

FORTISBC INC.

INTERIM MANAGEMENT DISCUSSION & ANALYSIS

For the Three Months and Nine Months Ended September 30, 2008

Dated October 31, 2008

The following material which is unaudited, should be read in conjunction with FortisBC Inc.'s ("the Company" or "FortisBC") unaudited consolidated financial statements and notes thereto for the three months and nine months ended September 30, 2008 and the Management Discussion and Analysis and the audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

Certain statements contained in this Management Discussion & Analysis contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "assumes", "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 Management Discussion & Analysis includes, but is not limited to, statements regarding the Company's expectation of earnings growth in future years given the assumption of a consistently applied regulated capital structure, there being no material reduction in the allowed 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.

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results or events to differ from current expectations include, but are not limited to: regulatory approval and rate orders risk; electricity demand risk; weather and natural disasters, equipment breakdown, operating and maintenance risk; interest rates risk; capital resources risk; labour relations risk; environmental matters risk; First Nations' land matters risk; underinsured and uninsured losses; power supply contracts risk; weather related demand loss; permits risk; climate change risk; and, other risks described in the Company's most recent Annual Information Form. For additional information with respect to these risk factors, reference should be made to the section entitled "Business Risk Management" in the Company's Management Discussion & Analysis for the year ended December 31, 2007.

All forward-looking information in this 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 155,000 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 capacity of 223 megawatts ("MW"). The Company's regulated business also includes approximately 6,900 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 ("ROE"). 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

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:

- annual gross operating and maintenance expenses before capitalized overhead will be set by formula incorporating customer growth and inflation (CPI for British Columbia) minus a productivity improvement factor of 2% in 2007, 2% in 2008 and, if applicable, 3% in 2009;
- annual capitalized overhead will be set at 20% of the BCUC approved gross operating and maintenance expense;

- other components of revenue requirements will be forecast annually; and
- a 2% collar has been set around the allowed ROE whereby variances (adjusted for certain revenue and cost variances which flow through to customers) as a result of actual financial performance, positive or negative, will be shared equally between customers and the shareholder. If the variance exceeds the 2% collar, the excess will be placed in a deferral account for review and disposition during the next rate setting process. The Company's portion of the incentive is subject to the Company meeting certain performance standards and BCUC approval.

2008 Revenue requirements

In accordance with the terms of the 2006 to 2008 PBR agreement, FortisBC filed a Preliminary 2008 Revenue Requirement application on October 1, 2007 which was updated by the Company on November 1, 2007. Following a negotiated settlement process with intervenors, the BCUC approved the settlement agreement on December 4, 2007 resulting in a rate increase of 2.9% effective January 1, 2008.

The 2.9% rate increase is primarily the result of the Company's capital investment program. Rates for 2008 reflect an allowed ROE of 9.02%.

On March 14, 2008, the BCUC approved BC Hydro's request for an interim rate increase of 5.06% effective April 1, 2008. As a result of this increase, FortisBC requested and received BCUC approval on April 18, 2008 of a 0.8% increase in its rates effective May 1, 2008 to recover the increased power purchases charged by BC Hydro to the Company.

Preliminary 2009 Revenue Requirements

FortisBC filed its Preliminary 2009 Revenue Requirements Application on September 26, 2008. The application requests a 5.6% general rate increase effective January 1, 2009 and an extension of PBR for the years 2009-2011. The application and PBR extension is subject to intervenor input and BCUC approval. The 5.6% rate increase is primarily the result of the Company's ongoing investment in infrastructure and increasing power purchases driven by customer growth and increased demand for electricity.

Further information on the terms of the PBR agreement, the 2008 Revenue Requirements and the Preliminary 2009 Revenue Requirements can be found on the BCUC website (www.bcuc.com).

FINANCIAL RESULTS

Consolidated Financial Results (Unaudited)				
Period Ended September 30				
	Quarter		Year to Date	
	2008	2007 ²	2008	2007
Electricity Sales (GWh)	710	713	2,273	2,281
Electricity Revenue (\$000s)	50,452	48,035	162,007	154,601
Other Revenue (\$000s)	1,366	1,874	4,192	5,521
Power Purchases (\$000s)	12,107	14,165	44,847	47,455
Operating Expenses (\$000s)¹	13,803	13,015	43,205	40,864
Depreciation and Amortization (\$000s)	8,526	7,775	25,570	23,318
Interest Expense (\$000s)	7,402	7,386	22,079	20,065
Income Taxes (\$000s)	1,447	1,482	4,011	4,399
Net Earnings (\$000s)	8,533	6,086	26,487	24,021

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

² Certain comparative figures have been reclassified to comply with the current period's classification.

