NOVA SCOTIA POWER
An Emera Company

September 24, 2010

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

Re: NSPI Accounting Policy and Procedures Manual

Dear Ms. McNeil,

Further to NSPI's letter of September 13, 2010, attached please find NSPI's third and final filing of revisions to its Accounting Policy and Procedures Manual for harmonization with US GAAP. The updates since the Manual was filed on May 14, 2010 are highlighted for the Board's reference. Included in this filing are two policies which were previously submitted in earlier filings. The resubmitted policies include 1530 Regulated Return on Equity and 6250 Purchase Price Discrepancy.

Changes have been made to 1530 Regulated Return on Equity to provide clarity around NSPI's policy. The changes to 6250 Purchase Price Discrepancy are the result of a change in NSPI's policy. Under NSPI's current policy, NSPI amortizes purchase price discrepancies which are excluded from rate base. Under US GAAP amortization of the Purchase Price Discrepancies will cease and the amounts will be tested regularly for impairment. The change in policy will have no impact on regulated earnings as the amounts are excluded from rate base.

In addition NSPI has removed one section which is no longer applicable. The section which has been removed is 5320 Amortization Purchase Price Discrepancy. Appendix A lists the 17 sections included in this filing.

Included in the third filing are two accounting policies which will have an impact on earnings. The two policies are 5900 Income Taxes and 2400 Employee Future Benefits.

Policy 5900 Income Taxes results in the benefit of investment tax credits being immediately credited to income tax expense in the year earned to the extent realization of such benefit is more likely than not.

In addition, income taxes computed under the previous income tax accounting policy used substantively enacted tax legislation in support of the calculations. The new accounting policy stipulates that enacted rates are to be used in computing tax expense. Therefore, there will be a difference in the income tax expense recorded under the amended policy when enacted and substantively enacted legislation are different. The transition to US GAAP will result in an opening adjustment to retained earnings.

Policy 2400 has been amended to converge with US GAAP which results in an opening adjustment to retained earnings.

NSPI respectfully requests the Board review the amended Accounting Policies submitted as Batch 3. The Company would be pleased to have our accounting personnel and advisors meet with the Board, or its consultants, at any point during the review if the Board would consider this helpful.

The amended versions of the Accounting Policies and a letter from Grant Thornton confirming their review of the policies are attached.

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

Regards,

FOR Eric Ferguson, CMA
Director, Regulatory Affairs

Attach.

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

Appendix A:

1530	Regulated Return of Equity
2400	Employee Future Benefits
4200	Other Revenue
5300	Depreciation Expense
5800	Interest
5900	Income Taxes
6230	Application of Administrative and Vehicle Overhead (Self-constructed Assets)
6235	Application of Administrative Overhead (Contracted Assets)
6250	Purchase Price Discrepancy
6320	Asset Retirement Obligations
6350	Assets – Not Used and Useful
6400	Accumulated Depreciation
6900	General Principles
7300	Preferred Shares
7320	Preferred Dividends
8100	Long-term Debt and Matching Notes
8300	Income Taxes Payable

REGULATED RETURN ON EQUITY- 1530

BACKGROUND

01 The Nova Scotia Utility and Review Board ("UARB") approves Nova Scotia Power Inc.'s ("NSPI's") Return on Equity ("ROE") range and common equity ratio for rate making purposes.

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POLICIES

02 NSPI files with the UARB its actual regulated return on equity and regulated average common equity ratio annually.

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03 The annual regulated return on equity is calculated by dividing the regulated net earnings for the current year by the average of the actual equity amounts for the previous five quarters ending December 31st as per NSPI's regulated financial statements.

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04 The annual regulated average common equity ratio is calculated by dividing the average of the actual equity amounts for the previous five quarters ending December 31st by the average of the actual capitalization amounts for the previous five quarters ending December 31st as per NSPI's regulated financial statements.

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EMPLOYEE FUTURE BENEFITS - 2400

GENERAL

01 The Company maintains contributory defined-benefit and defined-contribution pension plans that cover substantially all employees, and plans providing non-pension benefits for its retirees.

02 The defined-benefit pension plans are based on the years of service and average salary at the time the employee terminates employment and provide annual post-retirement indexing equal to the change in the Consumer Price Index up to a maximum increase of 6% per year.

03 Other retirement benefit plans include: unfunded pension arrangements, unfunded long service award and contributory health care plan.

04 The measurement date for the assets and obligations of each benefit plan is December 31.

POLICIES

05 Pension obligations and obligations associated with non-pension post-retirement benefits such as health benefits to retirees and retirement awards, are actuarially determined using the projected benefit method prorated on service and management's best assumptions. The projected benefit obligation is valued based on market interest rates at the valuation date.

06 Adjustments to the projected benefit obligation arising from plan amendments are amortized on a straight-line basis over the expected average remaining service period ("ARSP") of active employees.

