
FORTISBC INC.

INTERIM MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months and Six Months Ended June 30, 2007

Dated July 26, 2007

The following material which is unaudited, should be read in conjunction with FortisBC Inc.'s ("the Company" or "FortisBC") unaudited consolidated financial statements for the three and six months ended June 30, 2007 and the Management Discussion and Analysis and the audited consolidated financial statements for the year ended December 31, 2006.

Certain statements contained in this Interim Management Discussion & Analysis 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 Interim Management Discussion & Analysis concerns the Company's business and anticipated results, trends, developments, earnings growth and capital project expenditures. The forecasts and projections that make up the forward-looking information are based on estimates and assumptions, which are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: increased costs of services and equipment; increased regulatory requirements; the Company's ability to arrange sufficient and cost-effective financing; uncertainties faced by regulated companies, including approval by the BCUC of customer rates; a decline in British Columbia's economy; the effects of severe weather conditions and other acts of nature; the Company's ability to obtain adequate insurance against storm damage and other natural disasters; the effect of interest rates on the Company's business; labour relations; potential environmental damage and associated costs; the costs of litigation, damages awarded and mitigation measures; weather related loss of demand for the Company's services. All forward-looking information in this Interim Management Discussion & Analysis is qualified in its entirety by this cautionary statement and, except as required by law, the Company 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.

CORPORATE OVERVIEW

FortisBC is an integrated, regulated utility operating in the southern interior of British Columbia, serving approximately 152,000 customers directly and indirectly, focusing on the safe delivery of reliable and cost effective electricity.

The Company's regulated business includes four hydroelectric generating plants with a combined capacity of 235 megawatts ("MW"), approximately 6,750 kilometers of transmission and distribution power lines, and a peak demand of 718 MW. Included in FortisBC's non-regulated assets is a 16 MW run-of-river hydroelectric power plant near Lillooet, British Columbia. FortisBC generates approximately 45% of its electricity requirements with the balance met through power purchase agreements.

The Company is regulated by the British Columbia Utilities Commission ("BCUC"). The BCUC administers acts and regulations, pursuant to the *Utilities Commission Act* (British Columbia) covering such matters as tariffs, rates, construction, operations, financing and accounting.

FortisBC operates primarily under a cost of service regulation as prescribed by the BCUC. The Company applies to the BCUC for annual revenue requirements based on estimated costs of service, including, but not limited to, operating expenses, power purchases, depreciation and amortization, income taxes, interest on debt and a return on equity. In addition, the regulatory framework includes some performance-based rate setting ("PBR") attributes. PBR is subject to change as the Company's regulatory framework evolves.

The Company is an indirect, wholly-owned subsidiary of Fortis Inc. ("Fortis"), a diversified, international distribution utility holding company having investments in distribution, transmission and generation utilities, as well as real estate and hotel operations.

REVENUE REQUIREMENTS

2007 Revenue Requirements

On December 20, 2006, the BCUC approved a 1.2% customer rate increase for 2007 effective January 1, 2007. The approved 2007 Revenue Requirements include an allowed Return on Equity ("ROE") of 8.77% (2006 allowed ROE was 9.20%). At that time, the BCUC ordered a separate submission concerning a change in the treatment of financing costs of large capital projects during the period of construction, which FortisBC submitted on January 5, 2007.

On March 9, 2007, the BCUC issued an order requiring FortisBC to change the treatment of financing costs of large capital projects during the period of construction. The decision allowed for an effective 2.1% incremental customer rate increase over the original 2007 rate increase of 1.2%. Because the rate increase was not implemented until April 1, 2007, the increase relating to the period January 1, 2007 through March 31, 2007 will be recovered in 2008 customer rates and has been recorded in other revenue in the first quarter of 2007 as a PBR incentive adjustment. As a result of the BCUC order, the customer rate increase effective April 1, 2007 is 3.3%.

Further information on the 2007 Revenue Requirements can be found on the BCUC website (www.bcuc.com).

PBR

On April 19, 2006, FortisBC and a group of intervenors concluded negotiations on the Company's 2006 Revenue Requirement 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:

- 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 of 2% in 2007, 2% in 2008 and if applicable 3% in 2009;
- capitalized overhead will be set at 20% of the BCUC approved gross operating and maintenance expense;
- 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 Company's portion of the incentive is subject to the Company meeting certain performance standards and BCUC approval; and
- other components of revenue requirements will be forecast annually.

