

# Chamber Provides Input for Provincial Energy Policy

July 3, 2001

Following the Province's announcement that it would be updating its energy strategy, the government released a discussion paper in March entitled *Powering Nova Scotia's Economy*. The paper was developed because the Province laudably recognized the need for a strategy that takes into account changes in the energy sector (natural gas, privatized electricity) and strikes a balance between economic, social and environmental needs. Government asked Nova Scotians to participate in the process of developing a renewed energy strategy for our province.

Realizing the importance of energy to Nova Scotia in general and our members in particular, the Chamber struck an Energy Task Force to prepare a submission in response to the discussion paper. The following is a summary of the Chamber's response:

## Act Now

Offshore oil and gas development is the first tangible opportunity Nova Scotians have had in many years to see our province positioned as a net contributor to Canada's economy. The time is right for a new strategy. What is critical for Nova Scotia is to make the wisest use of our natural resources and to choose models that suit Nova Scotia's geographic, demographic and economic situation. Nova Scotia should not squander the opportunities that are before us today. Government is in a unique position of being able to make choices that can benefit Nova Scotians for many decades. The time is now for energy in Nova Scotia and the Province must take action.

## Energy Must Be a Provincial Priority

It is important that energy is identified as a

government priority, with a minister exclusively responsible for an energy portfolio. We must ensure Nova Scotians are the prime beneficiaries of this resource, that sound economic fundamentals dictate energy policy, and that the benefits are sustainable. Sustainability is about more than jobs -- it is about the long-term development of expertise and infrastructure that will place Nova Scotia's future on a solid economic foundation.

## Invest in the Needed Resources

Government must invest the necessary resources to access the best and the brightest talent available. This must be done on two levels. Government needs resources well beyond those available within the existing public service and should be prepared to pay what it takes to attract the necessary talent. Decision-makers need ongoing access to expertise in a variety of disciplines. However, there is also a need to grow our own expertise. If Nova Scotians are going to maximize the benefits from the offshore, government must have an integrated policy to develop our labour market over the long term.

Finally, in order to ensure Nova Scotia's long-term economic stability, government must adhere to a debt reduction plan. A key means to lowering the provincial debt would be to ensure that net royalty revenues are not used for program spending. Rather, net royalty revenues need to be earmarked to pay down the debt.

*The Chamber looks forward to the government's revised energy strategy, plans for implementation and a time-table for action items. To view the Chamber's full submission, go to [www.halifaxchamber.com](http://www.halifaxchamber.com) and click on the Policy Update section.*



**METROPOLITAN HALIFAX  
CHAMBER OF COMMERCE**

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**Submission to the  
Nova Scotia Energy Strategy Task Force**

**A Report of the Metropolitan Halifax Chamber of Commerce  
Energy Task Force**

**June 2001**

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## Introduction

The Metropolitan Halifax Chamber of Commerce (The Chamber) has given consideration to the development of a renewed Nova Scotia energy strategy. The Chamber formed an ad-hoc task force to develop and provide comment on the Province's discussion paper. The public discussion paper, "Powering Nova Scotia's Economy", was reviewed and Chamber membership was consulted throughout the development of the submission. The following comments are respectfully offered to the Provincial Energy Strategy Task Force, for consideration as a new energy strategy is developed and subsequently implemented.

## A New Energy Strategy

- **The Chamber commends the Province on this initiative.**

Nova Scotia needs a revised energy strategy and the province should be commended for taking the lead to accomplish this goal. As indicated in the Province's discussion paper, much has changed since the last energy strategy was documented in 1991. Offshore oil and gas development is the first tangible opportunity Nova Scotians have had in many years to see their province positioned as a net contributor to the national economy. Further, oil companies are currently looking for investment opportunities and our primary market, the northeastern United States, is hungry for additional energy supplies, making this the opportune time to aggressively promote additional offshore developments. Notwithstanding this, we are not the only opportunity for development in the world oil and gas market. This is, however, an opportunity we cannot afford to miss.

