

Remarks by  
David McD. Mann, President and CEO, Emera Inc., and Chairman, CEA  
To  
Embassy of Canada Energy Trade Show

June 12, 2003

Thank you for the invitation to speak here today.

As some of you know, I have been here over the last two days in my capacity as both CEO of Emera Inc. and as Chairman of the Canadian Electricity Association (the CEA) for our organization's annual Washington Forum. This is our fifth year in a row for our Forum. This event usually takes place in March but was postponed much as the Embassy has done for its activities today. Electricity policy engagement in Washington is a major priority for CEA, reflecting the importance of the bilateral relationship we have with both our business partners and policy makers here in the United States.

I am therefore delighted to have this opportunity to share some of our thoughts on that relationship with you today in a broader energy context. And in case you might be concerned that my perspective might be a little bit biased towards an electricity viewpoint, let me hasten to add that my company is also a significant player in the northeastern gas market.

The significance of our being here today is made greater by events unfolding around us on the geopolitical stage. The world is focusing its attention on the Middle East, and the Middle East is an essential player in the world's energy supply. But Americans should note that the single most significant energy trading relationship in the world is between Canada and the United States.

On a daily basis, that trading relationship amounts to \$1.3 billion, and energy constitutes approximately 15 percent of that trade.

Canada is America's largest supplier of energy, accounting for 94% of natural gas imports, nearly 100% of electricity imports, and more crude and refined oil products than any other foreign supplier.

But don't assume that the energy relationship is just one-way. I know the electricity industry best, so I will provide you with an example of the important two-way relationship enjoyed by Canadian and US electric utilities.

US exports of electricity to Canada have risen steadily over the years, to over 15 million megawatt-hours, taking advantage of the diversity between the US and Canadian electricity systems. The diversity between our systems enables a "must-run" fossil fuel fired generator to sell off-peak power to a hydro generator, allowing the hydro generator to "bank" energy in its reservoirs. Then, during periods of high demand, the hydro generator releases enough water to meet its own needs and to assist in meeting the peak demand of its partner.

There are several examples of this diversity exchange across the continent. It makes a clear example of the strong relationship. But so too does the increasing amount of cross-border investment. US companies are active in Canadian markets; and Canadian companies, like my own, are active in US markets.

For example, our own company, Emera Inc., was the first Canadian company to acquire a US based utility – Bangor Hydro Electric. This acquisition, made about two years ago, increased the size of our company by 25 percent and, perhaps more importantly, gave us a window on how the industry functions on this side of the border.

Bangor Hydro has been, and continues to be, a great learning opportunity for us; an opportunity that, like our investments in natural gas production infrastructure and our investment in the natural gas transmission system delivering about 450 million cubic feet of gas a day to Boston, we hope to leverage in the future.

As many of you are keenly aware, notwithstanding this robust trading relationship between Canada and the United States, the energy industry is in turmoil. Uncertainty with regard to market rules, as well as the fallout from the collapse of Enron and other failures within the industry have resulted in a lack of financial capacity that is affecting all sectors of the energy industry.

The North American electricity industry - traditionally perceived as a model of stability in both Canada and the United States - is in a state of uncertainty unlike anything it has experienced in its over 100 years of existence. Similar conditions exist in the natural gas industry. To provide for a secure energy future, we must address the problems that have caused this uncertainty in our industry.

The integrated US and Canadian energy markets provide the means to help bring some certainty back to the energy industry. The electric transmission lines that span the US and Canadian country sides are actually interconnected at key places along the border. Natural gas pipelines also do not stop at the border, but instead provide a vast network for the movement of natural gas in the North American market. Such integration provides the framework for greater trade and greater market opportunities between our two countries.

Increased integration of the US/Canadian marketplace will help to reduce the current uncertainty in North American energy markets through greater efficiency, increased energy security, more predictable regulation and policy, lower costs, and greater environmental benefits.

CEA released a paper in March that we have made available here today that explores the opportunities for enhanced cross-border trading and environmental performance through an integrated North American electricity market. CEA made a number of recommendations that we believe will contribute to greater investor confidence and reduced uncertainty in the marketplace. Let me take this opportunity to briefly touch on those recommendations.

First, we must explore avenues for increased participation in Regional Transmission Organizations (RTOs) and increased harmonization of market rules. FERC - most recently with its white paper - is continuing with its efforts to promote regional transmission organization development and to establish standard market design rules, and CEA applauds such efforts to promote efficiency in wholesale electricity markets. However, because Canadian entities - unless they operate in the US - are not subject to domestic market rules in the US, these rules

need to apply in a manner that permits the continued healthy functioning of the cross-border markets in which Canadian and US entities participate.

Second, CEA recommends the development of a North American strategy to manage Greenhouse Gas (GHG) emissions from electricity generation. Crafting an approach to climate change that is North American-focused allows for the development of an approach that recognizes the unique characteristics of North American energy production.

Third, opportunities should be identified to further harmonize management of other air emissions. Given the cross-border impacts of NO<sub>x</sub>, SO<sub>x</sub>, mercury and particulate matter, the management of these air emissions would benefit from coordinated approaches.

Fourth, a North American approach could be established for measuring environmental performance for electricity systems. Choosing an approach to measure the environmental performance of various technologies that relies on uniform and technology-neutral criteria would avoid the flaw of many current renewable technology programs of arbitrarily picking winners and losers among various technologies.

Fifth, we should explore measures to enhance cross-border and inter-provincial transmission transfer capability. For example, the transmission siting process could be streamlined, and rates of return for transmission facilities could be increased.

Sixth, critical infrastructure protection approaches should be further coordinated. An enhanced North American approach to critical infrastructure protection would serve as an effective model for protecting the energy industry's critical assets.

Finally, CEA supports legislative recognition of NERC's role as the self-governing international organization for developing and enforcing mandatory reliability standards for the evolving electricity industry. Mandatory reliability standards are required to ensure a reliable transmission grid, and this self-governing organization can operate effectively on an international basis.

The Canadian Embassy's program today will explore opportunities to promote energy security in North America. The Embassy program will consider measures to: (1) grow the energy trade between the United States and Canada; (2) stimulate investment in the energy sector; and (3) enhance the development of emerging energy technologies.

At CEA, we believe the current energy trading relationship between the United States and Canada contains the framework for achieving these objectives. By addressing the seven points we have identified, and similar suggestions from other sectors, we can anticipate and avoid barriers to cross-border trade; we can identify opportunities for greater cooperation and coordination in our respective energy markets; and we can maximize the opportunities offered by an extraordinarily successful bilateral relationship to help secure a healthy energy future for energy customers across North America.

My comments note both challenges and opportunities for my own company and those of my fellow members of the Canadian Electricity Association. Offering them here today emphasizes, I hope, the importance we attribute to continued engagement with industry and government in the United States. Our trading relationship reflects a deeper engagement of Canadians and Americans that has weathered a range of difficult times over the decades because friendship, and a willingness to work together, has prevailed over differences of opinion. Let me express my personal wish that we can continue such engagement today and into the future.