



February 12, 2024

Your Worship and Members of Council,

**Re: OEB Decision Supporting Gas Affordability**

We are writing regarding the decision of the Ontario Energy Board ("OEB") to end the subsidy for methane gas pipelines in new residential developments and reduce spending on gas pipelines generally. This is an excellent decision that will help to lower the energy bills of your residents and help achieve municipal climate targets. Unfortunately, Enbridge has been working to overturn the decision because it would greatly reduce their profits.

We know that Enbridge has asked municipalities to lobby the Ontario Government to pass legislation reversing the decision, based on incorrect and misleading information. We are writing to correct the record.

Enbridge's letters exclude key facts. For instance, they don't mention how much the OEB decision would save gas customers – over \$2 billion over five years, or approximately \$600 per customer.<sup>1</sup> The OEB decision would also encourage more heat pumps in new buildings, which would lower energy bills for new homebuyers while lowering carbon pollution.<sup>2</sup> Enbridge says there is no subsidy for pipelines in new construction and that the OEB decision will eliminate gas from Ontario's energy mix while undermining housing supply and affordability. The opposite is true.<sup>3</sup> The OEB decision promotes housing affordability and avoids the risk of gas prices spiralling out of control in the future due to excessive spending on fossil fuel infrastructure today.<sup>4</sup>

The subsidy for new gas pipelines conflicts with municipal climate targets and plans. Natural gas is also known as methane gas or fossil gas. It is a fossil fuel that causes approximately one-third of Ontario's greenhouse gas emissions.<sup>5</sup> Heating homes and businesses with gas accounts for approximately 19% of Ontario's greenhouse gas emissions.<sup>6</sup> Municipalities cannot achieve net zero without eliminating the use of methane gas for building heating.<sup>7</sup>

New gas pipelines generally have a 60-year lifetime, extending far beyond 2050, and are only financially viable if they can be paid off over a long period extending far beyond 2050. It is financially and environmentally irresponsible to

be building new pipelines and installing gas equipment in new developments with a massive subsidy worth over \$250 million each year.

These recent letters to municipalities are not the first time Enbridge has tried to deceive people with omissions and deceptive statements. The Commissioner of Competition recently commenced an inquiry into Enbridge's deceptive marketing under the *Competition Act*.<sup>8</sup> Enbridge has been telling Ontarians that gas is the cheapest way to heat homes, which is not true.<sup>9</sup> Heat pumps are the cheapest systems to use.<sup>10</sup> When armed with the truth, we hope that municipal leaders will stand up for the OEB's decision, for the sake of lower energy bills for residents and a cleaner future for all municipalities.

## **Background – The OEB's Sensible Decision**

The OEB's decision ended a subsidy for the cost of extending natural (methane) gas pipelines in and within new developments effective 2025. These costs are covered by other gas users.<sup>11</sup>

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.<sup>12</sup> The subsidy is also bad for new homebuyers because it incentivizes developers to install gas equipment, which is much more expensive to operate than the heat pumps now available.<sup>13</sup> 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 is a win-win-win – for existing gas customers, for new homebuyers, and for reducing carbon pollution. The only real loser is Enbridge, which would see reduced profits when the subsidy is eliminated.

The OEB also reduced other spending on pipelines by \$250 million a year.<sup>14</sup> Those two changes amount to approximately \$600 in savings per customer over the five-year term of the OEB decision.<sup>15</sup>

## **Fact and fiction**

Enbridge argues that there is no subsidy for gas pipelines in new construction and that the OEB decision will reduce housing affordability, restrict housing supply, eliminate gas from Ontario's energy mix, and put renewable natural gas projects at risk. None of this is true.

1. **The gas pipeline subsidy:** Enbridge says that there is no subsidy for pipelines in new developments.<sup>16</sup> That is false. Most developers pay

nothing for the pipelines to and in their developments.<sup>17</sup> These costs are paid by all ratepayers. There is no surcharge levied on developers nor the new homebuyers to pay off the pipeline costs over time. Instead, the new homebuyers pay the same rates as other gas customers. It encourages fossil fuel expansion because all gas ratepayers cover the upfront cost of extending the gas expansion.<sup>18</sup>

