environmental defence
INSPIRING CHANGE

June 19, 2023

Josephine Palumbo
Deputy Commissioner, Deceptive Marketing Practices
Competition Bureau
Place du Portage I
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Gatineau, Quebec K1A 0C9
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Dear Ms. Palumbo,

Re: Enbridge Gas Deceptive Marketing Practices

We are writing to request that the Commissioner of Competition commence an inquiry into deceptive marketing practices by Enbridge Gas Inc. ("Enbridge") under s. 9 of the *Competition Act*. As detailed below, Enbridge is misleading consumers into connecting to its gas system using false and misleading representations contrary to sections 52 and 74.01 of the *Competition Act*. Enbridge is telling potential customers that gas is the most cost-effective way to heat their homes and suggesting that it is "clean energy" and "low carbon." None of these representations are true.

These representations are causing real harm. Customers in gas expansion areas stand to lose approximately $20,000 on average if they switch to gas instead of installing a high-efficiency electric heat pump (over the lifetime of the equipment).[1] This will also create far more carbon pollution, making it more difficult and expensive to reach federal climate targets.

We also request temporary orders to stop Enbridge from deceiving potential customers while the proceeding progresses. Enbridge is making these false and misleading representations on an ongoing basis. With each week that passes, more customers sign up to convert their heating to gas instead of purchasing a high-efficiency electric heat pump resulting in unnecessarily high energy costs and carbon pollution to the detriment of consumers, competition, and the climate.

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[1] Dr. Heather McDiarmid, *An Analysis of the Financial and Climate Benefits of Electrifying Ontario's Gas-Heated Homes by Installing Air-Source Heat Pumps*, August 2, 2022, p. 11 (link); For the difference in costs with the latest gas prices, see Ontario Clean Air Alliance, *Heat Pump Calculator for New Gas Communities* (link); see also Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, p. 23 (link). The actual savings depend on a variety of factors. See pages 5 and 6 for examples.

Background

Enbridge Inc. and Methane Gas

Enbridge owns nearly all of the methane gas distribution pipelines in Ontario. Methane gas is commonly known as "natural gas". However, methane gas is a potent greenhouse gas that pollutes the environment and causes climate change when it is burned and when it leaks from hydraulic fracturing extraction sites, pipelines, storage facilities, and customer equipment. The combustion of methane gas alone is responsible for approximately one-third of Ontario's greenhouse gas emissions.[2] Heating homes and businesses with gas accounts for approximately 19% of Ontario's green house gas emissions.[3]

In Ontario, Enbridge earns profit by investing in gas pipelines. It therefore has a strong financial interest in encouraging Ontario homes and businesses to switch to gas and remain with gas. The more capital that needs to be invested in pipelines, the more Enbridge stands to earn in profit. Enbridge also has a strong financial interest in gaining and keeping customers to pay for the pipelines it has already built through gas distribution charges that are levied on all customers on their gas bills.

Enbridge has no real competition when it comes to the distribution of gas in Ontario.[4] Due to a past market consolidation, Enbridge serves over 99.7% of all gas customers in the province.[5]

Enbridge's main competitors in Ontario are in fact electricity distribution companies. Most of these electricity distribution companies are owned by municipalities, like Toronto Hydro or Hydro Ottawa. The biggest threat to Enbridge's business is that its customers convert from gas heating to high-efficiency electric cold climate heat pumps. Another threat is that customers with expensive oil heating decide to switch to electric heat pumps instead of gas.

Enbridge has an additional interest in gaining and keeping gas customers in Ontario because it and its parent and sister companies own many of the large gas transmission pipes that bring gas to Ontario and move it between regions within

[2] Enbridge Evidence in Ontario Energy Board File #EB-2022-0200, Exhibit 1, Tab 10, Schedule 3, Page 2 (link).
[3] Dr. Heather McDiarmid, *An Analysis of the Financial and Climate Benefits of Electrifying Ontario's Gas-Heated Homes by Installing Air-Source Heat Pumps*, August 2, 2022, p. 8 (link).
[4] Gas distribution pipelines are a natural monopoly. Each gas distribution company has a monopoly in the area it serves.
[5] Ontario Energy Board, Yearbook of Natural Gas Distributors, 2021/22, p. 15 (link).

