2019: THE CANADIAN ENERGY REGULATION YEAR IN REVIEW

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Editor’s Introduction: In September 2019, the Energy Bar Association (EBA) Board of Directors approved a Charter for a Canadian Chapter. The names of the first Board of Directors are set out at the end of this article. Most are well-known Canadian energy regulators. This is an important initiative for the EBA. We are reminded by the nightly newscasts in the middle of a worldwide coronavirus pandemic that the Canada–U.S. border is the longest undefended land border in the world. Many American energy companies have long been active in Canada and, as one section of this article points out, Canadian investment in the United States is growing.

The Editors of the Energy Law Journal thought we should throw our support behind this new initiative and invite the new Canadian Chapter to provide an annual report on important developments in Canadian energy regulation. This is it. The lead author is the first president of the Canadian Chapter and a former director of the EBA. The junior author is the young lawyer representative on the Canadian Chapter Board.

We should add that the first annual meeting of the Canadian Chapter was scheduled to take place in Washington, D.C., in April, at the same time as the EBA Annual Meeting. The coronavirus cancelled that, but we look forward to next year’s meeting and next year’s annual review of Canadian energy regulation.

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I. PIPELINE POLITICS

Canada may soon receive the worldwide prize for being the most difficult jurisdiction in which to build energy projects. This is particularly the case with pipelines. In the last five years, investors have walked from four major projects. In total they accounted for over $50 billion in investment. Those four projects


were the TransCanada Energy East pipeline, the Enbridge Northern Gateway pipeline, the Kinder Morgan Trans Mountain expansion, and the Teck Frontier oil sands mine located between Fort McMurray and Fort Chipewyan.3

Kinder Morgan was saved at the last minute when the Government of Canada made the decision to buy the pipeline for $4.5 billion.4 Teck Resources has regulatory approval for its proposed Frontier oil sands project and a federal cabinet decision on the project was expected at the end of February.5 However, just a week before the expected cabinet decision, the company withdrew the application, no doubt influenced by the blockade that was ongoing at the time on the Canadian National Railway across the country by aboriginal groups opposed to the Coastal GasLink project.6

The four projects still inching forward are the Trans Mountain Expansion project (TMX), Keystone XL, Coastal GasLink, and Enbridge Line 3.7 Before we look at the current status of these four, it is useful to examine what happened in the two failed projects, Energy East and Northern Gateway.8

II. THE FAILED PROJECTS

In April 2013, TransCanada filed an application to build the Energy East pipeline, a 4,500 km pipeline from Alberta to the east coast of Canada at a cost of $15.7 billion.9 The rationale was sound enough, Canada’s east coast refiners relied on imported crude for 80% of their requirements.10 Alberta crude could replace the imported crude.11

3. Kujawinski, supra note 1; Coletta, supra note 1.
6. Letter from Don Lindsay, President/CEO, Teck Res. Ltd., to Jonathan Wilkinson, Minister, Env’t and Climate Change Canada (Feb. 23, 2020), https://www.teck.com/media/Don-Lindsay-letter-to-Minister-Wilkinson.pdf. In addition to withdrawing, the letter alludes to a growing debate around resource development and climate change, pointing out that “Questions about the societal implications of energy development, climate change and Indigenous rights are critically important ones for Canada, its provinces and Indigenous governments to work through.” Id.
Things went off the rails, however, when the National Energy Board (NEB) suspended hearings in order to rule on a motion that two panel members hearing the case were biased.\textsuperscript{12} Eventually the NEB agreed and replaced the two panel members.\textsuperscript{13} The case started over with new panel members who threw out all of the decisions the previous panel had made.\textsuperscript{14} The real nail in the coffin was a change in government policy.\textsuperscript{15} The new panel issued a decision indicating that for the first time, the panel would consider in its evaluation of the project the cost of greenhouse gas emissions resulting from the increased production and consumption of oil caused by the project.\textsuperscript{16} That was enough for TransCanada and in October 2017, the company canceled the project\textsuperscript{17}.

The Enbridge Northern Gateway pipeline also ran into unexpected and unprecedented developments. That pipeline was to run 1,178 kilometers from Bruderheim, Alberta, to a marine terminal in Kitimat, B.C. and cost $7.9 billion.\textsuperscript{18} There were two lines at issue. One would transport 525,000 barrels per day of Alberta oil west to tidewater.\textsuperscript{19} The other would bring 193,000 barrels of condensate to Alberta used in processing Alberta bitumen\textsuperscript{20}.

The NEB joint review panel issued its report to the federal cabinet on December 19, 2013, and recommended approval subject to over 200 conditions.\textsuperscript{21} The federal cabinet accepted the panels’ recommendations in June 2014 and ordered the NEB to issue the necessary Certificate of Public Convenience and Necessity to start construction.\textsuperscript{22}

One of the conditions of the joint review panel was that Enbridge engage in consultations with the First Nations.\textsuperscript{23} Those consultations inched along until June 2016 when the Federal Court of Appeal\textsuperscript{24} in a 2-1 split decision, ruled that

\begin{itemize}
\item \textsuperscript{14} Ruling No. 1 – Consequences of the Energy East Hearing panel’s recusal and how to recommence the Energy East Hearing, File Of-Fac-Oil-E266-2014001 02, Nat’l Energy Bd. (Jan. 27, 2017).
\item \textsuperscript{15} Donald Savoie, Politics Killed the Energy East pipeline, THE GLOBE AND MAIL (Oct. 16, 2017), https://www.theglobeandmail.com/opinion/politics-killed-the-energy-east-pipeline/article36609688/.
\item \textsuperscript{16} Appendix 4 - Eastern Mainline – draft Environmental Assessment Factors Document, File Of-Fac-Oil-E266-2014001 02 2, Nat’l Energy Bd. (May 10, 2017).
\item \textsuperscript{17} TransCanada, File Of-Fac-Oil-E266-2014001 02, Nat’l Energy Bd. (Oct. 5, 2017).
\item \textsuperscript{19} Id.
\item \textsuperscript{20} Id.
\item \textsuperscript{21} Id. at 12.
\item \textsuperscript{23} Nat’l Energy Bd., supra note 18, at 371.
\item \textsuperscript{24} Gitxaala Nation v. Canada, [2016] 4 F.C.R. 418 (Can.).
\end{itemize}
the consultations were inadequate.25 The Court’s decision overturned the federal cabinet’s June 14, 2013, approval of the Northern Gateway pipeline.26

A second and even bigger problem resulted when the federal government decided in late 2015 to issue a moratorium on crude oil traffic off the B.C. north coast.27 The view by many was that the moratorium served only one purpose, namely to cancel the Northern Gateway project.28 It turned out they were right. Late in 2016, the federal government announced it would not approve Northern Gateway.29

III. THE REMAINING PROJECTS

Four projects remain under various states of regulatory approval: Trans Mountain, Keystone XL, Coastal GasLink, and Enbridge Line 3.30

A. Trans Mountain Expansion

As indicated, the federal government purchased the Trans Mountain expansion from Kinder Morgan for $4.5 billion.31 On February 22, 2019, the NEB released its reconsideration report on the project, recommending again that it proceed.32 The federal cabinet accepted that recommendation and approved the project.33 Construction of the project officially began on December 3, 2019.34 Shortly thereafter, on January 16, 2020, the Supreme Court of Canada unani-

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25. Id. at 11.
26. See generally id.
30. N. AM. OIL & GAS PIPELINES, supra note 7; TC ENERGY supra note 7; COASTAL GASLINK, supra note 7.
31. DEPT. OF FIN. CAN., supra note 4.
mously dismissed the B.C. attempt to claim jurisdiction on this project, 35 upholding an earlier decision by the B.C. Court of Appeal. 36

On February 4, 2020, a unanimous Federal Court of Appeals dismissed the most recent legal challenges to the project, which is proceeding. 37 The court was clear, first, that Indigenous groups have no veto and, second, that courts should defer to the governments that make the initial decision on whether the duty to consult has been met. 38

B. Keystone XL

The Keystone XL pipeline, a $5 billion project, was first proposed by TransCanada in 2008 to transport oil from Canada though the Midwest and Texas to the Gulf of Mexico. 39 The U.S. Department of State reviewed the pipeline for nearly seven years. 40 The Canadian portion of the line obtained NEB approval in 2010. 41 The United States approval was finally obtained in late 2019. 42

American approval was held up by a huge environmental lobby, 43 notwithstanding the U.S. State Department’s January 2014 Environmental Impact Statement, which concluded that the pipeline is unlikely to significantly increase the rate of oil sands drilling or heavy crude demand. 44 The report also found that the pipeline is only one part of the larger global greenhouse gas emissions picture and that tar sands oil will likely be extracted whether or not the pipeline is built 45.

In May 2012, TransCanada filed a new application for a Presidential Permit with the U.S. Department of State. 36 That review has been held up by ongoing

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35. Reference re Environmental Management Act, 2020 S.C.C. 1 (Can.).
36. Reference re Environmental Management Act, 2019 BCCA 181 (Can.).
37. Coldwater Indian Band v. Canada (Att’y Gen.), 2020 FCA 34 (Can.).
38. Id. at paras. 36, 53.
45. Id. at 13.
litigation in the Nebraska courts.\footnote{S. REP. NO. 114-1, (Jan. 12, 2015).} In 2012, Nebraska’s governor signed into law a statute that enabled major oil pipeline carriers to obtain approval from the state’s governor for pipeline routes across the state rather than from Nebraska’s Public Service Commission.\footnote{NEB. REV. STAT. § 57-1101 (2012).} The governor then approved the route proposed by TransCanada allowing TransCanada to exercise eminent domain to acquire the necessary land.\footnote{2012 Neb. Laws, L.B. 1161.} Nebraska landowners then challenged the decision before the Commission.\footnote{Thompson v. Heineman, No. CH22060, 2014 WL 631609 (Neb. Dist. Ct. Feb. 19, 2014).}

In November 2014, the U.S. House of Representatives passed legislation and approved Keystone XL for the ninth time.\footnote{H.R. 5682, 113th Cong. (2014).} The bill was subsequently defeated in the Senate by one vote.\footnote{S. 2280, 113th Cong. (2014).} Midterm elections in November saw the Republicans regain a majority in both the House and Senate for the first time in eight years.\footnote{S. 1, 114th Cong. (2015); H.R. 3, 114th Cong. (2015).} A January vote passed the House and Senate but failed to get the two-thirds majority vote required to prevent a presidential veto.\footnote{Thompson v. Heineman, No. CI122060, 2014 WL 631609 (Neb. Dist. Ct. Feb. 19, 2014).} President Obama then exercised his veto to defeat the legislation.\footnote{H.R. 5682, 113th Cong. (2014).}


C. Coastal GasLink

The Coastal GasLink pipeline project is owned and operated by TC Energy.\footnote{The Coastal GasLink pipeline project is owned and operated by TC Energy.} The $6.6 billion project starts near Dawson Creek and, if completed, would...
run approximately 420 miles southwest to a liquefaction plant near Kitimat.63 The pipeline, as planned, would pass through the traditional territories of several First Nations.64 It has long been opposed by multiple Wet’suwet’en hereditary chiefs, although a number of First Nations groups support the project.65 In fact, twenty elected bands along the pipeline route have endorsed the project and have an ownership interest.66

In December 2018, the Supreme Court of British Columbia granted an injunction preventing blockades of the pipeline.67 More recently, blockades have occurred across Canada led in part by Mohawks of the Bay of Quinte of Belleville in Ontario.68 The blockades across Canada have resulted in a nationwide stoppage of rail traffic in Canada.69 As a result, the pipeline has halted all construction and the Canadian National Railway has laid off 450 workers in eastern Canada and cancelled over 400 trains.70

There has been one element of good news for the Coastal GasLink pipeline. In July 2019, the NEB released its decision ruling that the pipeline—including the export terminal in Kitimat—was under provincial not federal jurisdiction.71 The NEB concluded that the pipeline would transport natural gas within B.C., although it would also facilitate international exports, providing some clarity to the earlier Supreme Court of Canada decision in West Coast Energy on provinces right to control works and undertakings within their boundaries.72

In December 2019, the Alberta Investment Management Corp., the Alberta public pension manager, teamed up with one of the largest American investment companies to acquire majority stake in the Coastal GasLink.73 The blockade was finally removed and work on the line continues.74

63. Id.
67. Coastal GasLink Pipeline Ltd. v. Huson, 2018 BCSC 2343 (Can.).
69. Id.
70. Id.
71. Id. (citing Westcoast Energy Inc. v. Canada (National Energy Board), [1998] 1 SCR 322 (Can.)).
D. Enbridge Line 3

The Enbridge Line 3 runs from Hardisty, Alberta to Superior, Wisconsin and has been operating since 1968. Over the years it became apparent that part of the pipeline had to be replaced if Enbridge wished to restore it to its historical capacity and move 800,000 barrels per day. The necessary authorization was obtained from regulatory bodies in Canada, North Dakota, and Wisconsin. However, the project ran into problems in Minnesota where environmentalists and native groups opposed the project. Nevertheless, in June 2018 the Minnesota Public Utilities Commission approved the route and granted the necessary permits. However, a year later that decision was overturned by the Minnesota Court of Appeal that found that the environmental impact statement placed before the Commission was inadequate. On February 3, 2020, the Minnesota regulators approved a revised environmental review resolving the last regulatory hurdle for the project.

