



environmental
defence
INSPIRING CHANGE

Bill 32: Access to Natural Gas Act

Environmental Defence

**Remarks to the Standing Committee on General
Government**

Sarah Buchanan

Program Manager, Clean Economy

November 12th, 2018



Since 1984, Environmental Defence has been working to protect Canadians' environment and human health. We challenge and inspire change in government, business and people to ensure a greener, healthier and more prosperous life for all.

We would like to thank the members of this committee for the opportunity to submit feedback on this legislation.

We applaud this government's efforts to enhance energy affordability for rural and northern communities in Ontario. But we caution against using ratepayer subsidies to expand natural gas infrastructure, which are not economically or environmentally beneficial, especially when cleaner, cheaper, made-in-Ontario solutions exist.

We suggest that Ontario's government instead focus on supporting affordable energy solutions based on clear, transparent criteria, including cost analysis for existing customers, with the goal of supporting the best possible energy option for local communities.

Our main concerns with this legislation are as follows.

1. Bill 32 jeopardizes ratepayer affordability.

This Bill will allow gas utilities to increase rates from their existing rate payers to subsidize expansion of gas infrastructure for presently uneconomic projects, where cost exceeds revenue over a specified amount of time.

Natural gas expansion involves building new pipelines and laying down new infrastructure, which is particularly expensive and uneconomic in low density areas. Expansion costs calculated in rural communities under a previous Enbridge application were estimated to be over \$20,000 per householdⁱ, which is why these communities lack access to gas today, and many still rely on oil or propane.

The OEB has rejected previous proposals for ratepayer subsidized natural gas expansion. In their 2016 ruling, the OEB explained that "it would not be appropriate to require existing customers to pay for a portion of any expansion. The communities that receive the benefit [should] be the ones paying the costs."ⁱⁱⁱ



Instead, the OEB gave utilities the ability to have higher rates in new communities to cover the costs of expansion because the bill savings resulting from switching to natural gas would still leave these communities better off, even if their rates were higher than those of existing customers.

Considering the OEB has already expressed strong concerns over the cost implications of this policy for ratepayers, we would like to see Bill 32 amended or paused until an analysis of multiple energy options for rural and northern communities can be considered.

2. Bill 32 locks in uneconomical high-carbon infrastructure

Natural gas is a fossil fuel, and burning gas contributes to climate change. The gas used to heat buildings is responsible for nearly a quarter of all the carbon pollution in Ontarioⁱⁱⁱ. This is expected to increase if Bill 32 passes.

Enbridge and Union gas commissioned a report by ICF International which found that residential, commercial, and institutional natural gas consumption would need to decline by approximately 40% by 2030 to meet Ontario's greenhouse gas emission reduction goals.^{iv} Introducing legislation to facilitate expansion will set Ontario back in reducing carbon pollution.

Ontario announced that this legislation would expand natural gas to approximately 33,000 households – that's equivalent to adding an additional 42,500 cars on the road. And it will be a lasting impact because once the infrastructure is in place, it's going to get used for decades and decades. It's a phenomena known as "lock-in." And it's something we need to avoid. In fact, the International Energy Agency said many years ago that all new investment in fossil fuel infrastructure needed to end by 2017 to avoid locking into a high carbon path. It's now 2018.

Clean technology has come a long way. There are many existing alternative energy sources which are gaining momentum, and won't lock Ontario communities into a high-carbon energy source for decades to come. While existing sources of energy like oil and propane are more carbon-intensive than natural gas, this doesn't mean natural gas is the best option. Our government has an opportunity to explore ways



to provide affordable, low-carbon alternatives to these communities – energy sources which will be increasingly preferred as the world transitions to a cleaner economy.

For example, geothermal energy is less expensive than natural gas expansion in many low density areas – where there is ample room to install the loops needed for the systems. This technology uses the temperature of the ground to heat or cool your home. An average-sized residential geothermal system that provides both heating and cooling generally works out to be cheaper per household than natural gas due to the high cost of expanding pipeline infrastructure^v.

Geothermal energy is also much cheaper once installed. The annual cost of operating a natural gas system in a rural setting is about 50 per cent higher than a geothermal system using current-day technology^{vi}.

