January 18, 2024

The Honourable Todd A. Smith
Minister of Energy
77 Grenville Street, 10th Floor
Toronto, Ontario M7A 2C1
MinisterEnergy@ontario.ca

Dear Minister Smith,

Re: OEB Decision Supporting Affordability for New Homebuyers

We are writing regarding the decision of the Ontario Energy Board ("OEB") to end the subsidy for methane gas pipelines in new residential developments. We are concerned that your Ministry has been given misleading information about this important decision. In reality, ending the subsidy would greatly improve affordability for Ontario homebuyers. In the words of the OEB, it would be a "win for homebuyers."[1] We are asking that you reconsider the plan to override this positive decision with legislation.

Ending the subsidy would not slow or halt home construction as stated in the press release issued by the Ministry the morning after the OEB's decision. Costs can be lowered and building timelines sped up by forgoing gas pipelines in new developments, using heat pumps and induction stoves instead. This would benefit new homebuyers by lowering energy bills, lowering carbon emissions, avoiding future home decarbonization retrofit costs, eliminating carbon monoxide poisoning risks, and improving indoor air quality and health outcomes for children, seniors, and other residents.

Housing growth can be supported by the OEB and your Ministry by helping to lower the cost of *electricity* infrastructure, which is always needed in all developments. We have included some proposals below. We urge you to pursue these in lieu of passing legislation that would reduce affordability, harm homebuyers, and increase energy bills across the province.

Background – The Fossil Fuel Subsidy and OEB Decision

The OEB's decision ended a subsidy for the cost of extending methane gas pipelines in and within new residential housing developments. The subsidy was previously worth approximately $4,500 per home on average.[2] The costs of extending the gas pipeline infrastructure were covered by other gas users. It was not a loan as suggested by the Ministry's press release, but an upfront subsidy.

[1] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 37 (link).
[2] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 (link).

The OEB ended the subsidy because it is bad for existing gas customers and bad for new homebuyers. The subsidy is bad for existing gas customers because they pay for the subsidy through higher energy bills. This is a major capital cost – amounting to over $250 million each year.[3] The subsidy is bad for new homebuyers for many reasons, including that it encourages developers to install gas equipment, which is much more expensive to operate.[4] As such, the subsidy causes higher energy bills for both existing gas customers and new homebuyers. The subsidy also encourages fossil fuel use. Eliminating it will be a win-win-win – for existing gas customers, for new homebuyers, and for reducing carbon pollution.

Impact on Housing

The Ministry's press statement says that the OEB decision will "lead to skyrocketing costs" and would "slow or halt the construction of new homes."[5] This is not true. Most importantly, developers can simply forgo gas connections. This totally eliminates the cost and time of bringing gas pipes to the development and to each home's gas meter. It also eliminates the time and cost of bringing in gas fitters to install gas pipes inside each home after they have been framed in. There is also no incremental cost for developers to install heat pumps instead of gas furnaces.[6]

Although the OEB decision would not negatively impact the timing or cost of housing construction, the OEB could take additional steps in a different venue to actually lower the cost of housing construction with respect to electricity infrastructure. The Ministry has already asked the OEB to consider these actions and to report back in June.[7] Instead of overriding the OEB's recent positive decision, the Ministry could ask the OEB to expedite the work to lower the cost of electricity infrastructure in new developments, consider a wider range of options for doing so, and ensure that changes are in place before the end of this year.

---

[3] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 48 (link); The cost is over $300 million annually including all cost categories, such as capitalized overhead per Exhibit J13.7 (link, PDF p. 305).

[4] The OEB's decision and many studies confirm that heat pumps achieve lower costs versus gas equipment - see: Evidence of the Energy Futures Group in OEB 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); Corporate Knights, GREEN house effect: Calculate the savings from electrifying your home, June 20, 2023 (link); Ontario Ministry of Energy, Discussion Paper, August 2023, pp. 10-11 (link); OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 41 (link) and see also p. 34 regarding the perverse incentives for developers.

[5] Ontario Government Press Release, December 22, 2023 (link).