On the electrical side, the state of regulation and competition across North America, and elsewhere in the world, varies widely. Relative to some other parts of North America, such as the northeastern United States, Nova Scotia has low and stable prices and no apparent supply problems. Complacency, however, would be a mistake. The business of generating, distributing, and retailing electricity is changing. Electrical utilities no longer operate exclusively within provincial boundaries. The impact of technology and a better understanding of environmental effects must be given consideration. Nova Scotia has the chance to learn, and benefit, from the experiences of others.

The risks, however, are high. There are no guarantees that the potential for the offshore will be realized in significant quantities to provide a legacy for future generations. It is possible that Nova Scotia could be as dependent on imported energy in the future as it has been in the past. On the electricity front, there are examples of jurisdictions that have attempted to restructure or deregulate their electrical sector, with mixed results. Opening markets encourages competition – but can we say that it will, or should, result in a cheaper or more reliable supply of power?

The time is right for a new strategy and it is entirely appropriate for the Province to embark on this process. It is critical to make it clear that these resources are Nova Scotian. Nova Scotia must make the wisest use of its own natural resources and choose models that suit Nova Scotia's geographic, demographic and economic situation. Nova Scotia should not squander the opportunities that are before us today. The Nova Scotia government is in a unique position of being able to make choices that can benefit its citizens for many decades. Leadership on this critical issue is needed. So is action.

## **Ensure the Right Long-term Decisions are Made**

- **Energy must be identified as a priority in government.**

Some would argue that the offshore opportunity is the single most important economic development initiative the province has had in decades, if not longer. This is big, big business. The private sector players that the government must regulate, negotiate, and partner with are among the largest businesses in the world. They represent sophisticated and complex industries. As trustee of our offshore assets, the Province has royalties, jobs and industrial development opportunities at stake.

On the electricity side, private sector players in most jurisdictions are looking for larger markets in which to operate. This, too, is big business and the outcome will affect each and every Nova Scotian in a very direct and personal way.

In both cases the Province needs to invest. While the Chamber is not recommending the government deviate from a policy of spending within its means, energy should be identified as a critical priority, and correspondingly funded.

- **There needs to be a Minister exclusively assigned to energy.**

In order to effectively manage the energy priority, focus and profile is required. Currently, the provincial government decision-making process appears fragmented with energy matters coordinated through several departments and agencies. Action must be taken to give energy appropriate profile and focus. There needs to be a Minister exclusively responsible for energy with a mandate to create the appropriate organization and strategies to meet the challenge before us.

- **Government must invest the necessary resources to access the best and the brightest talent available.**

Government needs resources well beyond those available within the existing public service and should be prepared to pay what it takes to attract the necessary talent. Notwithstanding the difficulty of implementing this policy in the current environment, the Province has successfully done this elsewhere when a critical priority has been identified.

As indicated above, the issues involved in the energy industry are complex and the stakeholders are sophisticated and well-funded. It should be noted that we are not suggesting in any way that the staff working this file are doing a poor job, but decision makers, both political and bureaucratic, require ongoing access to expertise and experience in a variety of disciplines.

- **The focus of an energy strategy should be on the long-term.**

The orientation of a strategy and plan should be toward long-term impacts. Government should be positioning the province for prosperity in terms of decades, not years. This is particularly important in leveraging offshore activity so that economic development is optimized and sustainable. Consideration should be given to the life cycle of offshore exploration, development and production. The strategy in start-up years will be different

than when the industry matures and when, ultimately, supply of the resource declines. The Province should articulate its plans for the various phases of this life cycle.

## **The Underlying Values and Principles**

The Chamber is generally supportive of the values and principles, set out by the Province, as the foundation for its strategy. We have some concern, however, with the fourth value/principle in the draft:

“Nova Scotians should be the primary beneficiaries of the industrial benefits and revenues generated by the province’s energy resources. These benefits will be distributed as widely as possible throughout the province.”

- **Nova Scotians must be the primary beneficiaries.**

Nova Scotians must be the primary beneficiaries of the industrial benefits and revenues generated by the province’s energy resources. The current statement indicates that we ‘should’ be. While it is not our intent to wordsmith, we believe that this is an important difference to point out. Anything less is not an acceptable outcome. This will be best achieved by ensuring the foundation and policies are in place for a stable, predictable and “open for business” climate.

