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January 15, 2025

Ministry of Energy and Electrification
77 Grenville Street
Toronto, ON
M7A 2C1

Attention: Mr. Nik Spohr, Senior Policy Advisor

Dear Mr. Spohr:

Re: Consultation to support the important role for natural gas in Ontario's energy system and economy (ERO 019-9501)

Peel Region appreciates the opportunity to comment on the role for natural gas in Ontario's energy system and economy. We commend the Ministry for conducting this consultation and asking important questions about Ontario's energy future. Peel Region is the second largest municipality in Ontario and home to Canada's largest airport, Toronto Pearson International Airport. As such, Peel is a hub for industry and commerce, serves a population over 1.5 million, and is growing at a rate of approximately 25,000 people per year.

In 2019, Regional Council approved Peel's first Climate Change Master Plan (CCMP) which provides organization-wide direction, and a pathway of actions needed to achieve the Region's 2030 climate change outcomes. The Plan's focus is to lead by example to influence and enable the community's low carbon and resilient transformation. The CCMP has two primary outcomes:

- Reduce corporate greenhouse gas (GHG) emissions to 45 per cent below 2010 levels by 2030.
- Be prepared by providing a safe, secure, and connected community through ensuring Regional services and assets are more resilient to extreme weather events and future climate conditions.

At the time of approving the CCMP, Council also approved the longer-term GHG reduction target of 80% corporate GHG emissions reduction below 1990 levels by 2050. Later in 2021, Council approved the resolution to advocate for a phase out of natural gas from Ontario's electricity grid (Resolution Number 2021-451):

That the Region of Peel advocate to the Premier of Ontario, the Minister of the Environment, Conservation and Parks and the Minister of Energy, Northern Development and Mines to set the legislative and policy framework to phase-out all fossil natural gas-fired electricity generation as soon as possible;

And further, that the Minister of Energy, Northern Development and Mines be requested to provide Ministerial directives to the Ontario Energy Board and Independent Electricity System Operator to assist in the development of a plan to phase out fossil natural gas-fired electricity generation in the province while meeting Ontario's electricity needs reliably, competitively, transparently, efficiently and at lowest cost;...

This resolution comes with a recognition that natural gas continues to play a role as a bridge fuel for applications where alternatives are not yet feasible. This includes heavy industry and machinery or large-scale back-up generation whereas space heating with electricity is an under-utilization of its potential.

Proposal Details

In October 2024, Ontario released a vision statement on the province's energy future. Ontario's "Affordable Energy Future: The Pressing Case for More Power" committed to include a Natural Gas Policy Statement in the province's integrated energy plan, to provide clear direction on the important role of natural gas in Ontario's future energy system. The development of a Natural Gas Policy Statement was also a recommendation of Ontario's Electrification and Energy Transition Panel (EETP).

The Ministry of Energy and Electrification (ENERGY) is seeking feedback through this posting (ERO 019-9501) including questions on principles and commitments for how the continued role of natural gas should be reflected in this statement, which will be released as part of Ontario's integrated energy plan in early 2025.

PEEL REGION STAFF COMMENTS

Question 1: What principles should the government provide to the OEB to help inform the Board's ongoing development of natural gas connection policies?

Response:

The Ontario Electrification and Energy Transition Panel Report has highlighted the difference in how up-front capital costs are handled for natural gas versus electricity connections. Gas utilities can spread these costs over up to 20 years for large industrial customers, while electricity transmitters use a shorter period of 10-15 years. This results in higher up-front costs for electricity infrastructure. Furthermore, gas utilities can collect the capital contribution as a surcharge on gas rates, while transmitters are obligated by the Ontario Energy Board's (OEB) Transmission System Code (TSC) to collect capital contributions upfront. For a fair and competitive environment these conditions should be similar.

The cost discrepancy of connecting customers and ratepayers could inhibit investments in electrification that have long term sustainability and economic development benefits. For example, the upfront cost discrepancy might dissuade a residential developer from developing an 'all electric' or low carbon neighbourhood, and persuade them to instead build a traditional, natural gas-connected development to keep upfront costs manageable.

