

FORTISBC INC.

INTERIM MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months and Nine Months Ended September 30, 2007

Dated October 25, 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 nine months ended September 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 regulator 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; and 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 an aggregate installed 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 commercial 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%.

2008 Preliminary Revenue Requirements

FortisBC filed its Preliminary 2008 Revenue Requirements Application on October 1, 2007. The application requests a 4.0% customer rate increase effective January 1, 2008. The proposed rate increase, which is subject to intervenor input and BCUC approval, is primarily the result of the Company's extensive capital investment program and higher power purchase costs due to ongoing customer growth and increased electrical demand.

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.

Further information on the 2007 Revenue Requirements, the 2008 Preliminary Revenue Requirements and the terms of the PBR agreement can be found on the BCUC website (www.bcuc.com).

FINANCIAL RESULTS

Consolidated Financial Results (Unaudited)				
Period Ended September 30				
	Quarter		Year to Date	
	2007	2006	2007	2006
Electricity Sales (GWh)	713	704	2,281	2,222
Electricity Revenue (\$000s)	48,035	46,648	154,601	150,580
Other Revenue (\$000s)	2,105	396	5,521	1,502
Power Purchases (\$000s)	14,165	14,274	47,455	47,425
Operating Expenses (\$000s) ¹	13,015	13,375	40,864	41,287
Depreciation and Amortization (\$000s)	7,775	6,648	23,318	20,159
Interest Expense (\$000s)	7,617	6,255	20,065	18,135
Income Taxes (\$000s)	1,482	899	4,399	4,620
Net Earnings (\$000s)	6,086	5,593	24,021	20,456

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

Net earnings for the third quarter of 2007 were \$6.1 million, an increase of \$0.5 million over the same period last year. The higher earnings were attributable to increases in electricity revenue and other

revenue and decreases in power purchases and operating expenses, offset in part by increases in depreciation and amortization, interest expense and income taxes.

Year to date, net earnings for 2007 were \$24.0 million, an increase of \$3.6 million over the same period last year. The higher earnings in the first nine months of 2007 were due to increased electricity revenue and other revenue, and decreases in operating expenses and income taxes, partially offset by increases in depreciation and amortization and interest expense.

Electricity Sales

Electricity sales in the third quarter of 2007 were 713 gigawatt hours (“GWh”), an increase of 9 GWh compared to 704 GWh in the third quarter of 2006. On a year-to-date basis, electricity sales were 2,281 GWh, an increase of 59 GWh compared to 2,222 GWh for the same period last year. The increases were 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 generation, transmission and distribution systems, as well as a refinement to the estimating process.

Electricity Revenue

Electricity revenue for the third quarter of 2007 was \$48.0 million, an increase of \$1.4 million over the \$46.6 million in the third quarter of 2006. On a year-to-date basis, electricity revenue was \$154.6 million, an increase of \$4.0 million over the \$150.6 million in the first nine months of 2006. The increases for the comparative periods are attributable to the BCUC approved rate increases of 1.2% effective January 1, 2007 and 2.1% effective April 1, 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 third quarter of 2007 were \$2.1 million, an increase of \$1.7 million over the \$0.4 million for the comparable period of 2006. Year to date, other revenues were \$5.5 million an increase of \$4.0 million compared to the \$1.5 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, increases in third party contract work and increases in interest income.

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 requirements are purchased on the open market and are subject to fluctuations in market rates.

Power purchases were \$14.2 million for the third quarter of 2007 compared to \$14.3 million for the same period last year. The \$0.1 million decrease in power purchases was due to a decrease in power purchase prices for the comparative period, largely offset by increased power purchase volumes to meet increased electricity sales.

Year to date, power purchases were \$47.5 million an increase of \$0.1 million compared to the \$47.4 million for the same period in 2006. Power purchases are comparable between the periods due to increased power purchase volumes being largely offset by a decrease in power purchase prices.