[6] Developers generally do not pay for heating equipment costs. Instead, the homebuyers pay the cost directly through rental agreements. Again, homeowners end up with lower energy bills because heat pumps are roughly three times as efficient as gas furnaces and they do not need to pay fixed monthly charges for a gas connection, which are more than $310 annually.

[7] Letter of Direction to the OEB, November 29, 2023, p. 2 (link).

There are options open to the OEB that could reduce the up-front cost of electricity infrastructure to new developments in the range of $10,000 per home. In addition to the items outlined in the Ministry's Letter of Direction, the OEB could consider an electricity-system equivalent to the surcharges that support gas expansion to communities previously unserved by gas.[8] For developments that forgo gas, these changes could greatly decrease developer costs. For developments that choose to install gas for one reason or another, the electricity-side changes would outweigh the elimination of the fossil fuel subsidy, and thus still result in reduced developer costs. This would maintain the incentive for developers to choose the option that creates the lower cost for existing gas customers and new homebuyers.

Benefiting all Ontarians

Letting the OEB's decision stand would benefit all Ontarians. Those benefits include the following:

- **Lower energy bills for existing gas customers:** Eliminating the subsidy will lower energy bills for existing gas customers by avoiding over $250 million each year in unnecessary gas pipeline costs covered by gas rates.[9]

- **Encourage the most cost-effective development decisions:** Developers do not have the right incentives now because they do not pay for gas infrastructure and do not pay the ongoing energy costs to run the expensive gas equipment they install.[10] Eliminating the pipeline subsidy will encourage developers to install equipment that is best for the homebuyers.[11]

- **Many benefits for new homebuyers:** Better incentives for developers will encourage them to install heat pumps and induction stoves, which have many benefits for new homebuyers, including the following:

[8] In the gas context, these are called the System Expansion Surcharge ("SES") and Temporary Connection Surcharge ("TCS"). They are a charge of $0.23 cents per cubic meter of gas for newly connecting customers, which is used to defray upfront costs. An equivalent charge could be considered for electricity infrastructure in new developments.
[9] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 48 (link); The cost is over $300 million annually including all cost categories, such as capitalized overhead - see Exhibit J13.7 (link, PDF p. 305).
[10] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 (link).
[11] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 41 (link)("When a developer is faced with the full cost of including gas service in a development, that developer will be fully incented to choose the most cost effective, energy efficient choice in a manner that not only achieves efficiency in the cost of housing in a competitive market and lowers the operating cost of that housing, but also maximizes the contribution to achieving government decarbonization policy goals.")

- **Lower energy bills:** Heat pumps and induction stoves are much cheaper to operate than gas.[12]

- **Avoid future retrofit costs:** Installing electric equipment now will avoid retrofit costs that would otherwise be needed in the future for homes to get off fossil fuels for heating and cooking.[13]

- **Eliminate carbon monoxide poisoning:** Electric equipment fully eliminates the risk of carbon monoxide poisonings and fatalities from gas appliances.

- **Indoor air quality:** Gas equipment, especially stoves, emit toxic gases into homes, which can contribute to respiratory problems, especially in children, seniors, and asthma sufferers.[14] One study found that 13% of childhood asthma in the United States is attributable to gas stove use.[15] Electric equipment results in cleaner air and healthier families.

- **Safety and convenience:** Induction stoves heat water faster than gas, are easier to clean, and are much safer for children as the surface does not get hot.[16] Heat pumps are stronger and more efficient than traditional air conditioners, providing better and cheaper cooling in the summer.[17] These are just some of the additional benefits of electric equipment.

- **Lower carbon pollution:** Encouraging less gas helps to avoid the carbon pollution that is already causing more frequent wildfires, drought, and green Christmases.

---

[12] The OEB's decision and many studies confirm this. See Evidence of the Energy Futures Group in OEB 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); Corporate Knights, GREEN house effect: Calculate the savings from electrifying your home, June 20, 2023 (link); Ontario Ministry of Energy, Discussion Paper, August 2023, pp. 10-11 (link); OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 41 (link).

[13] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 38 (link).