FINANCIAL RESULTS

Consolidated Financial Results (Unaudited)				
Period Ended June 30				
	Quarter		Year to Date	
	2007	2006	2007	2006
Electricity Sales (GWh)	686	674	1,568	1,518
Electricity Revenue (\$000s)	46,593	44,869	106,566	103,932
Other Revenue (\$000s)	1,417	(187)	3,416	1,106
Power Purchases (\$000s)	13,197	13,920	33,290	33,151
Operating Expenses (\$000s) ¹	13,232	14,403	27,849	27,912
Depreciation and Amortization (\$000s)	7,754	6,444	15,543	13,511
Interest Expense (\$000s)	6,048	5,953	12,448	11,880
Income Taxes (\$000s)	1,183	412	2,917	3,721
Net Earnings (\$000s)	6,596	3,550	17,935	14,863

¹ Includes operating and maintenance, property taxes, water fees and wheeling.

Net earnings for the second quarter of 2007 were \$6.6 million, an increase of \$3.0 million over the same period last year. The higher earnings were attributable to the increases in electricity revenue and other revenue, decreases in power purchases and operating expenses, offset in part by increases in depreciation, interest expense and income taxes.

Year to date, net earnings for 2007 were \$17.9 million, an increase of \$3.1 million over the same period last year. The higher earnings in the first six months of 2007 were primarily due to increased electricity revenue and other revenue, and a decrease in income taxes, partially offset by increases in depreciation and amortization and interest expense.

Electricity Sales

Electricity sales in the second quarter of 2007 were 686 gigawatt hours ("GWh"), an increase of 12 GWh compared to 674 GWh in the second quarter of 2006. On a year-to-date basis, electricity sales were 1,568

GWh, an increase of 50 GWh compared to 1,518 GWh for the same period last year. The increase was primarily attributable to a reduction to the estimate of electrical system losses and to customer growth as a result of continued population growth in the Okanagan area.

During the first quarter of 2007, an analysis of losses on the electrical system was carried out which resulted in a reduction to the estimate of system losses effective January 1, 2007. This reduction in system losses reflects efficiency improvements created by the Company's ongoing capital program of upgrading and replacing our generation, transmission and distribution systems, as well as a refinement to the estimating process.

Electricity Revenue

Electricity revenue for the second quarter of 2007 was \$46.6 million, an increase of \$1.7 million over the \$44.9 million in the second quarter of 2006. On a year-to-date basis, electricity revenue was \$106.6 million, an increase of \$2.7 million over the \$103.9 million in the first six months of 2006. The increases for the comparative periods are attributable to the BCUC approved rate increases of 1.2% for the first quarter of 2007 and 3.3% for the second quarter of 2007, and customer growth.

Other Revenue

Other revenue includes incentive adjustments associated with the PBR framework under which FortisBC operates. Under the terms of the PBR agreement, variances in certain costs and revenues as compared to the forecast will be recovered from (refunded to) customers. In addition, the ROE resulting from actual financial performance is compared to the Company's allowed ROE and variances, positive or negative (adjusting for certain revenue and cost variances which flow through to customers), up to a 2% collar, will be shared equally between customers and FortisBC. The remainder of other revenue consists of management fees for third party contract work, pole attachment revenue, interest income and other miscellaneous rental revenues.

Other revenues for the second quarter of 2007 were \$1.4 million compared to a net expense of \$0.2 million for the comparable period of 2006. Year to date, other revenues were \$3.4 million, an increase of \$2.3 million compared to the \$1.1 million for the same period last year. The increases for the comparative periods are primarily attributable to a decrease in PBR incentive adjustments owing to customers.

Power Purchases

Power purchases represent the cost of purchasing energy and capacity from third parties. Hydroelectric generating facilities owned by FortisBC generate approximately 45% of the energy and 30% of the capacity necessary to meet existing customer demand. The majority of the additional energy and capacity required to meet existing customer demand is purchased under firm, long-term power purchase contracts. Any remaining energy and capacity required to meet customer needs is purchased on the open market and is subject to fluctuations in market rates.

Power purchases were \$13.2 million for the second quarter of 2007 compared to \$13.9 million for the same period last year. The \$0.7 million decrease in power purchases was due to a higher proportion of generated power versus purchased power for the comparative period.

Year to date, power purchases were \$33.3 million compared to \$33.2 million for the first six months of 2006. The \$0.1 million increase in power purchases for the comparative period was attributable to

increased sales volumes and higher average power purchase prices, substantially offset by a higher proportion of generated power versus purchased power.

Operating Expenses

Operating expenses consist of operating and maintenance expenses, property taxes, water fees and wheeling.

