

# **Privatisation and deregulation: the Nova Scotia story**

**Chris Huskilson**

**Executive Vice President, Nova Scotia Power**

Good afternoon everyone.

I'd like to thank AIMS and ECANS for bringing us all together today, and developing the agenda, for this conference.

I'm pleased to be here this afternoon to speak to you about Nova Scotia Power, our focus on our customers, and our approach to deregulation.

Our approach is to run the Company now as it would, and should, be run in a fully competitive market. The fact is we operate in competitive markets today for more than 50% of our business: home heating, water heating and energy supply for industrial and commercial customers are all areas where we are just one choice customers can make. Our plan is to make sure we are the customer's choice for those services and for all their energy needs. Our ability to both retain customers and build customer loyalty is important.

We know that at a minimum customers expect price stability, and to be able to manage their costs. That means we need to understand their businesses better and to design and offer solutions that meet their needs. We have started to make significant progress on those fronts and while we aren't where we need to be yet, customer's are telling us we are heading in the right direction. Let me share some of our thoughts and experiences with you:

- Through our call centre, we are accessible 24-hours a day with quality information through our customer service representatives.
- People and leading technology allow us to meet customer's needs for fast, accurate information during outages.
- In 2001, we'll augment this with geographic information technology to enhance our ability to pinpoint the location and cause of outages, reduce response time, and keep customers informed.
- This year we introduced a Smart Energy Information Service to our large commercial and industrial customers. Smart Energy Information combines advanced meters with web-enabled software to help customers manage their energy costs.

· How have our customer's responded to all these initiatives? Favourably. Our positive public opinion numbers have risen by 20% over the past five years. A good start, but we know there is much more to do. Nova Scotia Power was privatized in 1992. Without privatization, I do not believe we would be as ready to compete as we are today. Since privatization we have seen dramatic improvements in every key measure in our business. We have focused on our core values of safety, customers, and the environment. And our efforts to improve on those things which are important to our customers are paying off.

- Since privatization, we have improved reliability, reducing the number of outages by 50% and their duration by 30%.
- Since 1992, our rates have been much less than half the rate of inflation. And, we have had no rate increase since 1996.
- While energy markets in the world are sky-rocketing, we've been able to control costs for our customers.
- In fact, today I can re-confirm for you that we had no rate increase in 2000, and there will be no rate increase in 2001.

While we know this is critically important to our customers, stability on its own isn't enough. That's why we've been working with our regulator, the Nova Scotia Utilities and Review Board, to offer new pricing options which give customers choice and lower energy costs. Let me tell you about two excellent examples:

Real-Time-Pricing gives industrial customers the marginal cost of energy hour by hour. By modifying production processes and shifting hourly energy use, customers can take advantage of off-peak pricing -- and save. This allows these customers to see the energy market -- and to respond to it -- to manage their costs. And, Electric Thermal Storage Units, with Time-Of-Use pricing options, allow residential customers to reduce energy costs by 35%. By combining information, technology and prices, we create an energy solution that results in a lower cost. And by retaining customers who might otherwise switch to another energy source -- we help keep prices stable for all our customers.

We are approaching the UARB before year-end to make pricing options and service solutions available to all customers by next year. These options and solutions will be market based by their very nature. And we will continue to look for new ways to provide choice for our customers through new products, services and energy solutions. Many customers -- depending on their choices -- will see prices fall.

All customers will soon have the choice. Everyone knows where energy markets are this fall, High. But, here are two examples of how customer choice has changed our customers' circumstances:

- While oil heating customers are facing 60 to 75% increase in fuel heating costs this winter, Nova Scotia Power's customers can choose to install Electric Thermal Storage Units and realize a 35% decrease in their electricity costs this year.
- Industrial customers who generate their own electricity with oil, wood or hydro, can choose instead to buy energy from us for less than their costs of generation.

I believe we are putting into action today the kind of competitive thinking customers need and expect. Having said all that, as a private company, focussed on the customer, we have some thoughts about the issues and themes discussed today. One theme revolves around the discussion of divestiture versus non-divestiture of generation assets. We all know this is a capital-intensive industry. With the time, money and resources needed to build generation, it is clear that fully-utilizing existing generation is a more cost-effective route than building more.