2. **Housing affordability:** Enbridge argues that the OEB decision will undermine housing affordability. The opposite is true. It will encourage developers to install heat pumps, which are cheaper to operate than gas equipment.<sup>19</sup>
3. **Housing supply:** Enbridge argues that the OEB decision will slow down residential construction. This is untrue. Developers can simply forgo gas if they do not want to pay for gas pipelines. This requires changes that some developers do not want to make, but it need not inhibit construction.
4. **Gas for existing customers:** Enbridge argues that the decision will eliminate natural gas from Ontario's energy mix.<sup>20</sup> This is patently false. Instead, the decision protects gas customers from excessive spending that could lead to gas costs spiraling out of control.<sup>21</sup> Enbridge was planning to spend \$7 billion over the next five years (including over \$1 billion for the new construction subsidy) on fossil fuel infrastructure.<sup>22</sup> This would all need to be recouped from Ontario's gas customers. This plan was too expensive and risky, particularly as we phase out fossil fuels. The OEB's decision was consistent with the province's recent report of the Electrification and Energy Transition Panel, which discussed the need to keep costs down as customers become increasingly likely to leave the gas grid.<sup>23</sup> The OEB is a consumer protection agency and it simply did its job to protect customers.
5. **Low-carbon gases:** Enbridge is providing municipalities with template lobbying letters touting decarbonization through low-carbon gases, like biogas (which is gas captured from sources such as waste water, not extracted from underground). These gases are important for the hardest to decarbonize sectors, but they cannot replace any more than a tiny portion of the fossil-based methane gas we use today to heat our buildings.<sup>24</sup> We continue to need a huge amount of electrification even if we use low-carbon gases to their fullest. Also, the cost of the gas system must be cut dramatically for pipelines to have a viable future serving customers with low-carbon gases.<sup>25</sup>

6. **Biogas:** Enbridge says that the OEB decision puts biogas projects at risk. That would be contrary to the OEB's decision, which did not cut funding for biogas. Those projects are usually self-funded in any event.
7. **Electricity availability:** Enbridge argues that there is not enough electricity to replace gas. That is not true – increasing electricity supply is feasible and cost-effective.<sup>26</sup> But in any event, the OEB did not call for gas to be replaced by electricity. It simply said that costs must be reduced and that the subsidy for *new* pipelines must end. Ontario can certainly serve new housing with electricity if developers choose to install heat pumps instead of gas.

## Omissions

Enbridge's letter omits key details about the OEB decision. The decision, if allowed to stand, would benefit all Ontarians. Those benefits include the following:

- **Lower energy bills for existing gas customers:** The decision would lower energy bills for existing gas customers by ending the subsidy and cutting capital costs. The savings would be over \$2 billion over the five-year term of the decision (approximately \$600 per customer).<sup>27</sup>
- **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.<sup>28</sup> Eliminating the pipeline subsidy will encourage developers to install equipment that is best for the homebuyers.<sup>29</sup>
- **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:
  - **Lower energy bills:** Heat pumps and induction stoves are much cheaper to operate than gas.<sup>30</sup>
  - **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.<sup>31</sup>
  - **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.<sup>32</sup> One study found that 13% of childhood asthma in the United States is attributable to gas stove use.<sup>33</sup> 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.<sup>34</sup> Heat pumps are stronger and more efficient than traditional air conditioners, providing better and cheaper cooling in the summer.<sup>35</sup> 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.
- **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.

## Municipal climate plans and targets

Many jurisdictions, including New York State and Montreal, are prohibiting methane gas connections in new construction.<sup>36</sup> 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, but to maintain a *subsidy* for new gas connections. That subsidy is completely inconsistent with municipal climate plans and targets.

## Conclusion

The OEB decision would save gas customers over \$2 billion, but also slash Enbridge profits. Not surprising, Enbridge is rolling out a concerted effort against the OEB and its decision. As part of that effort, it is asking municipalities to write to their MPPs to ask the government to overturn the decision. We hope you will do the opposite, and write your MPP, the Minister of Energy, and the Premier in support of the OEB decision. Without this, the OEB decision will likely be reversed by the government, as they have already said they would do.<sup>37</sup> If the Government of Ontario wades in and reverses this OEB decision to support Enbridge, it would raise your residents' energy bills and make municipal climate targets even harder to reach.

If you have any questions about this letter, or would like to discuss this matter further, please don't hesitate to contact me at the email address listed below.

Sincerely,

A handwritten signature in black ink, consisting of the letters 'K' and 'B' followed by a long horizontal flourish.