[14] CBC, *After seeing how gas stoves pollute homes, these researchers are ditching theirs*, April 7, 2022 (link); CBC,

[15] Taylor Gruenwald et al, Population Attributable Fraction of Gas Stoves and Childhood Asthma in the United States, Int. J. Environ. Res. Public Health 2023, 20(1), 75 (link).

[16] CBC, *Professional chefs tout the culinary — and environmental — advantages of induction stoves*, April 7, 2022 (link).

[17] Evidence of the Energy Futures Group in OEB File # EB-2022-0200, p. 22 and footnote 48 (link).

- **Jobs and growth:** Electric heating is much better for our economy than gas heating. Spending on gas flows out of the province and is lost to our economy. Spending on electricity will fund the growth of made-in-Ontario electricity generation, distribution, and transmission, creating good jobs, economic growth, and government revenue.

Reversing the OEB's decision would undo all of the above important benefits for Ontarians.

OEB Independence

The OEB's decision to end the gas pipeline subsidy was made based on detailed evidence and a thorough process. Passing legislation to override that decision would trample on the OEB's independence. The OEB's mandate is to protect the interests of consumers, which is what it was attempting to do with the recent decision. Reversing this decision will cause harm to consumers.

Conclusion

Many jurisdictions, including New York State and Montreal, are prohibiting methane gas connections in new construction.[18] This makes a great deal of sense as a way to lower energy bills now *and* avoid expensive retrofit costs down the road. It also shows that housing development does not require gas. It would be ill-advised to not only allow new gas-heated subdivisions, which saddle new homebuyers with needlessly high energy bills, but to pass legislation to maintain a *subsidy* for new gas connections and overrule the independent adjudicative body that found that those subsidies harm Ontarians and result in unnecessarily high energy bills.

The Ministry acted incredibly quickly in response to the OEB's decision. There has now been much more time to properly digest the decision and hear additional perspectives. We hope you will allow this win-win-win decision for affordability, the climate, and the economy to stand.

cc: David Donovan, Chief of Staff, david.donovan@ontario.ca
Palmer Lockridge, Deputy Chief of Staff, Palmer.Lockridge@ontario.ca
Devin Nicol, Director of Policy, Devin.Nicol@ontario.ca
Jason Fitzsimmons, Deputy Minister of Energy, jason.fitzsimmons@ontario.ca
Karen Moore, Assistant Deputy Minister, karen.moore@ontario.ca
Patrick Sackville, Chief of Staff to the Premier, Patrick.Sackville@ontario.ca
Kevin Lynch, Director of Policy, Kevin.Lynch@ontario.ca
Peter Tabuns, Energy Critic, tabunsp-qp@ndp.on.ca
Ted Hsu, Energy Critic, thsu.mpp.co@ola.org

[18] Over 20 jurisdictions in the United States have prohibited gas connections in new construction. See EB-2022-0200, Exhibit J8.3, Attachment 1 (link, PDF p. 66)

Signed

Keith Brooks
Programs Manager
Environmental Defence

Jack Gibbons
Chair
Ontario Clean Air Alliance

Keith Stewart
Senior Energy Strategist
Greenpeace Canada

Gabriella Kalapos
Executive Director
Clean Air Partnership

Lana Goldberg
Safe Cities Climate Campaigner
Stand.earth

Dr. Mili Roy MD
Co-chair, Canadian Assn of Physicians for the Environment
Ontario Regional Committee

Brendan Haley, PhD
Director of Policy Research
Adjunct Research Professor at Carleton School of Public Policy & Administration

Liz Benneian
Chair
Biodiversity and Climate Action Niagara

Amara Possian
Canada Team Lead
350.org

Dr. Mili Roy MD
Co-chair, Ontario Climate Emergency Campaign
Assistant Professor, Faculty of Medicine
University of Toronto

Sue McKenzie
Co-founder, Climate Action Muskoka (CAM)
Lesley Hastie, CAM Steering Committee Member

Hart Jansson
Co-founder and Chair
Halton Action for Climate Emergency Now (HACEN)

Herb Sawatzky
50 by 30 Niagara

Guy Hanchet
President
For Our Grandchildren

Carole Holmes
Co-Chair
Grand(M)others Act
to Save The Planet

Lyn Adamson
ClimateFast