- **Cost should be considered in the principle.**

It is not clear that the concept of “benefits” in the principle includes low cost. Energy costs are emerging as an important consideration in the competitive business of economic development. Consideration should be given to including the priority of low or competitive energy costs as a mechanism to achieve the objective of “primary beneficiary”. Nova Scotia should gain the maximum advantage of our geographic proximity to the resource. We recognize that the current postage stamp tolling mechanism makes this difficult. Careful consideration of different pricing mechanisms on any new pipeline projects may provide a better opportunity for Nova Scotia in this regard.

- **Energy policy should have sound economic fundamentals at its core.**

The Chamber is delighted that the economic benefits associated with the development of the offshore have been widely distributed within the province. In addition to the inherent benefit to all Nova Scotians of an improved economy, brought about by the development of the energy industry, experience to date has shown that the industry naturally provides for geographic diversification.

We are troubled, however, with the principle that “the benefits will be distributed as widely as possible throughout the province”. Our primary concern is that this statement could be used to justify policy that distorts the natural growth of the industry. It can, if inappropriately applied, provide an incentive for uneconomic decision-making, unduly complicating and thus hindering industrial expansion and growth. The meaning of this phrase is unclear and adds little value. Its meaning should be clarified or it should be removed as a fundamental principle.

## Sustainable Economic Development

The discussion paper poses a question on how we can achieve sustainable economic development. Sustainability should be the priority issue from an economic development perspective. Our focus here is on the development of the offshore. The oil and gas off Nova Scotia's coast is a finite resource. Nova Scotians must ensure that the measures taken today will lead to sustained economic activity after the resource is gone.

- **The government must take measures to ensure that net royalty revenues are not used for program spending.**

Royalty revenues from the offshore will not last forever, however, they are already working their way into everyday program spending. In the current year it is estimated that \$14 million dollars in gross royalty revenues will be added to general revenues. It is too easy to become dependent on additional revenues for short-term program needs and avoid the difficult decision-making that goes with priority setting and fiscal responsibility. Net royalty revenues should be earmarked specifically for improving our long-term economic stability. This is best achieved by paying down the debt, however, consideration could be given to strategic long-term economic development initiatives such as major infrastructure projects. We believe that such a planned and focused use of royalty revenues would also significantly enhance the credibility of the Premier's Campaign for Fairness. Legislation is required to give this measure proper effect.

- **The Province should immediately embark on a comprehensive analysis of other jurisdictions.**

There are lessons to be learned from other jurisdictions. Norway is often cited as an example of a country that made the right choices with regards to the energy industry. The Chamber believes there should be people working for, or contracted to the government, who can provide advice on what has and has not worked in other countries and jurisdictions. An understanding of other jurisdictions is required in developing the core competencies necessary to establish sound energy policy that will lead to sustained economic development. It is worth noting there is little value in embarking on such an analysis without the necessary resources to interpret and act on the information.

- **The Province needs to do whatever is necessary to ensure that the royalty revenue from the offshore is invested in sustainable economic development in Nova Scotia.**

Some 70% of royalty revenues are currently lost to the federal government in compensating reductions in equalization payments. The Province has been working hard to secure a new arrangement with the federal government. As indicated above, the focus for royalty revenue should be long-term sustainable development. The Province should not focus on proprietary fiscal flexibility, if such a position hinders a resolution of this issue. If securing an agreement with the federal government can only come with strings attached – so be it. We must find a way to have the funds from royalty revenues reinvested in Nova Scotia, regardless of what it takes to make it happen.

- **Local benefit objectives for oil companies need to be specific and give credit to behavior that enhances long-term sustainable economic development.**

Oil companies will make their exploration and development decisions based largely on geology and market. The Province must take a firm and clear position with companies and articulate what economic development initiatives are expected of them in return for access to a Nova Scotia resource.