Operating expenses were \$13.2 million in the second quarter of 2007, a decrease of \$1.2 million compared to \$14.4 million for the same period in 2006. The primary reason for the decrease is a true up to the estimate of capitalized overhead recorded in the second quarter of 2006. In 2005, the Company completed an analysis of its capitalized overhead allocation method that supported a change in the estimate of capitalized overhead to approximately 27.5% of gross operating and maintenance expense. The Company's March 31, 2006 interim financial statements reflected the 27.5% capitalized overhead rate. The 2006 Negotiated Settlement agreement, approved by the BCUC in May 2006, resulted in a capitalized overhead rate of 20% of forecast gross operating and maintenance expenses. The true up of the reduced capitalized overhead rate for the first quarter of 2006 was recorded in the second quarter of 2006, increasing operating expenses by \$0.9 million in the period.

Year to date, operating expenses of \$27.8 million are comparable to \$27.9 million recorded in the same period last year.

Depreciation and Amortization

Depreciation and amortization expense for the second quarter of 2007 was \$7.8 million, an increase of \$1.4 million compared to \$6.4 million for the same period in 2006. Year to date, depreciation and amortization expense was \$15.5 million, an increase of \$2.0 million compared to \$13.5 million for the same period last year. These increases were primarily due to increases in the depreciable asset base resulting from the Company's capital expenditure program.

Interest Expense

Interest expense, net of allowance for funds used during construction (capitalized financing costs), was \$6.0 million for the second quarter of 2007, which was comparable to the \$6.0 million in the second quarter of 2006. In the second quarter of 2007, a \$0.2 million increase in gross interest expense resulting from increased borrowings to finance the capital expenditure program was offset by a \$0.2 million increase in capitalized interest relating to more assets under construction compared to the same period in 2006.

Year to date, interest expense net of capitalized interest was \$12.4 million, an increase of \$0.5 million over the \$11.9 million recorded in same period last year. The increase in interest expense was primarily due to the cost of increased borrowings to finance the capital expenditure program.

Income Taxes

The Company uses the taxes payable method of accounting for income taxes on regulated earnings as ordered by the BCUC and in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") for rate-regulated entities. In addition, certain regulatory assets and deferred charges are recorded net of their income tax impact, with the offset charged to income tax expense. The Company follows the asset and liability method of accounting for income taxes on its non-regulated earnings.

For the three months ended June 30, 2007, income tax expense was \$1.2 million, a \$0.8 million increase compared to \$0.4 million for the three months ended June 30, 2006. The increase was primarily due to an increase in earnings in the second quarter partially offset by an increase in income tax timing differences.

Year to date, income tax expense was \$2.9 million, a decrease of \$0.8 million compared to \$3.7 million for the same period last year. The decrease was primarily due to an increase in income tax timing differences partially offset by an increase in earnings for the period.

FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at June 30, 2007 as compared to December 31, 2006.

Significant Changes in Consolidated Balance Sheets (Unaudited) As at June 30 2007 compared to December 31, 2006	
Balance Sheet Item	Increase (Decrease) <i>\$ millions</i>
Accounts receivable	(13.6)
Deferred charges and other assets	(2.3)
Property, plant and equipment (net of accumulated depreciation)	52.6
Accounts payable and accrued liabilities	4.6
Current and long-term debt	19.9
Retained earnings	12.1

Explanation of Significant Changes

Accounts receivable

The decrease in accounts receivable of \$13.6 million from December 31, 2006 is primarily due to the seasonal reduction in sales and the corresponding reduction to receivables.

Deferred charges and other assets

The decrease in deferred charges and other assets of \$2.3 million is due primarily to the reclassification of \$3.6 million of debt issue costs from deferred charges and other assets to long-term debt as required under the new Canadian Institute of Chartered Accountants (“CICA”) Financial Instrument sections. This reclassification was offset by \$1.3 million of increases in energy management loans, prepaid pension costs and investigative spending.

Property, plant and equipment (net of accumulated depreciation)

The increase of \$52.6 million is comprised of additions to property, plant and equipment of \$67.2 million less depreciation expense of \$14.1 million and depreciation expense of \$0.5 million relating to the Brilliant Terminal Station (“BTS”) asset under a capital lease the offset of which has been recognized in regulatory assets.

Accounts payable and accrued liabilities

The \$4.6 million increase in accounts payable and accrued liabilities is primarily due to higher outstanding accounts payable relating to capital expenditures at June 30, 2007.

Current and long-term debt

The \$19.9 million increase in debt was required to finance the ongoing capital program. The increase was reduced by the reclassification of \$3.6 million in debt issue costs from deferred charges and other assets as required under the new CICA Financial Instruments sections.