Peel supports the recommendation for the OEB to conduct reviews of cost allocation and recovery policies for natural gas and electricity connections, as well as natural gas infrastructure investment evaluations to protect customers and facilitate development of the clean energy economy. Oversight by an agency like the OEB

and Independent Electricity System Operator (IESO) could help ensure present and long-term affordability of energy.

The Province should also explore mechanisms to support broad adoption of fuel switching, decarbonization and supportive technologies, including educational materials and mechanisms to help customers manage up-front costs.

Technical information and forecasts are important for ensuring that all stakeholders are drawing from the same set of assumptions and information when establishing a future natural gas connection policy. The final draft policy should be made available for review by stakeholders.

Question 2: What role should natural gas play in supporting energy affordability and customer choice in residential and small commercial applications (e.g., space and water heating)?

Response:

Peel Region, along with other Canadian municipalities, have declared a climate emergency, which has affordability implications (e.g., supply-chain and business disruption, loss or damage of property) beyond an individual's natural gas bill. The climate emergency highlights the important role government has in balancing present and future costs when making strategic policy decisions.

Peel recognizes the importance of building affordable houses today. As Ontario continues to grow and build affordable homes faster, the Province may want to explore the cost-benefit and efficiencies of leap frogging the expansion of natural gas infrastructure in favour of more efficient and lower carbon electric heat solutions. Should this be pursued, the grid will still need to be clean and resilient. Therefore, distributed energy resources (DER) may play an important role in ensuring the supply of resilient clean electricity to meet growing demands.

Question 3: What role should natural gas play in supporting economic development in Ontario's industrial and agricultural sectors, including those processes that may be difficult to electrify?
Response:

Natural gas currently plays a key role in supporting Ontario's industrial and agricultural sectors by providing heat, electricity and as a resource for production (e.g., Fertilizers). For the industrial sector, natural gas is used to generate heat for several industrial processes including steelmaking, cement and ceramics production. This energy source is also used as a feedstock and to generate heat for processes such as petroleum refining, making of plastics and producing fertilizers. While in the agricultural sector it is used to produce ammonia, vital to fertilizer production and provide heat for growing and food processing. The Province should consider the following opportunities to reduce natural gas use in the agricultural sector including:

- Improve energy efficiency through conducting an on-farm, all fuel energy assessment to identify energy saving opportunities (e.g., ensuring that all

heating and cooling systems are in peak working order, through use of timers, sensors or variable speed drives on ventilation, heating and cooling and lighting systems, replace fossil-fuel powered equipment with electrical pumps and motors).

- Shift to other lower emission emitting non-fossil energy sources such as hydrogen, co-generation, renewable natural gas, and on-farm energy production which may create new economic diversification opportunities for agricultural producers (e.g., anaerobic digestion, geothermal, solar thermal infrastructure, wind turbines, solar panels, and rechargeable batteries).

- Increasing nitrogen use efficiency, including optimizing manure use and crop residue through a nutrient management plan, leading to a reduction in the need for fertilizer production.

- Support research or subsidize these assessments, plans and diversification on-farm opportunities.

The transition to low-carbon energy will require substantial investments to meet escalating demand due to current and future fuel switching and a growing population.

Peel shares in the concerns of many industrial and agricultural customers that are currently invested in infrastructure dependent on natural gas. The Region has an extensive network of natural gas standby generators that require the continued availability of natural gas to maintain continuity water and wastewater services. Additionally, Peel's Water and Wastewater facilities are dependent on natural gas for heating systems. Upgrading these to electrical will result in significant changes to existing high and medium voltage systems and the cost associated with these would be borne by rates and have a direct impact on customer costs should the Province not provide support to offset costs.

Like many municipalities and businesses, Peel's asset management planning is based on the presumption that it will be used for the estimated life of the asset. Should the asset need to replaced early for fuel switching this will be an unbudgeted cost.