IV. The New NAFTA

The most important development in Canadian energy regulation in 2019 may have little to do with provincial or federal energy regulators. It concerns the renegotiation of a twenty-six-year-old treaty between Canada, the United States, and Mexico.

It is often said that the border between Canada and the United States is the longest undefended border in the world. That is certainly true. But it is also true that the two countries are the most integrated countries in the world.

76. Id.
This is particularly true of the energy industry. Much of the Alberta energy industry starting with the first well in Turner Valley in 1946 was developed by American companies.\textsuperscript{86} For over eighty years, until the United States developed a shale industry most of the energy imports into the United States came from Canada.\textsuperscript{87} Enbridge, based in Calgary, is today the largest pipeline operator in North America with assets on both sides of the border.\textsuperscript{88}

When NAFTA was first negotiated the focus was on the North American automobile industry.\textsuperscript{89} That concern remains in the renegotiated agreement as does concerns with dairy products, the steel industry, and intellectual property.\textsuperscript{90} However, the major concern for the energy sector is the agreement to phase out the investor state dispute mechanism in the original NAFTA agreement.\textsuperscript{91}

It will be surprising to some that the Americans appear to be the most vocal when it comes to criticizing NAFTA.\textsuperscript{92} As of January 1, 2018, there have been forty NAFTA decisions, seventeen in Canada, eleven in the United States, and twelve in Mexico.\textsuperscript{93} Canada has managed to lose nine cases, and Mexico has lost five cases.\textsuperscript{94} The United States has lost none.\textsuperscript{95}

There certainly were problems with NAFTA, but the economics of NAFTA are impressive. When NAFTA came into force on January 1, 1994, it created the world’s largest international free trade zone.\textsuperscript{96} The elimination of trade barriers between Canada, the United States, and Mexico led to a substantial increase in trade between the three countries.\textsuperscript{97} The growth in bilateral trade between Canada and the United States is significant. Today it can be said:

\begin{itemize}
\item \textsuperscript{88} ENBRIDGE, OUR HISTORY, https://www.enbridge.com/about-us/our-history.
\item \textsuperscript{89} Will Kenton, North American Free Trade Agreement (NAFTA), Investopedia (Feb. 16, 2020), https://www.investopedia.com/terms/n/nafta.asp.
\item \textsuperscript{91} PUBLICCITIZEN, FACT SHEET: NAFTA 2.0 AND INVESTOR STATE DISPUTE SETTLEMENT (ISDS) (Oct. 12, 2018), https://www.citizen.org/article/nafta-2-0-and-investor-state-dispute-settlement/.
\item \textsuperscript{92} Bruce Stokes, Views of NAFTA less positive – and more partisan – in U.S. than in Canada and Mexico, PEW RES. CTR. (May 9, 2017), https://www.pewresearch.org/fact-tank/2017/05/09/views-of-nafta-less-positive-and-more-partisan-in-u-s-than-in-canada-and-mexico/.
\item \textsuperscript{93} Scott Sinclair, Canada’s Track Record Under NAFTA Chapter 11 North American Investor-State Disputes to January 2018, CANADIAN CTR. FOR POLICY ALTS. 4, Figure 3 (Jan. 2018), https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2018/01/NAFTA%20Dispute%20Table%20Report%202018.pdf.
\item \textsuperscript{94} Id.
\item \textsuperscript{95} Id.
\item \textsuperscript{96} Amadeo, supra note 83.
\item \textsuperscript{97} Id.
\end{itemize}
• Canada is the largest trading partner and largest customer of the United States – Bilateral trade in goods and services is over $880 billion a year.98
• Canada remains the largest supplier of U.S. energy needs;99
• Canada is the top export destination of thirty-five U.S. states;100
• The United States accounts for over 50 percent of foreign direct investment in Canada representing over $400 billion a year.101

However, the NAFTA agreement also gave private investors the right to bring claims directly and unilaterally in the host country.102 This was unique at a time when the arbitration world was dominated by state-to-state proceedings.

Major corporations quickly learned how they could put this new remedy to work to reduce regulatory risk.103 Governments on both sides of the border were quick to respond that private corporations were using NAFTA to curtail the right of governments to regulate in the public interest.104

The real concern may be that we have inadvertently created an ‘Appeal Court of the Last Resort.’ In most cases, NAFTA parties first litigate in domestic courts and then appeal to NAFTA. NAFTA offers definite advantages. Damages are available under NAFTA, something that does not always exist under domestic administrative law. . . . Mercer International went first to the BC Utility Commission. When that did not work out, they went to NAFTA. Mobil Investments first appealed the Newfoundland Board R&D directive to the local courts. When they lost they went to NAFTA, where they succeeded.

To make matters worse, NAFTA is a unique appeal court. Only foreign investors can bring cases. Consider the cases involving the Ontario ban on wind generation. An American company, Windstream, obtained a C$28 million judgment from a NAFTA panel when Ontario cancelled the programme. Trillium Wind, a Canadian company with the same complaint, was out of luck in the Ontario courts. The same thing happened in Sky Power. There the judge remarked: ‘While it may seem unfair when rules are changed in the middle of a game, but that is the nature of the game when one is dealing with government programs.’105

This controversy in the NAFTA world was joined by another controversy driven by the economic nationalism of the Trump administration in the

100. Lloyd Braun, This is how much each US state depends on Canada as trading partner (MAP), DAILYHIVE (Jan. 26, 2017), https://dailyhive.com/vancouver/canada-top-import-us-state-map-2017.
United States. The issue became not a states right to regulate, but a states right to eliminate trade deficits. It put NAFTA under a new spotlight that targeted the Chapter 11 dispute resolution mechanism. That dispute mechanism has been a major force in the Canadian energy sector as the following section demonstrates.

V. THE ENERGY ARBITRATIONS

A. Newfoundland Offshore Oil

In August 2007, two American companies, Mobile Investment Canada and Murphy Oil Corporation filed a NAFTA claim for $60 million against Canada. The two U.S. companies were partners in an offshore drilling project off the coast of Newfoundland, which was regulated jointly by the federal government and the province through the Canada Newfoundland Offshore Petroleum Board (CNLOPB).

In order to obtain a license to drill, the companies had been required to submit proposals to the Board to approve their development plan. The plan included commitments regarding research and development. The Board had provided guidelines, none of which contained specific expenditure amounts required in of investors. However, the Board changed this practice in 2004 and introduced new guidelines with specific expenditure targets.

The Claimants objected to the new guidelines on the basis that they represented a fundamental shift in regulation that undermined the project. Mobile first went to the courts. When that failed Mobile brought a NAFTA claim.
In May 2012, the Tribunal majority found that Canada had violated NAFTA Article 1106\(^1\) and ordered damages three years later of $132 million.\(^2\) A set-aside application by Canada was dismissed by the courts.\(^3\)

After the decision, Mobile brought a second claim for future damages relating to the 2012 to 2015 time period, which was not covered in the original award.\(^4\) Despite Canada's objections that the second claim was barred by the three-year time limit under NAFTA and the doctrine of res judicata, the panel allowed the claim to proceed.\(^5\) The parties subsequently extended the damage time period to 2036, which is when the Mobile Oil projects in Canada would end.\(^6\)

Subsequently the parties reached a settlement, which was incorporated into a Consent Order issued by the tribunal on February 4, 2020, granting damages of $35 million.\(^7\)

A. Ontario Onshore Wind

In 2011, Mesa Power Group, a US corporation owned by Texas oil tycoon T Boone Pickens, filed a C$775 million claim against Canada relating to the Province of Ontario’s policy of awarding power purchase agreements under the Ontario feed-in tariff programme for the supply of renewable energy.

Mesa claimed that Canada adopted discriminatory measures, imposed minimum domestic content requirements, and failed to provide Mesa with the minimum standard treatment, in violation of NAFTA’s investment provisions. In the end, the tribunal dismissed all of Mesa’s claims and ordered Mesa to bear the cost of the arbitration as well as a portion of Canada’s legal costs of nearly C$3 million.

Mesa argued that the reason it did not receive any FIT contracts was that the programme was mismanaged and Mesa was discriminated against when Ontario granted unwarranted preferences to two other applicants. Windstream really turned on the legitimacy of the moratorium issued by Ontario to defer all offshore wind generation and the conduct of the Ontario government following the announcement of that moratorium.

The OPA had launched the FIT programme in October 2009. During the first round of contacts, the OPA reviewed 337 applications and granted 184 contracts, for a total of 2500MW of capacity. The second round of contracts took place in February 2011. Forty FIT contracts for a total of 872MW were issued. The third round of contracting took place in July 2011, resulting in 14 contracts totaling 749MW.

Mesa Power filed six applications under the FIT programme but was unsuccessful in all three rounds of contracting. The problem was that all the

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116. Mobile Investment Canada Inc. and Murphy Oil Corp. v. Canada, ICSID Case No. ARB (AF)/07/4, (NAFTA May 22, 2012).
117. Mobile Investment Canada Inc. and Murphy Oil Corp. v. Canada, ICSID Case No. ARB (AF)/107/4, (NAFTA Feb. 20, 2015).
120. Decision on Jurisdiction and Admissibility, Mobile Investment Canada Inc. v. Government of Canada, ICSID Case No. ARB/15/6 para. 100 (NAFTA July 13, 2018).
121. Id. at para. 75.
MESA projects were located in Bruce County. In order to obtain a contract, all applicants had to demonstrate was that they had the right to connect to the transmission system. Mesa was unable to obtain transmission connection because of the transmission constraints in Bruce County.

Mesa also argued that the failure to acquire transmission access was because of flaws in the contracting process and preferences granted to two other parties, namely Next ERA Energy (an affiliate of Florida Light and Power) and the Korean Consortium led by Samsung.\(^{123}\)

Mesa argued that this conduct amounted to a breach of Article 1105(1) of NAFTA, which reads: “Each Party shall accord to investments of investors of another Party treatment in accordance with International law, including fair and equitable treatment and full protection and security.”\(^{124}\)

The tribunal rejected the allegation that the OPA had mismanaged the programme and did not treat all applicants fairly, noting that the OPA had retained an independent monitor to administer the FIT programme.

The tribunal also discounted the charge that NextEra had met with government officials, noting that this was common practice in the industry and there was no evidence of any preference. NextEra was given access to transmission facilities in Bruce County at one point, but apparently Mesa was also offered the opportunity.

The most contentious part of the Mesa allegations related to the Korean Consortium agreement. Mesa had argued that the agreement between Ontario and the Korean Consortium unfairly diminished the prospects for other investors including Mesa that were already participating in the renewable energy programme by setting aside transmission capacity for the Korean Consortium that was intended for FIT applicants.

Mesa also argued that Ontario was less than transparent in negotiating the agreement, and issued inaccurate and incomplete information. Canada responded that there was nothing manifestly arbitrary or unfair when a government enters into an investment agreement that grants advantages to an investor in exchange for investment commitments.\(^{125}\)

**B. Ontario Offshore Wind**

In October 2012, Windstream Energy filed a claim against the government of Canada in the amount of C$475 million. Following a 10-day hearing in February 2016, a panel of three arbitrators issued an award of C$26 million, resulting from Ontario’s decision in 2011 to suspend all offshore wind development, the largest NAFTA award in Canadian history.

The panel accepted Windstream’s argument that the government’s decision frustrated Windstream’s ability to obtain the benefits of the 2010 contract it had signed with the Ontario Power Authority (OPA).

In November 2009, Windstream submitted 11 feed-in tariff (FIT) applications for wind power projects, including an application for a 300MW 130 turbine offshore wind project near Wolfe Island in Lake Ontario. The OPA offered Windstream a FIT contract in May 2010, which Windstream signed in August of that year. Under the contract, the OPA would pay Windstream a fixed price for power for 20 years. In total, the contract was worth C$5.2 billion.

During this period, the Ontario government was conducting a policy review to develop the regulatory framework for offshore wind projects, including a proposed 5km shoreline exclusion zone. The policy review ceased on 11 Feb-


\(^{125}\) Global Arbitration Review, *supra* note 105, at 175.
uary 2011, when the government of Ontario decided to suspend all offshore wind development until further research was completed.

The main ground for the Windstream claim was that the Ontario decision was arbitrary and was based on political concerns that the wind contracts would increase electricity rates. Windstream argued that the government really had no intention of pursuing scientific research.

Canada, in response, said that Ontario was entitled to proceed with caution on offshore wind development and that NAFTA does not prohibit reasonable regulatory delays.