07 Pension fund asset values are calculated using market values at year-end. The expected return on pension assets is determined based on market-related values. The market-related values are determined in a rational and systematic manner so as to recognize asset gains and losses over a five-year period.

08 For any given year, when Nova Scotia Power Inc's ("NSPI"'s) net actuarial gain (loss), less the actuarial gain (loss) not yet included in the market-related value of plan assets, exceeds 10% of the greater of the projected benefit obligation and the market-related value of the plan assets, an amount equal to the excess divided by the ARSP is amortized on a straight-line basis.

09 On January 1, 2011, NSPI adopted the US accounting standard on employee future benefits retrospectively with restatement.

10 Plan surpluses are recognized as assets and plan deficits are recognized as liabilities on the balance sheet. The difference between plan surplus (deficits) and accrued benefit assets (liabilities) is recognized in accumulated other comprehensive income.

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PROCEDURES

11 Actuarial valuations are performed annually for all plans.

12 Pension expense, as determined in the annual actuarial valuation, is charged to both operating departments and corporate adjustments.

13 Pension funding for pre-funded plans are paid as determined in an annual actuarial valuation.

14 Pension plan assets are invested by fund managers. Monthly statements are provided by the trustee showing asset market values, investment income, pension benefits, refunds of contributions and plan expenses.

15 A Statement of Net Assets and a Statement of Changes in Net Assets for all pension plans are prepared quarterly. These statements show pension asset market values, contributions receivable, accounts payable, investment income, changes in market values, contributions received, pension benefits paid, refunds of contributions and plan expenses.

16 For the defined benefit pension plan, employee contributions for current service are matched by NSPI through the payroll system and remitted to the trustee for investment by fund managers. Additional employer contributions for current service and/or past service, where required, are also remitted to the trustee for investment by the fund managers.

17 For the defined contribution pension plan, employee and employer contributions are remitted to a pension plan administrator and invested according to instructions provided by the employee.

18 For the defined benefit pension plan, administrative expenses are paid by NSPI and reimbursed from the pension fund through requests to the trustee.

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OTHER - 4200

DEFINITION

01 Other revenue includes:

a. Revenue from materials and equipment sales;

b. Wiring inspection revenue;

c. Services provided to others (e.g. storm relief, testing of protective equipment, customer requested work on NSPI and customer owned equipment);

d. Customer forfeited discounts;

e. Miscellaneous customer charges (*e.g.*, connection fees);

f. Rental income from third parties;

g. Customer late payment fees;

h. Miscellaneous revenue;

i. Revenue from steam and ash sales; and

j. Equity portion of allowance for funds used during construction.

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POLICY

02 The Company records "other revenue" from various sources on the same basis as electric revenue -- on either an as-billed or accrued basis as it relates to the service provided.

03 Revenues are recognized in accordance with *FASB ASC 605-10-25 and S25 - Recognition*.

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PROCEDURE¶
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04 Other revenue is initiated by various Company personnel. The general journal entry to record other revenue is:¶
¶
Account Number Debit Credit¶
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Accounts Receivable Various XXX¶
Type of Revenue Various XXX¶
HST Payable 575 XXX
¶

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DEPRECIATION AND AMORTIZATION EXPENSE - 5300

POLICIES

01 The cost of property, plant and equipment and intangibles should be depreciated or amortized over the useful life of the assets.[1]

02 Net salvage values should be amortized over the useful lives of the assets to which they relate and either charged to depreciation expense (when negative) or credited to depreciation expense (when positive).

03 Depreciation and amortization expense should be provided on a straight-line basis.

04 Where Nova Scotia Power Inc. ("NSPI") has a legal obligation associated with the retirement of a tangible long-lived asset that NSPI is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel[2], NSPI will include a portion of this Asset Retirement Obligation ("ARO") in Depreciation Expense, Please refer to NSPI's Accounting Policy and Procedures Manual Section 6320 for Asset Retirement Obligations.

PROCEDURES

05 The life estimations and policies, including AROs and other significant assumptions are periodically reviewed and the results filed with the Nova Scotia Utility and Review Board ("UARB") for its approval.

06 The depreciation or amortization base consists of the original cost of assets in service, including AROs, but excludes the following assets which are not depreciated or amortized:

a. land and land acquisition costs - these costs are excluded since land generally appreciates in value over time with the recovery of invested capital occurring at the time of disposal; and

b. fully-depreciated and amortized assets - these are assets which have been fully depreciated or amortized but have not been retired from service.

07 In most cases, depreciation and amortization begins in the month an asset is placed in service and ceases on the first of the month in which it is retired. The exceptions are large projects, such as thermal plants, that are depreciated on the specific day the asset goes into service and depreciation is stopped when it is retired as these have a significant financial impact on the Company.

08 Depreciation and amortization rates, including net salvage allowances, are approved by the UARB based on periodic depreciation studies and/or settlement agreements filed with the UARB.