Ontario. If gas demand stops growing or falls, Enbridge and its parent and sister companies could lose revenue.

The Context: Gas Expansion Communities

The deceptive marketing in this case was (and continues to be) directed to customers in gas expansion communities. These are small existing communities that Enbridge is adding to its gas system through a government program.[6] Like everywhere else in its system, Enbridge has an interest in signing up new customers in these communities, to help to trigger "upstream" capital investments that Enbridge profits from. New customers also help to generate the revenue needed to pay for existing infrastructure.

Enbridge has a particularly strong interest in signing up new customers in these gas expansion communities because it is required to maintain a "ten-year rate stability period" for each project.[7] That means that Enbridge bears the financial risk for that ten-year period that too few customers connect to the new pipeline to pay for it.[8]

The Competition: High-Efficiency Cold Climate Heat Pumps

For a long time, methane gas was the cheapest way to heat homes. However, electric cold climate heat pumps are now much cheaper than gas for consumers.[9] Annual costs are lower because heat pumps are approximately three times more efficient than gas furnaces (or five times for ground-source heat pumps, also known as geothermal) and because customers can avoid paying monthly charges to Enbridge for use of its gas system.[10] Upfront equipment costs are also often lower because heat pumps provide both heating and cooling in one unit and because of federal rebates.

Heat pumps are so efficient because they *move* heat instead of *converting* gas or electricity into heat. Standard gas and electric heating cannot surpass 100% efficiency, whereas heat pumps can be multiple times more efficient – they can use 1 kW of electricity to move 3 kW of heat (or more) indoors. They can do this even

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[6] For background on the program, see: Globe and Mail, *Ontario increasing reliance on natural gas as others move away from fossil fuels*, June 11, 2021 (link).
[7] Ontario Energy Board, Letter Re Potential Projects to Expand Access to Natural Gas Distribution, March 5, 2020. p. 7-8 (link).
[8] *Ibid*.
[9] Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, p. 23 (link); Dr. Heather McDiarmid, *An Analysis of the Financial and Climate Benefits of Electrifying Ontario's Gas-Heated Homes by Installing Air-Source Heat Pumps*, August 2, 2022, p. 11 (link); For the difference in costs with the latest gas prices, see Ontario Clean Air Alliance, *Heat Pump Calculator for New Gas Communities*, (link).
[10] National Resources Canada, *Heating and Cooling With a Heat Pump*, (link).

in cold temperatures because, counterintuitively, there is still a great deal of heat energy in very cold air.[11]

Customers are very vulnerable to deceptive advertising about the benefits of gas heating because most are not aware of heat pumps or the advancements that have been made in heat pumps in recent years. Recent changes that have made heat pumps less expensive than gas heating include the following:

- The efficiency of heat pumps has been increasing with advancements such as variable speed compressors.[12] Units available in Canada are up to 380% efficient even in cold areas like Ottawa (and more for ground source heat pumps).[13] More efficient units are cheaper to operate because they use less electricity.

- Heat pumps are now able to provide heating in Ontario's cold winters.[14]

- Canada's steadily increasing price on carbon pollution makes gas heating more and more expensive every year vis-à-vis electrical heating. By 2030, the carbon pollution price on gas will equal 32.40 cents/m^3.[15] By comparison, that amounts to over *three times* the price charged by Enbridge for methane gas in Toronto in January of 2020 (10.19 cents/m^3).[16]

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[11] National Resources Canada, *Heating and Cooling With a Heat Pump*, (link) ("It may be surprising to know that even when outdoor temperatures are cold, a good deal of energy is still available that can be extracted and delivered to the building. For example, the heat content of air at -18°C equates to 85% of the heat contained at 21°C. This allows the heat pump to provide a good deal of heating, even during colder weather.")
[12] Enbridge Gas, Federal Carbon Charge (link).
[13] National Resources Canada, Heating and Cooling With a Heat Pump (link). National Resources Canada notes: "On a seasonal basis, the heating seasonal performance factor (HSPF) of market available units can vary from 7.1 to 13.2 (Region V). It is important to note that these HSPF estimates are for an area with a climate similar to Ottawa. Actual savings are highly dependant on the location of your heat pump installation." Most Ontarians live south of Ottawa. The conversion factor between HSPF and a seasonal Co-Efficient of Performance (sCOP) is HSPF*0.293. An HSPF of 13.2 amounts to an sCOP of 3.8676, which equates to the heat energy output from the unit being 386% of the electrical energy input into the unit.
[14] National Resources Canada, *Heating and Cooling With a Heat Pump*, (link) ("More recently, air-source heat pumps that are better adapted to operating in the cold Canadian climate have been introduced to the market. These systems, often called cold climate heat pumps, combine variable capacity compressors with improved heat exchanger designs and controls to maximize heating capacity at colder air temperatures, while maintaining high efficiencies during milder conditions.").
[15] Enbridge, *Federal Carbon Charge* (link).
[16] Ontario Energy Board, *Historical Natural Gas Rates* (link).