Windstream made a number of claims under the NAFTA. The most important (and the only one that succeeded) was a breach of Article 1105(1), the Minimum Standard of Treatment provision, which reads: ‘Each Party shall accord to investments of another Party treatment in accordance with international law, including fair and equitable treatment and full protection and security.’

In finding that there was a breach, the tribunal questioned whether the real rationale for the moratorium was the need for more scientific research. Just as important was the tribunal finding that Ontario made little, if any, efforts to accommodate Windstream, and seemed to deliberately keep Windstream in the dark. 126

There was a further claim by Windstream that Ontario had violated Article 1102 of NAFTA by granting Windstream less favourable treatment than was accorded to other entities in similar circumstances. It was argued that the treatment of Windstream was less favourable than the treatment Ontario granted to TransCanada.

Both TransCanada and Windstream were parties to power purchase agreements with the OPA that guaranteed a fixed price for electricity. Both contracts were terminated. However, when Ontario terminated the TransCanada contract, Ontario awarded TransCanada a new project and compensated TransCanada for the costs of the cancellation. In contrast, Ontario failed to do the same thing for Windstream following the offshore moratorium.

The tribunal rejected Windstream’s argument, noting that Article 1102 deals with national treatment and most favoured nation treatment. However, the tribunal concluded that TransCanada was not in like circumstances. Unlike TransCanada, Windstream had a FIT contract for offshore wind.

There is no question that the TransCanada project was different from the Windstream project. TransCanada had a contract with the OPA to build a gas generation plant in Mississauga, near Toronto. The local residents were not happy with this, and the Liberal government cancelled the project in the heat of the provincial election. To keep TransCanada happy, the OPA negotiated an agreement that reimbursed them for their costs and gave them a new contract in another area.

The circumstances were different and so was the government’s response. In TransCanada there was extensive negotiation, whereas in Windstream there was none. The tribunal concluded that the two projects were totally different and, therefore, did not result in like circumstances. TransCanada does not even provide renewable energy, which is the basis of all FIT contracts.

Accordingly, the tribunal ruled that the moratorium and related measures did not apply to TransCanada in the first place. TransCanada was not affected by the moratorium on offshore wind. Moreover, the tribunal ruled that the moratorium was not applied in a discriminatory manner because it resulted in the cancellation of all offshore wind projects. Windstream had the only contract for offshore wind and the tribunal therefore concluded that it could not agree that
Windstream had been treated less favourably than other developers of offshore wind. 127

C. Quebec Fracking

In September 2013, Lone Pine Resources, a U.S.-based all gas and exploration launched a US$119 million challenge against Canada under NAFTA. 128 The claim relates to the Province of Québec’s suspension of oil and gas exploration under the St. Lawrence River. 129 The moratorium is part of a wider Québec suspension of fracking, a form of horizontal drilling that has already been suspended in different U.S. states and Canadian provinces. 130

Québec declared the moratorium in 2011, in order to conduct environmental impact studies concerning the use of the chemicals involved and the impact on groundwater. 131 This was of particular concern given that the permits that Lone Pine had acquired cover land directly under the St. Lawrence River. 132

Lone Pine alleged that the moratorium contravenes Article 1105 (minimum standard of treatment) and 1110 (expropriation). 133 More specifically, the claimant alleged that the passing of the legislation that created the moratorium was arbitrary, unfair and inequitable, and was based on political and populist grounds rather than actual environmental research. 134 The claimant alleged that the revocation of the license expropriated its investment without compensation. 135

The government of Canada has responded that the action is a legitimate measure in the public interest that applies indiscriminately to all holders of exploration licenses that are located under or near the St. Lawrence River. 136 Canada argues that the legislation was enacted by a fundamental democratic institution in Québec and was preceded by numerous studies that established the need to achieve an important public policy objective, namely the protection of the St Lawrence River. 137

Canada argues that the minimum standard treatment guaranteed in Article 1105 of NAFTA does not protect investors’ legitimate expectations. 138 Even if this were the case, Canada says no representative of the government of Québec

127.  Id. at 172-73.
129.  Id. at para. 10.
130.  Id. at para. 12.
131.  Id.
132.  Id. at para. 10.
134. Id. at para. 11.
135. Id.
137. Id.
138. Id.
communicated to the claimant any guarantee, promise, or specific assurance that could create legitimate expectations relating to the development of hydrocarbon reserves and resources that may be found beneath the St. Lawrence River.  

Canada has also argued that the disputed measure does not substantially deprive Lone Pine of its investment because the legislation only revokes one of five exploration licenses granted. Finally, Canada points out that the act is a legitimate exercise of the government of Québec’s police power and accordingly the measure cannot constitute expropriation.

D. International Pipelines

In most of the NAFTA energy arbitrations the United States is the Claimant and Canada is playing defense. The one exception took place in 2016 when TransCanada, a company based in Calgary, Alberta, filed a $15 billion NAFTA investor claim against the United States after former President Barack Obama rejected their application for a presidential permit to approve the construction of the Keystone XL pipeline.

In January 2015 both the House and the Senate passed legislation that approved Keystone XL, but failed to get the two-thirds majority required to override a presidential veto. When President Obama exercised his veto, TransCanada filed a claim under NAFTA arguing that the denial of the presidential permit for Keystone XL was arbitrary, unjustified, and breached the U.S. Administration’s NAFTA obligations. A presidential permit was required for Keystone XL because the pipeline crossed an international boundary.

This all turned around when Donald J. Trump won the next election and moved into the White House. One of the first acts by the new president was to sign an Executive Order approving the 1179-mile line. TransCanada filed a new application two days later and withdrew the NAFTA claim.

139. Id.
140. Id.
146. Time, supra note 58.
E. Alberta Electricity Generation

In August 2019, Westmorland Mining, a U.S. company, filed the $470 million damage claim against the government of Canada for breaches by the province of Alberta of article 1102 and 1105 of NAFTA.149

In 2013, Westmoreland acquired a number of coalmines, including the “mine-mouth” operations in Alberta at issue in this dispute. Mine-mouth coal operations are coalmines developed adjacent to and in conjunction with a power plant so that the coal can be delivered to the power plant economically.150

The value of Westmoreland’s investment was threatened in November 2015 when a new Alberta provincial government announced its “Climate Leadership Plan.” Alberta, which historically had relied primarily on its abundant coal supply to fuel its power plants, decided that it wanted to eliminate all power emanating from coal by 2030.151

“Alberta agreed to pay out nearly $1.4 billion to three coal-consuming power utilities, all of which were Albertan companies. Two of the three, TransAlta and Capital Power, also owned interests in mine-mouth coal mines,” and the compensation valued those assets.152 Westmoreland, unlike the three Alberta companies, was not compensated for the early closure of its mines.153

When the coal payouts were issued to the companies, Alberta’s Energy Minister stated that they were intended to compensate for the “economic disruption to their capital investments” caused by the sudden policy shift and to “provide investor confidence and encourage them to participate in Alberta’s transition from coal.”154

Westmorland argued that Alberta’s plan to “compensate Albertan coalmine operators for the loss of their investments, to the exclusion of the only American coalmine operator, denied Westmoreland national treatment under Article 1102 and treated the company unfairly and inequitably, in violation of NAFTA Article 1105.”155 An arbitration panel has yet to be appointed.

F. British Columbia Electricity Pricing

In 2012 Mercer International, a U.S. company, filed a $250 million NAFTA claim against Canada.156 The claim related to the company’s investment in a
pulp mill located in Castlegar, British Columbia.\footnote{Id. at para. 1.} The mill also operated an energy generation facility fueled by biomass, which qualified as renewable energy in British Columbia regulation.\footnote{Id. at para. 2.}

The claim related to the actions of BC Hydro, a government owned utility, that provided electricity to most of British Columbia and the BC Utilities Commission (BCUC), which regulated the distribution of electricity in that province.\footnote{Id. at para. 3.} There are two utilities that provide electricity in British Columbia.\footnote{Id. at para. 6.}

The first is BC Hydro, which serves most of British Columbia.\footnote{Id. at para. 2.} The second is Fortis, which provides electricity to a small portion of the province including the Mercer pulp mill in Castlegar.\footnote{Notice Of Intent To Submit A Claim To Arbitration Under Chapter Eleven And Articles 1503(2) And 1502(3)(A) Of The North American Free Trade Agreement, Mercer International Inc. v. Government of Canada, ICSID Case No. ARB (AF) 12/3 para. 6 (NAFTA Jan. 26, 2012).}

The central issue in this case was that Mercer was engaged in the arbitrage of power and BC Hydro and the BCUC took steps to prevent it.\footnote{Id. at para. 2.} Mercer required a significant amount electricity for its own use at its mill.\footnote{Id. at para. 2.32.} For some time, Mercer was allowed to purchase that electricity from Fortis at low cost-based rates.\footnote{Id. at para. 2.4.} At the same time, Mercer was able to sell the renewable electricity generated at its facility using biomass at market rates.\footnote{Id. at para. 2.2.}

Mercer alleged that BC Hydro and BCUC through their joint action had created a new regulatory regime that required Mercer to use its own self-generated electricity first before selling electricity to the grid at market prices.\footnote{Id. at para. 9.7.} This removed the arbitrage profit.\footnote{Id. at para. 2.58.}

Mercer argued that the other pulp mills in British Columbia were doing the same thing and it was being discriminated against, contrary to NAFTA Articles 1102, 1103, and 1503.\footnote{Id. at para. 2.6-2.7 (Mar. 6, 2018).} The tribunal ruled against Mercer and ordered Mercer to pay Canada's costs of $9 million.\footnote{Id. at para. 2.2.}

There were a number of complexities in this case. First, Canada argued that the BC Hydro conduct was shielded by the government procurement protections in Article 1108(7) of NAFTA.\footnote{See generally id.}
The panel also questioned whether the Commission ruling was discriminatory contrary to Article 1102, 1103, and 1503 of NAFTA.\(^{172}\) It turned out that Mercer was the only pulp mill buying electricity from Fortis BC, the others were being served by BC Hydro, and therefore they were not on the same footing or subject to the same regulatory ruling.\(^{173}\)

There was also question of whether Mercer was late filing its claim and violated the three-year time limit under article 1116 and 1117 of NAFTA.\(^{174}\) The limitation period involved a review of the earlier NAFTA decision in Grand River.\(^{175}\) The question about was what was the date that the investor first acquired or should have acquired knowledge of the alleged breach and the resulting damage.\(^{176}\) The panel ultimately found that some of the claims were time barred.\(^{177}\)

It should be noted that Mercer first raised this complaint before the BC Utility Commission which ruled against it.\(^{178}\) The Commission decision effectively ruled that self-generating customers had to first supply their requirements from their own production before they could purchase embedded low-cost power from Fortis.\(^{179}\)

Mercer was the only pulp mill buying electricity from Fortis.\(^{180}\) The other pulp mills were purchasing from BC Hydro under a different regulatory regime.\(^{181}\) The panel ruled that the facts did not support a finding of discriminatory treatment, dismissing the application and awarding costs against Mercer.\(^{182}\)

G. Going Forward

The original NAFTA agreement was negotiated over five years.\(^{183}\) An agreement in principle was signed by President Reagan and Prime Minister Mulroney at the Shamrock Summit in Québec City in 1985.\(^{184}\) It was called the Shamrock Summit because the two Irishmen treated their dinner guests to a fine


\(^{173}\) Id. at para. 7.45-7.46.

\(^{174}\) Id. at para. 2.56.

\(^{175}\) See Decision on Objections to Jurisdictions, Grand River Enterprises Six Nations Ltd. v. United States of America, UNCITRAL (July 20, 2006).

\(^{176}\) Id. at para. 3.

\(^{177}\) In The Arbitration Under Chapter Eleven Of The North America Free Trade Agreement, Mercer International Inc. v. Government of Canada, ICSID Case No. ARB (AF) 12/3 para. 8.3 (Mar. 6, 2018).

\(^{178}\) In the Matter the Utilities Commission Act, R.S.B.C. 1996, Chapter 473 and An Application by British Columbia Hydro and Power Authority to Amend Section 2.1 of Rate Schedule 3808 (“RS 3808”) Power Purchase Agreement, Order No. G-48-09 (British Columbia Util. Comm’n May 6, 2009).

\(^{179}\) Id.

\(^{180}\) In The Arbitration Under Chapter Eleven Of The North America Free Trade Agreement, Mercer International Inc. v. Government of Canada, ICSID Case No. ARB (AF) 12/3 para. 2.31 (Mar. 6, 2018).

\(^{181}\) Id.

\(^{182}\) Id. at para. 8.5.