[1] FASB ASC 360-10-35-3
[2] FASB ASC 410-20-15-2

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09 The remaining life is forecasted through the use of mortality statistics that determine the best fit ***Iowa Curve*** which gives the expected retirement characteristics. This technique is applied to all mass plant accounts. Production plant assets remaining life is derived using engineering studies.

10 Depreciation and amortization rates are filed annually with the Annual Capital Expenditures Plan to the UARB.

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FINANCING CHARGES - 5800

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GENERAL

01 **Financing charges**

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The financing charges figure on the Statement of Earnings is a net amount comprised of several different income and expense items. The individual items may include:

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a. long-term debt interest;

b. amortization of debt issue costs;

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c. amortization of debt defeasance costs;¶

c. foreign exchange gains/losses;

d. short-term debt interest;

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e. other expenses –such as bank charges;

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f. gains on the debt defeasance portfolio;

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g. payments/receipts on interest hedge positions;

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h. the debt portion of AFUDC;[1]

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i. carrying charges deferred on Demand Side Management Programs ("DSM") and the Fuel Adjustment Mechanism ("FAM") approved by the UARB; and

j. Other interest income earned from activities not related to generating and selling electricity including income from financing equipment sales, managing excess cash and interest tax refunds.

02 Interest expense should be recorded on an accrual basis.

03 **Debt Issue Costs**

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The issue of long-term debt is usually an involved process in which the Company may retain the services of brokers, lawyers and auditors. Since the cost of using these services can be significant and provide future benefit to the company, US GAAP requires these costs to be deferred and amortized over the life of the related debt instrument. Significant amounts such as premiums, discounts and commissions are deferred. The remainder of the costs are expensed in account 084 bank charges.

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1 Please refer to NSPI Accounting Policy and Procedures Manual Section 6240 for details

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04 Debt issue costs should be deferred and amortized using the effective interest rate method over the term of the related debt.

05 **Foreign Currency Translation**

Please refer to NSPI Accounting Policy and Procedure Manual Section 2200

PROCEDURES

06 **Long-term Debt - Interest Expense**

Long-term debt interest expense includes interest on Nova Scotia Power Inc. ("NSPI") debentures and medium term notes. Interest expense is accrued monthly based on a 30-day months whether interest payments are made annually or semi-annually. Actual interest payments are debited to the accrued interest account.

07 **Amortization of Long-term Debt Issue Costs**

The Company defers costs associated with the issuance of long-term debt including commissions, discounts/premiums and legal and audit fees, if significant. These costs are amortized monthly using the effective interest rate method over the life of the related debt.

08 **Short-term Interest**

Short-term interest includes all interest, commissions, stamping fees, overdraft charges associated with the issuance of commercial paper, banker's acceptances, hedge settlements, and prime loans These costs are expensed or amortized monthly over the number of days of the associated debt.

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03 **Debt Defeasance Costs**¶
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Debt Defeasance costs are the incremental cost of assets over the face amount of the long-term debt of Nova Scotia Power Finance Co. ("NSPFC") placed in trust to defease the NSPFC debt. The UARB has permitted the Company to recover these costs over the life of the related NSPFC debt.¶

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09 Other Financing Charges

The Company expenses related banking costs in the month in which they occur. Stand by fees and letters of credit fees are expensed monthly. Credit facility fees are expensed over the period to which they relate.

10 Foreign Exchange Expense

It is the Company's intent to assign foreign exchange costs directly to the end-use accounts based on an estimate of the foreign exchange rate set for the month. However, due to fluctuations in exchange rates throughout the month, and differences in the timing of the purchases of foreign currency and the payment of foreign denominated invoices, over or under applied foreign exchange costs often arise which are not allocated back to the end-use accounts.

The outstanding balance in the U.S. funds bank account is translated at month end and the foreign exchange account is either debited or credited.

11 Defeasance Earnings

These earnings are generated through the management of the portfolio of investments related to the defeased debt.

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Foreign exchange costs associated with foreign interest payments are included in foreign interest expense.

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05 Interest expense should be recorded on an accrual basis.

06 Debt issue costs should be deferred and amortized on a straight-line basis over the term of the related debt.

07 Costs associated with the defeasance of NSPFC long-term debt should be deferred and amortized over the remaining life of the NSPFC debt.

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- Canadian (Accounts 080 and 088)

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and other miscellaneous Canadian dollar denominated long-term debt.

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(Accounts 082, 089 and 090)

POLICY

01 Income tax expense should be categorized as current or deferred income tax expense as appropriate.

02 The Company uses the applicable enacted tax rate when measuring current and deferred income tax expense.

03 The Company follows the flow-through method of accounting for investment tax credits (“ITC’s”). ITC’s are recorded in the year earned as a reduction to income tax expense to the extent that realization of such benefit is more likely than not.