- The federal government is now providing $5,000 incentives for customers to switch to high-efficiency electric heat pumps as part of its Greener Homes Grant.[17]

- The federal government is now providing an *additional* $5,000 in incentives for customers to switch from oil to high-efficiency electric heat pumps if they earn a median income or lower (e.g. $122,000 after-tax income for a family of 4 in Ontario) through the Oil to Heat Pump Affordability Program.[18]

- The federal government is now providing up to $40,000 in interest free loans, which can be put towards conversions to electric heat pumps, and not gas equipment, through the Greener Homes Loan.[19]

A typical homeowner in a gas expansion community would save approximately $20,000 with an electric heat pump versus gas heating over the lifetime of their heating equipment.[20] These savings mainly come from lower ongoing heating costs and cooling costs, which arise because electric heat pumps are more efficient at heating and cooling in comparison to traditional gas equipment paired with an air conditioner. As noted above, savings can also arise from lesser upfront costs. The $20,000 savings figure does not incorporate the benefit from interest-free financing available for heat pumps or the new $5,000 oil to heat pump incentive.

The actual savings will fluctuate depending on building characteristics, energy prices, and assumptions such as equipment costs. For instance, the savings from heat pumps will decline if, for example, gas prices drop or if a customer requires an upgrade to their electrical panel for the heat pump (which costs approximately $2,000).[21] On the other hand, savings from heat pumps will increase if gas prices increase, a house is heated with electric baseboards (because gas heating requires approximately $7,000 to add ducts whereas heat pumps can be installed without ducts),[22] or a customer with oil heating is eligible for $10,000 in federal rebates.[23] An expert analysis conducted by the Energy Futures Group found that heat pumps are still cheaper on a full lifetime basis even if various assumptions are adjusted to

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[17] Government of Canada, *Canada Greener Homes* Grant (link).
[18] Government of Canada, *Oil to Heat Pump Affordability Program* (link).
[19] Government of Canada, *Canada Greener Homes Loan* (link).
[20] Dr. Heather McDiarmid, *An Analysis of the Financial and Climate Benefits of Electrifying Ontario's Gas-Heated Homes by Installing Air-Source Heat Pumps*, August 2, 2022, p. 11 (link); For the difference in costs with the latest gas prices, see Ontario Clean Air Alliance, *Heat Pump Calculator for New Gas Communities*, link; see also Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, p. 23 (link).
[21] Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, p. 24 (link).
[22] Enbridge, *Response to Board Staff Interrogatory 4 in EB-2022-0249*, Exhibit I.STAFF.4 (link, pdf page 23).
[23] Government of Canada, *Oil to Heat Pump Affordability Program* (link); Government of Canada, *Canada Greener Homes* Grant (link).

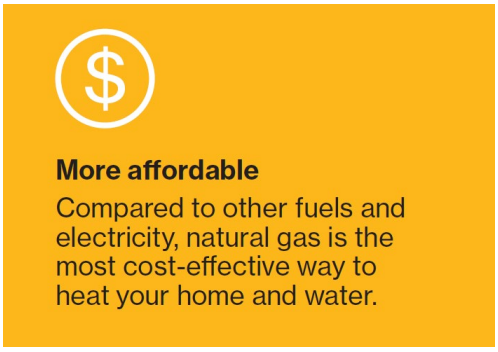
favour gas heating even outside community expansion areas where the 23 cents/m^3 surcharge applies.[24]

False and misleading representations

Enbridge is misleading customers into connecting to its gas system through deceptive marketing. These representations are being made in materials sent by mail, delivered at the doorstep, and posted at community events. A full package of these materials is attached. They are discussed below.