Retained earnings

The increase of \$12.1 million in retained earnings was due to net earnings in the period of \$17.9 million less dividends paid of \$5.8 million.

CAPITAL RESOURCES & LIQUIDITY

Summary of Consolidated Cash Flows (Unaudited)				
Period Ended June 30				
(\$000s)				
	Quarter		Year to Date	
	2007	2006 ¹	2007	2006 ¹
Cash, Beginning of Period	46	1,382	46	6,468
Cash Provided From (Used in)				
Operating activities	15,459	15,299	44,999	41,353
Investing activities	(37,776)	(19,685)	(62,455)	(48,208)
Financing activities	22,390	3,346	17,529	729
Cash, End of Period	119	342	119	342

¹ Certain comparative figures have been reclassified to comply with the current year's classification.

Sources of Capital Resources and Liquidity

FortisBC's primary sources of liquidity and capital resources are the following:

- funds generated from operations;
- issuances of long-term debt;
- bank financing and operating lines of credit; and
- equity contributions from its parent.

Operating Activities

Cash provided from operating activities was \$15.5 million in the second quarter of 2007, a \$0.2 million increase over the \$15.3 million provided in the second quarter of 2006. The increase is primarily due to increased net earnings and depreciation partially offset by a reduction in cash provided by non-cash working capital and deferred charges.

Year to date, cash provided from operating activities was \$45.0 million, which is \$3.6 million higher than the \$41.4 million provided by operating activities for the same period last year. The increase is primarily due to increases in cash provided by net earnings, and depreciation and amortization compared to the same period last year.

Investing Activities

Cash used for investing activities in the second quarter of 2007 was \$37.8 million, an increase of \$18.1 million compared to \$19.7 million during the same period last year. Year to date, cash used in investing activities was \$62.5 million, \$14.3 million higher than the \$48.2 million invested during the same period last year. The increased use of cash in investing activities relates to expenditures on the ongoing capital program.

Financing Activities

Cash provided from financing activities was \$22.4 million in the second quarter of 2007, an increase of \$19.1 million compared to \$3.3 million in the second quarter of 2006. The increased cash provided from financing activities was used to fund the increase in investing activities during the quarter.

Year to date, cash provided by financing activities was \$17.5 million, an increase of \$16.8 million compared to \$0.7 million provided by the financing activities during the same period last year. The increased cash provided from financing activities was primarily used to fund the increase in investing activities during the first six months of 2007. In addition the increased cash from financing activities is attributable to a reduced availability of cash on hand during the first six months of 2007 compared to the first six months of 2006.

Capital Structure

FortisBC's business requires the Company to have ongoing access to capital to allow it to build and maintain the electrical systems in its service territory. In accordance with the BCUC's directives and to support investment grade credit ratings, the Company targets a long-term capital structure of 40% equity and 60% debt.

Consolidated Capital Structure (Unaudited)				
	June 30, 2007		December 31, 2006	
	(\$ millions)	Percent	(\$ millions)	Percent
Total Debt	461.6 ¹	59.8	438.1	59.5
Shareholder's Equity	309.8	40.2	297.7	40.5
Total	771.4	100.0	735.8	100.0

¹ Excludes debt issue costs of \$3.6 million in 2007.

The following table discloses the Company's debenture ratings as of June 30, 2007.

Rating Agency	Rating	Debt Rated
DBRS Limited	BBB (high), Stable Trend	Secured and Unsecured Debentures
Moody's Investors Service	Baa2, Stable Outlook	Unsecured Debentures

On June 21, 2007, Moody's Investor Service upgraded the rating to Baa2, Stable Outlook from Baa3, Stable Outlook. The rating upgrade reflects progress made by the Company in addressing issues identified as credit challenges at the time of the initial rating in 2004.

Servicing and Repayment of Debt

FortisBC has authorized bank credit facilities of \$160.0 million, comprised of a \$150.0 million operating credit facility and a \$10.0 million demand overdraft facility. As of June 30, 2007, \$70.8 million was drawn against these facilities and \$4.6 million was used to support outstanding letters of credit.

On May 8, 2007, the Company 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 12, 2010 ("Facility A") and a \$100.0 million, 364-day revolving facility maturing May 8, 2008 ("Facility B"). Two years prior to the current Facility A maturity date, the Company 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 Company 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 Company to request that the lenders provide up to \$50.0 million of additional financing under Facility A or Facility B or a combination of the two facilities.

Borrowings under the Company's operating credit facility bear interest at prime or the certificate of deposit offered rate for bankers' acceptances plus a margin based on FortisBC's debt ratings provided by its credit rating agencies. Borrowings under the overdraft facility bear interest at prime.