04 The Company recognizes deferred income tax assets (liabilities) as appropriate. To the extent deferred income taxes are expected to be recovered from or returned to customers in future rates, the Company will recognize a deferred regulatory asset (liability)[1]

05 The Company will recognize a deferred regulatory asset (liability) related to FAM. Deferred income tax expense (benefit) and a corresponding deferred income tax (liability) asset related to the FAM will be recognized based on the enacted income tax rate(s) for the period(s) when the FAM regulatory asset (liability) is expected to reverse.

FEDERAL INCOME TAXES

06 The Company is subject to federal income tax at prescribed rates applied to taxable income.

PROVINCIAL INCOME TAXES

07 The Company is subject to provincial income tax at prescribed rates applied to taxable income.

TAX ON LARGE CORPORATIONS

08 The Company is subject to a provincial capital tax (“PCT”) at prescribed rates applied to taxable capital.

PART VI.1 TAX

09 The Company is subject to Part VI.1 tax at a prescribed rate applied to preferred share dividends paid. The Company receives a tax deduction equal to a prescribed multiple of the Part VI.1 tax.

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[1] FASB ASC 980-740-25-2

PROCEDURES

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10 A monthly income tax provision is recorded by multiplying the Company's effective combined federal and provincial income tax rate forecasted for the year (calculated without inclusion of the forecasted FAM adjustment) by the net earnings before tax for the period. The monthly income tax provision with respect to FAM is based on the actual FAM adjustment for the period multiplied by the enacted tax rate.

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11 The Company prepares an estimate of its taxable capital using a forecasted year-end balance sheet. The taxable capital forecast is then multiplied by the enacted tax rate to determine the PCT expense for the year. The PCT estimate is prorated based upon days to determine the amount to accrue each month.

12 The net Part VI.1 tax is calculated using enacted rates and recorded as an additional cost (recovery) of the preferred share dividend. It is reclassified to current income tax expense for external reporting purposes. The monthly Part VI.1 tax expense is based on the amount of preferred dividends declared in the month. The monthly Part VI.1 tax deduction is based on the annual forecasted Part VI.1 deduction prorated based upon the total preferred dividends declared in a month.

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13 The Company currently follows the policy of claiming sufficient capital cost allowance and cumulative eligible capital (the tax system's equivalent of depreciation and amortization), to minimize taxable income.

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14 Federal and provincial income taxes are included in general ledger account 086 - Income Tax Expense and Provincial Capital Tax is included in account 067. The net Part V1.1 tax is included in general ledger account 786 – Tax on Preferred Dividends.

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01 The taxes payable method should be used to record income tax expense except as outlined in paragraph 02.

02 The Company will recognize a deferred regulatory asset (liability) related to the Fuel Adjustment Mechanism (FAM). Future income tax expense (recovery) and a corresponding future income tax asset (liability) related to the FAM will be recognized based on NSPI's applicable statutory income tax rates for the period expected to apply when the FAM regulatory asset (liability) reverses. The FAM regulatory asset (liability) includes the under or over-recovered fuels costs less the incentive adjustment as well as associated interest as reported in AFUDC.

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included in approved rates charged to

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), which are recovered through current rates,

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a federal large corporations tax ("LCT") and

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The net Part VI.1 tax is recorded as an additional cost (recovery) of the preferred share dividend.

APPLICATION OF ADMINISTRATIVE AND VEHICLE OVERHEAD (SELF - CONSTRUCTED ASSETS) - 6230

GENERAL

01 Overhead expenses are integral costs associated with the construction of capital assets. As per NSPI's Accounting Policy & Procedure Manual Section 6100 – Cost, the cost of a capital asset not only includes direct construction or development costs (such as materials and labour), but also overhead costs attributable to construction or development activities.

02 Although overhead costs are both real and substantial, they cannot be identified with specific capital projects or expenditures. For this reason, overhead costs that contribute to the capital program must be allocated to capital projects.

03 Several practices are widely used to allocate overhead costs, with the most common methods charging overhead to capital projects based on measures such as machine hours, labour hours, labour costs or some combination of the three. In a 1982 ruling, the Public Utilities Board approved the Company's application to apply overhead costs based on direct labour costs. The method has since been accepted by the Nova Scotia Utility and Review Board ("UARB") through its approval of capital work orders that have included a charge for overhead expenses that were calculated based on direct labour costs.

POLICY

04 The Company should apply "Capital-related Overhead Expenses" to capital projects based on the direct labour costs charged to those projects

PROCEDURES

IDENTIFICATION OF DIVISIONS

05 The first step in the application of overhead costs to capital projects is the disaggregation of Nova Scotia Power Inc.'s ("NSPI's") ***Annual Capital Expenditure Plan*** ("ACE Plan") into several broad areas of responsibility with similar project types as well as significant eligible overhead expenses. For the purposes of this Section, these areas will be referred to as "divisions". The three divisions presently identified by the Company are Customer Operations, Power Production and Shared Services. Shared Services includes Information Technology

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NOVA SCOTIA POWER
An Emera Company

DETERMINATION OF ELIGIBLE OVERHEAD EXPENSES

06 The next step is the identification of operating expenses that will benefit construction or development activities. A separate determination is made for each division. The process relies on budgeted expense figures since the overhead application rate for a particular fiscal year must be determined before the year commences.