Net earnings for the third quarter of 2008 were \$8.5 million, an increase of \$2.4 million over the same period last year. The higher earnings were primarily attributable to an increase in electricity revenue and decreases in power purchases, partially offset by a decrease in other revenue and increases in operating expenses and depreciation.

Year to date for 2008, net earnings of \$26.5 million increased by \$2.5 million compared to the same period last year. The higher earnings were attributable to an increase in electricity revenue and decreases in power purchases and income taxes, partially offset by a decrease in other revenue and increases in operating expenses, interest expense and depreciation.

Electricity Sales

Electricity sales in the third quarter of 2008 were 710 gigawatt hours (“GWh”), a decrease of 3 GWh compared to the 713 GWh in the third quarter of 2007. On a year-to-date basis, electricity sales were 2,273 GWh, a decrease of 8 GWh compared to 2,281 GWh for the same period last year. Electricity sales for both comparable periods were impacted by reduced industrial customer loads as a result of a general slow down in the forestry sector, partially offset by residential, general service and wholesale customer growth primarily in the Okanagan area.

Electricity Revenue

Electricity revenue for the third quarter of 2008 was \$50.5 million, an increase of \$2.5 million over the \$48.0 million in the third quarter of 2007. The increase was primarily due to:

- a 2.9% rate increase effective January 1, 2008 which was approved by the BCUC on December 4, 2007;
- a 0.8% rate increase effective May 1, 2008 which was approved by the BCUC on April 18, 2008 to recover the increased power purchases charged by BC Hydro to the Company; and

- a shift in sales mix from lower rate customer classes to higher rate customer classes;
- partially offset by a decrease in electricity sales.

On a year-to-date basis, electricity revenue was \$162.0 million, an increase of \$7.4 million over the \$154.6 million in the first nine months of 2007. The increase in revenue was primarily due to:

- the 2.9% and 0.8% rate increases effective January 1, 2008 and May 1, 2008, respectively;
- a 2.1% rate increase which was implemented April 1, 2007. On March 9, 2007, the BCUC issued an order requiring FortisBC to change 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; and
- a shift in sales mix from lower rate customer classes to higher rate customer classes ;
- partially offset by a decrease in electricity sales.

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 2008 were \$1.4 million, a decrease of \$0.5 million compared to \$1.9 million in the third quarter of 2007. Year to date, other revenue was \$4.2 million, a decrease of \$1.3 million compared to the \$5.5 million for the same period last year. The decreases for both comparative periods were primarily attributable to increases in PBR incentive adjustments owing to customers and a decrease in interest income, partially offset by an increase in pole attachment revenue.

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 \$12.1 million for the third quarter of 2008 compared to \$14.2 million for the same period last year. The \$2.1 million decrease in power purchases was primarily attributable to:

- a higher proportion of generated power versus purchased power;
- a decrease in electricity sales; and
- lower open market power purchase prices;
- partially offset by the 5.06% rate increase on BC Hydro power purchases effective May 1, 2008.

Year to date, power purchases were \$44.8 million compared to \$47.5 million for the first nine months of 2007. The \$2.7 million decrease in power purchases for the comparative period was primarily attributable to:

- the receipt in the period of \$0.6 million of insurance proceeds in excess of amounts accrued relating to power purchase costs incurred in 2006 due to a turbine failure at the Lower Bonnington generation plant;
- a higher proportion of generated power versus purchased power;
- a decrease in electricity sales; and
- lower open market power purchase prices;
- partially offset by the 5.06% rate increase on BC Hydro power purchases effective May 1, 2008.

Operating Expenses

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

Operating expenses were \$13.8 million in the third quarter of 2008, an increase of \$0.8 million compared to \$13.0 million for the same period in 2007. Year to date, operating expenses of \$43.2 million have increased \$2.3 million over \$40.9 million recorded in the same period last year. The increases in both comparable periods was a result of an increase in operating and maintenance costs due to the timing of certain 2008 operating and maintenance projects and their related expenditures, as well as labour escalations and general inflationary increases.

