulatory Affairs, General Counsel and Corporate Secretary	FortisBC as lender	99,743.12 ⁽¹⁾	99,743.12	4,348	see note ⁽¹⁾	Nil
Other Programs						
John C. Walker, President and Chief Executive Officer	FortisBC as lender	166,078.56 ⁽²⁾	Nil	N/A	N/A	Nil

Notes:

- (1) Amount of \$99,743.12 represents a stock option exercise loan that is secured by the share certificates held by the officer, bears interest equal to the amount of dividends received on the shares and is due within 10 years of the grant date or within one year following cessation of employment, whichever occurs first.
- (2) Amount of \$166,078.56 represents an interest free loan advanced for the remittance of income tax relating to the exercise of stock options during 2008 which was repaid on December 29, 2009.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Corporation, or person or company that beneficially owns, or controls or directs, directly or indirectly, 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 is reasonably expected by the Corporation to materially affect the Corporation.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business and not required by applicable securities laws to be filed with a Canadian securities regulatory authority 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, 05-1 and 07-1");
- the CPA (see "The Business of FortisBC – Generation and Power Supply"); and
- the MTN Indenture (see "Capital Structure – Unsecured Medium Term Note Debentures")

Copies of these agreements are contained on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS

The Province of British Columbia 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. In addition, private land owners have filed a separate Writ and Statement of Claim in relation to the same matter. FortisBC is communicating with its insurers and has filed a Statement of Defence in relation to both of the actions. The outcome cannot be reasonably determined and estimated at this time, and accordingly no amount has been accrued in the financial statements.

FortisBC has become aware that the Trustee for the bankrupt estate of Pope & Talbot Inc. and certain of its affiliates (“Pope & Talbot”), is claiming for wrongful preference and is seeking recovery of money paid to FortisBC by Pope & Talbot in the 90 days before Pope & Talbot filed for bankruptcy in Delaware. The amount of the claim is approximately \$800,000. The complaint is one of approximately forty filed against Pope & Talbot creditors in the US Bankruptcy Court, Delaware. FortisBC has not yet been served. The outcome cannot be reasonably determined 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 each of the Indenture, the Secured Trust Deed, the Unsecured Trust Deed and the MTN Indenture. Registers for the registration and transfer of debentures issued under the Indenture and MTN 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 LLP, has prepared the audit report attached to the audited consolidated financial statements for the Corporation’s financial year ended December 31, 2009. As of January 29, 2010 Ernst & Young LLP remains 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, 2009, 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.