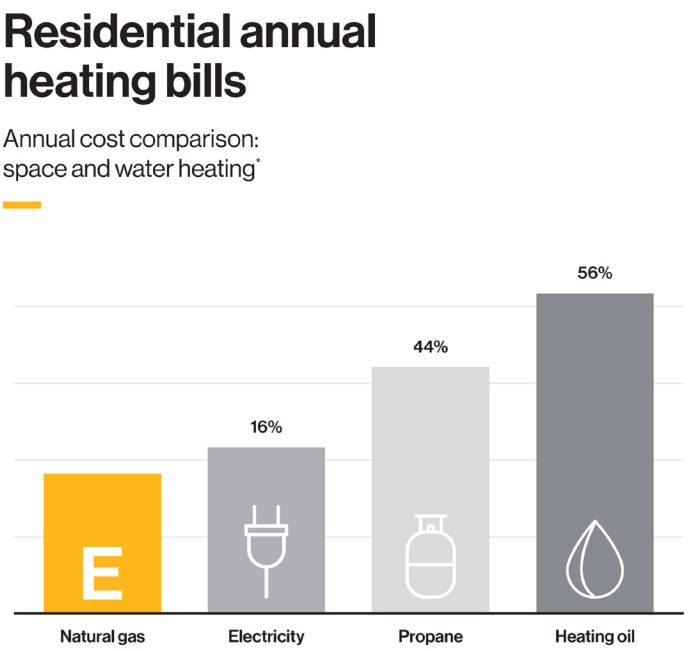
Deceptive representation 1: That gas is the most cost-effective way to heat homes

Various Enbridge marketing materials explicitly state that gas is the most cost-effective way to heat homes. That is false. As noted above, electric heat pumps are far less expensive for homes in Ontario. An example is excerpted below:



In addition, other materials may not *explicitly* say that gas is the most cost-effective way to heat homes, but they leave that general impression. This includes the "annual cost comparison" bar chart shown below:

[24] See, for example, the analysis in the following evidence at pages 23-24 of cost-effectiveness based on different assumptions: Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, pp. 23-24 (link).



In addition, the above bar chart explicitly states that gas heating is less expensive than electric heating, which is false. As noted above, electric heat pumps are much less expensive. Old-style electric baseboard heaters may be more expensive than gas, but that is not what Enbridge's materials state – either in the main body of the materials or the fine print. They state that annual heating is cheaper with "natural gas" versus "electricity." As another example, see the following letter sent to residents:

ENBRIDGE
Life Takes Energy®

We're proud to energize the Township of Selwyn!

Dear Selwyn Resident,

Now's the time to apply for natural gas

We have some good news to share with you. Your address is identified as in scope for receiving natural gas shortly, and we want to make sure you're in the best position to connect as soon as possible. By signing up now, we'll be able to prioritize your service install as soon as the natural gas main is installed in front of your house. You may see us working on your street, including items such as survey stakes or locates.

If you're considering converting to natural gas, the earlier you apply the better as permits and locates can take time.

Refer to the Four-Step Process card when you're ready to apply, then visit **enbridgegas.com/savewithgas** to start your application. You're required to agree to the Terms and Conditions – either electronically during sign up at **enbridgegas.com/savewithgas**, or you can complete and email this to our Community Expansion Advisors at **ceapplications@enbridge.com** when the form is complete.

Unlock the value of natural gas

When compared to using electricity, propane or oil, natural gas could save you up to 54%* per year on home and water heating costs. Natural gas is also the most affordable way to run appliances like ranges, clothes dryers and barbecues.

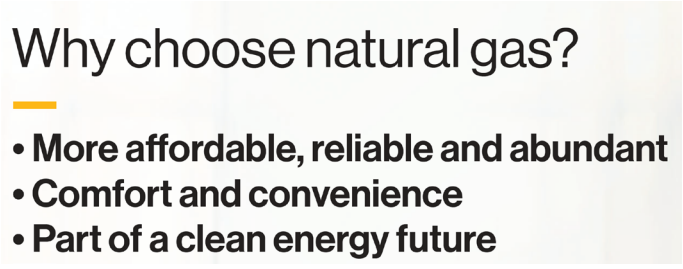
Various Enbridge marketing materials state that customers will save money by switching to gas. That may be true if a customer is switching from oil or propane. But it is highly misleading because it omits two important caveats: (a) customers could save far more by switching to an electric heat pump instead and (b) customers who already have a heat pump (which are admittedly few) would lose money by switching. An example is excerpted below:

Deceptive representation 2: That methane gas is "low carbon" and "clean energy"

Various Enbridge marketing materials use deceptive wording relating to heating by methane gas, including "low carbon" and "clean energy." They leave the general impression that methane gas can be accurately described with those terms and that switching to gas is environmentally conscious, which is false. Methane gas is a potent greenhouse gas that pollutes the environment and causes climate change when it is burned and when it leaks without being combusted.