Has the Province investigated the role of hydrogen, co-generators, and renewable natural gas as alternatives to natural gas and how the Province can support the optimal use of these alternatives within industrial and agricultural sectors?

The Province can review the discrepancies between the governance frameworks for natural gas and electricity to ensure the energy market is competitive between the two sources of energy. While investing in emerging sources of energy that provide additional societal benefits (e.g., health, economic development) as had been the investments of the then emerging energy sources of the past.

Question 4: What role should the government play in supporting and expediting the rational expansion of the natural gas system to make home heating more affordable and support economic growth in communities that are seeking natural gas service?

Response:

The expansion of natural gas into communities takes time and money, which has implications on the speed and affordability of housing development. As stated earlier, the Province is encouraged to explore options to leapfrog the use of natural gas for sustainable alternatives. These alternatives can often take the form of distributed energy resources (DER) that are local and are more likely to keep energy revenue within the community. This in turn spurs economic growth not experienced when natural gas is imported into a community and revenue exported. DERs tend to be more resilient which results in greater reliability, which is a priority of most businesses. This reliability also helps reduce the need for back-up generation.

This is not to suggest that the role of natural gas does not remain in critical industrial processes. As communities grow, meeting the needs of these customers should be the focus (e.g., Natural gas expansion in industrial corridor) while residential heating needs could be met with more sustainable efficient solutions (e.g., Electric heat-pumps) powered by non-GHG emitting infrastructure that would be present in the community.

Therefore, it is critical that there is sufficient clean electricity grid capacity and growth or DERs to meet this demand and realize the economic opportunities of the low-carbon transition.

Question 5: For natural gas expansion projects receiving government support, should the approval processes be streamlined to support affordable home heating for Ontarians? In what ways?

Response:

The Province has an important role in protecting the interests of current and future generations. Peel Region regularly looks for efficiencies or innovations in the delivery of our services as long as they do not compromise the integrity of the services being provided. The expectation is that Province will maintain a similar standard.

To support affordable home heating, the Province should not limit itself to natural gas. There is an opportunity for the Province to catalyze alternative innovative sustainable technologies. To increase uptake of innovative technologies by customers, the Province can consider the following actions:

- Funding to reduce risks for early adopters: Early adopters can face financial challenges when implementing innovative technology. The Province can consider introducing funding programs which would alleviate financial burdens and reduce risks. Importantly, funding programs should be designed with a focus on equity to ensure there is a diversity of solutions.

- Regulatory burdens: Early adopters can face challenges due to regulatory barriers that hinder the integration of innovative technology into existing systems. The Province can help address these barriers to market entry and participation by periodically reviewing its regulations and taking the long view in terms of anticipating what kinds of changes will be needed to enable the energy transition. Where regulations are required, the government should ensure that they fair and encourage competitive markets.

- Sandbox solutions: The market will often determine the success of innovative solutions; however, the government can be an incubator for companies that want to enter the energy transition space. An innovation sandbox (or similar policy tool) can help remove non-technological barriers to innovation and encourage learning-by-doing while protecting consumers. This in turn can create a more favourable environment for the development and scaling of innovative energy solutions that can support electrification and the energy transition.

- Continued investments in the skilled trades: There are a finite number of workers which that the entire energy transition industry is competing to acquire, and this pool needs to be expanded if we are to meeting our goals for transitioning for a low-carbon economy. The government should continue to invest in the skilled trades and prioritize access that is representative of Ontario's diverse population, to ensure that the workforce grows and has the necessary literacy and resources to succeed in the energy transition.

Question 6: What role should natural gas play in supporting power system security and resiliency?

Response:

Natural gas is currently the primary heating source for three-quarters of Ontarians. It is widely used as a backup power source to meet peak electricity demand. The Province is highly dependent on importing natural gas as an important fuel source to meet the critical needs of its population. Does the Province have a course of action should external suppliers of natural gas limit supply or escalate prices? Could Ontario consumers benefit from having greater diversity in how their heating needs are met? Could local solutions, such as district energy heat exchange projects, help reduce power demand and improve the security and resiliency of our power system?

