environmental defence
INSPIRING CHANGE

February 28, 2024

Your Worship and Members of Council,

Re: OEB Decision Supporting Gas Affordability

I am writing to respond to a letter from Enbridge Gas dated February 22, 2024, regarding the recent decision of the Ontario Energy Board ("OEB") to end the subsidy for methane gas pipelines in new residential developments and to reduce Enbridge's proposed spending on gas pipelines generally. The letter was sent to Hamilton City Council, but we understand that similar communications are being circulated to other municipalities. Enbridge's letter includes incorrect statements that are not backed up by evidence. We would like to set the record straight again.

Enbridge states that new natural gas connections are **not** subsidized by the existing customer base. This is incorrect. Most developers pay nothing for the pipelines to and in their developments, giving them an incentive to install fossil fuel heating equipment and a disincentive to install heat pumps.[1] Enbridge also implies that the pipeline costs are paid off by the new homebuyers over time. This is clearly untrue because there is no surcharge levied on the new homebuyers to pay off the pipeline costs over time (or on the developers). Instead, *the new homebuyers pay the same rates as other gas customers.* For excerpts of Enbridge's evidence showing that new gas connection costs are covered by *all* gas customers, not the new homebuyers, see Attachment 1 below.

Enbridge has also suggested that the OEB decision would put other projects at risk, such as renewable natural gas projects or industrial projects. These comments are disingenuous. The OEB's decision to end the gas connection subsidy did not apply to industrial customers or renewable natural gas projects.[2]

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[1] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 34 & 41 (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.").

[2] OEB Decision and Order in EB-2022-0200, December 21, 2023, p. 42 (link) ("This change will apply to all new small commercial and residential developments, including infill projects. … The current approach for large volume customers was not an issue in the proceeding and remains unchanged.").

The OEB decision to end the connection cost subsidy applies to new residential and commercial buildings. There is absolutely no doubt that these new buildings must be electrified in order to meet climate targets. Ontario is planning to build 1.5 million homes over the next decade. Maintaining the methane gas pipeline subsidy will mean all or most will end up with fossil fuel heating as developers will have zero incentive to change practices, which will lock in a staggering amount of *additional* carbon pollution.

If 1.5 million new homes are heated with gas, that will result in over 100 megatonnes of carbon pollution (CO_2e) over the lifetime of the gas equipment.[3] To put that number in perspective, it is two-thirds of Ontario's annual carbon emissions from all sources and the equivalent of driving 22 million cars for a year (Ontario only has about 9 million cars).[4] We cannot meet climate targets while subsidizing *new* long-lived fossil fuel infrastructure that will create new sources of carbon pollution. Those kinds of investments are part of a trajectory that is already making white Christmases rare, and is increasingly causing deaths and financial ruin from floods, fires, and other extreme climate disasters.

For further details on these important issues, please see our recent letter to municipalities dated February 12, 2024, which refutes additional Enbridge claims and includes important facts that Enbridge would like to hide – especially how the new government legislation would push up energy bills for Ontario's 3.8 million gas customers.

It is incredibly important that decisions are made based on evidence. Luckily, that has already happened. The OEB as an independent arms-length government agency conducted an extensive hearing process and looked at everything Enbridge had to say. Based on that long and detailed process, the OEB decided that methane gas infrastructure spending should not be increasing and that the gas connection cost subsidy had to be phased out. The OEB also concluded that this would not raise the price of a home – a conclusion also reached by an Ivey Business School article finding that the decision would "have virtually no effect on affordable housing in the province."[5]

Enbridge is now using a team of lobbyists funded by gas customers to influence municipalities and to convince the province to introduce legislation to overturn the OEB's evidence-based decision. The reason for this is obvious. If the OEB's

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[3] Calculation: [1,500,000 homes] X [2,300 m^3 of gas per home] X [0.001966 CO2e/m^3] x [15-year equipment lifetime] = 101,740,500 tonnes CO_2e.

[4] EPA, Greenhouse Gas Equivalencies Calculator (link).

[5] When Housing Policy meets the Energy Regulator: Understanding the Minister of Energy's Decision to Effectively Overrule the Ontario Energy Board, January 2024 (link).

decision is overturned, Enbridge will earn more than $2 billion in profits over the 60 years it will take gas customers to pay down the additional capital costs.[6]

Enbridge is the only real loser from the OEB decision. Municipalities, gas customers, and new homebuyers all benefit. The facts have already been decided by an independent agency in an evidence-based process. The provincial government needs to hear that municipalities support the OEB's important decision. The provincial government has changed course before, and it is important that we convince them to do so again.

Yours truly,

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[6] Calculation: $2.25 billion in capital costs (low estimate, actual costs are higher), with 38% funded by profit-earning equity, paid down over a 60-year period, with the current 9.21% return-on-equity.

Attachment 1

Excerpts re New Customer Connection Capital Costs

The following excerpts show that the costs to connect new customers are paid for by the whole customer base – not just the new homebuyers.

The following table excerpt is taken from Enbridge's recent application for increased rates. The highlighted lines show over $250 million in annual customer connection costs as capital expenditures that will be recovered from the rates paid by all customers over time. This table can be viewed in context in this Enbridge evidence PDF at page 261 of the PDF.

Table 1
Utility Capital Expenditures by Asset Class

Line No.	Particulars ($ millions)	Category	2024 Test Year (a)	2025 Forecast (b)	2026 Forecast (c)	2027 Forecast (d)	2028 Forecast (e)	
1	Compression Stations	Storage	46.3	64.3	50.3	127.6	19.2	/u
2	Customer Connections	Growth	304.1	248.1	256.9	254.0	250.1	/u
3	Distribution Pipe	Dist Ops	357.1	414.4	282.7	250.2	316.4	/u
4	Distribution Stations	Dist Ops	83.5	113.1	105.5	79.0	116.3	/u

The following excerpt is from the Ontario Energy Board's Handbook for Utility Rate Applications.[7] It describes how "capital expenditures" are recouped from customers via rates.

Capital Expenditures

Capital expenditures are amounts spent by a utility to acquire or enhance fixed assets, such as land, buildings, and major equipment. When the asset is ready to be used, the expenditure is added to rate base as a capital addition. The expenditure is then recovered through rates over the life of the asset.

Enbridge asked the OEB to approve adding $1.3 billion of customer connection capital expenditures into "rate base" for recovery from gas customers over five years. Note, however, that the costs are actually higher because the table above from Enbridge's application does not include all of its proposed capital expenditures on connection costs (such as the costs of meters and capitalized overheads). The full amount is over $1.5 billion over 5 years including all connection costs.[8]

[7] OEB, Handbook for Utility Rate Applications, October, 13, 2026 (link, PDF p. 36).
[8] Enbridge interrogatory response J13.7 (link, PDF p. 305).