Keith Brooks, Programs Director  
Environmental Defence  
kbrooks@environmentaldefence.ca

## **Attachment 1**

### **Excerpts from OEB Decision re Excessive Capital Spending**

The OEB concludes that Enbridge Gas's proposal is not responsive to the energy transition and increases the risk of stranded or underutilized assets, a risk that must be mitigated.

...

Enbridge Gas identified the energy transition as a source of increased business risk. Despite this, Enbridge Gas has proposed approximately \$14 billion in capital expenditures for the 2023 to 2032 period (an average of \$1.4 billion per year), based on a forecast that shows continued growth in natural gas peak demand, extending the historic trendline, with a very small impact from the energy transition. The actual capital spend for the prior five years (2018 to 2022) was \$5.7 billion (average of \$1.1 billion year).

...

The risk that arises from the energy transition results from gas customers leaving the gas system as they transition to electricity to meet energy needs previously met by natural gas. This departure gives rise to assets that are not fully depreciated but are no longer used and useful. This results in stranded asset costs that Enbridge Gas would seek to recover from the remaining gas customers. This in turn would increase rates for those gas customers, leading more customers to leave the gas system, potentially leading to a continuing financial decline for the utility, often referred to as the utility death spiral.

In the face of the energy transition, Enbridge Gas bears the onus to demonstrate that its proposed capital spending plan, reflected in its Asset Management Plan, is prudent, having accounted appropriately for the risk arising from the energy transition.

The record is clear that Enbridge Gas has failed to do so.

...

The OEB is not satisfied that Enbridge Gas's proposal will not lead to an overbuilt, underutilized gas system in the face of the energy transition.<sup>38</sup>

## Attachment 2

### Excerpts from Electrification and Energy Transition Panel Report

[E]merging evidence shows that it is unlikely the natural gas system can be fully decarbonized and continue to deliver cost-effective building heat. The development of regulatory frameworks and the evolution of natural gas infrastructure will need to align with the province's overarching clean energy economy commitment and protect customers as the role of natural gas changes in the province. A failure to align these regulatory frameworks with government's overarching policy commitments could result in significant cost hazards for customers or threats to overarching government policy commitments and an effective, orderly and well-aligned transition to a clean energy economy.

...

The speed at which customers would change their heating source is uncertain and dependent on a large number of individual factors, such as equipment age and personal preferences and values, as well as system-level and policy factors, such as cost development, availability of equipment and qualified technicians, and supportive policies and incentives. Nonetheless, this could lead to many customers disconnecting from the natural gas system absent any personal motivation to lower their carbon footprint. As a result, there is a real risk of stranding assets in home heating and the gas distribution grid over the medium to long-term, with significant risk to customers, investors and public finances. As more customers exit the natural gas grid to adopt electric heating, those customers who are least able to afford to electrify could be forced to pay higher and higher proportions of the network cost to keep the system running safely.

...

In either case, it is in the interest of the province, for the purpose of customer protection, to ensure that the regulatory mechanisms for the governance of the natural gas grid are aligned with a range of plausible outcomes, notably those that pose the greatest risks to customers.<sup>39</sup>



Notes:

<sup>1</sup> The OEB decision would reduce capital costs to be recouped from gas customers (through what is known as “rate base”) by over \$2.25 billion over the five-year term of the decision due to the elimination of the gas pipeline subsidy starting in 2025 (see the [OEB Decision](#), p. 48, and the all-in costs at p. 305 of [this evidence](#)) and the \$250 million per year capital spending reduction (see the [OEB Decision](#), p. 57). The actual savings would be even higher because customers pay interest and a return (i.e. profits) on capital spending to Enbridge over time. Even more would be saved by avoiding the cost in the future to disconnect meters and cut off services for customers that switch away from gas. There are approximately \$3.8 million Enbridge customers.

<sup>2</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 41 ([link](#)).

<sup>3</sup> See pages 2-3 above.

<sup>4</sup> See page 3 above, [attachment 1](#), and [attachment 2](#).

<sup>5</sup> Enbridge Evidence in Ontario Energy Board File #EB-2022-0200, Exhibit 1, Tab 10, Schedule 3, Page 2 ([link](#)). upstream leaks add at least an additional 40% to the harmful climate impact (likely more if the latest science and measurements are used).

<sup>6</sup> 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](#)).

<sup>7</sup> See [attachment 2](#) below and the submissions of Environmental Defence, p. 6-8 ([link](#)).