\(^{184}\) Id.
rendition of the song, “When Irish Eyes are Smiling.”185 Twenty-four years later when Prime Minister Trudeau and President Trump signed the new NAFTA agreement in Buenos Aires, no one was singing.186

The original NAFTA agreement really began with the Canada US Free Trade Agreement that came into force on January 1, 1989.187 However, shortly after, President Bush—anxious to increase American investment in Mexico but worried about Mexican nationalization—started negotiations with Mexico.188 That was really the origin of the famous Chapter 11 provision granting unusual rights to private investors.189 The Canadians then joined in and NAFTA resulted.190

Negotiations of the new NAFTA agreement were not easy. Like the first version it took almost four years.191 The U.S. administration wanted more U.S. steel in automobiles and access to Canadian poultry and dairy markets which had long been protected by Marketing Boards.192

Both Canada and the United States wanted out of the Chapter 11 process.193 The Canadians believed that they had lost too many NAFTA arbitrations.194 The

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185. Id.
U.S. administration was not crazy about Chapter 11 either.\textsuperscript{195} They were not particularly interested in promoting foreign investment.\textsuperscript{196} They were more interested in building a wall along the Mexican border, increasing tariffs on Chinese imports, and withdrawing from the Paris Climate Accord.\textsuperscript{197}

It is worth seeing where we ended up. Chapter 11 is history, but no one is crying about that. In fact, a remedy created by the Supreme Court of Canada in 2018 may provide investors with even greater protection than Chapter 11 of NAFTA provided. In \textit{Lorraine v. Quebec} the Supreme Court created a common law remedy for de facto expropriation.\textsuperscript{198} Unlike the Chapter 11 remedy, this can be used by both foreign and domestic investors.\textsuperscript{199} In fact, the first application is an energy case involving LGX Oil and Gas.\textsuperscript{200} There LGX brought a $60 million claim against Canada on the basis that an order two years earlier by Environment Canada under the Species at Risk Act had devalued their oil and gas wells in southern Alberta.\textsuperscript{201} That order prohibited construction and noise activities in April and May of each year, which was the mating season for the greater sage grouse.\textsuperscript{202}

It is important, however, that the state to state dispute settlement process in Chapter 20 has been maintained.\textsuperscript{203} In fact, the parties made an improvement to this provision.\textsuperscript{204}

The dispute provisions in the original Chapter 20 had a major flaw. That chapter allowed either party to block the formation of a panel in a state to state dispute settlement case by either not engaging in the meeting of the Free Trade Commission of Ministers which was required to be approved the panel, or by refusing to agree to the proposed roster of panelists from which the panelists were required to be selected.\textsuperscript{205}

The updated dispute settlement provision solves this problem. In the new provision, panels are automatically established upon request, bypassing the Commission of Ministers.\textsuperscript{206} Going forward, if the government parties cannot reach consensus agreement on the roster of panelists within one month, the roster

\begin{thebibliography}{99}
\bibitem{195} Beazley, \textit{supra} note 193.
\bibitem{196} Id.
\bibitem{198} Lorraine (Ville) v. 2646-8926 Quebec Inc., 2018 SCC 35 (Can.).
\bibitem{200} Id.
\bibitem{201} Id.
\bibitem{202} Id.
\bibitem{203} \textit{UNITED STATES-MEXICO-CANADA AGREEMENT, INTELLECTUAL PROPERTY RIGHTS-USMCA} Chapter 20, https://usmca.com/intellectual-property-rights-usmca-chapter-20/.
\bibitem{204} Id.
\bibitem{205} Lester S. Manik, \textit{Access to Trade Justice: Fixing NAFTA’s Flawed State to State Dispute Settlement Process}, 18 \textit{WORLD TRADE REVIEW} 63-79 (2019).
\bibitem{206} \textit{UNITED STATES-MEXICO-CANADA AGREEMENT, INTELLECTUAL PROPERTY RIGHTS-USMCA} Chapter 20, \textit{supra} note 203.
\end{thebibliography}
will be formed automatically from the individuals proposed by each government.\textsuperscript{207}

The difficulty under the former Chapter 20 explains why no dispute settlement panel has been formed under NAFTA Chapter 20 since 2000 when the United States blocked the establishment of a panel in the U.S.-Mexico dispute.\textsuperscript{208}

Another important point is that the new NAFTA as a sunset clause promoted by the United States.\textsuperscript{209} However, it was increased from the five years originally propose by the United States to sixteen years.\textsuperscript{210} There is however an automatic review of the agreement every six years.\textsuperscript{211} During those reviews the agreement can be extended for another sixteen years.\textsuperscript{212}

The new NAFTA was first signed by leaders of the three NAFTA countries on November 30, 2018, at a G7 meeting.\textsuperscript{213} At that time, it was unclear how long the ratification process would take. Subsequent discussions led to the three countries agreeing to amendments on December 10, 2019, which took the form of a 27-page Protocol of Amendments to the original USMCA signed a year earlier.\textsuperscript{214}

The Mexican Senate ratified the deal on December 12, 2019,\textsuperscript{215} and the U.S. President signed the agreement into law on January 29, 2020.\textsuperscript{216} On March 13, 2020, the agreement was passed by both the Canadian House of Commons and the Canadian Senate and was given Royal assent.\textsuperscript{217} It will enter into force in Canada on a date to be determined by Order in Council. It is not clear when that order will be issued,\textsuperscript{218} but the most likely date for the agreement to come into force is July 1, 2020.

\begin{thebibliography}{99}
\bibitem{207} Id.
\bibitem{208} Manik, \textit{supra} note 205.
\bibitem{210} Id.
\bibitem{211} Id.
\bibitem{212} Id.
\bibitem{216} H.R.5430, 116th Congress (2019-2020).
\bibitem{217} An Act to implement the Agreement between Canada, the United States of America and the United Mexican States, S.C. 2020, c 4 (Can.).
\end{thebibliography}
VI. REGULATORY REFORM

A. The Alberta Capacity Market

On November 23, 2016, the Government of Alberta announced that Alberta would implement a capacity market.219 The Alberta Electric System Operator (AESO) filed an application for the approval of rules to implement the capacity market on January 31, 2019.220 An oral hearing was held by the Alberta Utilities Commission (AUC) from April 22, 2019 to June 11, 2019.221

The opponents argued that the capacity market and the rules the AESO proposed to operate that market were not in the public interest and that the application should be rejected in its entirety.222 There were three main grounds to the arguments:

- The proposal was based on provisional rules, which do not create the certainty necessary to encourage investment.
- There is no need for a capacity market and the uncertainty a new and complicated regulatory process would have been sure to bring. The analysis that the AESO presented in support of the initial capacity market recommendation was flawed.
- Improvements to the energy market, in particular the implementation of shortage pricing that was recommended by three experts in the AUC’s proceeding, should be implemented instead.223

On July 24, 2019, the Government of Alberta announced that Alberta would not be proceeding with a capacity market, and that the industry would remain with an energy-only design before the AUC could reach a decision.224 On the government’s instructions the AESO withdrew the application before the AUC.225

222.  ALBERTA UTIL. COMM’N, PROCEEDING 2357, APPLICATION 2357-A001, APPLICATION BY THE ALBERTA ELECTRIC SYSTEM OPERATOR FOR THE APPROVAL OF THE FIRST SET OF ISO RULES TO ESTABLISH AND OPERATE THE CAPACITY MARKET, FINAL ARGUMENT OF THE MARKET SURVEILLANCE ADMINISTRATOR (June 21, 2019), https://static1.squarespace.com/static/5d8e3016c6a183b1bce861d0/5d8e70c8804a337291aaf137/1569616075441/Final+Argument+of+the+MSA.pdf.
223.  Id.
In late July 2019, the AESO received direction from the Alberta Ministry of Energy:

... to provide advice regarding market power and market power mitigation by November 29, 2019. Additionally, the AESO was directed to provide any analysis and recommendations on whether any changes to the energy only market are needed, including changes to the price floor/ceiling and shortage pricing, by July 31, 2020. The AESO recognizes that there is a strong linkage between market power mitigation, the price floor/ceiling and shortage pricing, and will consider this connection as it undertakes its work.226

On October 8, 2019, the AESO issued a request for input from the Market Surveillance Administrator, market participants, and other interested parties on market power mitigation due by October 29, 2019.227 The AESO provided a report to the minister by November 29, 2019, which has not been made public.228

On February 12, 2020, the AESO held a stakeholder consultation.229 The first round of comments were due by February 26, 2020.230 The AESO’s objectives are to:

- evaluate the ability of the current pricing framework in the energy market to maintain resource adequacy and economic efficiency in both the short and long term, and
- explore options to address deficiencies or increase efficiency in the current energy-only market pricing framework. Administrative price mechanisms, such as the current price cap, offer cap and price floor, must be set at levels to allow for efficient market outcomes while also protecting consumers from cost risk.231

B. A New Federal Regulator

Early in 2018, the federal government introduced Bill C-69, new legislation that would replace the NEB with the Canadian Energy Regulator (CER).232 The CER is much more complex than NEB. Its scope is much greater.233 Its jurisdiction goes beyond federally regulated pipelines and includes potential offshore renewable energy projects.234

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227. Id.
231. Id.
232. An Act to enact the Impact Assessment Act and the Canadian Energy Regulator Act, to amend the Navigation Protection Act and to make consequential amendments to other Acts, S.C. 2019, C-69 (Can.).
234. Id.
Also, there are now four institutional components to the regulatory framework. First is the Board of Directors of the CER that is responsible for providing strategic direction and advice. Second is the Commission of the CER, the members of which will conduct hearings. Third, and most critically, is the Chief Executive Officer (CEO), who is responsible for the management of the CER’s day-to-day business and affairs. The CEO reports to the Minister, not the Board of Directors. Fourth, there is the federal cabinet, which will make decisions based on the recommendations of the Commission of the CER.

To complicate matters, the factors that this new institution must consider are much wider than the NEB ever faced, or for that matter, any Canadian energy regulator currently faces. The new legislation requires that the review process consider environmental, gender, and Indigenous considerations or what is described as the intersection of sex and gender with other identity factors including Canada’s ability to meet its environmental obligations and its commitments with respect to climate change. All that, will keep the industry guessing for years.

One senior Alberta regulator has been critical of the governance structure created by Bill C-69 stating that, “the recent movement to a three-legged governance model for adjudicative agencies seems largely based on theoretical corporate governance, with little consideration for the existing governance, accountability mechanisms and complexities of operating a quasi-judicial agency in the parliamentary system.”

The first decision by the CER was handed down on September 27, 2019. The decision concerns the Enbridge mainline system, the largest crude oil pipeline in Canada with the capacity of almost 3 million barrels per day. It connects Edmonton, Alberta with major markets in eastern Canada and the midwestern United States. This line is currently operated as a common carrier rather than on a contract carriage basis. Under the common carrier model, capacity is allocated on the basis of monthly nominations rather than long term contracts. Common carriage has, in effect, been required on federal oil pipe-

235. Canadian Energy Regulator Act, S.C. 2019, c. 28 (Can.).
236. Id.
237. Id.
238. Id.
239. Id.
244. Id.
245. Id.
lines since the NEB was established in 1959, subject to the ability of the NEB, and now the Commission, to grant exceptions.248

At issue is the decision by Enbridge to change its operations from a common carrier model to a contract carriage model whereby 90% of the capacity will be under long term contracts, with the remaining 10% allocated on the traditional basis.249 The Alberta shippers are split in their affiliation with some supporting the new regime and others opposed.250

The main concern argued by opponents is that the changes proposed by Enbridge would allow it to abuse its market power.251 The allegation is that, under the new regime, there will be a lack of transportation options for many shippers.252 The CER observed in its initial decision that the Enbridge system controlled 70% of capacity out of Alberta and that it was concerned about the perception of abuse of Enbridge’s market power.253

On December 19, 2019, Enbridge filed a comprehensive “Canadian Mainline Contracting Application” with the CER for approval of a new service and tolling framework, to take effect on the expiration of the current service and tolling framework on June 30, 2021.254 The proposed new framework would convert 90% of capacity to contract carriage, with 10% reserved for uncommitted volumes.255 The Commission of the CER has announced that it will conduct an oral hearing on the application commencing on a date to be announced.256

C. The Ontario Energy Board

The province of Ontario elected a Conservative government in June 2018, replacing the Liberal government that had governed the province for fifteen years.257 One of the major election issues was the Conservative Party’s criticism of the Liberal government with respect to managing energy policy in the province.258 This was largely based on the claim that Ontario’s electricity prices had

251. Weiler, supra note 249.
252. Id.
253. Letter from L. George, Secretary of the Comm’n, Canada Energy Regulator, to Suncor, Shell, EPAC, and CNRL, supra note 243.
255. Id.
256. Id.
258. Id.
increased by 71% between 2008 and 2016, while during this period the average increase across Canada was less than half of that amount, or 34%. The new government concentrated on abolishing the green energy projects developed by the liberals, including a number of renewable energy projects. In March of 2019, the new government turned its attention to reforming energy regulation in general and the Ontario Energy Board (OEB) in particular.

