April 30, 2013

The Honourable Diana McQueen
Minister of Environment and Sustainable Resource Development
Government of Alberta
#204 Legislature Building
10800 - 97 Avenue
Edmonton, Alberta T5K 2B6

Re: Renewing the Specified Gas Emitters Regulation

Dear Minister McQueen:

With approximately C$5 billion in assets under management, NEI Investments' approach to investing incorporates the thesis that companies integrating best environmental, social and governance (ESG) practices into their strategy and operations will build long-term sustainable value for all stakeholders and provide higher risk-adjusted returns to shareholders. We invest in companies that operate in the conventional and unconventional energy sectors in Alberta and believe these resources can be developed in a way that provides returns to all stakeholders.

We are writing today to acknowledge and express our support for the ongoing work the Alberta Government is doing to continually raise the bar for the environmental performance of its oil and gas industry, in particular the oil sands industry. Specifically, we reference the work that Alberta is undertaking in regard to revising the current Specified Gas Emitters Regulation (SGER). This would be a concrete step towards developing Alberta’s reputation as a world class jurisdiction for energy development.

We have previously led investors in submitting comments to the 2011 public consultation held by the Alberta Environmental Monitoring Panel (AEMP)[1], and later wrote to the Federal and Alberta governments to call for timely implementation of the recommendations of both the AEMP and the Environment Canada Integrated Oil Sands Monitoring Plan. [2] These letters discussed investor perspective concerns about environmental and social impacts from oil sands development, and the need to understand, acknowledge and mitigate these impacts in a timely fashion if companies are to avoid serious risks to their long-term value. We have been very pleased with the ongoing implementation of an expanded and scientifically credible monitoring system and commend both levels of government on this progress.[3]

It is our understanding that the process of determining a renewed carbon pricing policy for Alberta is currently underway. It is with this in mind that we provide our investor perspective on the issue. We would also encourage the government to reach out to investors more broadly, and we would be happy to facilitate this process if it is deemed useful.

[1] http://www.neiinvestments.com/neifiles/PDFs/5.5%20Public%20Policy%20and%20Standards/Investors%20Oil%20Sands%20Monitoring.pdf
[2] http://www.neiinvestments.com/neifiles/PDFs/5.5%20Public%20Policy%20and%20Standards/Oil%20Sands%20Monitoring%20Implementation_Investor%20Letter.pdf).
[3] http://www.jointoilsandsmonitoring.ca/

As investors in energy companies operating in Alberta, the topic of carbon pricing is material to our portfolio. We believe that the implementation of a fair, robust and credible price on carbon will be critical to the ongoing performance of this sector. It will also be crucial if Alberta (and Canada) is to realize the economic and social opportunities inherent in its natural resource base. As a universal investor, we are keenly aware that the actions of the energy sector in Alberta will have profound effects on our portfolio as a whole.[4]

Our argument rests largely on two key points: market access and the pace of innovation.

In our opinion it is highly likely that at some point in the near future, all fossil fuels will be judged by the market based on their impact on climate change. This impact will be defined not only by the actual greenhouse gas emissions associated with the production and use of the fossil fuel, but also by whether the producers of the fossil fuel are paying for the externalities of its production (i.e. paying a price on carbon). In the case of Alberta's oil sands, this scenario is not hypothetical. Rather, oil sands producers are already facing market access issues based largely on carbon footprint. We see these pressures only increasing.

We note the current price discount on Western Canadian Select with alarm (roughly $14/barrel at the writing of this letter). There is no one reason for this discount, but the role of pipeline constraints and market access must be considered. From an investor's perspective, the additional costs incurred by oil sands producers from an increased carbon price will be more than offset by a reduction in the bitumen discount through increased market access.[5] This math is compelling to us.

