

ONTARIO ENERGY BOARD**Enbridge Gas Inc.****Application for Multi-year Gas Demand Side Management Plan (2027-2030)****Submissions of Industrial Gas Users Association (IGUA)****on Consideration of a Cost of Carbon**

1. The OEB has invited complete submissions on whether the consideration of a cost of carbon for DSM cost-effectiveness testing should be within scope of this proceeding.
2. At the Issues Conference held on March 12, 2026, we submitted that the cost of carbon was clearly a relevant issue in this matter, as evidenced by its discussion at length in EGI's prefiled evidence, extensive Issues Conference submissions by OEB Staff, and previous OEB Hearing Panel directions, but subject to determination of whether the OEB has the jurisdiction to consider the issue.
3. By "complete submissions" we are assuming that the Board is now seeking submissions both on its jurisdiction to consider the issue, as well as on the merits of the issue in the event that the OEB concludes that it has jurisdiction.
4. It is IGUA's position that it is the OEB's rate making jurisdiction that is engaged by DSM, and that jurisdiction does not extend to consideration of a cost of carbon for DSM cost-effectiveness testing, other than a cost of carbon set by law and actually incurred by Enbridge Gas Inc. (EGI) and/or customers.
5. Should the OEB conclude otherwise, however, it remains IGUA's position that it would be inappropriate for the OEB to itself derive and include a cost of carbon within the prescribed cost-effectiveness testing for DSM programs.

Jurisdiction

6. The OEB's jurisdiction in approving EGI's DSM program stems from its mandate to set rates for distribution and supply of gas by EGI, pursuant to section 36 of the *OEB Act*. The necessary premise of the OEB mandating DSM programs is that such programs are essentially alternative means for delivery to customers of energy services.
7. DSM has been mandated (indeed encouraged) by the OEB as a cost effective way to assist customers in meeting their energy service needs. EGI delivers DSM programs to assist customers

in reducing their gas consumption and thus their gas bills while enjoying the same (or greater) level of energy service.

8. Such programs have been found to be cost effective when they deliver benefits to customers at least equal to their costs, on the basis of a Total Resource Cost Plus (TRC-Plus) test. The current DSM Policy Framework (2021 DSM Framework) describes the test as follows:¹

The TRC-Plus test measures the benefits and costs of DSM programs for as long as those benefits and costs persist. Under this test, benefits are driven by avoided resource costs, which are based on marginal costs avoided by not producing and delivering the next unit of natural gas to the customer. Those marginal costs avoided include the natural gas commodity costs (both system and customer) and transmission and distribution system costs (e.g. pipes, storage, etc.). The marginal costs also include the benefits of other resources saved through the DSM program, such as electricity, water, propane and heating fuel oil, as applicable.

9. If, from the combined perspective of the customer and the utility, the TRC-Plus measured benefits exceed the costs (utility and customer) of the subject DSM initiative, then the initiative is deemed to be a cost effective means of delivering energy service to the customer, and EGI is permitted to recover the reasonably incurred costs of such service delivery.
10. This approach to delivery of energy service is consistent with the OEB's statutory objective to, in otherwise carrying out its statutory responsibilities, promote energy conservation and efficiency in accordance with the policies of the Government of Ontario.² In accord with its statutory mandate to set rates, the OEB has defined the objective of DSM programs to be to reduce customer gas bills.³
11. In the absence of a legislated cost of carbon, neither the customer nor EGI avoid costs on account of reduced carbon emissions arising from reduced natural gas consumption. Accordingly, it would be inappropriate to ascribe a value to reduced carbon emissions in determining whether energy

¹ EB-2021-0002 *Decision and Order*, November 15, 2022, Schedule E, pages 25-26.

² *OEB Act*, section 2, paragraph 5. The overall DSM program costs eligible for recovery in rates are constrained by considerations of the rate impact on non-participating customers, to avoid what the OEB deems to be undue cross-subsidy of participants by non-participants. It has been an ongoing condition of DSM program approval that the programs be broadly enough available to allow most customers the opportunity to participate if they choose to. For those who do not choose to participate, while their gas delivery rates and thus their gas service costs are higher than they would be without the programs, the OEB has determined that as long as the incremental cost to non-participants is not undue, the programs and the overall services thereby provided to customers are appropriate.