Depreciation and Amortization

Depreciation and amortization expense for the third quarter of 2008 was \$8.5 million, an increase of \$0.7 million compared to \$7.8 million for the same period in 2007. Year to date, depreciation and amortization expense was \$25.6 million, an increase of \$2.3 million compared to \$23.3 million for the same period last year. These increases were 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 \$7.4 million for the third quarter of 2008 which is comparable to the third quarter of 2007. The comparable interest expense between quarters was due to the cost of increased borrowings to finance the capital expenditures program being offset by lower interest rates on bank credit facilities.

Year to date, interest expense net of capitalized interest was \$22.1 million, an increase of \$2.0 million over the \$20.1 million recorded in same period last year. The increase in interest expense for the comparative period was due to the cost of increased borrowings to finance the capital expenditure program partially offset by lower interest rates in bank credit facilities.

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, 2008, income tax expense was \$1.4 million, which is comparable to the prior period. The increase in pretax earnings was offset by a reduction in the Federal and Provincial income tax rates and an increase in income tax timing differences.

Year to date, income tax expense was \$4.0 million, a decrease of \$0.4 million compared to \$4.4 million for the same period last year. The decrease was due to a reduction in the Federal and Provincial income tax rates and an increase in income tax timing differences partially offset by an increase in pretax earnings.

FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheets as at September 30, 2008 as compared to December 31, 2007.

Significant Changes in Consolidated Balance Sheets (Unaudited) As at September 30, 2008 compared to December 31, 2007	
Balance Sheet Item	Increase (Decrease) <i>\$ millions</i>
Accounts receivable	(15.6)
Prepays	4.6
Property, plant and equipment (net of accumulated depreciation)	46.7
Current and long-term debt	12.6
Share capital	10.0
Retained earnings	16.6

Explanation of Significant Changes

Accounts receivable

The decrease in accounts receivable of \$15.6 million from December 31, 2007 was primarily due to the seasonal reduction in sales and the corresponding reduction to receivables, as well as the timing of certain larger customer payments.

Prepaid expenses

The increase in prepaid expenses of \$4.6 million from December 31, 2007 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 \$46.7 million was comprised of additions to property, plant and equipment of \$71.1 million less depreciation expense of \$23.7 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.

Current and long-term debt

The \$12.6 million increase in debt was primarily due to draws on the Company’s operating credit facilities which were required to finance the ongoing capital program.

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 2008.

Retained earnings

The increase of \$16.6 million in retained earnings was due to net earnings for the nine months ended September 30, 2008 of \$26.5 million less dividends paid of \$9.9 million.

CAPITAL RESOURCES & LIQUIDITY

Summary of Consolidated Cash Flows (Unaudited)				
Period Ended September 30				
(\$000s)				
	Quarter		Year to Date	
	2008	2007	2008	2007
Cash, Beginning of Period	451	119	-	46
Cash Provided From (Used in)				
Operating activities	16,158	11,168	64,355	56,167
Investing activities	(26,311)	(52,202)	(76,579)	(114,657)
Financing activities	9,761	41,385	12,283	58,914
Cash, End of Period	59	470	59	470

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 \$16.2 million in the third quarter of 2008, a \$5.0 million increase over the \$11.2 million provided in the third quarter of 2007. The increase was 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 \$64.4 million, which is \$8.2 million higher than the \$56.2 million provided by operating activities for the same period last year. The increase was primarily due to increased net earnings, depreciation and cash provided by non-cash working capital, partially offset by an increase in cash used for deferred charges.

Investing Activities

Cash used for investing activities in the third quarter of 2008 was \$26.3 million, a decrease of \$25.9 million compared to \$52.2 million during the same period last year. Year to date, cash used in investing activities was \$76.6 million, \$38.1 million lower than the \$114.7 million invested during the same period last year. The decreased use of cash in investing activities in both comparative periods was primarily due to less expenditures relating to the capital program and the investment in the form of an affiliate demand note in 2007, with no comparable investment in 2008.

