Ontario can cut GHG emissions by producing more natural gas, industry group argues

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Ontario's fossil fuel sector sees an opportunity to direct cash and carbon credits from the coming cap-and-trade system toward strengthening the province's homegrown natural gas supply, which it predicts will reduce greenhouse gas emissions.

The Ontario Petroleum Institute, an industry association whose members include Enbridge Gas Distribution Inc. and Pembina Pipeline Corp., made the case in a recent Ontario Energy Board filing. The group told the regulator that increasing the amount of natural gas Ontario produces - which fell from 16 billion cubic feet in 1995 to 5.5 billion in 2015 - would bode well for the provincial economy.

"Equally important, provincially produced natural gas supports the stewardship of the environment by reducing Ontario's carbon footprint by the amount of imported natural gas transported from Western Canada and the Northeastern United States," reads the OPI's June 16 submission to the OEB, which regulates the natural gas sector.

Furthermore, the petroleum industry wants Ontario's coming cap-and-trade system to help the cause. The OPI argues that "locally produced natural gas should receive additional carbon credits since minimal fuel and transmission is required to reach the end user."

The OEB's proceeding is on expanding natural gas service to communities that are currently off the grid. The OPI says building that new infrastructure "would enable Ontario companies to develop the province's natural resources through increased production for the benefit of Ontariocitizens." But the OPI, which is concerned about Ontario natural gas exploration companies being priced out of the program if utilities are allowed to pass off the costs to their rate base, also argues that increased access would reduce GHGs by driving down fuel imports.

"The OEB needs to provide cap and trade incentives to local customers who contract for local natural gas supplies," adds the group. "By contracting for locally produced natural gas significant carbon emissions are eliminated.

Under cap and trade, companies will have to purchase carbon-burning credits to keep plying their trade, passing their costs on to the customer as they go. The government estimates cap and trade will raise about $1.9 billion annually for the province, and it will start next year with no transition period for fossil fuel distributors and suppliers. The government has projected that its carbon-pricing scheme, when linked with that of California and Quebec, will cost households an extra $13 a month on their energy bills.

In Ontario, 76 per cent of buildings are heated with natural gas, and they are one of the largest sources of GHG emissions, along with the industry and transportation sectors. To address this, the government plans to update the building code to inspire new "net zero carbon emission small buildings."

Yet the OPI points out there is still an estimated 550 billion cubic feet of natural gas reserves in the province that is possibly undiscovered, and that Ontario is importing most of its energy supply. Ontario has been harvesting natural gas since the 1880s.

"Ontario's oil and natural gas production can contribute to the greening of the province's energy supply through its capability to utilize offset credits for the cap and trade program," said the OPI. "We would urge the government to designate funds raised from the program be directed to the Ontario petroleum industry to enhance its ability to contribute to the reduction of GHGs."

Ontario has yet to finalize what offset credits it will make available.

But the OPI says 50 per cent of Ontario's "potentially recoverable" natural gas – approximately 1.45 trillion cubic feet – has yet to be developed.

"This means that Ontario could contribute approximately 18% of the province's yearly natural gas requirements, 18 billion cubic feet, for the balance of this century," says the OPI. "However, recovering this potential will require a significant financial investment for exploration and development.

The group says there were 1,221 wells producing natural gas last year in southwestern Ontario, "a significant portion" of which are in Lake Erie.

"In 2015 – Ontario companies' produced 400,000 barrels of oil and 4.6 billion cubic feet of natural gas valued at $77 million with 700 full-time employees and an additional 3800 employed indirectly through support services," states the OPI.

In a separate OEB proceeding, a coalition of environmental groups says the regulator needs to give more weight to the benefits of cap and trade. The Green Energy Coalition, which includes Greenpeace Canada, the Sierra Club of Canada Foundation and the Pembina Institute, was opining on an OEB discussion paper considering how to set natural gas rates that include the costs of carbon pricing.

"GEC suggests that the inclusion of all such benefits be explicit," states the group's June 16 submission. "Further, there may be societal benefits, beyond the primary benefit of GHG reduction, that are external to the utility and its customers, such as widespread commodity cost reductions that should similarly be counted."

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