During the quarter ended March 31, 2007, the Company borrowed \$31.0 million by way of two 4.57% demand notes from Fortis. The demand notes were repaid during the quarter ended June 30, 2007 with proceeds from the Company's operating credit facilities. During the three and six months ended June 30, 2007, the Company expensed interest on the demand notes of \$0.2 million (three months ended June 30, 2006 - \$nil) and \$0.5 million (six months ended June 30, 2006 - \$nil) respectively.

FortisBC expects to meet interest payments on outstanding indebtedness from internally generated funds, but may have to rely upon the proceeds of new financings to meet its principal debt obligations when due.

Capital Program

FortisBC's business is capital intensive and is focused on responding to customer growth and enhancing system reliability and safety through its extensive capital program. FortisBC plans to spend in excess of \$500 million, subject to BCUC approval, on capital projects over the next five years. Due to the size of the forecast capital program relative to the size of the Company, its implementation, financing and customer rate impacts present key challenges to the Company.

It is expected that capital expenditures in 2007 and beyond will be financed by drawing on the revolving lines of credit, utilizing the proceeds from future debt issues, equity contributions from the parent and from funds generated by operating activities.

On July 26, 2006, the Company filed its 2007 and 2008 Capital Plan with the BCUC outlining capital expenditures of \$128.6 million in 2007 and \$111.6 million in 2008. On November 24, 2006, the BCUC approved the 2007 and 2008 Capital Plan with six projects totalling \$61.2 million subject to further approvals required under the Certificate of Public Convenience and Necessity process (of which \$18.8 million relates to 2007 and \$42.4 million relates to 2008).

Further information relating to the 2007 and 2008 Capital Plan can be found on the BCUC website (www.bcuc.com).

During the six months ended June 30, 2007 FortisBC spent \$67.2 million on the capital program. The significant capital projects for 2007 and related year to date expenditures are as follows: \$4.7 million for the Lower Bonnington Unit Three Hydroelectric Generating Upgrade, \$4.3 million for the Big White Transmission and Substation Project, \$9.6 million for the Nk'Mip Substation, \$3.5 million for the Lambert Substation, \$5.7 million for the Kettle Valley Transmission Project and \$3.5 million relating to new distribution line extensions.

SHARE CAPITAL

FortisBC has issued and outstanding 1,518,510 common shares, all of which are owned by Fortis through its indirect wholly owned subsidiary, Fortis Pacific Holdings Inc.

There were no changes to share capital during the three and six months ended June 30, 2007 and June 30, 2006.

During the three months and six months ended June 30, 2007, FortisBC paid dividends of \$2.9 million (2006 - \$2.5 million) and \$5.8 million (2006 - \$5.0 million) respectively to its parent company, Fortis Pacific Holdings Inc.

CONTRACTUAL OBLIGATIONS

Contractual Obligations - Payments Due by Period (Unaudited)					
As at June 30, 2007					
(\$ millions)					
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Building Leases¹	21.7	1.0	2.7	2.9	15.1
Vehicle Leases²	1.3	0.7	0.5	0.1	-
Brilliant Terminal Station Agreement³	66.9	2.6	5.1	5.1	54.1
Power Purchase Obligations⁴	2,865.4	37.6	75.0	74.0	2,678.8
Debt Retirement⁵	461.6	41.2	87.1	1.9	331.4
Totals	3,416.9	83.1	170.4	84.0	3,079.4

¹ Under a sale-leaseback agreement, on September 29, 1993 the Company began leasing its Trail, BC office building for a term of 30 years. The terms of the agreement grant the Company repurchase options at approximately year 20 and approximately

year 28 of the lease term. In addition, the Company has entered into various leases within the Kelowna area for office and warehouse space with terms ranging from two to five years.

- ² These vehicle leases generally provide for the Company to pay the taxes, maintenance, insurance and certain other operating costs of the leased property, and typically have the lease term of two to five years.
- ³ On July 15, 2003, the Company began operating the Brilliant Terminal Station ("BTS") under an agreement the term of which expires in 2056 (unless the Company has earlier terminated the agreement by exercising its right, at any time after the anniversary date of the agreement in 2029, to give 36 months' notice of termination). The BTS is jointly owned by the Columbia Power Corporation and the Columbia Basin Trust (the "Owners") and used by the Company on its own behalf and on behalf of the Owners. The agreement provides that FortisBC will pay the Owners a charge related to the recovery of the capital cost of the BTS and related operating costs.
- ⁴ Power purchase obligations of FortisBC include the Brilliant Power Purchase Agreement (the "BPPA") and the Power Purchase Agreement with BC Hydro (the "PPA"). On May 3, 1996, an Order was granted by the BCUC approving the 60-year BPPA for the output of the Brilliant hydroelectric plant located near Castlegar, BC. The BPPA requires monthly payments based on the operation and maintenance costs and a return on capital for the plant, in exchange for the specified take-or-pay amounts of power. The BPPA includes a market related price adjustment after 30 years of the 60-year term. The PPA, which expires in 2013 provides for any amount of supply up to a maximum of 200 MW but includes a take-or-pay provision based on a 5-year rolling nomination of the capacity requirements.
- ⁵ Excludes debt issue costs of \$3.6 million.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with its parent and other related companies under common control. The following transactions were measured at the exchange amount.