Financing Activities

Cash provided from financing activities was \$9.8 million in the third quarter of 2008, a decrease of \$31.6 million compared to \$41.4 million in the third quarter of 2007. Year to date, cash provided by financing activities was \$12.3 million, a decrease of \$46.6 million compared to \$58.9 million provided by financing activities during the same period last year. The decreased cash provided from financing activities in both comparative periods was primarily due to an increase in cash from operating activities and a decrease in cash used for investing activities which resulted in a reduced requirement for financing. During the three months and nine months ended September 30, 2008, the Company paid common share dividends of \$3.5 million (three months ended September 30, 2007 - \$2.9 million) and \$9.9 million (nine months ended September 30, 2007 - \$8.7 million) respectively to its parent company, Fortis Pacific Holdings Inc. ("Fortis Pacific"). For the three and nine months ended September 30, 2008, FortisBC issued common shares for proceeds of \$10.0 million, the same proceeds as the comparable periods in 2007.

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, 2008		December 31, 2007	
	\$ millions	Percent	\$ millions	Percent
Total Debt	511.0 ¹	58.8	498.7 ¹	60.1
Shareholder's Equity	357.5	41.2	330.9	39.9
Total	868.5	100.0	829.6	100.0

¹ Excludes debt issue costs.

The following table discloses the Company's debenture ratings as of September 30, 2008.

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

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, 2008, \$16.8 million was drawn against these facilities (December 31, 2007 - \$4.0 million) and \$3.0 million (December 31, 2007 - \$3.1 million) was used to support outstanding letters of credit.

On April 15, 2008, the Company amended its operating credit facility. The amended operating credit facility is comprised of a \$50.0 million three-year revolving facility maturing on May 11, 2011 (“Facility A”) and a \$100.0 million, 364-day revolving facility maturing on May 7, 2009 (“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 facilities 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 and \$0.5 million 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 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 2008 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 (net of \$7.2 million of customer contributions) in 2007 and \$111.6 million (net of \$8.0 million of customer contributions) in 2008. On November 24, 2006, the BCUC approved the 2007 and 2008 Capital Plan with six projects totaling \$61.2 million subject to further approvals required under the Certificate of Public Convenience and Necessity (“CPCN”) process. To date, one project totaling \$4.8 million had not yet received further approval.

On December 4, 2007, the BCUC approved the Company's 2008 Revenue Requirements which included updated 2008 capital expenditures of \$123.8 million, net of \$8.0 million in customer contributions. These capital expenditure estimates, as well as the estimates supporting the 2007 and 2008 Capital Plan approved by the BCUC, were based upon detailed forecasts which included assumptions such as customer demand, cost of labour and materials, timing of project implementation, as well as other factors, considered at the time the forecast was prepared. Actual capital expenditures will differ if any of the underlying assumptions change.

During the nine months ended September 30, 2008, FortisBC spent \$71.1 million on the capital program (net of \$9.4 million in customer contributions). The significant capital projects for 2008 and related year to date expenditures are as follows: \$8.8 million relating to new distribution line extensions for customers, \$5.7 million for the Big White Transmission and Substation Project, \$4.9 million for the Ellison Substation Project and \$4.6 million for the Kettle Valley Transmission Project.

On June 27, 2008, FortisBC applied to the BCUC for approval of the 2009 and 2010 Capital Plan. The 2009 and 2010 Capital Plan outlines capital expenditures of \$178.8 million (net of approximately \$14.0 million in customer contributions) in 2009 and \$181.1 million (net of approximately \$15.0 million in customer contributions) in 2010. The capital expenditures are necessary to ensure the ability to provide service, public and employee safety and reliability of supply to the Company's growing customer base. The most significant areas of expenditure are those required to expand and upgrade the bulk transmission and distribution system to keep pace with load growth, and to continue the life extension program at FortisBC's generating plants. The application will be addressed by a written public hearing process with a decision expected in the fourth quarter of 2008.

On October 2, 2008, FortisBC received approval from the BCUC for the Okanagan Transmission Reinforcement project which was included in the 2009-2010 Capital Plan. The project is scheduled to begin in the spring of 2009 with an anticipated completion in 2011 and is expected to total approximately \$141.0 million in capital expenditures.