The Province must, however, be creative in working with stakeholders to ensure that targets are set and met in such a way that long-term positive impacts are realized. The tendency to only report numbers of Nova Scotian jobs and the direct dollar value of procurement is worrisome because they, alone, are not the keys to long-term sustainability. Objectives need to go deeper. For example, if an oil company, through its worldwide network, makes it possible for a Nova Scotian business to develop export opportunities, this has the potential to have a much more lasting effect than short-term procurement opportunities for local projects. Oil and gas companies should be motivated to help in this way, and government should orient its perspective to reflect the deeper significance of these types of opportunities.

- **The government should target economic development in a way that leverages the opportunities presented by the offshore.**

Nova Scotia offers many advantages to companies considering the location of all or part of their operations here. We need to couple those with other measures that encourage worldwide supply operations and head office support functions to be located here.

Nova Scotia also needs a long-term vision to promote the development of a petrochemical industry in the province. Natural gas liquids offer long term potential for economic growth and jobs. This potential cannot be ignored.

- **Provincial energy policy must have a training component.**

It is generally accepted that education and skills training is appropriately a core function of government. If Nova Scotians are going to maximize the benefits from the offshore, government must have an integrated policy to develop our labour market over the long term. The Province should be creative in the development of such a policy and work not only with community colleges and universities but also with business in ensuring the appropriately needed skills are developed.

## **The Business Climate**

The discussion paper asks what the government can do to create an attractive business climate for the energy sector. The answer is simple - do the same things it can do to create an attractive business climate for all sectors.

- **Sound, predictable, fiscal policy that puts a priority on balancing the budget, constraining the growth in program spending, paying down the debt, and creating a competitive tax climate are fundamental to an attractive business climate.**

The government is showing signs of slippage here. While on target to its plan of balancing the budget in four years, program spending is increasing significantly. Budgetary surprises on the cost side are keeping pace with unpredicted growth on the revenue side. This is not indicative of sound fiscal management.

- **An action plan should be developed to address the current jurisdictional overlap and streamline the regulatory and reporting process for oil and gas developments. Expeditious decision making is critical.**

Regulatory burden has the effect of increasing costs to business and delaying development. While industry recognizes the “growing pains” of regulatory development and enforcement in a jurisdiction that is relatively new in the field, there is little point in making processes overly complex or slow. We have an exceptional window of opportunity to attract international investors and developers to Nova Scotia. Government should move quickly to establish firm, consistent and stable frameworks and regulations and then work toward simplifying processes to accomplish this. We understand that this issue is not entirely within the control of the Province. Having said that, a lack of complete control is not an acceptable justification for a lack of progress on this issue. Leadership is required.

- **The Province must set specific target dates for the development of a strategy and its implementation.**

Specific targets for the energy strategy and its implementation must be developed and communicated. Business likes to know the rules. Uncertainty increases costs and restrains investment. The development of an energy strategy is an important initiative, which is supported by the Chamber. It should not, however, be a prolonged and inconclusive exercise. The policies and decisions that ultimately emanate from such a strategy should be determined as quickly as is practical. We look to the government to set a specific date for the completion of the strategy and corresponding dates for objectives that follow. Responsibilities should be clearly assigned.

## **Electricity**

The Chamber has given consideration to the question of whether the electrical industry in Nova Scotia should be restructured to provide more competition. The Chamber is supportive of increased competition and, to the extent that restructuring satisfies this objective, we would be supportive. There are, however, too many examples of where this has been implemented poorly or inappropriately. While the Chamber has no specialized expertise in this area, the following comments are offered as the Province considers its role in the electrical energy sector:

- **The Province must establish a strategy that leads to planned, and appropriately paced, deregulation of the industry, opening it up to additional competition.**

There are stark examples (California) of how not to restructure the electrical industry. There are also examples of where it has worked well. Restructuring of the industry should be undertaken in a careful and planned way to ensure that the significant problems experienced elsewhere are not experienced here.