On March 21, 2019, the Ontario government introduced the OEB Act. Some of the changes were to be implemented through proposed legislative amendments set out in Bill 87. Other changes were implemented through regulatory and policy updates. Bill 87 was passed by the Ontario government on May 9, 2019. Among other things, it amended the OEB's governance structure and operations. These changes were based on the OEB Modernization Report by OEB's Modernization Review Panel.

Like the federal reforms, the OEB will now be governed by a Board of Directors with a chief commissioner reporting directly to the chair of the Board. The report recommends necessary changes to ensure that the Board operates more effectively, in particular that it prioritizes its regulatory agenda and be evaluated against key performance indicators that relate to matters such as decision time cycle, stakeholder satisfaction, and organizational excellence.

The panels' concern is that the Board of Directors will be charged with “ensuring the independence . . . of the adjudication process.” However, the President and the Board of Directors can be expected to have a close relationship with the government, and it is the government that is the source of challenges to independence. Specifically, the panel heard from stakeholders that they "felt that the OEB needs to be appropriately independent from government. Several stakeholders noted that prescriptive directives to the OEB may compromise its independence".

263. Bill 87, An Act to amend various statutes related to energy, S.O. 2019, c 6 (Can. Ont.).
266. Id. at 12.
267. Id. at 13.
268. Id. at 15.
269. Id. at 46-47.
The report does not address perhaps the largest problem in the sector, which is the lack of regulatory oversight of procurement of capacity.\textsuperscript{270} This problem and its financial consequences have been noted by the Auditor General.\textsuperscript{271} The report does not address how the OEB’s mandate should be changed to provide oversight.\textsuperscript{272} Ontario is one of the very few jurisdictions without oversight over procurement and the cost consequences have been concerning.\textsuperscript{273}

To date, the new government has appointed a board chair but is still searching for a chief commissioner.\textsuperscript{274} As in the case of the CER, there has been considerable criticism of the new structure, but only time will tell if it works.\textsuperscript{275} The main criticism is that the energy regulator is no longer independent of the government.\textsuperscript{276} Of course, others will argue it never was independent in any event.

VII. DISTRIBUTED ENERGY RESOURCES

In 2019 regulatory commissions across Canada were struggling to define the regulatory treatment for Distributed Energy Resources (DERs).\textsuperscript{277} In Alberta, the subject is being reviewed by both the AUC and the AESO in parallel.\textsuperscript{278}

Virtually all studies focus on at least three major issues, customer owned generation, energy storage, and Electric Vehicle (EV) charging. Each are considered below.

On March 29, 2019, the AUC established a Distribution System Inquiry asking market participants to make submissions relating to:

- emerging trends in technology and innovation potentially affecting distribution systems, including distribution system design, operation, capital requirements and the cost of providing service. This module will also consider how innovation and tech-
nological change create the opportunity for new market entry within a monopoly franchise, including self-supply.\textsuperscript{279}

This proceeding is ongoing. Future phases will consider the following questions:

- Is there under-investment in certain key technologies in the Alberta electricity distribution sector?
- Would additional investment make the Alberta electricity distribution sector more cost effective?
- Is the electricity local distribution company an important instrument of change?
- Are there regulatory barriers to innovation and new technologies?
- How should the regulatory framework be transformed in order to increase investment and efficiency in the Alberta electricity distribution sector?\textsuperscript{280}

DERs are also under consideration by the OEB:\textsuperscript{281}

On March 15, 2019, the OEB announced that it was starting a consultation process to look at how the electricity sector in Ontario should respond to DERs and encourage utilities and regulated service providers to “embrace innovation” in their operations and customer service.\textsuperscript{282} The stated aims of the consultation were to drive lower costs, improve service, and offer more consumer choice “by encouraging utilities and other service providers to embrace innovation,” and to “secure the benefits of sector transformation and mitigate any adverse consequences.”\textsuperscript{283}

On July 17, 2019, the OEB issued a letter explaining its “refreshed” approach to stakeholder engagement for its previously-announced consultation processes on Utility Remuneration and Responding to DERs.\textsuperscript{284} Among other things, the OEB’s updated approach was intended to “enhance the opportunity


\textsuperscript{280} ALBERTA UTIL. COMM’N, DISTRIBUTION SYSTEM INQUIRY, PROCEEDING 24116, SUBMISSION OF THE MARKET SURVEILLANCE ADMINISTRATOR, MODULE ONE 6 (July 17, 2019), https://www2.auc.ab.ca/Proceeding24116/ProceedingDocuments/24116_X0160_MSADSIModuleOneSubmission_0172.pdf.


\textsuperscript{282} Id. at 2.

\textsuperscript{283} Id.

for stakeholder perspectives to inform subsequent steps in relation to these initiatives following the OEB’s transition to its new structure.\textsuperscript{285}

On August 13, 2019, the OEB issued a letter launching a review of the requirements for licensed electricity distributors to connect distributed energy resources (DER Connections Review).\textsuperscript{286} The DER Connections Review is a companion initiative to the OEB’s ongoing Responding to DERs consultation.\textsuperscript{287}

The OEB has heard from stakeholders about what should be addressed in the Responding to DERs consultation.\textsuperscript{288} OEB staff will provide a report describing stakeholder perspectives and setting out a proposal outlining objectives, issues, and guiding principles for the Responding to DERs consultation to proceed.\textsuperscript{289} However, before that report is issued, OEB staff has convened an additional session—in February 2020—where they outline and seek input on OEB staff’s current thinking of the scope of the consultation.\textsuperscript{290}

A. Customer Owned Generation

The last ten years have seen a dramatic increase in local generation compared to central generation. New technology has made it possible to locate generation closer to the customers it serves, reducing transmission costs including line losses. The technology at issue is mostly gas generation known as combined heat and power (CHP) and solar generation.\textsuperscript{291} The attraction of both technologies is driven by a rapid reduction in cost these technologies have experienced over the past decade. For example, in 2019 the AUC granted approval for a $500 million solar project, the largest of its kind in Canada.\textsuperscript{292} That facility, once completed in 2021, will generate 400 MW, enough to supply power to over 100,000 homes.\textsuperscript{293}

The important regulatory issues faced in customer owned generation are:

- “Should community generation be limited to behind-the-fence operations?”

\textsuperscript{285} Id. at 1.


\textsuperscript{287} Id.

\textsuperscript{288} Id. at 3.

\textsuperscript{289} Id.


\textsuperscript{293} Id.
Under Alberta’s Micro-generation Regulation, eligible alternative and renewable generators are allowed to receive credit for any power they send to the grid. The regulation defines eligible microgeneration facilities to be less than 5 MW in size.

The latest data from the AESO (March 2020) show that there is approximately 74 MW of micro-generation capacity installed in Alberta, about 93% of which is solar. This is up from less than 6 MW five years earlier, an increase of approximately nine times.

In Ontario, there has been substantial investment in distributed energy resources over the past fifteen years. Much of this investment has been made by investors under contract with a government entity, first the Ontario Power Authority and now the Independent Electricity System Operator (IESO). There are 33,671 contracts that have a total capacity of 3,588.8 MW that account for 13.4% of total capacity as of March 31, 2019. The prices in these contracts were set in a variety of ways, including competitive bidding, standard offers (for example, under Feed-in-Tariff programs), and negotiations. This data does not include more than 30,000 “microFIT” contracts (maximum of 10 kW capacity) that have a total capacity of about 260 MW, virtually all of which is solar.

In both Alberta and Ontario, the generic proceedings have, to some degree, been overtaken by more specific proceedings arising in rate cases and related matters. The leading example is Alberta, where in September 2019, the AUC...
launched a consultation on generation self-supply and power export.\textsuperscript{303} The consultation was prompted by three recent decisions in which the AUC for the first time restricted the circumstances in which the owner of a generating unit is allowed to both consume electricity produced by that unit on its own property and export that electricity to the power pool.\textsuperscript{304} The existing exemptions that permit the self-supply and export of electricity to the power pool are related to (i) owners of industrial systems and (ii) micro-generators.\textsuperscript{305} Currently, these type of generators account for approximately 5,000 MW\textsuperscript{306} of generation capacity out of a total of 15,570 MW of capacity in Alberta.\textsuperscript{307} This is a significantly greater proportion than exists elsewhere in Canada.\textsuperscript{308}

The Bulletin asked respondents to address three options:

- Option 1: Status Quo;
- Option 2: Limited self-supply and export; and
- Option 3: Unlimited self-supply and export.\textsuperscript{309}

The consultation attracted considerable interest; 33 stakeholders submitted comments in response.\textsuperscript{310} Most of them favored Option 3.\textsuperscript{311} In January 2020, the AUC issued a second Bulletin that requested parties to comment on submissions provided by two of the respondents, Capital Power and AltaLink.\textsuperscript{312}

The parties were asked in the Commission’s January 9, 2020, Bulletin to respond to the concerns raised by Capital Power as follows:

Allowing an exemption for some energy reduces the amount of supply competing to be dispatched. Further, an expanded amount of self-supply and export reduces market visibility of both available supply and load to be served inhibiting price discover-

\begin{enumerate}
\item \textsuperscript{306} E-mail from AltaLink Mgmt. Ltd., to Trevor Richards, Alberta Util. Comm’n 4 (Oct. 11, 2019), http://www.auc.ab.ca/regulatory_documents/Consultations/2019-10-11-SelfSupplyandExport-AltaLinkManagementLtd.pdf.
\item \textsuperscript{308} In Ontario, by way of example, this generation accounts for 10% of total supply compared to 30% in Alberta. Specifically, in Ontario at the end of 2019 there was approximately 3,400 MW of local, distribution-connected generation capacity and another 37,500 MW of transmission-connected generation capacity. See Indep. Elec. System Operator, Ontario’s Supply Mix, http://www.ieso.ca/en/Learn/Ontario-Supply-Mix/Ontario-Energy-Capacity.
\item \textsuperscript{309} Alberta Util. Comm’n, supra note 303.
\item \textsuperscript{310} Alberta Util. Comm’n, Power Plant Self-Supply and Export Consultation, https://engage.auc.ab.ca/Self-SupplyAndExport.
\item \textsuperscript{311} Id.
\end{enumerate}
Exempting supply or some energy from pool participation reduces the effectiveness of and benefits from having a competitive market.\footnote{313}{E-mail from Colin Robb, Senior Advisor, Regulatory & Environmental Policy, Capital Power, to Trevor Richards, Alberta Util. Comm’n, (Oct. 11, 2019), http://www.auc.ab.ca/regulatory_documents/Consultations/2019-10-11-SelfSupplyandExport-CapitalPower.pdf.}

The Market Surveillance Administrator (MSA)\footnote{314}{MARKET SURVEILLANCE ADMIN., ABOUT US, https://www.albertamsa.ca/about-us.}, which has been described by the Alberta Court of Appeal as the independent “watchdog” of Alberta’s electricity market, was one of the interveners, argued that:

In effect, there are two related markets: the self-supply market and the non-self-supply market. The latter is the Power Pool. Both have existed for some time. If the Commission adopts option 3, “unlimited self-supply and export,” it is likely that the self-supply market will expand. That will not necessarily reduce the size of the non-self-supply market or the degree of competition between those suppliers. It will, however, expand the options available to consumers in Alberta and that will increase competition in that segment of the market. Further, customer-owned generation that does not have a legislated exemption from participating in the power pool (e.g., industrial systems and micro-generation) could easily be required to explicitly participate in the power pool by making offers and receiving dispatch. The MSA remains of the view that option 3 will increase competition not decrease it.

The MSA does not believe it is necessary that the generator be behind-the-fence. Nor should community generation be disadvantaged. The fact that the generator is owned by several customers as opposed to one customer should not matter if the cost allocation for rates is done correctly. There are cost allocation issues with respect to a single customer behind-the-fence generator. Those same issues exist where a community generator serves a number of customers.

Another question that should be addressed is whether the local generation facility must be owned by a consumer or whether it can be owned by a third-party. The MSA believes that the local generation market should be open to third-parties. This will increase competition which will support fair, efficient, and open competition.

Local generation can bring a number of economies and benefits to the Alberta electricity system. They are, by definition, closer to the customer and transmission and distribution costs are reduced.

Local generation is the product of new, more efficient technology that did not exist when much of the current regulatory framework was put in place. This new technology offers significant cost reductions. The Commission should remove, not create, artificial barriers to entry.