FortisBC recovers capital costs through depreciation which is approved by the BCUC on an annual basis. The BCUC also approves the Capital Plans of the Company; therefore, the majority of capital expenditures receive approval prior to the expenditures being made. The BCUC may order a review of cost variances for individual projects prior to inclusion in rate base or certain major projects may be subject to a "cost collar". Also, the Company is generally required to provide a report to the BCUC upon completion of projects that were subject to the CPCN approval process. In these situations, any variance in costs disallowed by the BCUC would be to the account of the shareholder.

Further information relating to the 2007 and 2008 Capital Plan and the 2009 and 2010 Capital Plan can be found on the BCUC website (www.bcuc.com).

SHARE CAPITAL

FortisBC has issued and outstanding 1,768,510 common shares, all of which are owned by Fortis through its indirect wholly owned subsidiary, Fortis Pacific.

During the three and nine months ended September 30, 2008, FortisBC issued 100,000 common shares (2007 – 100,000 common shares) for cash consideration of \$10.0 million (2007 - \$10.0 million).

During the three and nine months ended September 30, 2008, FortisBC paid dividends of \$3.5 million (2007 - \$2.9 million) and \$9.9 million (2007 - \$8.7 million) respectively to its parent company, Fortis Pacific.

CONTRACTUAL OBLIGATIONS

Contractual Obligations - Payments Due by Period (Unaudited)					
As at September 30, 2008					
(\$ millions)					
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Building Leases ¹	22.7	2.0	3.9	3.4	13.4
Vehicle Leases ²	1.3	0.6	0.6	0.1	-
Brilliant Terminal Station Agreement ³	63.7	2.6	5.1	5.1	50.9
Power Purchase Obligations ⁴	2,825.8	37.3	75.7	73.3	2,639.5
Debt Retirement ⁵	511.0	58.4	15.5	17.1	420.0
Totals	3,424.5	100.9	100.8	99.0	3,123.8

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. During the year ended December 31, 2007, the Company entered into an agreement to lease an office building owned by a related company, Terasen Gas Inc. During the initial five-year term of the lease commencing January 1, 2008, the Company will make annual payments of \$0.2 million. The Company has two options to renew the lease for additional five-year terms. 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 a 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 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.

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	
	2008	2007	2008	2007
Revenues charged to related parties	112	129	426	473
Operating costs charged by related parties	330	268	1,249	1,072
Operating costs recovered from related parties	1,195	1,436	4,391	5,369
Interest expense on affiliate demand loans	-	-	-	480
Interest revenue on demand note receivable	-	191	-	191
Capital costs charged from related parties	-	-	159	-
Interest revenue on accounts receivable	7	30	20	64

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

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, stock options, rent, natural gas utility charges consumed in operating the Company's facilities, and corporate governance costs.

The operating costs recovered consist of labour and materials charges to the Company's parent and other related parties.

During the first quarter of 2007, affiliate demand loans from Fortis totalling \$31.0 million were issued at an interest rate of 4.57%. The demand loans were repaid in June 2007. Interest on the affiliate demand loans was recorded in short-term interest expense.

During the third quarter of 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 notes has been recorded in other revenue.

Capital costs charged consist of electrical equipment sold to the Company by a related Fortis subsidiary.

Included in accounts receivable are amounts due from Fortis Pacific which bear interest at prime and are unsecured and due on demand. Interest on the related party account receivable was recorded in other revenue.

Inter-corporate charges between FortisBC and other related companies under common control are included in accounts receivable and accounts payable and are unsecured and due on demand. Also included in

accounts receivable are amounts due from officers of the Company for employee share purchase plan loans and stock option loans which are non-interest bearing and due within one to two years from the grant date.

Amounts due to and from the Company's parent, other related companies under common control and officers of the Company are as follows.

Inter-corporate Charges (Unaudited)		
As at (\$000s)	September 30 2008	December 31 2007
Included in accounts receivable	808	2,770
Included in accounts payable and accrued liabilities	373	125

QUARTERLY RESULTS

The following table sets forth unaudited quarterly information for each of the eight quarters ended December 31, 2006 through September 30, 2008. 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	Net Earnings
September 30, 2008	50,452	8,533
June 30, 2008	48,547	6,346
March 31, 2008	63,008	11,608
December 31, 2007	56,799	6,035
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

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 2006/2007 – The increase in revenues was primarily due to a 3.3% rate increase effective April 1, 2007. These increased revenues were offset by increased expenses, resulting in comparable earnings between quarters.

