NOVA SCOTIA POWER
An Emera Company

April 08, 2011

Nancy McNeil
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
PO Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: CI 38852 – Work Vehicle Replacement NSPI Responses to Board Directives – P-128.10

Dear Ms. McNeil:

In its letter dated November 17, 2010, in the above referenced matter, the Board provided the following:

> The Board notes that NSPI's response regarding the decision to lease a number of vehicles in 2009, due to "cash flow issues", may indicate that leasing was a more cost effective option than purchase. Please provide a cost benefit comparison of vehicles' life cycle costs which shows that the decision to lease 16 work vehicles in 2009 provided savings for NSPI customers.

Following the November 30, 2010 filing of this analysis, NSPI and Board Staff met to discuss the material provided to the Board regarding the decision to lease work vehicles in 2009.

The analysis that NSPI has provided to justify the decision to lease rather than purchase the 2009 work vehicles, indicated that when comparing the cost of the lease versus the original budget cost to purchase the vehicles (as developed in the 2007 capital application), the cost per vehicle was less than originally assumed under a purchase assumption.

Additionally, NSPI provided that the decision to lease the vehicles in 2009 was primarily influenced by cash flow considerations. In 2009 the Company paid an annual lease payment of approximately $350 thousand versus a cash outlay of approximately $3.4 million. The maintenance of cash flow flexibility was important to the Company in 2009, as considerations about the increase of the capital requirement arising from changing environmental related regulation was not yet known.

As a follow up to this discussion, NSPI presented an updated Net Present Value analysis of the leasing and subsequent buyout decision. Amendments to the original analysis have been incorporated and presented in Attachment 1. The timing of the vehicle purchases was aligned with the timing of vehicle acquisition through the lease.

The discount factor assumed for the buyout period was updated to demonstrate that a lease payment and the buyout occurred in the same month. In 2010 once cash flow considerations were understood, NSPI determined that the best course of action was to buyout the lease agreement. From a weighted average cost of capital perspective, this decision saved customers $50 thousand.

It is important to note the decisions involved in this transaction were not predicated on the results of a detailed financial analysis. The analysis as presented provides the results of decisions that were based on cash flow considerations at a point in time.

I trust this analysis meets the Board's requirements. Please direct any further questions in this matter to the undersigned.

Sincerely,

Lee Thomson-Lutz, MBA, CMA
Manager, Capital

Lease versus Buy Decision- Benefit Analysis

Discount Rate 8.23%

Buy

Period	June-09	July-09	August-09	September-09
Payment	258,305	1,029,856	1,971,987	135,408
Discount Factor	0.9932	0.9864	0.9797	0.9730
Present Value	**$256,546**	**$1,015,874**	**$1,931,964**	**$131,756**

Lease

Period	June-09	July-09	August-09	September-09	October-09	November-09	December-09
Payment	4,586	22,894	57,951	60,366	60,366	60,366	60,366
Discount Factor	0.9932	0.9864	0.9797	0.9730	0.9664	0.9598	0.9533
Present Value	**$4,555**	**$22,584**	**$56,775**	**$58,738**	**$58,338**	**$57,941**	**$57,546**

Period	January-10	February-10	March-10	April-10	May-10	June-10	July-10	August-10	September-10	October-10	November-10	November-10
Payment	60,366	60,366	60,366	60,366	60,366	60,366	60,366	60,366	60,366	60,366	60,366	2,670,896
Discount Factor	0.9468	0.9403	0.9339	0.9276	0.9213	0.9150	0.9087	0.9026	0.8964	0.8903	0.8842	0.8842
Present Value	**$57,154**	**$56,765**	**$56,378**	**$55,994**	**$55,613**	**$55,234**	**$54,858**	**$54,484**	**$54,113**	**$53,744**	**$53,378**	**$2,361,709**

Net Present Value:

Lease & Buyout Decision	**$3,285,900**
Vehicle Purchase Decision	**$3,336,139**
Benefit for Customers	**$50,240**