<sup>8</sup> National Observer, *Competition Bureau launches investigation into Enbridge over deceptive marketing*, January 11, 2024 ([link](#)).

<sup>9</sup> Application to the Competition Bureau dated June 19, 2023 ([link](#)).

<sup>10</sup> 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](#)).

<sup>11</sup> The subsidy was previously worth approximately \$4,500 per home on average. See OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 ([link](#)).

<sup>12</sup> The cost is over \$300 million annually including all cost categories, such as capitalized overhead per Exhibit J13.7 ([link](#), PDF p. 305); OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 48 ([link](#));

<sup>13</sup> 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.

<sup>14</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 57 ([link](#)).

<sup>15</sup> See note 1 above.

<sup>16</sup> Letter from Enbridge Gas, February 7, 2024 ([link](#)).

<sup>17</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 ([link](#)) (“As a result of using the 40-year revenue horizon, virtually all developments end up including gas servicing, since the developer bears little or no cost to include gas servicing, has no responsibility for the energy bills to be paid by subsequent property owners, no exposure to the future stranded asset cost risk resulting from the energy transition, and therefore, no incentive to consider any of those impacts or alternatives that would avoid or reduce those impacts.”).

<sup>18</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, pp. 34 & 41 ([link](#)).

<sup>19</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 41 ([link](#)).

<sup>20</sup> Letter from Michele Harradence, President of Enbridge Gas Inc., January 24, 2024 ([link](#)).

<sup>21</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 19 ([link](#)) (“The OEB concludes that Enbridge Gas’s proposal is not responsive to the energy transition and increases the risk of stranded or underutilized assets, a risk that must be mitigated. ... The risk that arises from the energy transition results from gas customers leaving the gas system as they transition to electricity to meet energy needs previously met by natural gas. This departure gives rise to assets that are not fully depreciated but are no longer used and useful. This results in stranded asset costs that Enbridge Gas would seek to recover from the remaining gas customers. This in turn would increase rates for those gas customers, leading more customers to leave the gas system, potentially leading to a continuing financial decline for the utility, often referred to as the utility death spiral.

In the face of the energy transition, Enbridge Gas bears the onus to demonstrate that its proposed capital spending plan, reflected in its Asset Management Plan, is prudent, having accounted appropriately for the risk arising from the energy transition.

The record is clear that Enbridge Gas has failed to do so.”)

<sup>22</sup> Enbridge Evidence ([link](#), PDF p. 254); Enbridge Evidence, ([link](#), PDF p. 305).

<sup>23</sup> See excerpts in Appendix 1.

<sup>24</sup> Submissions of Environmental Defence, pp. 6-8 ([link](#)).

<sup>25</sup> Approximately 87% of the revenue needed to pay for gas pipelines in Ontario comes from the “general service” customers that use methane gas to heat their buildings (see Hearing Transcript Vol. 3, p. 12, Ins. 15-25, [link](#)). If much of that revenue is lost as buildings electrify, the remaining hard-to-decarbonize sectors (e.g. industrial facilities) will need to pick up the slack, leading to skyrocketing gas rates. Costs of gas infrastructure must be contained to maintain affordability for those sectors to may want to use pipelines to transport the small amount of low-carbon gases that will be available.

<sup>26</sup> Submissions of Environmental Defence, pp. 20-21 ([link](#)).

<sup>27</sup> 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).

<sup>28</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 ([link](#)).

<sup>29</sup> 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.”).

<sup>30</sup> 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](#)).

<sup>31</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 38 ([link](#)).

<sup>32</sup> CBC, *After seeing how gas stoves pollute homes, these researchers are ditching theirs*, April 7, 2022 ([link](#)); CBC,

<sup>33</sup> 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](#)).

<sup>34</sup> CBC, *Professional chefs tout the culinary — and environmental — advantages of induction stoves*, April 7, 2022 ([link](#)).

<sup>35</sup> Evidence of the Energy Futures Group in OEB File # EB-2022-0200, p. 22 and footnote 48 ([link](#)).

<sup>36</sup> 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)

<sup>37</sup> Ontario Government Press Release, December 22, 2023 ([link](#)).

<sup>38</sup> OEB Decision and Order in EB-2022-0200, December 21, 2023, pp. 19-22 ([link](#)).

<sup>39</sup> Electrification and Energy Transition Panel, *Ontario’s Clean Energy Opportunity* ([link](#)), emphasis added.