Operating Expenses

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

Operating expenses were \$13.0 million in the third quarter of 2007, a decrease of \$0.4 million compared to \$13.4 million for the same period in 2006. The decrease in third quarter operating expenses compared to the same period last year was due to a \$0.1 million decrease in water fees and a \$0.3 million increase in capitalized overhead.

Year to date, operating expenses were \$40.9 million, a decrease of \$0.4 million compared to the \$41.3 million for the same period in 2006. The decrease in year-to-date operating expenses as compared to the same period last year was due to a \$0.7 million increase in capitalized overhead and a \$0.4 million decrease in water fees offset by a \$0.5 million increase in operating and maintenance expense and a \$0.2 million increase in property taxes.

Depreciation and Amortization

Depreciation and amortization expense for the third quarter of 2007 was \$7.8 million, an increase of \$1.2 million compared to \$6.6 million for the same period in 2006. Year to date, depreciation and amortization expense was \$23.3 million, an increase of \$3.1 million compared to \$20.2 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 \$7.6 million for the third quarter of 2007, which was an increase of \$1.3 million compared to the \$6.3 million in the third quarter of 2006. In the third quarter of 2007, a \$1.6 million increase in gross interest expense resulting from increased borrowings to finance the capital expenditure program was offset by a \$0.3 million increase in capitalized financing costs relating to more assets under construction compared to the same period in 2006.

Year to date, interest expense net of capitalized financing costs was \$20.1 million, an increase of \$2.0 million over the \$18.1 million recorded in same period last year. For the nine months ended September 30, 2007, a \$2.3 million increase in gross interest expense resulting from increased borrowings to finance

the capital expenditure program was offset by a \$0.3 million increase in capitalized financing costs relating to more assets under construction compared to the same period in 2006.

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 September 30, 2007, income tax expense was \$1.5 million, a \$0.6 million increase compared to \$0.9 million for the three months ended September 30, 2006. The increase was primarily due to an increase in earnings in the third quarter and a decrease in income tax timing differences.

Year to date, income tax expense was \$4.4 million, a decrease of \$0.2 million compared to \$4.6 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 September 30, 2007 as compared to December 31, 2006.

Significant Changes in Consolidated Balance Sheets (Unaudited) As at September, 30 2007 compared to December 31, 2006	
Balance Sheet Item	Increase (Decrease) <i>\$ millions</i>
Accounts receivable	(11.0)
Affiliate demand note receivable	15.0
Prepaid expenses	4.2
Property, plant and equipment (net of accumulated depreciation)	77.5
Accrued interest	3.9
Current and long-term debt	54.3
Share capital	10.0
Retained earnings	15.3

Explanation of Significant Changes

Accounts receivable

The decrease in accounts receivable of \$11.0 million from December 31, 2006 is primarily due to the seasonal reduction in sales and the corresponding reduction to receivables.

Affiliate demand note receivable

On July 4, 2007, the Company issued \$105.0 million of senior unsecured debentures for net proceeds of \$103.9 million. After repayment of amounts outstanding under revolving bank facilities the remaining proceeds were used to invest in a \$20.0 million affiliate demand note to Fortis, of which \$5.0 million was repaid during the third quarter of 2007.

Prepaid expenses

The increase in prepaid expenses of \$4.2 million from December 31, 2006 was due to the timing of the payment of prepaid expenses including insurance, property taxes and water fees.

Property, plant and equipment (net of accumulated depreciation)

The increase of \$77.5 million is comprised of additions to property, plant and equipment of \$99.4 million less depreciation expense of \$21.2 million and depreciation expense of \$0.7 million relating to the Brilliant Terminal Station (“BTS”) asset under a capital lease, the offset of which has been recognized in regulatory assets.

