environmental defence
INSPIRING CHANGE

February 26, 2024

Your Worship and Members of Council,

Re: OEB Decision Supporting Gas Affordability

I am writing to respond to a letter you received 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 reduce Enbridge's proposed spending on gas pipelines generally. 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.[1] Enbridge 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's letter argues that the construction of methane pipelines is consistent with Hamilton's climate targets by referring to the ArcelorMittal Dofasco project that would lower the carbon pollution from its steel production. Enbridge implies that this project may be at risk due to the OEB decision. These comments are disingenuous. The OEB's decision to end the gas connection subsidy did not

[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.").

apply to large volume customers and would therefore have no impact on the ArcelorMittal Dofasco project.[2]

But again, 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 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. Importantly, the OEB also concluded that this would not raise the price of a new home because could entirely avoid paying for the gas connection by simply forgoing connecting to gas at all, and installing electric cold-climate heat pumps instead.

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[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.").

[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).

Enbridge is now using a team of lobbyists to influence municipalities and to convince the province to introduce legislation to overturn the OEB's evidence-based decision. We commend Hamilton City Council for avoiding this undue pressure and for standing up for your residents, for lower energy bills, and for a livable climate.

Yours truly,

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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.[5] 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.[6]

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