Although the capital costs of installing geothermal are generally more expensive than natural gas in communities that already have gas service, that is not the case in the communities under consideration for gas expansion. After factoring in the cost of the proposed gas expansion (i.e. building pipes to a new community), geothermal becomes the more cost-effective option on average by a significant margin.^{vii}

Geothermal has the added benefit of being low-carbon, producing 90 per cent less carbon pollution than a natural gas system in a typical home.

This is why Enbridge had a proposal in front of the Ontario Energy Board asking for permission to roll out a new geothermal program across Ontario, with incentives for installing geothermal coming from the proceeds from cap-and-trade. That's now in the past, but geothermal still makes sense.

If the government wants to help Ontarians transition away from costly and high-carbon oil or propane systems, we suggest choosing low carbon technology that's cheaper to install – and made in Ontario to boot.



3. Bill 32 legislates preferential treatment for natural gas expansion over other forms of energy.

Natural gas utilities will now have a powerful advantage with the ability to charge existing natural gas ratepayers for high-cost expansions to new customers.

Bill 32 is not technology agnostic. Rather, it picks a winner in natural gas and bets that existing ratepayers will be able to bear the burden of subsidizing expansion, without allowing for other forms of energy generation to compete, many of which are actually produced in Ontario (unlike natural gas, which is imported). The more natural gas Ontario uses, the more money that leaves the province. Giving preferential market access to natural gas through legislation doesn't make economic sense, when made-in-Ontario alternatives exist. Energy decisions should be based on which energy source is most appropriate for the communities involved.

If there is no longer a requirement that a project be economically viable to proceed, how far will expansion go? What new rules will apply? Exactly how many expansions will ratepayers be expected to cover, and for how long? More details are needed on these potential impacts before proceeding with this legislation.

4. Bill 32 and similar legislative changes should be supported with evidence showing cost, environmental, and other impacts of infrastructure expansion on communities.

Detailed analysis of a 2016 proposed natural gas infrastructure expansion to unserved communities in Ontario showed that gross capital costs could reach over \$21,000 per new customer on average based on current estimates (not including financing costs and not including customer conversion costs)^{viii}. The anticipated projects would only have reduced energy costs for a mere 2% of the customers that do not have natural gas service. This raises an obvious question: Is natural gas expansion the best option for these unserved communities?

There are many reasons to be cautious about allowing utilities to subsidize high-cost expansion through existing customers. These include the very high cost per forecast customer, the large subsidy, the long-lived nature of the assets, the small



number of customers who will benefit, and the potential for inconsistency with Ontario’s greenhouse gas (“GHG”) emissions reduction goals and our economy’s movement away from fossil fuels.

To protect consumers, Environmental Defence requests that the utilities be required to fully justify community expansion projects, including in comparison with alternatives such as conservation and renewable energy (e.g. geothermal), and clearly establish that a project is consistent with Ontario’s anticipated reduction initiatives.

This would help ensure that we do not make a large, irreversible investment in a project if there is a better, less risky alternative. Alternatives to natural gas expansion exist, and Ontarians deserve a real cost-benefit analysis to inform which projects should receive government support.

For more information, please contact sbuchanan@environmentaldefence.ca

ⁱ Comparison of Union and Enbridge Community Expansion Project (CEP) Proposals, Exhibit S15.Union.VECC.2, Attachment 1 (The gross capital cost per forecast customer for Enbridge is \$25,200 and for Union is \$14,800. The weighted average of both utilities is \$21,496.).

ⁱⁱ Ontario Energy Board, Decision with Reasons, *Ontario Energy Board Generic Proceeding on Community Expansion*, EB-2016-0004, (17 November 2016).

ⁱⁱⁱ Environmental Commissioner of Ontario. Ontario’s Carbon Footprint: Where Are We Now? (2016). https://media.assets.eco.on.ca/web/2016/11/2016-Annual-GHG-Report_Chapter-2.pdf

^{iv} ICF International, Results from Aligned Cap & Trade Natural Gas Initiatives Analysis, November 2015 (Exhibit S3.EGDI.OGA.3, Attachment).

^v Ontario’s Low Carbon Future: Geothermal Heat Pumps, Dr. Stanley Reitsma, P. Eng., David Hatherton, Martin Luymes, p. 34 (OGA Evidence, Exhibit Reference R11) p.23

^{vi} *Ibid*

^{vii} *Ibid*.

^{viii} Comparison of Union and Enbridge Community Expansion Project (CEP) Proposals, Exhibit S15.Union.VECC.2, Attachment 1