Accrued interest

The increase in accrued interest of \$3.9 million is due to the timing of semi-annual interest payments on the Company’s outstanding debentures and additional accrued interest resulting from the \$105.0 million of senior unsecured debentures issued in the third quarter of 2007. The new debentures bear interest at a rate of 5.90% to be paid semi-annually.

Current and long-term debt

The \$54.3 million increase in debt was required primarily to finance the ongoing capital program. The increase in long-term debt includes \$105.0 million of senior unsecured debentures issued on July 4, 2007, with the net proceeds of \$103.9 million used in part to repay indebtedness outstanding under bank operating credit facilities. The increase was reduced by the reclassification of \$4.7 million in debt issue costs from deferred charges and other assets as required under the new Canadian Institute of Chartered Accountants (“CICA”) Financial Instruments sections.

Share capital

The increase in share capital of \$10.0 million resulted from the issuance of 100,000 common shares for cash consideration of \$10.0 million in the third quarter of 2007.

Retained earnings

The increase of \$15.3 million in retained earnings was due to net earnings in the period of \$24.0 million less dividends paid of \$8.7 million.

CAPITAL RESOURCES & LIQUIDITY

Summary of Consolidated Cash Flows (Unaudited)				
Period Ended September 30				
(\$000s)				
	Quarter		Year to Date	
	2007	2006	2007	2006 ¹
Cash, Beginning of Period	119	342	46	6,468
Cash Provided From (Used in)				
Operating activities	11,168	(658)	56,167	45,091
Investing activities	(52,202)	(19,826)	(114,657)	(72,430)
Financing activities	41,385	20,228	58,914	20,957
Cash, End of Period	470	86	470	86

¹ Certain comparative figures have been reclassified to comply with the current period'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 \$11.2 million in the third quarter of 2007, an \$11.8 million increase over the \$0.6 million used in the third quarter of 2006. The increase is primarily due to increased net earnings and depreciation and a decrease in cash used for non-cash working capital.

Year to date, cash provided from operating activities was \$56.2 million, which is \$11.1 million higher than the \$45.1 million provided by operating activities for the same period last year. The increase is primarily due to increases in cash provided by net earnings, depreciation and non-cash working capital, offset in part by a decrease in cash provided by deferred charges compared to the same period last year.

Investing Activities

Cash used for investing activities in the third quarter of 2007 was \$52.2 million, an increase of \$32.4 million compared to \$19.8 million during the same period last year. Year to date, cash used in investing activities was \$114.7 million, \$42.3 million higher than the \$72.4 million invested during the same period last year. The increased use of cash in investing activities relates primarily to expenditures on the ongoing capital program and the investment of \$20.0 million in the form of an affiliate demand note to Fortis, of which \$5.0 million was repaid during the third quarter of 2007.

Financing Activities

Cash provided from financing activities was \$41.4 million in the third quarter of 2007, an increase of \$21.2 million compared to \$20.2 million in the third 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 \$58.9 million, an increase of \$37.9 million compared to \$21.0 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 nine months of 2007.

The primary reason for the increase in cash provided by financing activities for both the quarter and year to date is due to the issue of \$105.0 million of senior unsecured debentures on July 4, 2007. The proceeds of the debenture issue were used to repay bank operating facilities and invest \$20.0 million in the form of an affiliate demand note to Fortis, of which \$5.0 million was repaid during the third quarter of 2007.

During the first quarter of 2007, affiliate demand notes of \$31.0 million from Fortis were issued. The demand notes were repaid in the second quarter of 2007.

For the three and nine months ended September 30, 2007, FortisBC issued common shares for proceeds of \$10.0 million, the same proceeds as the comparable periods in 2006.

During the three and nine months ended September 30, 2007, the Company paid common share dividends of \$2.9 million (three months ended September 30, 2006 - \$2.5 million) and \$8.7 million (nine months ended September 30, 2006 - \$7.5 million) to its parent company, Fortis Pacific Holdings Ltd.