March 2007/2008 – The increase in revenues and earnings was primarily due to a 2.1% rate increase effective April 1, 2007 and a 2.9% rate increase effective January 1, 2008.

June 2007/2008 – The increase in revenues was primarily due to a 2.9% rate increase effective January 1, 2008 and a 0.8% rate increase effective May 1, 2008. Despite the increase in electricity revenue and a decrease in power purchase costs, net earnings decreased slightly due to increases in certain other expenses.

September 2007/2008 – The increase in revenues and earnings was primarily due to a 2.9% rate increase effective January 1, 2008 and a 0.8% rate increase effective May 31, 2008. Net earnings also increased due to a decrease in power purchase costs, partially offset by increases in certain other expenses.

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 months and nine months ended September 30, 2008 from those disclosed in the Management Discussion and Analysis for the year ended December 31, 2007.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, FortisBC adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

- a) Section 1535, *Capital Disclosures*, which requires additional information in the notes to the financial statements about the Company's capital and the manner in which it is managed. This additional disclosure, which includes qualitative and quantitative information regarding an entity's objectives, policies and processes for managing capital, is disclosed in note 10 of the unaudited consolidated interim financial statements for the three and nine month periods ended September 30, 2008.
- b) Section 3031, *Inventories*, which 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 standard did not have a material impact on the Company's earnings for the three and nine month periods ended September 30, 2008.

- c) Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*, which require disclosure on both qualitative and quantitative information to assist users of the financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. The required disclosure has been provided in note 11 of the unaudited consolidated interim financial statements for the three and nine month periods ended September 30, 2008.

FUTURE ACCOUNTING PRONOUNCEMENTS

Transition to International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - *Accounting Changes*, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to this Exposure Draft. FortisBC is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on the Company’s future financial position and results of operations is not reasonably determinable or estimable. Further, the Company anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of this disclosure required and any necessary systems changes to gather and process the information.

Fortis and its subsidiaries, including FortisBC, commenced an IFRS conversion project in 2007 and have established a formal project governance structure. Regular reporting will occur to senior executive management and to the Audit and Risk Committee of the Board of Directors of FortisBC. In addition to dedicated resources within FortisBC, an external expert advisor has been engaged to assist in the IFRS conversion project.

The IFRS conversion project consists of three phases: scoping and diagnostic; analysis and development; and implementation and review. Phase one has been completed which involved project planning and resourcing, and identification of high-level differences between current Canadian GAAP and IFRS. Currently, the identified areas of accounting difference of highest potential to significantly impact FortisBC are rate regulated operations; property plant and equipment; borrowing costs; intangible assets; employee benefits; impairment of assets; provisions and contingent liabilities; income taxes; and initial adoption of IFRS under the provisions of IFRS 1, *First-Time Adoption of IFRS*.

Phase two, currently in progress, involves completion of detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; and development of required solutions to address identified issues.

Phase three will involve building, implementing and communicating the changes required to report IFRS compatible information and the associated impacts.

It is anticipated that the adoption of IFRS will have an impact on current and future system requirements. The degree of this impact is not reasonably determinable at this stage of the project.

FortisBC will continue to review all proposed and continuing projects of the International Accounting Standards Board, closely monitor any International Financial Reporting Interpretations Committee initiatives with the potential to impact rate-regulated accounting under IFRS and will participate in any related processes, as appropriate.

Accounting for Rate Regulated Operations

In March 2002, 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 August 2007, the AcSB issued a Decision Summary regarding rate regulated operations which determined prospectively for fiscal years beginning on or after January 1, 2009:

- The temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, 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 will be removed.
- Section 3465, *Income Taxes*, will be amended to require the recognition of future income tax liabilities and assets as well as a regulatory asset or liability for the amount of future income taxes expected to be recovered from or returned to customers in future rates.

The AcSB also decided that the current guidance pertaining to rate regulated operations in Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3475, *Disposal of Long Lived Assets and Discontinued Operations*, and AcG-19, *Disclosures by Entities Subject to Rate Regulation* be retained.