07 **Customer Operations Division**

The nature of operating expenses in the Customer Operations Division is primarily identified by the activity segment of the accounting flex field.[1] The budgeted expenses for all eligible activities are accumulated to obtain the divisional total. A separate allocation of head office expenses are then added to the Division's eligible expenses.

Vehicle Overhead rate is calculated and applied separately. The budgeted expenses related to each eligible vehicle class are identified. Customer Operations is the only area of NSPI that applies a separate overhead rate for vehicle expenses.

08 **Power Production Division**

Eligible Overhead Expenses for Power Production include all costs incurred by the Division's head office cost centres as well as the costs included in the administration cost centres for all operational generating stations. A separate allocation of head office expenses are then added to the Division's eligible expenses.

09 **Shared Services Division**

Eligible Overhead Expenses and rates are calculated for each Shared Services Division, deemed to have capital related labour and expenses. These eligible expenses include, but are not limited to, office supplies, training, rent, membership dues, materials, etc. A separate allocation of head office expenses are then added to the Division's eligible expenses.

10 **HEAD OFFICE RENT**

Head Office expenses are allocated to the three operating divisions based on the square footage occupied by each division.

[1] For a detailed discussion of the general ledger account structure, please refer to NSPI's Accounting Policy and Procedures Manual Section 3100.

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DETERMINATION OF CAPITAL-RELATED OVERHEAD EXPENSES

11 Once the Eligible Overhead Expenses have been determined, the overhead expenses related to the Company's capital activities must be calculated. This calculation involves prorating the eligible overhead expenses determined above based on capital labour to total labour for both administrative and vehicle overheads.

12 Some capital-related expenses are recorded outside of the divisional cost centres. Expenses relating to capital labour should be included with the overhead expenses that are to be charged to a capital project. These expenses are allocated to the divisions' overhead based on their capital labour costs.

CALCULATION OF OVERHEAD APPLICATION RATE

13 Once the Capital-related Overhead Expenses have been determined, the overhead application rate can be calculated. The application rate is simply the quotient, expressed as a percentage, of the Capital-related Overhead Expenses divided by the capital labour costs. A separate calculation is performed for each division.

REVIEW OF OVERHEAD APPLICATION RATE

14 The overhead application rate will be reviewed on an annual basis by Capital Accounting to assess its reasonableness.

APPLICATION OF OVERHEAD

15 The overhead charged to a particular project is determined by multiplying the labour costs charged to the project by the appropriate overhead application rate. The charge is debited to a Capital Work Order while the credit is recorded in Operating, Maintenance and General Expenses.

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APPLICATION OF ADMINISTRATIVE OVERHEAD (CONTRACTED ASSETS) - 6235

GENERAL

01 Overhead expenses are integral costs associated with the construction of capital assets. As per NSPI's Accounting Policy & Procedure Manual Section 6100 – Cost, the cost of a capital asset not only includes direct construction or development costs (such as materials and labour), but also overhead costs attributable to construction or development activities.

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02 Although overhead costs are both real and substantial, they cannot be identified with specific capital projects or expenditures. For this reason, overhead costs that contribute to the capital program must be allocated to capital projects.

03 Although the application rate for externally contracted projects is based on the contracted costs, the Capital-related Overhead Expenses are determined using labour costs; therefore, the method is in accordance with Public Utilities Board's ruling described in NSPI's Accounting Policy and Procedures Manual Section 6230.

Deleted: 03 Several practices are widely used to allocate overhead costs, with the most common methods charging overhead to capital projects based on measures such as machine hours, labour hours, labour costs or some combination of the three. In a 1982 ruling, the Public Utilities Board approved the Company's application to apply overhead costs based on direct labour costs. The method has since been accepted by the UARB through its approval of capital work orders that have included a charge for overhead expenses that were calculated based on direct labour costs.¶

POLICY

05 The Company should apply "Capital-related Overhead Expenses" to externally contracted capital projects based on the contract costs charged to those projects.

PROCEDURES

IDENTIFICATION OF DIVISIONS

06 The first step in the application of overhead costs to capital projects is the disaggregation of Nova Scotia Power Inc's ("NSPI's") ***Annual Capital Expenditure Plan*** ("ACE Plan") into several broad areas of responsibility with similar project types as well as significant eligible overhead expenses. For the purposes of this Section, these areas will be referred to as "divisions". The three divisions presently identified by the Company are Customer Operations, Power Production and Shared Services. Shared Services includes Information Technology

DETERMINATION OF ELIGIBLE OVERHEAD EXPENSES

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07 The next step is the identification of operating expenses that will benefit construction or development activities. A separate determination is made for each division. The process relies on budgeted

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expense figures since the overhead application rate for a particular fiscal year must be determined before the year commences.

