NOVA SCOTIA
POWER
An Emera Company

October 22, 2010

Nancy McNeil
Clerk of the Board
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
P.O. Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: Accounting Policies and Procedures Manual – P-111.6

Dear Ms. McNeil,

This letter is in response to the Board's letter and questions dated October 6, 2010, concerning changes to NSPI's Accounting Policies and Procedures (AP&P) resulting from the Company's transition to United States Generally Accepted Accounting Principles (USGAAP) from Canadian Generally Accepted Accounting Principles (CGAAP).

NSPI confirms that the summary of the process and proposed approvals provided in the Board's letter is correct. The Company thanks the Board for its timely attention to this matter and requests that the process be completed as promptly as possible following the Board's receipt of recommendations from its retained consultant on October 22, 2010.

Below are NSPI's responses to the UARB's questions relating to AP&P changes filed on May 14, 2010 and September 15, 2010.

1) **Re: Cost Allocation Policy - 1570**
In this expense allocation it mentions corporate support service cost being attributed to a specific entity. Is this on the assumption that all costs are allocated from NSPI to others such as Emera, or does it also include the allocation back from Emera to NSPI? Please explain.

Policy 1570 Cost Allocation Policy does not address costs allocated from Emera to NSPI. When such costs arise they are evaluated for compliance with the Code of Conduct and allocated accordingly.

2) **Re: Generic accounts - 3350**
Under Policy 4(J) (i), the account is to be charged with AFUDC and the same amount appears under Policy 6 for indirect costs. Is this a double recording of AFUDC for the same construction project? If not, please explain how and why it is done this way.

There is no double recording of AFUDC for the same construction project. Paragraph 06 refers to activity code 005 where indirect costs, which include AFUDC, are charged when a project is under construction. Once the project is put in service the costs that have been collected in activity 005 are allocated to the appropriate activities one of which is 003.

3) **Re: Generics accounts - 3350**
Under Policy 7, are all R&D activities expensed or is it broken out between operating and capital, in which case capital is not written off in the year incurred? Is this in accordance with the tax policy? Please explain.

In the revised US GAAP Policy 3350 Generic Accounts filed in submission 1 on July 9, 2010, Paragraph 07 has been removed. R&D activities could be expensed or capitalized depending on the nature of the activity. NSPI's policy for capitalization would be applied to R&D activities to decide on expensing or capitalizing. For tax purposes, as described in Policy 5900 Income Taxes, investment tax credits (ITC) are recorded in the year earned as a reduction to income tax expense. The tax treatment of ITCs is the same irrespective of whether or not the ITC is in relation to a capital or operating expenditure.

4) **Re: Fuel and Power Purchase - 5100**
In Policy 05, the policy mentions only charging power purchases to an expense as they are received; should this not be on an accrual basis so there is proper matching? Please explain.

NSPI accounts for power purchases on an accrual basis. Due to the fact that purchased power is used immediately it is expensed in the period that the power is received.

5) **Re: Capitalization of Cost - 6000**
In procedure 09, the wording "realize" seems to be a bit unusual. Exactly what is meant by this phrase? It is still used in the document converted to US GAAP as part of submission 1.

Paragraph 09 under NSPI's Canadian GAAP policy is also Paragraph 8 under NSPI's US GAAP Policy. The word "realized" means expenditures should be recorded as operating or capital at the time the expenditure has been incurred on an accrual basis.

6) **Re: Construction Work in Progress - 6200**
Policy 2(1) has limits of 5% and $25,000 of activity amount. In light of the change of the requirement for Board approval increased to $250,000 should these tolerance levels also be changed?

Please see revised Policy 6200 Paragraph 02 (n). NSPI has updated the policy consistent with current practice.

7) **Re: Capital Expenditures - Computer Hardware/Software and Telecommunications Equipment - 6215**
Given some of the confusion around what is an operating expense and what is to be capitalized for software, etc. the Board would like to see more rigorous wording.