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)				
	September 30, 2007		December 31, 2006	
	(\$ millions)	Percent	(\$ millions)	Percent
Total Debt	497.1 ¹	60.6	438.1	59.5
Shareholder's Equity	323.0	39.4	297.7	40.5
Total	820.1	100.0	735.8	100.0

¹ Excludes debt issue costs of \$4.7 million.

The following table discloses the Company's debenture ratings as of September 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 September 30, 2007, \$1.5 million was drawn against these facilities and \$3.1 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.

On June 22, 2007, the Company filed a final short form prospectus and entered into an agreement with a syndicate of underwriters, pursuant to which the Company agreed to sell \$105.0 million of senior unsecured debentures. The debentures bear interest at a rate of 5.90%, to be paid semi-annually and mature on July 4, 2047. The closing of this issuance occurred on July 4, 2007, with the net proceeds of \$103.9 million being used to repay existing indebtedness incurred under the bank operating credit facilities and for general corporate purposes, including future capital expenditures.

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 nine months ended September 30, 2007, the Company expensed interest on the demand notes of \$nil (three months ended September 30, 2006 - \$nil) and \$0.5 million (nine months ended September 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 nine months ended September 30, 2007 FortisBC spent \$99.4 million on the capital program (net of \$8.7 million in customer contributions). The significant capital projects for 2007 and related year to date expenditures are as follows: \$14.2 million for the Nk'Mip Substation, \$11.3 million for the Kettle Valley Transmission Project, \$7.3 million for the Lower Bonnington Unit Three Hydroelectric Generating Upgrade, \$6.7 million for the Big White Transmission and Substation Project, \$4.8 million for the Lambert Substation and \$6.2 million relating to new distribution line extensions.

SHARE CAPITAL

FortisBC has issued and outstanding 1,618,510 common shares, all of which are owned by Fortis through its indirect wholly owned subsidiary, Fortis Pacific Holdings Inc.

During the three and nine months ended September 30, 2007, FortisBC issued 100,000 common shares (2006 – 100,000 common shares) for cash consideration of \$10.0 million (2006 - \$10.0 million).

During the three months and nine months ended September 30, 2007, FortisBC paid dividends of \$2.9 million (three months ended September 30, 2006 - \$2.5 million) and \$8.7 million (nine months ended September 30, 2006 - \$7.5 million) respectively to its parent company, Fortis Pacific Holdings Inc.

CONTRACTUAL OBLIGATIONS

Contractual Obligations - Payments Due by Period (Unaudited)					
As at September 30, 2007					
(\$ millions)					
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Building Leases ¹	21.5	1.0	2.9	2.9	14.7
Vehicle Leases ²	1.2	0.7	0.5	-	-
Brilliant Terminal Station Agreement ³	66.3	2.6	5.1	5.1	53.5
Power Purchase Obligations ⁴	2,855.7	37.2	75.4	72.9	2,670.2
Debt Retirement ⁵	497.1	2.9	56.1	1.9	436.2
Totals	3,441.8	44.4	140.0	82.8	3,174.6

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 \$4.7 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 September 30				
(\$000s)				
	Quarter		Year to Date	
	2007	2006¹	2007	2006¹
Revenues charged to related parties	159	913	537	2,965
Operating costs charged by related parties	268	262	1,072	1,357
Operating costs recovered from related parties	1,436	727	5,369	2,709
Interest expense on affiliate demand notes	-	-	480	-
Interest revenue on demand note receivable	191	-	191	-
Capital costs charged from related parties	-	64	-	156

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

Inter-Corporate Charges (Unaudited)		
As at		
	September 30	December 31
	(\$000s)	(\$000s)
	2007	2006
Included in accounts receivable	3,046	975
Included in accounts payable and accrued liabilities	216	181
Affiliate demand note receivable	15,000	-

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. Interest on the affiliate demand loans was recorded in short-term interest expense.