- **Appropriate consideration must be given to our relative position within the North American electrical industry.**

Nova Scotia is a relatively small market. The needs of a small market are not always well served if part of a larger competitive environment. Relative to New England, Nova Scotia currently enjoys low electricity rates. We are the terminus for the existing transmission grid. Care must be taken to ensure that Nova Scotia is not disadvantaged, particularly due to geography and size, through restructuring the industry. In particular, it will be important to understand how the province could be subject to U.S. regulatory rules and pricing mechanisms under a more open market scenario.

- **Nova Scotia should look to the region first in the development of common energy policies.**

There is growing pressure for the development of a North American energy policy. Should the regional players have sufficiently common interests, our best strategy may be to consider a regional policy for electricity. A regional electricity policy that encompasses the practical distribution geography would seem to make the most sense because it is unlikely that the Province of Nova Scotia could opt out, or have significant influence on such a policy on its own.

A regional policy could enhance our ability to withstand potential negative policy proposals that could be attached to a national or North American energy policy. It could also improve business certainty by enhancing the likelihood of required substantial capital investments in generation and distribution, thereby improving access to necessary supply. It is with caution, however, that we make this suggestion. As with any cooperative agreement or common policy, we would lose some independent decision making ability.

## **Co-existence**

- **Government must take the lead to effect strategies for co-existence of offshore industries. (e.g. fisheries and oil and gas).**
- **The Province should make a clear statement that co-existence can and will be government policy. In so doing, it should put a near-term sunset clause on existing moratoria and challenge the parties to develop strategies to coincide with the lifting of the moratoria.**

Co-existence among sectors of the economy is critical and necessary if Nova Scotia is to maximize the potential from the oil and gas industry *and* maintain its traditional sectors. Of particular concern are blanket measures such as moratoria on exploration and development, which while politically expedient, do not maximize the utility of **all** resources for the benefit of all Nova Scotians. Such measures do not provide an incentive for the stakeholders to arrive at solutions to concerns. We urge government to lead in the reconciliation and resolution of inter-sector tensions.

Experience in the North Sea and Gulf of Mexico has proven that co-existence is possible. In order to achieve the maximum return for all Nova Scotians, we must pursue

effective strategies for co-existence of our offshore industries. This requires flexible and ongoing balancing of the interests of the various industries affected.

## **Environmental Concerns**

- **The Province should examine ways to motivate more environmentally friendly behavior.**

The discussion paper wrestles with the issue of the environment and the Chamber is likewise concerned with this issue. Quality of life is one of Nova Scotia's fundamental attractions and, as such, contributes to our overall economic well-being. It is difficult for consumers of energy to make environmentally sound decisions in the absence of price incentives. By way of example, it is generally assumed that natural gas is better for the environment than either coal or oil, yet, if this is true, this environmental benefit is not reflected in prices. Unless incentives are built into the consumption price, progress toward optimal energy choices from an environmental perspective will be minimal.

## **Energy Efficiency**

The Province should take a leadership role in the area of energy efficiency through demand side management and life cycle costing in energy decisions.

- **Public transportation should be addressed as part of an integrated energy strategy.**

The discussion paper is absent significant discussion of transportation. Forty-three percent of energy consumed in the province is in the transportation sector. Surface transportation alternatives in large urban centers need to be addressed in the strategy if the Province expects to improve this statistic. In Halifax Regional Municipality, a strategy that embraces and supports enhanced and expanded public transportation would not only help Nova Scotia achieve national greenhouse gas emission targets and improve the health of our citizens, but would also mitigate the pressure on both provincial and municipal infrastructure.

- **The Province should adopt an energy efficiency initiative, which focuses on government using less energy as a consumer and promoting energy efficiency in the private sector.**

Objectives related to this should be incorporated into the business plans of departments and agencies, boards and commissions. Quantifiable objectives should be established, measured and reported. The Department of Transportation and Public Works could give weight to energy efficiency initiatives in its capital budget allocation.

## **Strategic Plan - Infrastructure**

- **A successful energy policy needs to exist within the framework of a broader infrastructure plan.**

The Province must engage the federal government, municipalities, the private sector and other stakeholders in the development of an overall infrastructure plan for Nova Scotia.