NSPI assumes the Board is referring to the May 14, 2010 submission. Please refer to the revisions to Policy 6215 filed in submission 1 on July 9, 2010. NSPI revised the policy to be more specific and included Paragraph 02. As referenced in the revised Policy 6215, capitalization criteria are provided in Policy 6000. Policy 6100 describes the components of capital cost.

8) **Re: Inventories - 6700**
Policy 05 talks about physical counts being done annually, whereas Policy 10 talks about quarterly physical accounts. Should this be consistent in both places? If not please explain why the difference (material, oil, and coal all treated differently).

Policy 6700 Inventories includes both material and fuel. Please refer to revisions to Policy 6700 filed on September 13, 2010. Paragraph 05 references Materials inventory. Materials inventory counts are performed on a rotating basis. Paragraph 10 references coal and oil inventory. Coal inventory surveys are performed on a quarterly basis in accordance with NSPI's Fuel Manual. Coal pile surveys require an external consultant with specialized skills. Liquid fuel inventory counts are performed on a monthly basis with internal resources using a gauge or through a manual dip. NSPI has various types of inventory and performing physical counts for all types of inventory at the same intervals does not reflect the differences in nature of the inventories.

9) **Re: Pertaining to Earnings -7200**
How come there is no entry to retained earnings for the dividends on preferred shares? Submission 2 which includes this policy does not clarify.

Under Canadian GAAP, NSPI's preferred shares are not considered equity. The preferred shares are classified as debt and the dividends are considered an expense which flows through the Company's earnings. Under US GAAP, NSPI's preferred shares are considered "mezzanine equity" and dividends flow through shareholders equity. Preferred shares subject to mandatory redemption requirements or whose redemption is outside the control of the issuer should be included under the caption "Redeemable Preferred Stock" and presented outside shareholders equity but excluded from liabilities in the financial statements.

10) Re: Retirement Disposal of Capital Assets - 6420 in Submission 2
Policy 15 in the new wording in the mid starts asset retirement and environmental obligations, and then it says ASST retirement obligations, etc., is the "ASST" supposed to be as written, or should some other word be used?

The word "Asst" should read "Asset". Please find attached a revised policy.

For more information, please do not hesitate to contact the undersigned.

Regards,

Eric Ferguson, CMA
Director, Regulatory Affairs
Nova Scotia Power Inc.

c: Claudette Porter, CA
J. René Gallant
Bruce Outhouse, Q.C.
Heather Keeler-Hurshman, CA

Encl.

Appendix A:

6200 Construction WIP
6420 Retirement and Disposal of Cap Assets

PROPERTY, PLANT AND EQUIPMENT

CONSTRUCTION WORK IN PROGRESS - 6200

GENERAL

01 The construction work in progress ("CWIP") accounts contain all work orders relating to assets that are under construction, but not placed in service. These accounts also include retirements in progress. The work order is the major item in the system and acts as a focus for control and processing of data, as well as the link back to the budget process.

WORK ORDER PROCESS

02 The following steps portray the capital asset cycle at Nova Scotia Power Inc. ("NSPI").

a. Prepare budget item and enter into Power Plant[1] ("PP") as a Capital Item ("CI");

b. Review and revise the CI item (if necessary);

c. Approval by Investment Review Team ("IRT") of CI for inclusion in Annual Capital Expenditure ("ACE") Plan;

d. Approval of the ACE Plan by the Nova Scotia Utility and Review Board ("UARB");

e. Internal approval of CI in PP if project is under $1 million and part of the approved ACE plan;

f. Activate CI in PP to generate a Work Order number;

g. If the project is over $1 million, IRT will review and revise the CI before submitting to the UARB;

h. If the project is not part of the approved ACE plan, the following occurs:

   a) If the project is less than $250 thousand the NSPI Leadership Team will approve.

   b) If the project is between $250 thousand and $500 thousand the NSPI Leadership Team will approve before submitting to the UARB.

   c) If the project is between $500 thousand and $1 million the NSPI Executive will approve before submitting to the UARB.

i. Approval of CI by UARB;

j. Activate CI in PP to generate a Work Order number;

[1] Power Plant is NSPI's Capital Software System

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k. Set up the capital work order in CWIP;

l. Summarize and control charges;

m. Change status of work order from CWIP to Operational ("OPS") when asset goes in service and is being used to generate revenue;

n. Final cost and close the work order to property plant and equipment ("PPE") when project is complete and UARB approval has been received if applicable. Final cost approval and/or authorization to overspend ("ATO") is required for projects where the total project spending exceeds $1,000,000.

o. Depreciate PPE item; and

p. Retire item through retirement capital work order.