³ While articulation of this objective for DSM programs has included reference to reducing gas consumption and making customers' homes and businesses more energy efficient, these objectives have always been linked to consequent cost savings for ratepayers and lowering of overall natural gas bills. [EB-2021-0002, *Decision and Order*, Schedule E (OEB DSM Framework), pages 1-2]

service provided through DSM programs is “economic” relative to the gas consumption thereby avoided.

12. The avoidance of carbon emissions from gas not burned as a result of DSM programs is a benefit to society at large (i.e. globally). This is the premise of legislated carbon values and associated charges. Derivation and application of such charges, however, is beyond the jurisdiction of the OEB. Once a carbon value not actually borne by EGI or its customer is added to the analysis, the exercise moves away from rate-setting and into public policy. While it would be appropriate for the OEB to reflect a carbon cost actually imposed on EGI and/or its customers by law, the OEB should not be selecting or creating a social, economic, or proxy carbon value of its own.
13. The OEB’s jurisdiction does not extend to regulation of the environmental impact of the use of gas. The OEB has fully considered this question before, including in a 2019 leave to construct application by EGI. In an issues list decision in that proceeding the OEB received extensive submissions on its jurisdiction to consider downstream, and upstream, impacts of gas extraction and use, and concluded as follows:⁴

The OEB acknowledges that upstream production and downstream consumption of natural gas associated with the use of the proposed pipeline may raise questions of compliance with overall national and provincial goals associated with domestic and international commitments to reduce GHG emissions. In addition, natural gas extraction methods have been the subject of an international debate as to their safety and environmental effects. However, the OEB must exercise its responsibilities within the limits of its statutory authority. The OEB has concluded that issues related to impacts associated with the extraction and production of natural gas to be delivered, as well as the effects of the consumption of that natural gas in the context of overall national and globally-focused environmental policies, are out of scope.

14. Consideration of the OEB’s legislated “objectives” in relation to its responsibilities for regulation of natural gas, and in particular the Board’s statutory objective “[t]o promote energy conservation and energy efficiency in accordance with the policies of the Government of Ontario”⁵, does not alter this conclusion. In the same scoping decision just referred to the OEB considered this question as well, and found as follows:

Although the OEB has no specific regulatory authority over the use of natural gas, its statutory objectives do include conservation. ... However, the OEB’s objectives are not free standing powers, and must be applied within the context of the particular sections of the OEB Act that are engaged.

⁴ EB-2019-0159, EGI Application to construct natural gas pipeline and associated facilities in the City of Hamilton, *Procedural Order No. 2 and Decision on the Issues List*, March 6, 2020, pages 9-11.

⁵ OEB Act, section 2, paragraph 5.

15. In this proceeding the particular section of the *OEB Act* that is engaged in section 36. Read in the context of, and informed by, the statutory objective to promote energy conservation and energy efficiency, the jurisdiction provided by section 36 has been extended by the OEB to encompass recovery of costs for delivery of DSM programs where such programs avoid at least as much utility and customer cost as they drive. Those avoided costs to the customer and the utility no longer include costs of carbon emissions. The legislatures (federal and provincial) have removed consumer carbon costs.
16. The OEB does not have the jurisdiction to reinstate them, and effectively recover them from customers through including in rates the costs of otherwise uneconomic DSM programs. Were the OEB to include such uneconomic DSM program costs in rates, gas customers (both DSM program participants and non-participants) would be subsidizing carbon reduction initiatives for society at large. The OEB does not have the jurisdiction to so require.
17. Reinstating a cost of carbon in the cost-effectiveness testing for DSM programs will not alter the fact that it is not a cost that is incurred by EGI or participating customers. Reinstating it, and crediting DSM initiatives with then avoiding it, would merely cause the subject DSM programs to appear more cost effective than they actually are. This could result in what are, in reality, non-cost effective DSM programs. EGI in its prefiled evidence refers to this circumstance as “*monetizing the consequences of carbon emissions*”, which it effectively submits would be too uncertain and speculative, and with insufficient nexus to EGI’s specific DSM programs, to be of value.⁶ IGUA agrees, and would add that including the costs of such programs in rates would have insufficient nexus to the OEB’s rate making jurisdiction under section 36 of the *OEB Act* and would be neither just nor reasonable.

