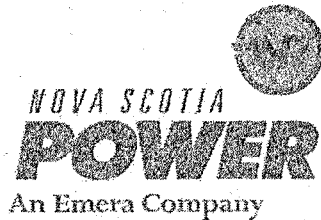


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March 27, 2009

Hon. David Morse
Nova Scotia Environment
P.O. Box 442
5151 Terminal Road
Halifax, Nova Scotia
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Dear Minister Morse:

I am pleased to offer Nova Scotia Power's response to *An Approach to Regulate Electricity Sector Greenhouse Gas and Air Pollutant Emissions – A Discussion Paper*, which was released February 26.

Rob Bennett
President and
Chief Executive Officer

Targets proposed in the discussion paper are aggressive but achievable. Nova Scotia is one of the only jurisdictions in North America to bring forward absolute caps on greenhouse gas (carbon) emissions. Nova Scotia Power has a strong foundation to build on, as carbon emissions related to the electricity sector in Nova Scotia have stabilized over recent years.

For context, the last coal-fired generating station built in Nova Scotia was initiated before privatization of the utility and even before the base year for assumptions made in the Kyoto Accord (1990). Since that time, all new generation added by Nova Scotia Power has utilized lower-emitting natural gas or been from renewable sources. There has also been significant focus in the last several years on conservation and energy efficiency - both in terms of planning as well as program delivery. All of this has been positive in terms of stabilizing greenhouse gas emissions and reducing growth in demand for electricity (which helps our province avoid creation of additional emissions).

The discussion paper proposes increasingly stringent caps on Nova Scotia Power's greenhouse gas emissions, from 2010 through to 2020. Nova Scotia Power believes that from 2010 to 2015, the targets can be met by several actions already under way - reducing growth in demand for electricity through regimented conservation and energy efficiency initiatives, as well as adding new renewable generation. There may also be a requirement to displace some coal generation with natural gas generation within the existing generation capacity at the Tufts Cove Generating Station.

Nova Scotia Power is firmly committed to the success of conservation and energy efficiency programs. Plans for 2010 programs will fall under the purview of the new, not-for-profit administrator - which government plans to have in place this year. As required by the Utility & Review Board, the company will file a proposal for 2010 programs in the very near future. Continued success under the new administrator is a key factor in Nova Scotia Power's assumptions related to meeting targets described in the discussion paper.

More new renewable generation in Nova Scotia is essential. The requirement for wind, tidal, biomass, solar and other renewable generation projects cannot be understated. If Nova Scotia Power is to be responsible for reducing its emissions, the company believes the regulatory regime for achievement of the Renewable Energy Standard should support this premise. Nova Scotia Power recognizes it is desirable to have other companies and even communities engaged in the development of new renewable generation in our province. Our company will do its part to develop renewable generation, now and in the future. In the near term, given the situation in world financial markets and the resulting challenges facing independent producers who have wind contracts with Nova Scotia

Power, any opportunity our company has to become involved with assisting in the timely development of these projects should be recognized as contributing to achievement of the Renewable Energy Standard. This small change in current regulations (which preclude RES recognition of pre-2010 renewable investments by Nova Scotia Power) would support the government's stated desire for new renewable generation, and would promote early decisions about development of renewable generation to displace fossil fuel generation and result in a positive contribution to overall emissions reductions.

Beyond 2015, even more non-emitting or low-emitting energy will be required, from a combination of sources - including imports from other jurisdictions, biomass generation, tidal, solar and wind. More than 2,500 gigawatt hours (GWh) of carbon-intensive generation must be displaced or replaced by 2020 in order to achieve the targets described in the discussion paper. In 2008, carbon-intensive energy (which has historically provided the lowest cost to customers) contributed approximately 10,600 GWh to the total electrical energy mix in Nova Scotia.

The company believes that caps for 2015 on sulphur dioxide can likely be met by fuel switching and from co-benefits that flow from decisions that are made to achieve reductions in greenhouse gases. The 2015 cap on nitrogen oxide emissions should be achievable from decisions we make to meet greenhouse gas reductions, as well as the addition of a low-NOx combustion firing system at the Trenton Generating Station (Unit 5).