Switching from propane or oil to gas may result in lower carbon emissions. But switching from electricity to gas will result in *higher* carbon emissions. And heating with heat pumps results in the lowest carbon emissions.

Two examples of deceptive representations are excerpted below:



Lower carbon emissions

Natural gas is cleaner than other fuels and can help reduce your home's carbon footprint.

Knowledge

Enbridge knows that the above representations are false, that gas is not the most cost-effective way to heat homes, and that gas is a potent greenhouse gas that contributes far more to climate change when used to heat homes in comparison to electricity.

Knowledge re cost-effectiveness of heat pumps

In 2020, Enbridge acknowledged in an Ontario Energy Board proceeding that customers would have higher annual heating costs with gas in comparison to high-efficiency electric heat pumps in gas expansion communities. This would have certainly come to the attention of upper-level Enbridge managers because it was discussed in a report of Ontario's Auditor General. The report contained the following passage:

> For example, in 2020, the OEB approved a utility proposal to construct a $10.1-million natural gas pipeline to connect new customers in North Bay. An Enbridge survey had indicated there was interest in doing so from homeowners who were using costly oil, propane or low-efficiency electric baseboards for heating. Once approved by the OEB, the project was eligible to receive a subsidy of $8.7 million to be paid by existing ratepayers. Without this subsidy the project was not economically feasible for the estimated 134 potential new natural gas customers. Even with an average subsidy of $65,000 per potential new customer, **the utility estimated that the potential customers would have higher annual heating costs than if high-efficiency electric heat pumps were used.** (emphasis added)[25]

Enbridge is also aware that heat pumps are more cost effective than gas from evidence in other proceedings it has been involved in and from a recent decision of the Ontario Energy Board, which approved incentives to switch from gas to electric heat pumps on the basis that this would be "a major benefit for customers."[26]

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[25] Office of the Auditor General of Ontario, *Value-for-Money Audit: Reducing Greenhouse Gas Emissions from Energy Use in Buildings*, November 2020, p. 18 (link).
[26] Ontario Energy Board, *Decision and Order in EB-2021-0002*, November 15, 2022, p. 28 (link).

Knowledge that methane gas is not "low carbon" or "clean energy"

According to Enbridge's own evidence in Ontario Energy Board proceedings:

- The combustion of methane gas is responsible for approximately one-third of Ontario's greenhouse gas emissions;[27] and

- Gas heating results in far more carbon emissions than electric heating, even if the electric heating is with baseboards instead of high-efficiency electric heat pumps.[28]

Harm

Enbridge's deceptive representations cause significant harm whenever they succeed in convincing a customer to connect to Enbridge's gas system instead of lowering their bills with heat pumps. Most obviously, it will result in approximately $20,000 in unnecessary costs to the customer over the lifetime of the equipment.

In addition, customers are often effectively locked into gas when they connect to the gas system. For a customer to switch over to gas, they typically must spend thousands of dollars replacing their heating equipment. Enbridge estimates the cost at $5,000 for a home heated with oil and $12,000 for a home heated with electric baseboards.[29] This effectively locks those customers into gas because it is most cost-effective to switch to an electric heat pump when your existing heating equipment requires replacement in any event. That time of "natural replacement" will not occur until their new gas equipment comes to the end of its life in roughly 15 years. Stated differently, the switch to gas wastes money on gas equipment that could have been spent switching over to a heat pump instead.

There are negative impacts on competitors too. More people converting to gas means less demand for heat pumps. This negatively impacts heat pump manufacturers, distributors, and installer. It also negatively impacts companies that generate or transport electricity.