08 **Customer Operations Division**

The nature of operating expenses in the Customer Service Division is primarily identified by the activity segment of the accounting flex field.[1] The budgeted expenses for all eligible activities are accumulated to obtain the divisional total.

09 **Power Production Division**

Eligible Overhead Expenses for Power Production include all costs incurred by the Division's head office cost centres as well as the costs included in the administration cost centres for all operational generating stations.

10 **Shared Services Division**

Eligible Overhead Expenses and rates are calculated for each Shared Services Division deemed to have capital related labour and expenses. These eligible expenses include, but are not limited to, office supplies, training, rent, membership dues, materials, etc.

DETERMINATION OF CAPITAL-RELATED OVERHEAD EXPENSES

11 Once the Eligible Overhead Expenses have been determined, the overhead expenses related to the Company's capital activities must be calculated. This calculation involves prorating the remaining eligible overhead expenses determined above based on contractor labour to total labour for each division.

12 The double application of the self-constructed overhead costs is avoided by applying the self-constructed rate to the Eligible Overhead Expenses and then reducing those expenses by the result. The remaining expenses are then eligible to be included in the contract overhead rate.

Deleted: For example, if the total estimated labour related to capital contracts plus the operating labour contained in NSPI accounts equalled $100,000 and the labour related to contracts was $10,000, then contract labour would be 10% of total labour. Therefore, 10% of the remaining eligible expenses would be Capital-related Overhead Expenses related to contracted assets.

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[1] For a detailed discussion of the general ledger account structure, please refer to NSPI's Accounting Policy and Procedures Manual Section 3100.

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CALCULATION OF OVERHEAD APPLICATION RATE

13 Once the Capital-related Overhead Expenses have been determined, the overhead application rate can be calculated. The application rate is simply the quotient, expressed as a percentage, of the Capital-related Overhead Expenses divided by the contract costs.

REVIEW OF OVERHEAD APPLICATION RATE

14 The overhead application rate will be reviewed on an annual basis by Capital Accounting to assess its reasonableness.

APPLICATION OF OVERHEAD

15 The overhead charged to a particular project is determined by multiplying the contract costs charged to the project by the appropriate overhead application rate. The charge is debited to a Capital Work Order while the credit is recorded in Operating, Maintenance and General Expenses

Deleted: For example, if Capital related Overhead Expenses were determined to be $1,000 and the total contract costs were $100,000, then the Overhead Rate for contracted assets would be 1%. A separate calculation is performed for each division.¶

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PURCHASE PRICE DISCREPANCY - 6250

DEFINITION

01 Purchase price discrepancy is the excess of the cost of acquired assets over the net of the amount assigned to assets acquired and liabilities assumed as approved by the Nova Scotia Utility and Review Board ("UARB").

POLICY

02 Purchase price discrepancies should be recorded as assets.

03 Purchase price discrepancies are not included in rate base[1].

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Deleted: Section 5320 discusses the amortization of purchase price discrepancies.

[1] Please refer to NSPI Accounting Policy and Procedures Manual 1520 for details.

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DEFINITION

01 An asset retirement obligation is an obligation associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.[1]

GENERAL

02 The present value of this estimated future expenditure is recognized as a liability with an equivalent amount added to the carrying amount of the associated fixed asset consistent with *FASB ASC 410-20*.

03 The Nova Scotia Utility and Review Board ("UARB") provided a depreciation order effective January 1, 2004 approving the amount of future expenditures associated with the removal of long-lived assets. Any difference between the amount approved by the UARB as depreciation expense and the amount that is calculated under GAAP is recognized as a regulated asset.

POLICY

04 A liability for an asset retirement obligation should be recognized when a reasonable estimate of fair value can be made.[2]

05 Upon initial recognition, the carrying amount of the related long-lived asset will be increased by the same amount as the asset retirement liability. Subsequently, asset retirement costs will be allocated to expense using a systematic and rational method over the useful life of the asset.[3]

06 After initial recognition, period-to-period changes in the liability should be recognized in the liability for the asset retirement obligation resulting from passage of time and revisions to either the timing or the amount of the original estimate.[4]

[1] FASB ASC 410-20-15-2
[2] FASB ASC 410-20-25-4
[3] FASB ASC 410-20-35-2
[4] FASB ASC 410-20-35-3

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Effective January 1, 2004, the Company retroactively adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (“CICA”_ related to asset retirement obligations.

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Previously the Company had accrued its obligations in annual increments based on the expected settlement date of the obligation using estimated current costs.