Inter-Corporate Charges (Unaudited)				
Period Ended June 30				
(\$000s)				
	Quarter		Year to Date	
	2007	2006¹	2007	2006¹
Revenues charged to related parties	243	913	378	2,052
Operating costs charged by related parties	484	669	804	1,095
Operating costs recovered from related parties	2,767	860	3,933	1,982
Interest expense on debt	225	-	480	-
Capital costs charged from related parties	-	30	-	92

¹ Certain comparative figures have been reclassified to comply with the current year's classification.

Inter-Corporate Charges (Unaudited)		
As at		
	June 30	December 31
	(\$000s)	(\$000s)
	2007	2006
Included in accounts receivable	1,361	975
Included in accounts payable	320	181

The revenues charged represent electricity and services sold to related parties. The operating costs charged consist of information technology expenses, contract and direct labour charges, meter shop charges, and corporate governance costs. The operating recoveries consist of labour and materials charges to the Company's parent and other related parties. Capital costs charged in 2006 consist of distribution upgrades and new customer connects performed by the former Princeton Light & Power Company, Limited, which was acquired by FortisBC on December 31, 2006 and wound up on January 1, 2007. During the first quarter of 2007, affiliate demand notes from Fortis totalling \$31.0 million were issued. The demand notes were repaid in June 2007. Except as disclosed elsewhere in these financial statements, the amounts due to and from the Company's parent and other related companies under common control are unsecured and due on demand.

During the second quarter of 2007, the Company entered into an agreement to lease an office building owned by a related party company, Terasen Gas Inc. During the initial five-year term of the lease commencing January 1, 2008, the Company will make annual payments of approximately \$0.2 million. The Company has two options to renew the lease for subsequent five-year terms.

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended September 30, 2005 through June 30, 2007. The information has been obtained from the Company's unaudited interim consolidated financial statements which, in the opinion of management, have been prepared in accordance with Canadian GAAP for rate-regulated entities. The timing of the recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for non-regulated entities. Past operating results are not necessarily indicative of results for any future period and should not be relied upon to predict future performance.

Summary of Consolidated Quarterly Results (Unaudited)		
(\$000s)		
Quarter Ended	Electricity Revenue	Earnings
June 30, 2007	46,593	6,596
March 31, 2007	59,973	11,339
December 31, 2006	54,259	6,054
September 30, 2006	46,648	5,593
June 30, 2006	44,869	3,550
March 31, 2006	59,063	11,313
December 31, 2005	47,451	5,520
September 30, 2005	42,581	4,788

A summary of the past eight quarters reflects FortisBC's growth as well as the seasonality associated with the Company's business. The operations generally produce higher earnings in the first and fourth quarters of the fiscal year. Electricity revenue increases in those quarters due to increased customer load as a result of cooler weather, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year.

September 2005/2006 – The increase in revenues and earnings was primarily due to increased electricity sales resulting from customer growth and a 5.9% rate increase effective January 1, 2006.

December 2005/2006 – The increase in revenues and earnings was primarily due to increased electricity sales resulting from customer growth and a 5.9% rate increase effective January 1, 2006.

March 2006/2007 – The increase in revenues was primarily due to increased electricity sales resulting from customer growth and a 1.2% rate increase effective January 1, 2007. These increased revenues were offset by increased expenses, resulting in comparable earnings between quarters.

June 2006/2007 – The increase in revenues and earnings was primarily due to a 3.3% rate increase effective April 1, 2007 and increased electricity sales resulting from customer growth.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources. The Company has no such off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the periods. Certain estimates are also necessary since the regulatory environment in which the Company operates often requires amounts to be recorded at estimated values until finalization and adjustment, if any, is determined pursuant to subsequent regulatory decisions or other regulatory proceedings. Due to the inherent uncertainty in making such estimates, actual results reported in future periods could differ materially from those estimated. Any such adjustments, which could be material, will be recorded in the period they become known.