We've seen it time and again in other markets -- divestiture of assets has led to reliability issues and price stability concerns, as operators struggle to secure a timely flow of capital and energy. Customers demand a reliable, stable source of electricity at reasonable prices. What Nova Scotia Power is able to do, as a privatized company, is manage costs and provide stable pricing for our customers. This brings me to a second theme of discussion at today's conference -- retail choice. Up to this point, the deregulation discussion for the electricity industry has focused too much on the supply side -- what the changes mean to those who generate the power. Not as much focus has

been given to the demand side -- how these changes will address the needs of the customer. At Nova Scotia Power, we feel deregulation must meet two key tests:

First, it must demonstrate value to all customers. Creating competition isn't going to work if it is not proven valuable to customers -- value meaning service, lower prices and reliability. In almost all markets in North America where competition has been introduced, higher prices and reliability issues have followed. Customers do not get value when the choices are: higher prices, or higher prices and concerns about reliability.

The second key test is sustained investor confidence. Current generation approaches require large amounts of long-term capital. If an investor doesn't have confidence that their investment will grow over the long-term, they'll put their money elsewhere. Only with investment can generation keep up with customer requirements. This stabilizes or decreases electricity prices, leading to more value for the customer.

Demonstrated customer value and sustained investor confidence; one is not possible without the other. And no area in North America has yet met these two key tests.

Let's move to the next theme from today -- environmental responsibility. You have heard it said that deregulation is seen as the route to ensure environmental compliance. At Nova Scotia Power, we are actively balancing environmental management with price stability. We manage the business to meet -- and look for ways to exceed -- regulatory requirements. In the last year, we have developed practices and processes which are an ISO 14000 equivalent across the company. This ISO framework helps ensure that we are meeting regulations -- and more importantly -- looking for ways to constantly improve performance. Increased fuel diversity is required to maintain price stability.

We've just completed a refit of our Tuft's Cove generating station which allows us to fuel switch oil and natural gas. Today, there simply isn't enough gas to generate only with gas -- supply and demand are not in line with each other -- and therefore gas prices are up. This flexibility to fuel switch gives us the ability to manage emissions through alternate fuel options. It also helps us manage fuel costs overall -- and provide stable electricity prices to our customers.

We're also actively investigating viable Green Power options, including wind, biomass and hydro-electric generation. We plan to offer a Green Power service option to customers in 2001. Of course, the overriding theme of today's conference is deregulation itself. From a Nova Scotia Power perspective, I have two important points to make on this:

- First -- Deregulation is up to the legislatures and public policy in the Atlantic Provinces. Nova Scotia Power is ready and very interested in taking an active role. We do so on behalf of -- and with -- our customers, to ensure there is an open, participative process. And to ensure all customers and stakeholder needs and concerns are heard and addressed.
- The second point I'd like to make in regards to deregulation is that Nova Scotia Power is ready -- we are not waiting. My examples about customer solutions and pricing options speak to that.

Where does that leave us today, here in Atlantic Canada? We are watching other markets across North America and are learning more about the possibilities and opportunities -- as well as the challenges -- that deregulation represents.

Through Emera Inc., our company is exposed to both regulated and deregulated businesses and markets. This summer, Emera announced it's intent to purchase Bangor Hydro, in Maine. This acquisition will strengthen both companies: Bangor Hydro will benefit from our customer focus and cost management success. Nova Scotia Power will learn from Bangor Hydro's experience in a deregulated marketplace. This kind of mutual learning and cooperation is not new to us, in fact it is a Maritime tradition. Together with NB Power and Maritime Electric, we were the first electric utilities in Canada to develop an inter-provincial agreement on sharing reserves. We have been successfully trading energy across our borders with NB Power for almost 40 years. This has

allowed us to manage our short-term reserves, develop load planning strategies, to help us reduce generation costs -- to the benefit of all customers in the region.

While it is fair to say the development of deregulation has dampened the cooperative spirit and increased a competitive relationship, we believe that greater and continued, cooperation among our utilities will help us deliver value to our customers. And so, we'll continue to encourage cooperation with the other Maritime utilities. And we'll continue to demonstrate that privatization can and does work for our customers and shareholders. Whether regulated, deregulated, or re-regulated, the Nova Scotia Power approach is to run the Company as it should be run in a competitive market:

- operating safely;
- improving reliability and service;
- with stable and predictable prices;
- And providing our customer's choice and flexibility in products and pricing.

The result for our customers is value; energy they can count on to meet their needs and lower their costs. Our vision is to be the customer's choice in energy and services. We are working towards that vision, everyday.

Thank you.