Effective January 1, 2009, the impact on FortisBC of the amendment to Section 3465, *Income Taxes*, will be the recognition of 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. The estimated effect on the Company's financial statements if it had adopted amended Section 3465, *Income Taxes*, as at December 31, 2007, would have been an increase in future tax liabilities of \$63.9 million, including an amount associated with income taxes that will become payable on future revenues as they are collected from customers when the tax timing differences reverse. There would also be a corresponding increase in regulatory assets of \$63.9 million. The Company is continuing to assess and monitor any additional implications on its financial reporting 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 Canadian GAAP, including certain accounting treatments that differ from that for enterprises not subject to rate regulation. One of these 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 and December 31, 2007 amounts is disclosed in the notes to the Company's December 31, 2007 consolidated financial statements.

Goodwill and Intangible Assets

Effective January 1, 2009, FortisBC will be adopting the new Section 3064, *Goodwill and Intangible Assets* converging Canadian GAAP for goodwill and intangible assets with IFRS. The new Standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets. The Company is investigating the impact of this new standard on the financial statements of the Company.

BUSINESS OUTLOOK

Regulatory

The Company expects earnings growth in future years given the assumption of a consistently applied regulated capital structure, there being no material reduction in the allowed 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.

The BC Energy Plan

The British Columbia provincial government released its Energy Plan on February 27, 2007. The plan is a natural progression from the previous plan with consistent principles and a strong focus on environmental leadership, energy conservation and efficiency, and investing in innovation. This focus manifests itself by setting specific goals and timelines in these three areas. In particular, the Energy Plan outlines various measures to address the challenges of global warming including that all electricity produced in British Columbia will be required to have zero net greenhouse gas emissions by 2016. The plan places a great deal of responsibility on British Columbians to conserve energy by acquiring 50% of the province's incremental resource needs through conservation by 2020. The plan emphasizes efficiency by requiring BC Hydro to eliminate electricity imports and become fully self-sufficient by 2016. The Energy Plan also states that 90% of British Columbia's electricity will come from renewable resources and that British Columbia will become the first jurisdiction in North America to require 100% carbon sequestration for any coal-fired electricity project. FortisBC continues to assess the impacts and opportunities provided by the plan, and will consider which policy actions it may support. Many of the principles of the Energy Plan were adopted when Bill 15-2008, the *Utilities Commission Amendment Act, 2008*, received Royal Assent by the Legislative Assembly of British Columbia on May 1, 2008. The Energy Plan is available on the following website: www.energyplan.gov.bc.ca.

Collective Agreements

The Collective Agreement between the Company and Local 213 of the International Brotherhood of Electrical Workers ("IBEW") expires on January 31, 2009. IBEW represents employees in specified occupations in the areas of generation, transmission and distribution. The Collective Agreement between the Company and Local 378 of the Canadian Office and Professional Employees Union expires January 31, 2011.

Business Risk Management

For more information with respect to risks and uncertainties, reference is made to the subsection entitled "Business Risk Management" in the Company's Management Discussion and Analysis for the year ended December 31, 2007.

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

STRATEGY AND VISION

FortisBC is an electric utility company, generating, transmitting and distributing electricity to homes and businesses in the 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 are owned by Fortis Inc. (“Fortis”) through its indirect wholly owned subsidiary, Fortis Pacific Holdings Inc. Fortis is the largest investor-owned distribution utility in Canada. With total assets of approximately \$10.5 billion and annual revenues of more than \$2.7 billion, Fortis serves almost 2,000,000 gas and electricity customers. Its regulated holdings include a natural gas utility in British Columbia and electric distribution utilities in five Canadian provinces and three Caribbean countries. Fortis owns non-regulated generation assets across Canada and in Belize and upper New York State. It also owns hotels and commercial real estate across Canada. Fortis Inc. shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Fortis information can be accessed at www.fortisinc.com or www.sedar.com.

Board of Directors:

Beth Campbell, William J. (Bill) Daley; Richard D. (Kim) Deane, Walter Gray, R.L. (Randy) Jespersen, Stanley Marshall, Roger Mayer, John McCallum, Harry McWatters and John Walker.

Executive Team:

John Walker	<i>President and Chief Executive Officer</i>
Don Debienne	<i>Vice President, Power Supply and Strategic Planning</i>
Doyle Sam	<i>Vice President, Engineering and Operations</i>
Michele Leeners	<i>Vice President, Finance and Chief Financial Officer</i>
Michael Mulcahy	<i>Vice President, Customer and 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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