Local generation, including community generation, constitutes a form of market entry. New market entry has been central to the competitiveness of Alberta’s electricity market. Entry not only constrains the exercise of market power in generation, but can also promote productivity improvements in the distribution industry. New entry is particularly important in Alberta at the present time. The Power Purchase Arrangements will come to an end in one year, and it is generally agreed that their expiration will lead to increased concentration and market power in Alberta. New entry through customer owned generation will reduce market concentration.\footnote{315}{Letter from Market Surveillance Admin., to Trevor Richards, Alberta Util. Comm’n 3 (Feb. 14, 2020), https://static1.squarespace.com/static/5d88e3016c6a183b1bccc8605f0e5e922e69266155e0e537dd/1583256113481/2020-02-14+MSA+Self-Supply+Submission.pdf.}

The discussions concerning customer-owned generation can also lead to a similar analysis on customer owned storage. In part, this is driven by the FERC decision in 2018 in Order 841, which directed the removal of barriers to storage...
participation in electricity markets. In the end, the real issue with respect to customer-owned generation is not whether it should be allowed, but whether it should be restricted to behind the meter applications, generation owned by customers as opposed to third parties, and what rates these generators should pay to transmitters and distributors who provide grid access when they wish to sell excess power to the grid.

All of those issues are currently in front of the AUC, which will provide a recommendation to the government by the end of March 2020.

B. Energy Storage

Regulatory agencies across Canada have all been trying to promote storage over the last few years. There are good reasons for this: First, energy infrastructure is built to handle peak loads. If the peaks can be reduced the related capital investments can be reduced with cost savings.

Secondly, the generation of electricity worldwide is moving from carbon-based energy to green energy. A significant difference between the two is green energy like wind and solar is highly variable. Not surprisingly, planners have discovered the advantage of marrying solar plus storage in particular as outlined in a recent Brattle study in December 2019.

Another rationale for the increase emphasis on storage that is stimulating demand is the growth of Behind-the-Meter (BTM) storage as customers attempt to curtail their costs. BTM energy storage today represents only 70 MW or 15% of the U.S. energy storage market. By 2022 it will represent 1300 MW.


324. Id.
or 30% of the market. There are significant similarities between local generation and local storage. Both may be customer-owned and can offer excess capacity to other customers. This service will increase efficiency in the Alberta energy sector and bring significant cost savings.

The next important factor driving this demand is recognition by utilities that storage can be an important grid asset to reduce costs. This was likely fueled at least in the United States by FERC’s determination in Order No. 841 that helps remove regulatory barriers for storage in FERC-regulated markets.

BTM storage is an issue in the recent consultation initiated by the AUC. It was also addressed in the recent Toronto hydro rate case, where Toronto Hydro attempted to include storage in its rate base. That request was turned down by the OEB, which concluded that the matter be deferred to the boards DERs consultation.

Finally, it is important to recognize the significant decrease in cost that has taken place in the storage markets over the last few years. Between 2010 and 2018 the average price of a lithium ion battery pack dropped from $1,160 per kilowatt-hour to $176 per kilowatt-hour – an 85% reduction in just eight years. Within the next few years, Bloomberg New Energy Finance (BNEF) predicts a further drop to $94 per kilowatt-hour in 2024 and $61 per kilowatt-hour in 2030.

It has been suggested by BNEF that the global energy storage market will grow to 2,857 GWh by 2040 and attract over $620 billion in investment over the next twenty years. In Ontario, the IESO has used a number of competitive processes to develop over twenty-five storage projects resulting in over 50 MW of capacity. In December 2018, the IESO published a report titled Removing Obstacles for Storage Resources in Ontario. This was followed by an OEB initiative in March 2019 to similar effect and a study by Energy Storage Canada in May 2019 entitled Maximizing Value and Efficiency through Energy Stor-

327. ALBERTA UTIL. COMM’N, supra note 317.
332. BLOOMBERGNEF, Energy Storage is a $620 Billion Investment Opportunity to 2040 (Nov. 6, 2018), https://about.bnef.com/blog/energy-storage-620-billion-investment-opportunity-2040/.
age.\textsuperscript{335} This was in some respects similar to the AESO study a year earlier called \textit{Dispatchable Renewables and Energy storage}.\textsuperscript{336}

C. Electric Vehicle Charging

The total number of [Electric Vehicles] (EVs) on the road, globally, reached 3.1 million in 2017, up 57 per cent from the previous year. China and the United States had the highest sales volume in 2017, and Norway is the world leader in terms of sales share with EVs accounting for more than 39 per cent of new sales in 2017. Nine countries, including France, the United Kingdom and Norway, have plans to phase out all gasoline powered-vehicles between 2025 and 2050.\textsuperscript{337}

Although just 2.2\% of the world’s vehicles are electric, a record 2.2 million EVs were sold last year.\textsuperscript{338} BNEF predicts that EVs will reach 19\% of light vehicle sales in China by 2025 compared to 14\% in Europe and 11\% in the United States.\textsuperscript{339} Currently, those numbers are 4\% in China, 2\% in Europe, and 2\% in the United States.\textsuperscript{340} BNEF predicts that EVs will reach 55\% of global vehicle sales by 2040.\textsuperscript{341} It is estimated that by 2020, the price of EVs in Europe will be less than the price of internal combustion engine vehicles.\textsuperscript{342} That goal will be reached in China by 2023 and in the United States by 2025.\textsuperscript{343}

Edison Electric Institute (EEI) estimates that by 2030 the number of EVs in the United States will reach 18.7 million compared to 1 million at the end of 2018.\textsuperscript{344} It took eight years to sell 1 million EVs in the United States and EEI predicts that the next 1 million will be sold in three years.\textsuperscript{345} It is predicted that the annual sales of EVs in the United States will exceed 3.5 million in 2030, accounting for more than 20\% of annual vehicle sales.\textsuperscript{346} It should also be noted

\begin{thebibliography}{10}
\bibitem{340} Id.
\bibitem{341} Id.
\bibitem{342} Adam Cooper & Kellen Schefter, Electric Vehicle Sales Forecast and the Charging Infrastructure Required Through 2030, \textit{Edison Elec. Inst.} (Nov. 2018).
\bibitem{344} Cooper & Schefter, supra note 342, at 1.
\bibitem{345} Id.
\bibitem{346} Id.
\end{thebibliography}
that it is estimated that 9.6 million charging ports will be required to support the 18.7 million EVs in the United States in 2030.  

“Canada has seen significant expansion in the EV market, with Ontario, Quebec, and British Columbia accounting for 97% of all plug-in vehicles sold in Canada between 2013 and 2018. Between 2017 and Q3 2018, sales increased by about 80%” with the result that the national EV market share is now 2.5% compared to less than 1% in 2017. Sales in Ontario by the end of 2018 were more than 6,000, a 209% increase over the same period in 2017. Ontario accounts for 44% of all new EV sales in Canada.

The recent phase 2 report by the British Columbia Utilities Commission in its Electric Vehicle Service Inquiry (June 2019) sets out an excellent review of the current Canadian situation, stating:

Due to initiatives by the federal, provincial, and municipal governments, as well as utilities and private firms, public charging infrastructure is continuing to grow in Canada. By the end of December 2017, there were approximately 5,843 EV charging stations in Canada, of which 5,168 were Level 2, 483 DCFC, and 190 Tesla Superchargers. This represented a 38 percent increase in public charging infrastructure installations across Canada in 2017 compared to 2016.

Recent private sector developments include the formation of Electrify Canada, a partnership formed by Electrify America in cooperation with Volkswagen Group Canada to build DCFC infrastructure, in July 2018. It plans to build 32 fast charging stations in in southern B.C., Ontario, and Quebec, with operations expected to start mid-2019. In February 2019, PetroCanada announced it is building a network of 50 DC fast chargers across Canada from Halifax, Nova Scotia, to Vancouver, with the first station opened in Ontario.

Federal initiatives have been led by Natural Resources Canada (NRCan), in collaboration with a variety of other partners, which has supported the construction of more than 500 EV fast chargers to date. In 2017, NRCan collaborated with three private companies in 2017 to install 34 fast-charging stations along the Trans-Canada Highway in Ontario and Manitoba. NRCan’s ongoing Electric Vehicle and Alternative Fuel Infrastructure Deployment Initiative (NRCan EV Initiative) offers repayable contributions to support the construction of a coast to coast EV fast charging network. The NRCan EV Initiative will pay up to 50% of the total project costs to a maximum of fifty thousand dollars ($50,000) per charging unit. BC Hydro received funding for 21 stations under its Phase 1 implementation, out of a national total of 102.

At the provincial level, the Governments of Ontario, Quebec, and B.C. have actively supported the development of EV charging infrastructure. Hydro-Quebec’s Electric Circuit, launched in 2012, was Canada’s first public charging network for EVs, offering both 240-volt and 400-volt charging stations. By early 2019 the Circuit included 1,700 stations, including 176 fast-charging stations. The stations are installed in the parking lots of the Circuit’s numerous partners across Quebec and in the North-East of Ontario, and operated by Hydro-Quebec. In 2019, Hydro Quebec announced it had received funding for 100 new stations from the Federal government to be installed before the end of 2019 and have long-term plans to build 1600 fast charging stations over the next 10 years.

In Alberta the NRCan EV Initiative supported an initial three EV fast charging stations at Canadian Tire locations in 2017, while in February 2019 the Alberta...
Government announced plans to provide $1.2 million to co-fund the Peak to Prairies EV network, in collaboration with local partners, and the Federation of Canadian Municipalities. The network will consist of 20 fast-charging stations that will be installed across southern Alberta by the end of 2019. Long term ownership and operation of the charging infrastructure will be carried out by ATCO.\textsuperscript{351}

A variety of regulatory models are used in other jurisdictions. Ontario, California, Washington, Oregon, New York, and a number of other U.S. states exempt EV charging from energy regulation.\textsuperscript{352} Those jurisdictions permit re-sale of electricity without prior approval, and prices are set by the market.\textsuperscript{353} B.C. and “some other U.S. states require EV charging service providers to become public utilities, subject to all other aspects of energy regulation, including pricing.”\textsuperscript{354}

“[S]ome jurisdictions allow public utilities to provide EV charging services and recover costs through rates.”\textsuperscript{355} “[O]ther jurisdictions do not allow public utilities to deliver EV charging services or only allow them to deliver EV charging services as a non-rate-based venture.”\textsuperscript{356}

The status of EV charging in a variety of North American jurisdictions is surveyed below.

1. British Columbia

On November 26, 2018, the British Columbia Utilities Commission (BCUC) issued its Phase I Report from its Inquiry into the Regulation of Electric Vehicle Charging Service.\textsuperscript{357} In this report, the BCUC found “that the public EV charging market does not exhibit monopoly characteristics” and economic regulation is not required to protect consumers.\textsuperscript{358} The BCUC recommends that the B.C. government issue an exemption with respect to the BCUC’s regulation of EV charging services, but retain oversight of safety.\textsuperscript{359}


\textsuperscript{356} Id.

\textsuperscript{357} See generally id.

\textsuperscript{358} Id. at 22.

\textsuperscript{359} Id. at 41.
The BCUC’s inquiry evolved out of an application by FortisBC Inc. for approval of an EV charging rate for service at FortisBC-owned charging stations.\textsuperscript{360} The BCUC approved the requested rate on an interim basis in January 2018, but also adjourned the FortisBC application in favor of conducting the general inquiry into whether and how EV charging in British Columbia should be regulated.\textsuperscript{361}

The Phase 2 inquiry focused on non-exempt public utilities (BC Hydro and FortisBC) and found that there is no obligation on non-exempt utilities to build charging stations.\textsuperscript{362}

2. California

In 2018, California authorized the state’s three investor-owned utilities to recover $738 million for EV charging infrastructure.\textsuperscript{363} San Diego Gas & Electric adopted a $137 million rebate program for 60,000 Level 2 home-based charging stations (240V chargers similar to an electric dryer or oven) and an EV-only variable hourly energy rate.\textsuperscript{364} Pacific Gas and Electric adopted a $22 million program supporting 234 fast-charging stations at fifty-two sites and make-ready infrastructure at a minimum of 700 sites to support the electrification of at least 6,500 medium- or heavy-duty vehicles.\textsuperscript{365} Southern California Edison adopted a $343 million program to install the make-ready infrastructure at a minimum of 870 sites to support the electrification of at least 8,490 medium- or heavy-duty vehicles and three new time-of-use rates for commercial customers with EVs.\textsuperscript{366}

3. Nova Scotia

In Nova Scotia, the Utility and Review Board denied a request from Nova Scotia Power Incorporated to recover from ratepayers the cost of purchasing and installing twelve EV fast-charging stations at locations across Nova Scotia, as the board found that EV charging stations are similar to other equipment on customers’ premises and need not be ratepayer assets.\textsuperscript{367}

\textsuperscript{360} Id. at 1.
\textsuperscript{362} BRITISH COLUMBIA UTIL. COMM’N, supra note 351.
\textsuperscript{363} CAL. PUB. UTIL. COMM’N, DECISION ON THE TRANSPORTATION ELECTRIFICATION STANDARD REVIEW PROJECTS (May 31, 2018), https://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=6442457637
\textsuperscript{364} Id. at 53.
\textsuperscript{365} Id. at 104.
\textsuperscript{366} Id.
\textsuperscript{367} In the Matter of the Public Utilities Act and In the Matter of an Application by Nova Scotia Power Inc, 2018 NSUARB 1 (Can.).
4. Ontario

Ontario regulators have not been kind to EV charging. In 2012, the OEB denied a request for $600,000 to fund an electric vehicle pilot project. The impetus for the application was the Ontario Government’s 2009 pronouncement that one in twenty vehicles would be electric by 2020. Toronto Hydro proposed that it would use the money to install and monitor between thirty and forty EV charging stations in the city. “[T]he OEB . . . allowed $200,000 in costs associated with this activity provided the money was not used to ‘fund a provision of the service to the public.’” The OEB, however, cautioned that policy development regarding ownership and operation of EV charging had yet to take place and that it was premature” to conclude the charging infrastructure should be included in Toronto Hydro’s rate base.