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required the Company to determine the fair value of the future expenditures required to settle legal obligations to remove fixed assets.

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the new accounting standard

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05 Some of the Company's transmission, distribution

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assets may also have asset retirement obligations. A reasonable estimate of the fair value of any related asset retirement obligation cannot be made at this time.

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09 An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value.[1]

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PROCEDURES

10 For initial recognition of the Asset Retirement Obligations, these journal entries were recorded:

DR: Plant, Property and Equipment
CR: ARO Liability
To set up the original cost of decommissioning the assets

DR: Accumulated Depreciation
CR: ARO Accretion
To set up ARO liability for plants

DR: ARO Liability
CR: Accumulated Depreciation
To reverse the existing site restoration liability

11 On a monthly basis, the following journal entries are to be recorded:

DR: Depreciation Expense
CR: Accumulated Depreciation
To record depreciation expense on the decommissioning asset

DR: Accretion Expense
CR: ARO Accretion
To record the Asset Retirement Obligation

[1] CICA Handbook 3063.04

ASSETS - NOT USED AND USEFUL - 6350

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GENERAL

01 When an asset no longer provides a benefit, and is not expected to provide any benefit in the future, its undepreciated cost should be written off in the period that it is recognized as being neither used nor useful. In determining the write off, future removal costs and potential proceeds should be considered.

02 If an asset is not being used, but it is available for service, and is part of the normal level of standby capacity it is to be treated as a used and useful asset, and depreciated over its expected useful life.

03 The cost of assets not currently used, but that will be useful in providing service to future customers should not be charged against current net earnings.

04 Transfers from one category to another are at book value and gains or losses (through write downs or sales) will be included in rate base and recovered from customers in the manner described above.

POLICY

05 Assets that are not both used and useful should be classified in one of the following categories:

a. Not used and not useful;
b. Not used but useful for standby purposes; or
c. Not used but useful for future service.

Deleted: 01 Assets acquired for operations subject to rate regulation are recorded as property, plant and equipment and depreciated over their useful lives. Cost is recovered through rates as the depreciation expense reduces net earnings.¶
¶

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Deleted: 03 To enhance rate stability, significant write offs may be amortized over a reasonable period, subject to UARB approval. This method recognizes the benefit of recovering the cost of the asset, over a period of time, through regulated rates.¶
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Deleted: Depreciation should not occur while the asset is not in service. Cost of capital should not be charged on the existing cost base during the out of service period. Additional capital spending for improvements required to return the asset to service (or place a previously purchased asset into service) will be charged with cost of capital.

Deleted: 06 Effective January 1, 1996, on a prospective basis, the Glace Bay plant (which was removed from service) will be charged with cost of capital at the applicable annual rate and all operating costs deferred. All deferred costs will be amortized into expense over a reasonable period, subject to UARB approval.¶
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NOT USED AND NOT USEFUL

06 Assets meeting the following criteria are included in this category: Deleted: 09

a. they do not currently provide service to the consuming public; and
b. they are not expected to provide a benefit to customers in the foreseeable future.

07 Where an asset is neither used nor useful, there is no current or future benefit against which the undepreciated cost of the asset can be matched. Therefore the undepreciated cost should be written off in the period in which an asset is determined to be not used and useful. Deleted: 10

08 In order to enhance rate stability, where the write off is significant and Nova Scotia Utility and Review Board ("UARB") approval is obtained, the undepreciated cost of the asset should be amortized, on a straight-line basis, over five years or over a reasonable period, subject to UARB approval. The unamortized cost may remain in rate base, and any cost of capital should be expensed in the period incurred. This method recognizes the benefit of recovering the cost of the asset, over a period of time, through regulated rates. Deleted: 11 Deleted: UARB

NOT USED BUT USEFUL FOR STANDBY PURPOSES

09 Assets meeting the following criteria are included in this category: Deleted: 12

a they do not currently provide service to the consuming public; and
b. they are available for service and are required to maintain standby capacity.

10 Assets used as standby facilities provide service to customers even though they may not actually be used to generate power or otherwise meet customer requirements. They provide insurance to current customers that their requirements will be met even if there were to be an equipment failure, unexpected increase in demand or other event that would prevent the currently used and useful assets from meeting customer requirements. Deleted: 13

11 An asset that is not used but is useful as a standby facility is to be treated the same as an asset that is used and useful. The asset is to be depreciated over its expected useful life. The undepreciated cost of the asset is to be included in rate base, and the related cost of capital recognized as an expense of the period in which it is incurred. Deleted: 14

NOT USED BUT USEFUL FOR FUTURE USE

12 Assets meeting the following criteria are included in this category: Deleted: 15

a. they do not currently provide service to the consuming public; and
b. they are expected to be used and useful in providing service in the future or to form part of the normal level of standby capacity in the future.

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13 Assets not currently used, but expected to be used in providing service in the future will provide value to customers at a future date. Accordingly, the cost of the asset is to be matched to the future periods in which the asset will provide value to customers.