The importance of new transmission development to enable additional renewable energy and the transformation of the electricity sector in Nova Scotia is acknowledged in the discussion paper. We believe the mechanism put forward by government is reasonable and will encourage appropriate investments to improve transmission infrastructure - between Nova Scotia and neighbouring jurisdictions, as well as within the province.

Biomass used in electricity generation is "carbon neutral" for the purposes of calculating greenhouse gas emissions. Nova Scotia Power believes this offers tremendous opportunity, both for the company in meeting targets in the discussion paper as well as for the Nova Scotia economy. There has been strong response to the company's recent formal solicitation for independent, community-based renewable energy projects (including biomass).

However, the company believes there are tools that are required to enable our collective success in meeting targets articulated in the discussion paper - including credit for "early action" under a provincial offset program for emissions. One example is Nova Scotia Power's 2005 commercial arrangement with Highland Energy which includes an emission offset purchase agreement. This project has captured landfill gas since 2008, resulting over two years in an approximate 100,000-tonne reduction of CO₂e. This achievement - which is real in terms of displacing carbon emissions - should contribute toward achievement of the proposed 2010 target.

It is also recommended that the Province exempt from regulation those electricity production facilities with greenhouse gas emissions between zero and 10,000 tonnes per year.

The proposed two-year compliance period for measuring achievement of thresholds proposed in the discussion paper is helpful, given the somewhat unpredictable nature of electricity generation - including customer demand for electricity, which is related to external factors such as the health of the economy, as well as the variable performance of certain renewable generation (such as wind). Nova Scotia Power's "obligation to serve" means existing fossil fuel generation cannot easily be curtailed if achievement of annual greenhouse gas targets were in jeopardy. A three-year balancing period, without diminution of annual targets, would allow for appropriate flexibility as the electricity sector in our province transitions to our future desired generation mix.

The discussion paper refers to penalties under the *Environment Act* in the amount of \$500,000 per day. The *Environment Act* sets out a maximum penalty per offence, on conviction, of \$500,000 or \$1,000,000 – depending upon the nature of the offence, subject to the right of person charged to establish a defence of due diligence under s. 160. The Act does not contain provisions allowing for daily penalties. In our submission, compliance penalties in respect of greenhouse gas emissions should be no greater than those applicable to other offences under the *Environment Act* – and should have the benefit of the same due diligence defence.

The discussion paper specifically references that reductions in greenhouse gas emissions and air pollutants will contribute to “lowering future energy costs” in Nova Scotia. Over the long-term, new renewable generation will play a major role in reducing our reliance on volatile world commodities markets and will, in fact, stabilize electricity rates (and energy costs) for individual Nova Scotians. However, short-term measures required to meet emissions targets (for example, natural gas generation in favour of generation from coal) may increase costs. The 2009 update of the Integrated Resources Plan (IRP) – now under way at the direction of the Utility & Review Board - will provide additional insight into potential additional expenses that could be incurred. The IRP will also provide information about best options for meeting 2020 targets for air pollutants.

Nova Scotia Power is committed to the reduction of greenhouse gas emissions and air pollutants. We support the direction in this regard that has been articulated by the Legislative Assembly through the *Environmental Goals and Sustainable Prosperity Act*, and by government in its February discussion paper. We are already working toward transformation of our mix of generation sources, which is a legacy from decisions taken in our province more than two decades ago.

Minister Morse, the reduction of greenhouse gas emissions and air pollutants and the promotion of renewable energy is a priority for Nova Scotia Power. We must continue our collaborative work, along with other stakeholders and interested parties, so achievement of provincial targets occurs in the most effective way possible and that energy costs in Nova Scotia remain competitive with neighbouring jurisdictions.

You have my personal commitment that our company is engaged and enthusiastic about helping the Province achieve real and substantive reductions in emissions, and being a leader in Canada in the management of greenhouse gases.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rob Bennett', with a stylized flourish at the end.

Rob Bennett