That conclusion was repeated in 2019 in response to the Toronto Hydro application for 2020-24 electric distribution rates and charges. Again, the OEB concluded that the decision was premature and the matter should be deferred to the ongoing inquiry by the board with respect to distribution energy resources. It should be added that one of the things the new Conservative government did when they came to power was to cancel electric vehicle incentive program and the rebates for EV purchases that the previous Liberal government had implemented.

VIII. Cyber Security Challenges

Most Canadian energy regulators have some responsibility to monitor and penalize breaches of reliability standards. In Ontario by way of example those responsibilities fall to the IESO although the OEB has some oversight. In Alberta it is the AESO’s responsibility to propose the reliability standards for approval by the AUC based on standards set by the North American Electric Reliability Corporation (NERC). The AESO conducts audits on the market participants and refers suspected contraventions to the MSA, which can issue speci-
fied penalties defined by the AUC. The complexity of this regulatory regime increased more recently with the introduction of the Critical Infrastructure Protection (CIP) standards introduced by the NERC in 2010. They were adopted by Ontario in 2016 and by Alberta in 2017.

The CIP standards have introduced a new complexity and for the most part concern cyber security risks. The most recent example is a closing of an unnamed American pipeline based on a cyber-attack.

In 2017, for the first time, a Canadian regulator established a regulatory hearing to deal with certain issues relating to these new cyber security standards. The proceeding was prompted by a submission by the MSA to the AUC in October 29, 2019, in connection with the Commission’s 2019-22 Strategic Plan. The particular issues raised concern the use of guidelines that have been established by NERC but are not in use in Alberta, and the degree of publicity that should be attached to the penalties or fines awarded by the MSA with respect to breaches of the cyber security standards by market participants and the AESO.

In Alberta, the MSA has the unique responsibility for auditing the AESO. The AUC Rules relating to these standards require the MSA to publicly post the specified penalties it issues. This same issue concerns American regulatory authorities. A joint staff white paper regarding penalty disclosures was released in 2019 by FERC and NERC.

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381. Id.


385. Id. at 2.


387. Id.


389. Id.

390. Id.
A. Critical Infrastructure Protection (CIP)

Today there are eleven CIP standards, which set out cyber security requirements to protect the bulk power system.\(^{391}\)

Canadian regulators have faced regulatory challenges under these new CIP standards. “Compared to the traditional reliability standards that the market participants have been dealing with since 2010, the CIP standards are much more complicated and the security risks they address are more significant. As a result, there is a significant backlog in Alberta and other Canadian jurisdictions.”\(^{392}\)

Cyber security is a rapidly evolving field in any industry, not just electricity. As a result, the NERC CIP standards are evolving at a pace that far exceeds the development pace of the other NERC Standards. Since 2010 NERC has moved from version 0 to version 6 which is currently in effect. Version 7 and 8 of some of the CIP standards will be effective in 2020.

Alberta adopted version 5 as its first version of the CIP Standards with an effective date of 2017. The AESO has chosen to adopt the CIP standards as close to "as is" as possible. However, there are certain elements that have been removed from the NERC CIP Standards in Alberta, for example the Table of Compliance Elements and the Guidelines and Technical Basis.

Across North America, the adoption of the first version of the CIP standards or significant changes to the content with new versions of the CIP standards, has typically resulted in a significant increase in reported potential violations, either self-reported or determined through monitoring. This is generally attributed to the relatively new concepts that are being introduced to the electric industry through the standards and the complexity of the CIP standards.\(^{393}\)

B. The Alberta Consultation

In Alberta, the MSA proposed significant rule changes involving “Sanction Guidelines developed by NERC that can reduce the cost and delays related to CIP standards being incurred by both the MSA and market participants.”\(^{394}\) On October 29, 2019, the MSA asked the AUC to hold a consultation to resolve a number of outstanding issues.\(^{395}\) That submission was made in a proceeding the AUC established to review its 2019-22 Strategic Plan.\(^{396}\)

The consultation asked market participants to respond to the following questions:

- “Should AUC Rule 027 be amended to allow the MSA to rely on NERC Sanction Guidelines in determining specified penalties for breaches of the CIP reliability standards?”
- “Should AUC Rule 027 be amended to allow the MSA to rely on NERC’s Table of Compliance Elements to determine the severity of breaches of CIP reliability standards?”

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393. Id. at 5.
394. Id. at 2.
395. See generally id.
396. Id. at 2.
“Should the MSA be authorized to make preliminary determinations of breaches of CIP reliability standards to be followed by a review procedure conducted by the MSA before making a final determination?”  

This consultation was announced on January 31, 2020 and interested parties are expected to file their submissions by February 29, 2020.

C. The Disclosure Problem

AUC Rule 027 requires the MSA to publish any specified penalty issued for a contravention of a reliability standard no later than 45 days after the penalty has been issued and post the penalty to the MSA’s website.

There is, however, a wide-ranging controversy in Canada and the United States about whether this provision is appropriate in the case of CIP penalties. The CIP penalties relate mainly to cyber security breaches which can result from deliberate attempts by third parties to damage critical infrastructure. The question is whether the publication contemplated would assist those third-parties in targeting certain facilities that have been found to have inadequate protection. The MSA has on previous occasions advised the AUC of its concerns in this regard. To date, the MSA has not published any CIP breaches on its website awaiting further clarification from the Commission.

More recently, [as noted earlier], a Joint Staff White Paper has been published by FERC and NERC. Those agencies are currently carrying out a consultation on this matter. There may be merit in the Alberta approach on publication of CIP breaches complying with the US approach that is ultimately determined.

The MSA has proposed that a consultation be held to address the following question:

- Should AUC Rule 027 be amended to limit the publication of breaches of CIP reliability standards to the publication standard proposed by the Joint FERC-NERC Staff White Paper?

The Commission deferred its consultation until FERC has issued its findings.

IX. IN THE COURTS

A. The B.C. Alberta Blockade

Earlier in this report we discussed the opposition to the Trans Mountain expansion project to expand capacity by twinning the existing pipeline system with 987 kilometers of new pipe to transport oil sands production from Edmonton,
Alberta to Burnaby, B.C.\textsuperscript{402} The project includes an expanded marine terminal in Burnaby with a significant increase in tanker traffic under the Lions Gate Bridge.\textsuperscript{403} That led to fierce opposition from the Mayor of Burnaby and the Premier of B.C.\textsuperscript{404} The province, in an attempt to stop the project, proposed an amendment to the Environmental Management Act.\textsuperscript{405} Canada objected on the basis that the act was unconstitutional because it interfered with the federal government’s exclusive jurisdiction over interprovincial pipelines.\textsuperscript{406} The British Columbia Court of Appeal agreed.\textsuperscript{407} B.C. then appealed to the Supreme Court of Canada which upheld the British Columbia Court of Appeal decision. On January 16, 2020, the Chief Justice read a unanimous decision from the bench dismissing the case on the same basis as the British Columbia Court of Appeal.\textsuperscript{408}

Before the court decisions, escalation of tension between Alberta and B.C. led to Alberta indicating that it was not going to buy B.C. wine\textsuperscript{410} or electricity from the new B.C. Site C hydro facility.\textsuperscript{411} Alberta was also going to stop supplying gas to heat B.C. homes.\textsuperscript{412} A temporary injunction was obtained.\textsuperscript{413} This blockage has also disappeared with the recent Supreme Court of Canada decision on January 16, 2020.\textsuperscript{414}

B. The Carbon War

While the B.C. and Alberta governments were fighting with each other, the provinces of Alberta, Ontario, New Brunswick, and Saskatchewan were fighting with the federal government regarding the federal government’s proposed carbon

\textsuperscript{402} Catherine Levesque, \textit{Trans Mountain pipeline’s rising cost will kill project, opposition groups warn}, \textsc{Global News} (Feb. 19, 2020), https://globalnews.ca/news/6567871/trans-mountain-pipeline-costs-opposition/.


\textsuperscript{405} Environmental Management Act, S.B.C. 2003, c 53 (Can.).

\textsuperscript{406} Reference re Environmental Management Act (British Columbia), 2019 BCCA 181, para. 3 (Can. B.C.).

\textsuperscript{407} Id.

\textsuperscript{408} Reference re Environmental Management Act, 2020 SCC 1 (Can.).

\textsuperscript{409} Id.


\textsuperscript{413} Id.

\textsuperscript{414} Reference re Environmental Management Act, 2020 SCC 1, Docket 38682 (Can.).
tax. The federal government had enacted legislation requiring each province to legislate a carbon tax meeting certain standards. For those provinces that refused, the federal government would impose its own mandatory pricing carbon scheme on that province.

The opposition of the provinces was threefold: First they didn’t believe the carbon tax would be effective. Second, they felt it imposed significant cost on commuters that drive to work every day. Third, they believed it was unconstitutional.

During 2019, the cases wound their ways through the courts. In May 2019, the Saskatchewan Court of Appeal issued a 3-2 majority decision that found that the federal government did have the constitutional authority to implement a carbon tax. A month later, the Ontario Court of Appeal in a 4-1 majority decision came to the same result. Both decisions found that the federal carbon tax legislation was a valid exercise of the federal governments’ authority under the federal governments’ peace, order, and good government (POGG) authority indicated in the constitution.

Ontario and Saskatchewan have both appealed those decisions to the Supreme Court of Canada, which has now adjourned previously scheduled cases in March, April, and May with respect to Covid-19.

To confuse matters, the Alberta Court of Appeal ruled on February 24, 2020, that the carbon tax was unconstitutional. This was a 4-1 decision led by the Chief Justice of the province. The Alberta decision does a good job of explaining the differences between the Alberta court and the courts in Ontario and Saskatchewan that found the legislation to be within federal jurisdiction. It turns out that it depends on how you define or characterize the carbon tax. The Alberta court ruled that the carbon tax was a policy instrument that regulated

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416. Id.
417. Greenhouse Gas Pollution Pricing Act, S.C. 2018, c. 12, s. 166(2)(3) and 189(1)(2) (Can.).
420. Reference re Greenhouse Gas Pollution Pricing Act, 2020 ABCA 74, para. 23 (Can. Alta.).
426. Id. at para. 229.
427. Id. at paras. 114-124.
428. Id.
natural resources in the province. In reaching that conclusion, the court relied on section 92A which provides that natural resources are exclusively within provincial jurisdiction. The logic was straightforward; Alberta is a one industry province. That industry relates to the exploration and development of the generation and transportation of oil and gas. The proposed federal tax was aimed only at that industry. The contrary Ontario and Saskatchewan decisions have relied on the broad national concern doctrine under the federal parliament’s POGG power. Alberta’s Chief Justice found that the regulation of greenhouse gas emission does not fall within this doctrine and noted that the POGG was rarely relied upon by the courts and had been used in only three decisions in the entire history of constitutional litigation. Other justices argue that this legislation was a “Constitutional Trojan Horse” that would allow the federal government to exercise control over virtually anything that traditionally fell within provincial jurisdiction.

In the meantime, the provinces of New Brunswick and Prince Edward Island have struck an unusual deal with the Federal government. They proposed that they would enact the federal government carbon tax but eliminate a tax in the same amount that each province currently had in place to pay for highways in the province.

It turns out that the federal government was going to give the provinces the money it received from the carbon tax, so the provinces were revenue neutral under this initiative. What this new scheme did to reduce carbon in these provinces may be a mystery to some.

C. Stranded Assets Revisited

In 2016, a wild fire destroyed most of Fort McMurray, Alberta. In 2019, three companies ATCO Gas, ATCO Electric Transmission, and ATCO Electric Distribution brought applications to the AUC to recover approximately $5 mil-
lion for assets destroyed in the fire. In three separate decisions the Commission approved or disallowed recovery. Its decision in each case was based upon the Commission’s Utility Asset Disposition (UAD) principles related to stranded assets as set out in the *Stores Block* decision. The decisions contained both important dissents and warnings about “the possible deleterious effects” of this principle, with the commission majority itself calling for a “debate on the evolution of public utility regulation in Alberta.”

This regulatory uncertainty has a long and interesting history. The UAD principles referenced above had their origins in a 2013 AUC decision, one of several decisions building on and interpreting the Supreme Court of Canada’s *Stores Block* decision.