There were no material changes to the Company's critical accounting estimates during the three and six months ended June 30, 2007, from those disclosed in the 2006 Management Discussion and Analysis for the year ended December 31, 2006.

NEW ACCOUNTING POLICIES

Effective January 1, 2007, FortisBC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants.

a) Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, prescribe the criteria for recognition and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to

prescribed classifications. These sections also address how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Company is required to designate its financial instruments into one of the following five categories: held for trading; available for sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts but which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings.

FortisBC has designated its financial instruments as follows:

- Cash is classified as “*Financial Assets Held for Trading*”. Due to its nature, the carrying value equals its fair value.
- Accounts receivable, damage deposits, employee loans and energy management loans are classified as “*Loans and Receivables*”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
- Accounts payable and accrued liabilities, operating credit and overdraft facilities, affiliate demand notes, secured and unsecured debentures and mortgage obligations are classified as “*Other Financial Liabilities*”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

Under Section 3855, embedded derivatives are required to be separated from the host contract and accounted for as a derivative financial instrument if the embedded derivative and host contract are not closely related, and the combined contract is not held for trading or designated at fair value. While some of the Company’s long-term debt contracts have prepayment options that qualify as embedded derivatives to be separately recorded, none have been recorded as they are immaterial to the Company’s results of operations and financial position.

As a result of adopting Section 3855, deferred financing costs relating to long-term debt have been reclassified from deferred charges and other assets to long-term debt on the balance sheet. These costs will be taken into earnings using the effective interest method over the life of the related debt.

Certain of the Company’s non-financial contracts meet the definition of a derivative but qualify for an expected usage exemption as they are used in the normal course of business. These contracts include the Brilliant Power Purchase Agreement, a power purchase agreement with BC Hydro, as well as several smaller independent power producer contracts.

b) Section 1530, *Comprehensive Income*, introduces a new financial statement “Statement of Comprehensive Income” and provides guidance for the reporting and display of other comprehensive

income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has not recognized any adjustments through other comprehensive income for the three and six months ended June 30, 2007.

c) Section 3865, *Hedges* specifies the criteria under which hedge accounting may be applied, how hedge accounting should be performed under permitted hedging strategies and the required disclosures. This standard did not have an impact on the Company for the three and six months ended June 30, 2007.

FUTURE ACCOUNTING PRONOUNCEMENTS

Employee Future Benefits

In March 2007, the AcSB issued an Exposure Draft which proposes to harmonize CICA Handbook Section 3461, *Employee Future Benefits* with the US Financial Accounting Standards Board *Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans*.

The Exposure Draft proposes to change the reporting for defined benefit post-retirement plans by requiring an employer to recognize the overfunded or underfunded status of such a plan on the balance sheet. This would be measured as the difference between the fair value of plan assets and the defined benefit obligation. Under the current CICA Handbook Section 3461, the underfunded or overfunded positions of defined benefit plans are disclosed in the notes to the financial statements but are not recorded on the balance sheet. In addition, actuarial gains and losses and prior service costs and credits would be recognized as a component of other comprehensive income or potentially, in the case of FortisBC, as a regulatory asset or liability. The defined benefit plan assets and obligations would be measured as of the date of the financial statements (i.e. December 31st).

FortisBC has defined benefit pension plans that are in underfunded positions and are measured as of September 30th of the applicable year. The underfunded positions would require balance sheet recognition and a change in measurement dates from September 30th to December 31st would be necessary.

The Exposure Draft proposes that the recognition and related disclosure provisions will be effective for the Company's fiscal year ended December 31, 2007 and the measurement date provisions will be effective for the fiscal year ended December 31, 2008.

Written comments from companies were provided to the AcSB up to June 30, 2007. The AcSB intends to review its proposals based on comments received and is expected to issue its amendments in the second half of 2007. FortisBC will assess the implications of the final guidelines when issued.

International Financial Reporting Standards ("IFRS")

In 2006 the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies, such as FortisBC. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. While FortisBC has begun assessing the adoption of IFRS for 2011, it cannot reasonably estimate the financial impact of the transition to international standards at this time

Accounting for Rate Regulated Operations

In previous years, the AcSB approved a project to review the need to modify existing standards to reflect the unique characteristics of rate regulated operations, specifically how rate regulation may result in assets and liabilities which meet the asset and liability definitions of the CICA handbook. In 2006, the project was discontinued, and the AcSB issued an Exposure Draft in March 2007 which proposes that:

- the exemption in Section 1100, providing relief to entities subject to rate regulation from the requirement to apply Section 1100 to the recognition and measurement of assets and liabilities arising from rate regulation should be removed;
- the guidance for rate regulated operations in the CICA handbook pertaining to income taxes, pensions and property, plant and equipment should be removed; and
- Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, should be maintained.