We need a vision that plans for the population increases and the infrastructure demands that a successful offshore energy industry will produce. The energy strategy needs to take into account the capacity of our current infrastructure in relationship to future needs in order to maximize the opportunities that come with economic growth.

## **Conclusion**

Nova Scotia needs a forward-looking, comprehensive energy strategy. However, even with solid policies and strategies in place, at the end of the day leadership is key.

Leadership is necessary to show that Nova Scotia is a confident, competent and capable province ready to take full advantage of the opportunities before us. The emerging energy sector is the most important economic event Nova Scotia has had in many, many years and we have a limited window of opportunity to get it right. We need leadership from business, from our political leaders, government officials and interested organizations such as the Chamber of Commerce. Collectively we need to get the job done.

The time is now for energy in Nova Scotia. The worst mistake we could make as a province today would be inaction. Our province has been provided with an opportunity of unknown proportion and we must embrace the possibilities. Firm and clear decisions must be made on a timely basis. We must do whatever it takes to ensure a strong energy sector in Nova Scotia.

The Chamber is supportive of the development of a new energy strategy. It needs to be completed in a timely fashion, reflect sound judgment and be valid for a reasonable length of time. The resulting policies and applications will have a substantial impact on Nova Scotian citizens and the economic future of their province. The government must apply an appropriate level of resources to accomplish the tasks at hand so that Nova Scotia is able to leverage the opportunities that now look so promising.

The Chamber stands ready, willing and able to help. We appreciate the opportunity to be heard and look forward to continued input in this important matter.

## Appendix A Summary of Recommendations

### A New Energy Strategy

- The Chamber commends the Province on this initiative.

### Ensure the Right Long-term Decisions are Made

- Energy must be identified as a priority in government.
- There needs to be a Minister exclusively assigned to energy.
- Government must invest the necessary resources to access the best and the brightest talent available.
- The focus of an energy strategy should be on the long-term.

### The Underlying Values and Principles

- Nova Scotians must be the primary beneficiaries.
- Cost should be considered in the principle.
- Energy policy should have sound economic fundamentals at its core.

### Sustainable Economic Development

- The government must take measures to ensure that net royalty revenues are not used for program spending.
- The Province should immediately embark on a comprehensive analysis of other jurisdictions.
- The Province needs to do whatever is necessary to ensure that the royalty revenue from the offshore is invested in sustainable economic development in Nova Scotia.
- Local benefit objectives for oil companies need to be specific and give credit to behavior that enhances long-term sustainable economic development.
- The government should target economic development in a way that leverages the opportunities presented by the offshore.
- Provincial energy policy must have a training component.

### The Business Climate

- Sound, predictable, fiscal policy that puts a priority on balancing the budget, constraining the growth in program spending, paying down the debt, and creating a competitive tax climate are fundamental to an attractive business climate.
- An action plan should be developed to address the current jurisdictional overlap and streamline the regulatory and reporting process for oil and gas developments. Expedient decision making is critical.
- The Province must set specific target dates for the development of a strategy and its implementation.

## Electricity

- The Province must establish a strategy that leads to planned and appropriately paced, deregulation of the industry, opening it up to additional competition.
- Appropriate consideration must be given to our relative position within the North American electrical industry.
- Nova Scotia should look to the region first in the development of common energy policies.

## Co-existence

- Government must take the lead to effect strategies for co-existence of offshore industries. (e.g. fisheries and oil and gas).
- The Province should make a clear statement that co-existence can and will be government policy. In so doing, it should put a near-term sunset clause on existing moratoria and challenge the parties to develop strategies to coincide with the lifting of the moratoria.

## Environmental Concerns

- The Province should examine ways to motivate more environmentally friendly behavior.

## Energy Efficiency

- Public transportation should be addressed as part of an integrated energy strategy.
- The Province should adopt an energy efficiency initiative, which focuses on government using less energy as a consumer and promoting energy efficiency in the private sector.

## Strategic Plan - Infrastructure

- A successful energy policy needs to exist within the framework of a broader infrastructure plan.