

Jun 29, 2020

BCUC Approves FortisBC Energy's Clean Growth Innovation Fund

By Benjamin Mayer-Goodman and David Stevens

On June 22, 2020, FortisBC Energy Inc.'s application for a \$24.5 million ratepayer funded Clean Growth Innovation Fund was approved by the British Columbia Utilities Commission (BCUC) as part of FortisBC's rate application. The Clean Growth Innovation Fund allows the natural gas utility company to invest regulated capital in renewable gas innovation projects with a focus on decarbonization.

FortisBC Energy Inc. (a natural gas utility company) and FortisBC Inc. (an integrated electricity utility company) filed a joint application to the BCUC on March 11, 2019 to approve rate plans from 2020 until 2024. The detailed application advanced numerous requests, including a proposal for a Clean Growth Innovation Fund for both FortisBC Energy Inc. and FortisBC Inc.

According to the utilities, "The Innovation Fund is required to accelerate the pace of clean energy innovation, to achieve performance breakthroughs and cost reductions, and to provide cost-effective, safe and reliable solutions for customers."

In its Decision, the BCUC accepted FortisBC Energy's proposed Clean Growth Innovation Fund, but denied FortisBC's request for a similar fund (see below). The BCUC considered the applicants' arguments based on need, benefits to ratepayers and the reasonableness of the proposed rate changes.

FortisBC Energy's proposed Clean Growth Innovation Fund will finance pre-commercial and commercial greenhouse gas reduction projects covering the entire utility value chain. The natural gas utility company anticipates it will prioritize projects that blend hydrogen and renewable gas. The Clean Growth Innovation Fund will not support energy demand management projects, which attempt to modify consumer demand for energy based on financial incentives or consumer education.

With respect to need, the BCUC held that FortisBC Energy requires the Clean Growth Innovation Fund in order meet the ambitious renewable gas targets outlined in British Columbia's CleanBC Plan. More generally, through the CleanBC Plan, British Columbia legislated a 40% reduction in greenhouse gas emissions from 2019 to 2030, and an 80% reduction by 2050. The BCUC also found that innovation is imperative for a natural gas utility, stating that "Decarbonization is an objective that may drive down consumer demand for natural gas, hence increasing risk for the gas utility and its long-term financial viability ... [G]reater innovation efforts are needed within [FortisBC Energy] if natural gas is to remain a viable fuel in the near and long term in light of current climate objectives."

The BCUC found that it is reasonable and in the public interest for ratepayers to finance FortisBC Energy's Clean Growth Innovation Fund finding that "The benefits of the fund will accrue to ratepayers by ensuring cost-effective, safe and reliable gas solutions both in the short term and long term." The BCUC held that the Clean Growth Innovation Fund will:

- Improve gas pipeline inspections and reduce inspection costs;
- Provide cleaner and more affordable energy sources;
- Mitigate the risk of future rate increases; and
- Ensure FortisBC Energy's long-term viability by reducing the risk that its assets will lose value as industry practices change and favour cleaner energy sources.

The BCUC determined that a fixed-rate charge is a reasonable method of financing the Clean Growth Innovation Fund. Ratepayers will finance the Clean Growth Innovation Fund through an additional \$0.40/month charge amounting to \$4.9 million annually and \$24.5 million over its five-year term. FortisBC Energy will not earn returns from the Clean Growth Innovation Fund or use it to finance capital projects that already form part of the company's rate base. All unspent money will be returned to ratepayers after the Clean Growth Innovation Fund's five-year term.

To execute the Clean Growth Innovation Fund, FortisBC Energy will create an internal working group to select and execute projects, track funds and evaluate target achievements. An external advisory council will provide insight, feedback and recommendations on the Clean Growth Innovation Fund's approach and on individual projects.

As noted earlier, the BCUC rejected a \$2.5 million Clean Growth Innovation Fund proposed by FortisBC Inc., an integrated electricity utility company. The BCUC found that clean energy policies increase demand for electricity. As such, the BCUC held that FortisBC Inc. did not face an immediate need for innovation. In contrast, the BCUC wrote that innovation is needed for natural gas utility companies, such as FortisBC Energy.

Additionally, the BCUC found that \$2.5 million over five years is unlikely to lead to any significant innovations in the integrated electricity utility.

Instead of creating a Clean Growth Innovation Fund, the BCUC suggested that FortisBC Inc. can advance clean transportation projects by offering reduced rates for high-speed charging or by eliminating demand charging. Demand charging prices energy higher when customers use energy in a short time period rather than spreading out that energy use over a longer period. Electric vehicles often rely on high-speed charging, a practice that uses a lot of energy in a short time period, subjecting users to expensive utility bills, especially if the vehicles are charged during peak hours.

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