As noted in the introduction of this response, Peel Region Council has encouraged the Province to explore options to reduce dependency on natural gas generation. There is a recognition that natural gas can be a bridge fuel as more sustainable options emerge (e.g., Natural gas back-up generation).

In the absence of feasible and sustainable alternatives, specifically back-up power generation, the Region is seeking continued level of service to its sites that are currently providing critical services that must not be interrupted. A full natural gas phase out in the foreseeable future would strand existing standby generation infrastructure, possibly forcing conversion to higher GHG emitting diesel.

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Question 7: What role should natural gas play in offsetting higher GHG-emitting fuel sources?

Response:

The Region of Peel has had success transitioning from higher GHG emission fuel sources. Peel has supported the conversion to compressed natural gas in our fleet and through third party contracts. Peel has also seen a conversion from diesel standby generation to natural gas for its water and wastewater facilities resulting in GHG reductions. There is a place for natural gas as bridge fuel; however, complacency is discouraged while greater balance with alternative sustainable solutions is strongly encouraged.

Question 8: What are the challenges and opportunities for enhanced energy efficiency, adoption of clean fuels (e.g., RNG, Hydrogen) and emission reduction methods (e.g., carbon capture and storage) to lower emissions in the natural gas system?

Response:

There are challenges and opportunities for enhanced energy efficiency, adoption of clean fuels (e.g., renewable natural gas (RNG), Hydrogen) and emission reduction methods (e.g., carbon capture and storage) to lower emissions in the natural gas system. Several institutional challenges exist to implementing energy systems that give customers more choice, address growing energy needs, and keep energy reliable and affordable. Some examples include policy, ownership structure, buy-in from stakeholders, contracts, rates and rate structures. These present risks to developing diversified energy infrastructure and can stall progress and lock in more new development using conventional energy for decades to come. Policy clarity and direction from the government is needed to grow Ontario's clean energy advantage, foster innovation and realize the opportunities of the low-carbon economy. Some examples that the government can consider include:

- **Innovation**: Continue to support and expand innovation by utilities and new market entrants through platforms, such as the Grid Innovation Fund and the Innovation Sandbox program and ensure appropriate resourcing of these programs.
- **Competitiveness**: Review how costs are shared and recovered for different energy connections to remove any differences in up-front payments that provides an unfair advantage.
- **Resilience**: Assess physical climate change risks and vulnerabilities of the electricity grid. Develop a plan to address any material gaps and improve reliability and resilience of the system.

These emerging solutions, which bring great societal benefits, will need government assistance like the fossil fuel energy generation sector benefitted from in the past.

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Summary of Peel Region's Response

Peel Region appreciates the opportunity to comment on the role for natural gas in Ontario's energy system and economy. We commend the Ministry for conducting this consultation and asking important questions about Ontario's energy future. There is a recognition that natural gas continues to play a role as a bridge fuel for applications where more sustainable alternatives are not yet feasible such as heavy industry, machinery or large-scale back-up generation whereas space heating with electricity is an under-utilization of its potential. When the energy transition to feasible sustainable alternatives occurs, the Province is encouraged to be ready and prepared to assist with the financial cost.

It is important to consider both present and future costs when making decisions. As Ontario continues to grow and builds affordable homes faster, the Province may want to explore the economic benefit and efficiencies of leap frogging the expansion of natural gas infrastructure in favour of more efficient and lower carbon electric heat solutions. Therefore, it is critical that there is sufficient clean electricity grid capacity to meet this demand while realizing the economic opportunities for the province and its workforce of the low-carbon transition. Clear, balanced and fair policies on the role of natural gas in Ontario's energy future is necessary.

Peel Region supports the Ministry's efforts to build out of an affordable, reliable, and clean energy system to meet the exceptional growth needs of Ontario and asks that the above comments be considered.

If additional information or clarification is required, please contact Jeremy Schembri, Manager, Office of Climate Change and Energy Management, at jeremy.schembri@peelregion.ca.

Thank you,

Signed by:
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Christine Tu
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