The role of Non-Energy Benefits

18. There will be those who argue in favour of inclusion of a carbon cost in DSM cost-effectiveness testing as a “non-energy benefit” (NEB). While it is true that the OEB has already exercised jurisdiction to include NEBs in DSM cost-effectiveness testing, the NEBs construct has, with respect, become ill-defined and merits clarification.
19. The NEB adder - the “Plus” in the TRC-Plus test - was first applied by the OEB in the 2015-2020 Natural Gas DSM Framework (2015 Framework).⁷ In developing the 2015 Framework the OEB considered the 15% adder that the Minister of Energy had directed the (then) Ontario Power

⁶ Exhibit C, Tab 1, Schedule 2, page 20, paragraph 49.

⁷ EB-2014-0134, December 22, 2014 *Report of the Board Demand Side Management Framework for Natural Gas Distributors (2015-2020)*, see pages 32-33.

Authority (OPA) to include in screening OPA electricity Conservation and Demand Management (CDM) programs, *“to account for the non-energy benefits associated with the electricity CDM programs, such as environmental, economic and social benefits.”*

20. Of course, this Ministerial directive, including the 15% adder, was to a non-independent government agency tasked, among other things, with implementing Ontario government electricity policy. It is, with respect, not clear to us that alignment with CDM program cost effectiveness analysis by such a policy driven agency of government was sufficient to base an OEB jurisdiction to include downstream impacts of gas consumption not otherwise anchored in the OEB’s statutory mandate and jurisdiction.
21. Nonetheless, for the 2015 Framework the OEB determined that it would adopt a 15% NEB adder for screening DSM programs *“[t]o effectively align natural gas DSM programs with electricity CDM programs and take into consideration government objectives outlined in the Conservation Directive to the OPA”*. Accordingly, the 2015 Framework included a 15% NEB adder, applied to the benefit side of the TRC test calculation.
22. That adder was retained in the 2021 Framework.⁸ Regardless of the jurisdictional authority to continue to consider the NEB adder, the 2021 Framework decision expressly clarified that the cost of carbon, which by then had been quantified by Federal government legislation and was payable by gas consumers (i.e. EGI and its customers), should be included as part of DSM driven avoided costs but was outside of the 15% NEB adder⁹:

Under this [TRC-Pus] test, benefits are driven by avoided resource costs, which are based on marginal costs avoided by not producing and delivering the next unit of natural gas to the customer. The marginal costs also include the benefits of other resources saved through the DSM program, such as electricity, water, propane and heating fuel oil, as applicable. A 15% non-energy benefits adder is applied to each of these avoided resource costs. The TRC-Plus test also includes benefits driven by reductions in carbon emissions saved through the DSM program. The 15% non-energy benefits adder is not applied to carbon benefits. ...

Enbridge Gas should include the cost of carbon as part of avoided costs.

23. The current (November 7, 2024¹⁰) Ministerial electricity conservation directive to the IESO articulates the objectives of ongoing IESO energy efficiency programs as being *“to help meet the needs of*

⁸ EB-2021-0002 *Decision and Order*, November 15, 2022, page 83. We note that the Stakeholder Advisory Group (SAG) formed pursuant to the 2021 Framework decision was directed to discuss the accuracy of the 15%.

⁹ EB-2021-0002 *Decision and Order*, November 15, 2022, Schedule E, pages 25-26.

¹⁰ <https://www.ieso.ca/-/media/Files/IESO/Document-Library/corporate/ministerial-directives/Directive-from-the-Minister-of-Energy-and-Electrification-20241107-eDSM.pdf>, page 2, bottom.

Ontario's electricity system cost-effectively, including by focusing on capacity and electricity savings, supporting reliability, as well as targeted approaches to address regional or local electricity system needs and managing the gradual electrification of Ontario's economy". This directive refers to NEBs only once (see page 10, bottom) in the context of reporting, for example, home safety and comfort achievements for programs targeting income-qualified and on-reserve First Nation communities. No mention of, endorsement of, or direction regarding, broad environmental benefits arising from IESO energy efficiency programs is made in that directive.

24. The IESO has confirmed that it does not currently assign a value to carbon in its avoided cost calculations, and does not intend to do so absent an Ontario government policy regarding the cost of carbon.¹¹
25. The current DSM Framework NEB adder should not be used to extend the OEB's jurisdiction beyond consideration of impacts specific to participating customers to broad downstream societal benefits. Customer realized NEBs such as home comfort and energy affordability arguably have some nexus to the benefits to specific customers of provision of energy service through DSM programs, and thus could arguably be legitimately incorporated by the OEB within DSM cost-effectiveness testing, driving recovery of associated costs in EGI rates. However, extending this concept to broader societal emission reduction or other environmental impacts of DSM driven natural gas consumption reductions, and charging EGI's customers associated costs, would be inappropriate and, as argued above, beyond the OEB's rate making jurisdiction.