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or not part of the ACE plan (a U&U item)

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PROPERTY, PLANT AND EQUIPMENT

RETIREMENT AND DISPOSAL OF CAPITAL ASSETS - 6420

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DEFINITIONS

01 Cost

Cost is the main component of most **retirement work orders**. Refer to NSPI's Accounting Policy & Procedures Manual 6100 for a more detailed description of the items included in cost. The amounts that must be removed to record the deletion of an asset from service includes its cost and related accumulated depreciation.

02 Asset Retirement Obligations ("AROs")

An asset retirement obligation is an obligation associated with the retirement of a tangible long-lived asset.[1] These costs include but are not limited to labour, materials, overhead and vehicle expenses.

03 Removal Costs

Removal costs refer to the charges associated with removing a retired asset from its in-service location. These costs include but are not limited to labour, materials, overhead and vehicle expenses.

04 Salvage Value

Salvage value refers to the proceeds from the sale of a retired asset or, if a retired asset is returned to inventory, the inventory value at which it is recorded.

05 Net Salvage Value

Salvage value less cost of removal is referred to as net salvage value. The amount may be either positive or negative and is charged or credited to accumulated depreciation.

06 Retirement Work Order

Retirement costs can be recorded in a retirement work order or in a new capital work order. Retirement work orders are used to collect all retirement costs and salvage values associated with a retirement project. They are subject to the same approval process as ***new capital work orders***. Within new capital work orders, retirement, salvage and original cost amounts are captured under retirement accounts.

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1 FASB ASC 410-20-20

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PROPERTY, PLANT AND EQUIPMENT

RETIREMENT AND DISPOSAL OF CAPITAL ASSETS - 6420

GENERAL

07 Plant in service refers only to assets that are currently used and useful in the provision of electric service to the consuming public or assets that are not used but are useful for standby purposes or future services. Factors causing assets to lose their ability to provide service include:

a. reaching the end of their useful lives;
b. irreparable equipment failure; and
c. technological obsolescence.

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POLICY

08 Assets that are not used and not expected to be used in the foreseeable future should be retired from plant in service.[2]

PROCEDURES

09 For retirements of property, plant and equipment other than land ,the original cost plus any costs of removal less salvage proceeds is charged to accumulated depreciation, with no immediate gain or loss recognized.

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10 A retirement work order must be submitted for any proposed significant capital asset retirement and it must follow the same approval procedures as new Capital Work Orders. These are used to remove costs from the capital asset records. For new capital work orders that have a retirement component, the work order will be set up and approved with retirement accounts to capture the cost of retiring assets, the original cost of the asset to retire and any salvage received from the sale or amount recorded if the asset was returned to inventory. NSPI's Accounting Policy & Procedures Manual Section 6200 explains the procedures for approval of new Capital Work Orders.

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11 When retired assets are physically removed from their in-service locations and subsequently sold or returned to inventory, costs of removal along with any proceeds of disposal are accumulated in the proper accounts within a capital work order.

12 In the event that salvage is in the form of proceeds from an insurance claim, the work order is credited with the total claim (including the deductible) while the deductible amount only is charged to operations.

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[2] Please refer to NSPI's Accounting Policy & Procedures Manual Section 6350 for a discussion of the classification of assets.

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13 When a work order has received final cost approval, an entry is made for the final disposition of charges to capital assets in service and accumulated depreciation.

Retirement of Assets Other than Land

14 When assets are disposed of, a retirement work order is set up or retirement accounts are set up within a capital work order.