The *Stores Block* case itself started in Alberta when TransAlta a major Alberta Utility sold an office building in downtown Calgary for significant profit. The utility wanted to keep all the profits. The commission said the profits should be shared between the utility and the ratepayers. The Supreme Court of Canada disagreed that ratepayers had no property interest and were simply entitled to service. However, as the Fort McMurray fires demonstrate, the flipside of this can create real problems for utilities. Put simply, if the utility gets to keep all the profits from selling an asset then presumably it has to bear all the cost when an asset is destroyed.

The principle at issue in *Fort McMurray* case affects all Canadian utilities and all Canadian regulators. It is worth repeating the findings of the AUC at paragraphs 129-132 of decision 21609 involving ATCO Electric:

### 5.4.3.2 Future considerations

129. In the previous section of this decision, the Commission determined that in the circumstances of this proceeding the retirements resulting from the RMWB wildfire

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442.  ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board), [2006] 1 S.C.R. 140 (Can.).


445.  ATCO Gas and Pipelines Ltd. v. Alberta (Energy and Utilities Board), [2006] 1 S.C.R. 140, para. 8 (Can.).

446.  *Id.*

447.  *Id.* at para. 18.

448.  *Id.* at para. 68.
were extraordinary. Accordingly, the unrecovered capital investment in the retired assets is for the account of the shareholder of ATCO Electric.

130. The Commission’s finding that costs of the retirement event should be allocated to shareholders results in just and reasonable rates. This finding is consistent with the governing legislation, the fundamental property and corporate law principles established by the courts and the guidance of the courts on the allocation of risk and benefits associated with property ownership. This guidance was reviewed by the Commission in the UAD decision and subsequently upheld on appeal. The guidance limits the Commission’s flexibility in dealing with cost allocation upon the retirement of utility assets, both those reasonably anticipated and those that are unanticipated. The regulatory framework resulting from this guidance is bounded in part by the following findings by the courts:

The argument that assets purchased are reflected in the rate base should not cloud the issue of determining who is the appropriate owner and risk bearer. . . . the utility absorbs losses and gains, increases and decreases in the value of assets, based on economic conditions and occasional unexpected technical difficulties . . .

The concept of assets becoming “dedicated to service” and so remaining in the rate base forever is inconsistent with the decision in Stores Block (at para. 69). Such an approach would fetter the discretion of the Board in dealing with changing circumstances. Previous inclusion in the rate base is not determinative or necessarily important; as the Court observed in Alberta Power Ltd. v. Alberta (Public Utilities Board) (1990), 72 Alta. L.R. (2d) 129, 102 A.R. 353 (C.A.) at p. 151: “That was then, this is now.”

Past or historical use of assets does not permit their inclusion in rate base unless they continue to be used in the system.

Since the authorities have established that ratepayers cannot share in any of the sales of assets, it follows that holding property within the rate base, once its use has expired, works to the detriment of the ratepayer. . . . since ratepayers cannot share in sale proceeds of utility assets, their protection for fair treatment lies in excluding assets not required for utility operations from the rate base.

. . . the terms of the regulatory compact have always been subject to evolution and the re-balancing of competing interests of consumers and utility companies when times and circumstances change. . . . There is no industry today that is immune to change. Or that enjoys a right to be protected from the consequences of change, whether those arise from legislative choices, deregulation or court decisions.

The Commission provided a reasonable rationale for its conclusion that there is and should be a distinction between ordinary depreciation and unforeseen loss or obsolescence of capital, which was characterized as a form of extraordinary depreciation. I am persuaded that it was reasonable for the Commission to conclude that the extraordinary depreciation situations were outside the definition of what would be a reasonable opportunity of return for utility investors. The Commission, in its expert and policy role, could reasonably conclude that the legislation indicated that whereas ordinary depreciation is a legitimate matter for a form of shared risk between utilities and ratepayers, these forms of extraordinary depreciation of prudently acquired capital are not risks to be shared with ratepayers.

. . . In the absence of Stores Block and the subsequent jurisprudence from this Court, other policy choices would have been open to the regulator. Although it would be tempting to confine the application of these decisions only to gas utilities, (to minimize what I consider to be deleterious effects on the regulation of utilities in Alberta), the legal principles in Stores Block remain good law.
131. Although the Court of Appeal emphasized that the Stores Block line of cases remains good law, it also noted that more than a decade of incremental litigation on individual, fact-specific Commission decisions, has arguably resulted in some “deleterious effects on regulation of utilities in Alberta.” In making this observation, the Court indicated that the Commission would have greater flexibility to deal with UAD matters in the absence of this line of court decisions and reminded lawmakers that they have the ability to consider these issues from a broader public policy perspective should they wish to alter the status quo and provide the Commission with greater discretion in addressing UAD fact-specific issues as noted below:

Absent the pronouncements in Stores Block, the Commission would likely have greater flexibility on the issue of who bears the undepreciated cost of assets rendered useless as the result of extraordinary events.

The Commission, and this Court, are bound by Stores Block and the subsequent decisions from this Court. Only legislative amendment, reconsideration, or a reversal of Stores Block by the Supreme Court of Canada can change that.

132. The Commission appreciates the difficulty utilities face operating in an environment where they must anticipate reasonably foreseeable future events, not just to properly align depreciation parameters but also to reduce the risk of shareholder losses due to an extraordinary retirement. Notwithstanding these efforts, utilities recognize that shareholder losses are likely to occur despite having acted prudently in conducting their operations. Similarly, it is not in the interest of customers that they pay higher rates that reflect risk-adjusted returns or depreciation parameters and investment decisions which factor in every possible retirement contingency. It is also not in the interest of customers that utilities incur higher borrowing costs or that the delivery of safe and reliable service be compromised due to financial hardship resulting from an extraordinary retirement. Further, it is in the interest of neither utilities nor customers to engage in continual fractious debate in characterizing retirements. Again, no party benefits if utilities are compelled to respond to negative economic incentives by adopting risk-averse policies that impede regulatory efficiencies or improvements in service or reliability where prudent investment would otherwise occur. These are perhaps some of the possible deleterious effects on the regulation of utilities in Alberta noted by the courts.

E. Less Deference

Two decisions of the Supreme Court of Canada in December 2019 have made significant changes to the manner in which Canadian courts will review decisions of regulatory agencies. At the front line are federal and provincial energy regulators. As indicated, it has long been the case that courts have granted considerable deference to regulators when the issues concern the interpretation of their home statutes. The Supreme Court of Canada heard Vavilov and Bell Canada together when the parties were seeking leave to appeal earlier decisions. The Court invited the parties to review the standard in Dunsmuir, which had become the national standard for the judicial review of administrative

action since 2008. Prior to Dunsmuir, there were three standards of review—correctness, reasonableness, and patent unreasonable. The Dunsmuir court reduced this to two standards—reasonableness and correctness. Reasonableness was a deferential review where the court granted deference to specialized tribunals. Correctness was different. From the outset the reviewing court would ask whether the decision was right given the facts and the law. In short it would state (and substitute if necessary) its own view on the matter. The Dunsmuir court identified the circumstances where correctness should apply, namely constitutional questions, questions of true jurisdiction, questions of law of general application to the legal system, and finally questions where there were regarding jurisdiction between competing regulatory agencies.

Vavilov concerned a revocation of Canadian citizenship that turned on an interpretation of the Citizenship Act. Bell Canada, also known as the Super Bowl case, involved the decision of the Canadian Radio-Television Communications Commission (CRTC), Canada’s national telecommunications regulator, that had issued a decision exempting the broadcast of the Super Bowl game from an order requiring the simultaneous substitution of American commercials from the Canadian feed of the American broadcast.

The court’s decision in Bell Canada dealt strictly with those cases that came to the courts by way of statutory appeal as opposed to a common law or statutory application for judicial review. That is not unusual in energy regulation. Alberta, Ontario, and Nova Scotia energy regulation provide that right, as does federal regulation. In some cases leave is required and in some cases it is not. Both Vavilov and Bell Canada stated clearly that instead of the deference standard of reasonableness, the non-deference of correctness would apply going forward.

454. Id. at para. 34.
455. Id.
456. Id. at para. 40.
457. Id.
459. Id. at para. 74.
460. Id. at para. 50.
461. Id. at para. 58.
462. Canada (Minister of Citizenship and Immigration) v. Vavilov, 2019 S.C.C. 65 (Can.).
464. Id. at para. 4.
466. Canadian Energy Regulator Act, S.C. 2019, c. 28, ss. 72(1)-(2) (Can.).
The underlying principle established in *Vavilov* and *Bell Canada* was that in
the case of a statutory appeal the court should use the same test that it would in
the case of an appeal from a lower court.\(^{469}\) Put differently, unless the legislature
had specified an exception, the courts hearing such appeals were to apply the
*Houston*\(^{470}\) principles. The Houston rules are simple enough. There are two
principles.\(^{471}\) When the appeal from a lower court is based on a question of law,
the test is correctness.\(^{472}\) That includes matters of statutory interpretation or the
jurisdiction or authority of the regulatory agency.\(^{473}\) If it is a question of fact, the
appellate standard of review for those questions is palpable and overriding error.\(^{474}\) There is no question that in the twelve years since the Dunsmuir decision,
courts have shown increasingly more deference to regulatory agencies. That
movement has now stopped.

The standard is now to be correctness on pure questions of law.\(^{475}\) On
questions of fact and law, the standard of review would be that of palpable and
overriding error.\(^{476}\) This was a big change. Prior to those decisions, energy
regulators on pure questions of law enjoyed a strong presumption of reasonableness
review when interpreting their home statute.\(^{477}\)

Outside of this narrow circumstance, the court reaffirmed that in most cases
the standard of review was reasonableness, subject to well-known exceptions
such as where the legislature had indicated a different standard, constitutional
questions, questions of law important to the legal system, and jurisdictional
disputes between regulatory agencies.\(^{478}\)

While these decisions created a general presumption of reasonableness review for most decisions, where the issue is one of law, mixed law or fact, the decisions became a textbook of the decision-making principles that justified this
strong commitment to deference.\(^{479}\) The court reemphasized the necessity of
providing reasons\(^{480}\) but cautioned that the burden of establishing unreasonableness rests with the challenger.\(^{481}\) The *Dunsmuir* principles were reinforced.\(^{482}\)
Not only were reasons important, they required justification, transparency, and
intelligibility.\(^{483}\) Decisions must be justified, not just justifiable.\(^{484}\)

\(^{469}\) Canada (Minister of Citizenship and Immigration) v. Vavilov, 2019 S.C.C. 65 (Can.); Bell Canada
v. Canada (Attorney General), 2019 S.C.C. 66 (Can.).
\(^{471}\) *Id.* at para. 9.
\(^{472}\) *Id.*
\(^{473}\) *Id.*
\(^{474}\) *Id.*
\(^{475}\) Bell Canada v. Canada (Attorney General), 2019 S.C.C. 66., para. 4 (Can.); Canada (Minister of Cit-
izenship and Immigration) v. Vavilov, 2019 S.C.C. 65, para. 7 (Can.).
\(^{476}\) Canada (Minister of Citizenship and Immigration) v. Vavilov, 2019 S.C.C. 65, para. 37 (Can.).
\(^{477}\) *Id.* at para. 7.
\(^{478}\) *Id.*
\(^{479}\) *Id.* at para. 68.
\(^{480}\) *Id.* at para. 84.
\(^{481}\) Canada (Minister of Citizenship and Immigration) v. Vavilov, 2019 S.C.C. 65, para. 84 (Can.).
\(^{482}\) *Id.*
\(^{483}\) *Id.* at para. 47.
The court went on to identify two fundamental flaws that are to be avoided. A decision must have internally coherent reasons and will not be considered reasonable where the decision reached does not follow from the analysis undertaken. The second fundamental flaw relates to the requirement that the decision must be justified in light of the legal and factual constraints that bear on it. Finally, decisions must avoid persistently discordant or contradictory legal interpretations and departures from long-standing practices or established internal authority without satisfactory explanations for the departure. Without a credible explanation of its failure to follow precedence, a decision will be considered unreasonable.

Canadian energy regulators have long believed that they were not bound by precedent or stare decisis. That remains the case, but this decision is the first decision of the Supreme Court of Canada that raises a red flag on that point.

In summary, to a degree these important decisions reinforce and preserve the deferential review in the case of statutory interpretation, which come to the courts by way of judicial review as opposed to a statutory appeal. Where this will all end up is hard to say. But one thing is clear – Bell Canada and Vavilov are manuals on best practices energy regulators should follow in writing their decisions.

484. Id. at para. 86.
485. Id. at para. 105.
486. Canada (Minister of Citizenship and Immigration) v. Vavilov, 2019 S.C.C. 65, para. 103 (Can.).
487. Id. at para. 101.
488. Id. at para. 132.
489. Id. at para. 131.
490. Id.
CANADIAN CHAPTER

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