Written comments from companies with rate regulated operations, including FortisBC, were provided to the AcSB up to June 30, 2007. The AcSB intends to review its proposals based on comments received and is expected to finalize its guidelines in the fourth quarter of 2007. FortisBC will assess the implications of the final guidelines when issued.

Accounting for Rate Operations - Other

The Company's consolidated financial statements have been prepared in accordance with GAAP, including certain accounting treatments that differ from that for enterprises not subject to rate regulation. One of these differential accounting treatments is in respect of future site removal and restoration costs, which in the absence of rate regulation, would be expensed as incurred rather than provided for in depreciation expense over the asset life. Because of possible changes to the regulated utility industry practice used by FortisBC of recording future site removal and restoration costs in accumulated depreciation, the Company expects that amounts currently recorded in accumulated depreciation of property, plant and equipment may be reclassified to regulatory liabilities in a future period. The effect of a reclassification of December 31, 2006 amounts is disclosed in the notes to the Company's December 31, 2006 financial statements.

BUSINESS OUTLOOK

Regulatory

The Company expects earnings growth in future years given the assumption of a consistently applied regulated capital structure and return on equity, the expectation of recovering all of its cost-of-service components in rates, and the expected growth in rate base assets as a result of its annual capital expenditures.

Business Risk Management

For more information with respect to risks and uncertainties, reference is made to the subsection entitled "Business Risk Management" in the Management Discussion and Analysis on pages 33 to 37 of the Company's 2006 Annual Report.

Contingencies

The Provincial Ministry has alleged breaches of the Forest Practices Code and negligence relating to a forest fire near Vaseux Lake and has filed and served a Writ and Statement of Claim against FortisBC. In addition, the Company has been served with two Writs and Statements of Claim by private land owners in relation to the same matter. The Company is currently communicating with its insurers and has filed a Statement of Defence in relation to all 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 was served a Writ and Statement of Claim filed with the B.C. Supreme Court under the Class Proceedings Act, 1995 on behalf of a class consisting of all persons who were customers of FortisBC and who paid or had been charged FortisBC's late payment penalties at any time between April 1, 1981 and the date of any judgment in this action. The claim was that forfeitures of the prompt payment discount offered to customers constituted "interest" within the meaning of s. 347 of the Criminal Code and, since the effective annual rate of such interest exceeded 60%, they were illegal and void. In the action the Plaintiff sought damages and restitution of all late payment penalties which were forfeited. On December 13, 2006, the application to certify the action as a class action was heard in the B.C. Supreme Court. In a decision delivered on January 11, 2007, the B.C. Supreme Court dismissed the application to certify the action as a class action. The Plaintiff filed an appeal of the decision with the Court of Appeal of British Columbia. The Plaintiff's appeal was abandoned on May 29, 2007, and a Consent Dismissal Order was entered on June 6, 2007 dismissing the proceeding without costs to either party.

STRATEGY AND VISION

FortisBC is an electric utility company, generating and distributing electricity to homes and businesses in southern interior of British Columbia. FortisBC employees are committed to safety, providing excellent customer service, and conducting business in an environmentally responsible manner.

CORPORATE INFORMATION

All the common shares of FortisBC Inc. are owned by Fortis Inc. through its indirect wholly owned subsidiary, Fortis Pacific Holdings Inc. Fortis Inc., the largest investor-owned distribution utility in Canada, serves almost two million gas and electric customers and has approximately \$10 billion of assets. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. Fortis Inc. owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels and commercial real estate in Canada. Fortis Inc. shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

Board of Directors:

Beth Campbell, Richard D. (Kim) Deane, Walter Gray, R.L. (Randy) Jespersen, Stanley Marshall, Roger Mayer, John McCallum, Harry McWatters, Barry Perry, and John Walker.

Executive Team:

John Walker	<i>President and Chief Executive Officer</i>
Don Debiegne	<i>Vice President of Generation</i>
Doyle Sam	<i>Vice President of Transmission & Distribution</i>
Michele Leeners	<i>Vice President Finance & Chief Financial Officer</i>
Michael Mulcahy	<i>Vice President Customer & Corporate Services</i>
David Bennett	<i>Vice President Regulatory Affairs and General Counsel</i>

Additional information about FortisBC Inc. is available on Sedar at www.sedar.com.

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