Merits

26. There will be those whose submissions address the Ontario government's policy on carbon emissions. While it is clear (as has been argued by EGI and OEB Staff) that the current policy vehemently eschews carbon pricing, government policy also appears to continue to put a value on reducing emissions, including carbon emissions. As SEC's submissions point out, removing carbon pricing is not the same thing as determining that carbon emission reductions have no value. It would be reasonable to conclude that government policy continues to reflect the proposition that reducing carbon emissions has value.
27. However, jurisdiction aside, the OEB has repeatedly defined the objective of ratepayer funded DSM to be to assist customers to reduce their gas consumption and thus their energy costs. If that remains

¹¹ EGI Letter – IESO Statement – Cost of Carbon, filed March 13th, Attachment 1.

the case, then only costs ultimately borne, or avoided, by participating customers should be considered.

28. Since the Federal government has now determined that the retail cost of carbon in Canada is zero, and the Ontario government has made it clear that it will not set a retail cost of carbon, EGI's customers do not incur a carbon cost in their gas delivery rates or avoid a carbon cost when reducing gas consumption. The reduction of carbon emissions will not reduce customer gas costs. As the stated objective of DSM is to reduce customer bills¹², the DSM cost-effectiveness test should be designed to reflect and facilitate that objective. Inclusion in that test of a theoretical cost not recovered from customers would serve only to distort the cost-effectiveness test and undermine the objectives it is designed to achieve.
29. There is no carbon reduction value included by the IESO in its energy efficiency cost effectiveness framework¹³, and there should be no such value included by the OEB in its DSM Framework.
30. As articulated by EGI in its prefiled evidence:¹⁴
- ... including a social cost of carbon in the TRC-Plus test would result in the OEB assuming economic benefits from a reduction in GHG emissions not realized by participating or non-participating customers. Such a change would in effect be directed toward incenting lower emissions to address broader societal concerns.*
31. Even if the OEB concludes that it has the jurisdiction to consider carbon costs in setting rate recovery for DSM programs, it has to decide whether doing so would be consistent with the DSM Framework "cost reduction" objective, or would otherwise support the purpose and function of ratepayer funded DSM. IGUA submits that it would not.
32. Adding to the DSM Framework considerations of reducing carbon emissions would have nothing to do with reducing customer gas costs. It could not be justified in relation to OEB carrying out its mandate to set rates under section 36 of the *OEB Act*. It would not affect those rates. It would not be reasonably ancillary to the responsibility to set those rates. It would be wholly untethered to the OEB's mandate in this proceeding. It would, as EGI has argued, be beyond the role of an economic regulator.
33. This proceeding arises under section 36 of the *OEB Act* to set rate recovery for EGI's DSM programs, which programs are justified on the basis that they can be expected to reduce customers'

¹² EB-2021-0002, *Decision and Order*, Schedule E (OEB DSM Framework), pages 1-2

¹³ EGI Letter – IESO Statement – Cost of Carbon, filed 2026-03-13, Attachment 1.

¹⁴ Exhibit C, Tab 1, Schedule 2, page 21, paragraph 52.

gas bills. If this basic premise is accepted, which IGUA submits it should be, then the answer to the OEB's question must be that, even if jurisdiction so permits, a non-zero cost of carbon should not be within the scope of this proceeding.

Conclusion

34. Consideration of a cost of carbon in DSM cost/benefit analysis, beyond any legislatively set cost that will actually be incurred or avoided by customers, should not be within the scope of this proceeding. This position – primarily as a matter of jurisdiction but, jurisdiction aside, even on the merits - is based on the OEB authority relevant to approval of DSM; the *OEB Act* section 36 authority to set natural gas distribution rates.
35. The OEB's mandate in this proceeding is to set rates. It has no mandate under section 36 to regulate the consumption of natural gas or regulate carbon (or other GHG) emissions. That is the government's responsibility through tools that it already employs pursuant to its electoral mandate.
36. Consideration of a cost of carbon for DSM cost-effectiveness testing should not be within the scope of this proceeding, and should not be added to the Issues List.