On July 13, 2007, affiliate demand notes were issued to Fortis totalling \$20.0 million at an interest rate of 4.8%. On August 31, 2007, \$5.0 million of these affiliate demand notes were repaid. Interest on the affiliate demand loans has been recorded in other income.

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 December 31, 2005 through September 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
September 30, 2007	48,035	6,086
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

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 quarter of the fiscal year 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.

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.

September 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 nine months ended September 30, 2007, from those disclosed in the Management Discussion and Analysis for the year ended December 31, 2006.

NEW ACCOUNTING POLICIES

Financial Instruments

Effective January 1, 2007, FortisBC adopted the following new accounting standards issued by the CICA.

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, affiliate demand note receivable 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 payable, 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 nine months ended September 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 nine months ended September 30, 2007.

Accounting Changes

Effective January 1, 2007, the Company adopted the revised Section 1506, Accounting Changes, relating to changes in accounting policies, changes in accounting estimates and errors. Under the revised Section 1506, accounting treatment and disclosure of changes in accounting policies, accounting estimates and correction of errors are made only if they result in the financial statements providing reliable and more relevant information. Additional disclosure is required when the Company has not applied a new primary source of Canadian GAAP that has been issued but is not yet effective, as well as when changes in accounting estimates and errors occur. Adoption of this revised standard has resulted in additional disclosure under “Future Accounting Pronouncements” in the Company’s interim consolidated financial statements for the three and nine months ended September 30, 2007.

FUTURE ACCOUNTING PRONOUNCEMENTS

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 which proposed 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 and property, plant and equipment should be removed; and
- Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, should be maintained.

In the third quarter of 2007, the AcSB issued a Decision Summary that supported the removal of the temporary exemption in Section 1100 and the amendment to Section 3465 Income Taxes to recognize future income tax liabilities and assets as well as an offsetting regulatory asset or liability. Both changes will apply prospectively for fiscal years beginning on or after January 1, 2009. It was also decided that the current guidance pertaining to property, plant and equipment be maintained and that the existing AcG-19 will not be withdrawn from the CICA Handbook but that the guidance will be updated as a result of the other changes.

The primary effect of these changes on FortisBC is that, effective in 2009, the Company will recognize a future income tax liability as well as a separate regulatory asset for the amount of future income taxes expected to be included in future rates and recovered from customers. Currently, the Company uses the taxes payable method of accounting for income taxes on regulated earnings. As of December 31, 2006 and September 30, 2007, FortisBC has not recognized a future income tax liability on its regulated

operations as it is expected that as these amounts become payable, they will be recorded through future rate revenues. The Company is continuing to monitor any additional implications related to accounting for rate regulated operations.

Accounting for Rate Regulated 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.

Inventories

Effective January 1, 2008, FortisBC will be adopting the new Section 3031, *Inventories*, which was issued in March 2007 and is based on International Accounting Standard 2. The standard requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is to be reversed. This new standard is not expected to have a material impact on the Company's earnings.

Capital Disclosures

As a result of Section 1535 *Capital Disclosures*, the Company will be required to include additional information in the notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes qualitative information regarding an entity's objectives, policies and processes for managing capital. Qualitative information about items managed as capital is also required and may include ratios such as debt-to-adjusted capital ratio for comparative periods. This Section is applicable to FortisBC for the fiscal year beginning on January 1, 2008.

Employee Future Benefits

In March 2007, the AcSB issued an Exposure Draft which proposed 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 proposed to change the reporting for defined benefit post-retirement plans by requiring an employer to recognize the overfunded or underfunded status of plans on the balance sheet. In the third quarter of 2007, AcSB reviewed the comments received on this Exposure Draft and decided to not proceed with the changes.

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.

Contingency

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, FortisBC has been served with two Writs and Statements of Claim by private land owners in relation to the same matter. FortisBC is 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.

STRATEGY AND VISION

FortisBC is an electric utility company, generating, transmitting 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 total assets approaching \$10 billion. 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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