The case for increased innovation is equally compelling. The Climate Change Emissions Management Corporation (CCEMC) is a good step towards the transformative change that will be achieved through investing in climate change solutions. Such investments not only help Alberta move towards its goal of economic diversification, but they also make the energy industry itself more competitive. However, much more needs to be done. The landscape is changing dramatically, and the pace and scale of innovation needs to be increased significantly. A robust price on carbon, assuming the same compliance mechanisms are in place as under the current SGER, will greatly increase the funds available for investing in the technologies and companies of tomorrow. We believe it is preferable to see this innovation occur in Canada.

NEI does not advocate for a particular price on carbon, though we do have a perspective on carbon pricing levels in general. NEI has for several years been requesting that energy companies in our portfolio perform shadow carbon pricing on their projects to ensure that these investments will be safe in a future where there is a significant price on carbon. This practice has spread to become an industry norm among major oil and gas companies. This is evidenced in a recent study by Sustainable Prosperity that found energy companies operating in Canada were utilizing an average shadow carbon price range of C$15/tonne to C$68/tonne.[6] While this was a study of just 10 companies, the findings are in line with our own experience.

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[4] The universal investor (or universal owner) theory posits that investors who are broadly invested across all aspects of the economy benefit from the overall health of the economy, and society at large. Thus developments in one sector need to be viewed based on the macroeconomic impacts as a whole. If costs are externalized by one sector, the universal investor will likely be impacted by these costs through its other investments.

[5] The argument that increased pipeline capacity and market access will lead to substantial price increases for Canadian crude is best illustrated in the following paper out of the University of Calgary's School of Public Policy: http://policyschool.ucalgary.ca/sites/default/files/research/mmoore-oilmarket.pdf

[6] http://www.sustainableprosperity.ca/dl976&display

The message from both conventional and unconventional oil and gas companies that have undertaken this shadow pricing analysis has been consistent: not one has pointed to a material impact on profitability that would endanger the viability of their projects. We would suggest that the government of Alberta keep this in mind as it negotiates a new cost of carbon with industry. Unless companies have been deliberately misleading investors – and we do not believe they have – there is room for the government to increase the cost of carbon while still allowing for responsible energy development. In fact, it is our opinion that continued prosperity depends in part on the implementation of an increased cost of carbon that can withstand international scrutiny. This means that not only must it be substantial; it must be seen as substantial by key stakeholders.

It should be noted that investors already harbor expectations of greatly increased efficiency from the energy industry, in particular from oil sands operators. Oil sands operators are in a relatively young industry that has already seen substantive efficiency gains. It is the investor expectation that this rate of improvement will not only continue, but accelerate. The status quo will simply not be tolerated by investors over the long term. Whether it is the market or the government that regulates these expectations is largely moot. Companies will have to meet these expectations regardless. A strong price on carbon in the interim, however, will potentially capture the near-term market access that future improved performance alone will not.

Lastly, we agree with the International Monetary Fund's assessment that carbon pricing policies should be credible, flexible, broad-based and equitable.[7] We would stress that being equitable does not necessarily equate to having the same rules or objectives regardless of the sector. Equitable treatment would allow for recognition that the unique characteristics of the natural gas and oil sands sectors warrant unique approaches. This should not represent an insurmountable obstacle.

In conclusion, we would like to commend the government of Alberta once again for the work it has done to continually raise the bar for environmental performance of the energy sector. We reiterate our support for the development of a robust and credible price on carbon that will benefit the industry in the long run. However, we would like to share our belief in the urgency of getting this right in the very near term. If you have any questions regarding this letter, please contact **Jamie Bonham, Manager Extractives Research & Engagement, NEI Investments (**jbonham@neiinvestments.com **604-742-8328).**

Sincerely,

NEI Investments

Robert Walker
Vice President, ESG Services & Ethical Funds

CC:
The Honourable Peter Kent, Minister of the Environment, Government of Canada
Dave Collyer, President, Canadian Association of Petroleum Producers

[7] http://www.imf.org/external/np/exr/facts/enviro.htm