15 Asset retirement obligations have been set up for the decommissioning of applicable assets[3] consistent with *FASB ASC 410-20 Asset Retirement and Environmental Obligations, Asset Retirement Obligations*. The obligation is determined consistent with FASB ASC 410-20-30, Asset Retirement and Environmental Obligations, Asset Retirement Obligations, Initial Measurement. The obligation is revised as required under the FASB ASC 410-20-35 Asset Retirement and Environmental Obligations, Asset Retirement Obligations, Subsequent Measurement.

Retirement of Land

16 When land is disposed of, retirement accounts within a work order are used to remove its cost from the capital asset records.

17 If the proceeds from the sale of land are greater than the cost of the land plus the retirement costs than a gain on the sale must be recognized. Consequently, if the proceeds are less than a loss on the sale must be recorded.

[3] Please refer to NSPI's Accounting Policy & Procedures Manual 6320 for a discussion of the Asset Retirement Obligations.

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¶
15 The following journal entries are required to record the equipment retirement and proceeds of disposal:¶
¶
DR 2-097-R72-xxx-xxxx (Original Cost) 85,000¶
CR 2-200-R72-xxx-0000 (PP&E) 85,000¶
To record the original cost to be retired.¶
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DR 1-300-000-000-0000 (Cash) 15,000¶ ... [1]

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These are used to remove costs from the capital asset records. An example will demonstrate the journal entries required to retire an asset other than land. Assume that a piece of computer equipment with an original cost of $85,000 and accumulated depreciation of $52,000 is to be sold for $15,000.

15 The following journal entries are required to record the equipment retirement and proceeds of disposal:

DR	2-097-R72-xxx-xxxx (Original Cost)	85,000	
CR	2-200-R72-xxx-0000 (PP&E)		85,000

To record the original cost to be retired.

DR	1-300-000-000-0000 (Cash)	15,000	
CR	2-098-R72-xxx-xxxx (Salvage)		15,000

To record proceeds from sale of equipment.

16 After all charges have been processed against a work order and the work order has been final costed, the following entry is recorded at the end of the year in which the work order was final costed to close the retirement work order and charge accumulated depreciation:

DR	2-098-R72-xxx-xxxx (Salvage)	15,000	
DR	2-210-R72-xxx-x0000 (Accumulated Depreciation)	70,000	
CR	2-097-R72- xxx-xxxx (Original Cost)		85,000

To record final costing of the work order

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The liabilities should be reviewed and if there is an amount recorded to cover the cost of retiring the assets, the

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DR: 2-xxx-xxx-xxx-xxxx
CR: 2-531-xxx-xxx-xxxx
To transfer ARO for asset retirement costs

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An example will demonstrate the journal entries required to retire land. Assume that a piece of land with an original cost of $5,000 is to be sold for $50,000. Costs to clean up the site will amount to $10,000.

19 The following retirement transactions are required to record the retirement of land, the site restoration costs and proceeds of disposal and recognize the gain on the sale:

DR	2-097-R01-xxx-xxxx(Original Cost)	5,000	
CR	2-200-R01-xxx-x000		5,000

To record the original cost of land to be retired in a retirement work order.

DR	2-066-R01-xxx-xxxx (Expense Account)	10,000	
CR	1-530-000-000-0000 (Account Payable (A/P)		10,000

To record site restoration costs.

DR	1-300-000-000-0000 (Cash)	50,000	
CR	2-098-R01-xxx-xxxx (Salvage)		50,000

To record proceeds from sale of land.

20 After all charges have been processed against a work order and the work order has been final costed, the following entry is recorded at the end of the year the work order was final costed to close the retirement accounts within the work order:

DR	2-098-R01-xxx-xxxx (Salvage)	50,000	
CR	2-066-R01-xxx-xxxx (Other Goods & Services)		10,000
CR	2-097-R01-xxx-xxxx (Original Cost)		5,000
CR	1-195-000-000-0000(Gain / Lost on Asset Sales		35,000