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[27] Enbridge Evidence in Ontario Energy Board File #EB-2022-0200, Exhibit 1, Tab 10, Schedule 3, Page 2 (link)
[28] Enbridge Response to Interrogatories in EB-2019-0188, Exhibit I.ED.7, Attachment 1, Page 2 (link, pdf page 180).
[29] Enbridge, *Response to Board Staff Interrogatory 4 in EB-2022-0249*, Exhibit I.STAFF.4 (link, pdf page 23). According to Enbridge, customers can convert their existing propane furnace to burn methane gas for $600. However, these customers lose the benefit of securing new heating and cooling equipment and would need to incur future equipment replacement costs when their furnace and/or their air conditioner reaches the end of its life. They will also end up with higher heating and cooling costs.

Society as a whole suffers as well. If fewer heat pumps are installed, Ontario's carbon pollution will be higher and it will be more difficult and more expensive to meet our carbon reduction targets. The carbon impacts are particularly problematic because they will persist for the lifetime of the equipment in question. If a consumer installs a gas furnace instead of a heat pump today, that choice could continue to result in higher-than-necessary carbon pollution until 2040.

Temporary orders

Environmental Defence requests that the Commissioner apply for a temporary order to stop the harm described above. Enbridge forecasts connecting 3,855 customers to its gas system in these gas expansion communities alone over 2023 to 2025.[30] If a temporary order is not made, thousands of customers could connect to the gas system while this matter is under consideration, losing approximately $20,000 each on average.

We therefore request an order that Enbridge write to all customers in the gas expansion communities and provide information on the cost-effectiveness of electric heat pumps versus gas equipment for an average customer, including all lifetime costs (equipment, heating, and cooling costs), and specific details of the rebates available for customers from the federal government, with the content to be approved by the Commissioner.

In addition, a temporary order is warranted regarding ongoing marketing. We also request an order that all future marketing materials that refer to the price of gas versus other energy options indicate the comparative cost-effectiveness of electric heat pumps versus gas equipment for an average customer, including all lifetime costs (equipment, heating, and cooling costs), and specific details of the rebates available for customers from the federal government, with the content to be approved by the Commissioner.

Disclosure re other marketing

This request primarily focuses on the deceptive marketing to customers in community expansion areas as these are the only marketing materials that we have access to. However, it is likely that deceptive representations are being made to other potential customers. This likely includes broad-based marketing and materials used with other prospective homeowners inquiring about switching to gas as well as builders and subdivision developers considering which equipment to install in new construction. These other potential customers are important. Enbridge forecasts

[30] Enbridge Gas Inc., Answer to Interrogatory from Environmental Defence in Ontario Energy Board File # EB-2022-0200, Exhibit I.2.6-ED-94, p. 5, (link) (The forecast customers over 2021 to 2023 are 2,150).

connecting over 100,000 customers between 2023 and 2025 alone (with over 13,000 switching to gas and the remaining as new construction).

We therefore request that the Commissioner require Enbridge to disclose all materials with representations relating to potential savings arising from gas, including advertising and materials that Enbridge has provided to homeowners, builders, and subdivision developers.

Although the savings from heat pumps are highest in gas expansion areas where the 23 cents/m^3 charge applies, heat pumps are still much less expensive for the average customer outside these areas.[31] These other customers are very numerous and will still lose large sums if they end up purchasing gas equipment instead of electric heat pumps.

Conclusion

Enbridge's marketing materials combine both falsehoods about the true cost of heating with gas and deceptive greenwashing. Consumers are highly susceptible to these falsehoods and deceptive messages because heat pump awareness is very low among most Ontarians. We ask that the Commissioner commence an inquiry, require further disclosure from Enbridge on its other marketing materials, institute proceedings, seek interim orders to stop the ongoing deception, and request the maximum penalties, all for the sake of protecting consumers, competition, and the climate.

Keith Brooks
Programs Director
Environmental Defence

Attachment 1: Material required by s. 9 of the *Competition Act*
Attachment 2: Marketing material in community expansion areas

[31] Evidence of the Energy Futures Group in Ontario Energy Board File # EB-2022-0200, p. 23 (link); Dr. Heather McDiarmid, *An Analysis of the Financial and Climate Benefits of Electrifying Ontario's Gas-Heated Homes by Installing Air-Source Heat Pumps*, August 2, 2022, p. 6 (link).