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14 To the extent that the cost of the asset plus any other costs of maintaining the asset until it is placed (or returned) to service exceed its expected future value, the excess cost is similar to the cost of an asset that is neither used nor useful. Where it is expected that there will be an impairment loss of the long-lived asset when returned to service, the excess is to be written off and recovered from customers in the period in which the excess is identified.[1] However, to enhance rate stability, where the excess is significant, it may be deferred and amortized over a five year period or over a reasonable period subject to the approval of the UARB.

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15 Depreciation on these assets is deferred until they are returned to service. The unamortized cost of the assets (net of any write offs) is to remain in rate base.

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16 No cost of capital (neither return nor interest) is to be capitalized on the existing cost base during the out of service period. Any related cost of capital is to be recovered from customers and expensed, as applicable, in the period the cost is incurred.

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17 The costs of maintaining assets while out of service are to be expensed as incurred. These costs include the cost of mothballing the facilities and returning the asset to service. Where the mothballing costs are approved as significant, the amounts may be deferred. Subject to UARB approval, the deferred costs may be amortized and recovered from customers over a five year period including the year that the cost is incurred, or over such period as the UARB deems prudent. Where the costs of placing (or returning) assets to service are significant, they may be added to the assets' capital costs.

Deleted: 20 Effective January 1, 1996, on a prospective basis, the Glace Bay plant (which was removed from service) will be charged with cost of capital at the applicable annual rate and all operating costs deferred. All deferred costs will be amortized into expense subject to UARB approval.¶
¶
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[1] FASB ASC 360-10-35-17

ACCUMULATED DEPRECIATION - 6400

NOVA SCOTIA POWER
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DEFINITION

01 Accumulated depreciation, or depreciation reserves, are capital asset contra accounts that are offset against gross capital asset accounts to provide the net book value of the assets at a particular point in time.

GENERAL

02 The accounts for accumulated depreciation summarize data relating to the depreciation, retirement of capital assets, and capital contributions. These accounts reflect the accumulated activity for a particular asset group from the date of inception to the current date. This information is maintained by cost centre in Production Plant (steam, gas turbine, hydro and wind) and by activity in mass plant (Transmission, Distribution and General Property).

03 With the exceptions of the sale of land and the retirement of a production plant, no gains or losses are immediately recognized on the retirement of capital assets[1]

POLICY

04 Accumulated depreciation should be netted against the assets so that the assets are reported at their net book values.

PROCEDURES

05 At a particular point in time, the balance in the accumulated depreciation accounts is comprised of the following amounts:

a. total depreciation expense taken to date;
b. total depreciation associated with the original decommissioning asset;
c. accretion relating to asset retirement obligations as approved by the Nova Scotia Utility and Review Board ("UARB");
d. less net - salvage allowances; and
e. less original costs of any assets that have been retired.

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[1] Please refer to NSPI's Accounting Policy & Procedure Manual Section 6440 for more details

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06 When conducting a depreciation rate study to set depreciation rates[2], the balances in the accounts are taken into consideration when setting the final rate. If the assets in an individual depreciable group have been over/under depreciated to date, a reserve difference will result. This difference must be written off over the remaining life of the assets. This will result in an adjustment in the depreciation rate to ensure the reserve balance will be properly credited over the remaining life.

Deleted: 06 Accumulated depreciation data is available at the following level of detail:¶

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Asset Group ... [1]

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[2] Please refer to NSPI's Accounting Policy & Procedure Manual Section 5300 for more details.

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Asset Group	**Level of Detail**
Steam and Gas Turbine Production Plant	Total by individual generating station
Hydro Production Plant	Total by individual hydro system
Mass Property (Transmission, Distribution and General Property)	Total by individual activity

GENERAL PRINCIPLES - 6900

POLICY

01 Rate-regulated enterprises such as Nova Scotia Power Inc. ("NSPI") have to consider the impact of accounting decisions on revenue requirements and rate stability. If a regulatory authority approves the recovery of certain costs in a period other than the period in which the costs would be charged to expense by an unregulated entity, it can result in amounts being deferred. If a future economic benefit equal to the deferred amounts exists, the amount should be recorded as a regulatory asset for accounting purposes. If a future cash outflow equal to the deferred amount exists the amount should be recorded as a regulatory liability for accounting purposes. As the deferred amounts are recovered through or reduce rates, the amortization of the deferred amount is matched to the recovery through or reduction in rates.

02 Certain large operating expenditures incurred by NSPI may be considered material, and eligible for deferral and amortization, subject to the approval of the Nova Scotia Utility and Review Board ("UARB"). These costs are deferred and amortized over the approved period, rather than expensed and recovered from customers in the year incurred.

03 In additional to large operating expenditures, the UARB approved the implementation of a Fuel Adjustment Mechanism ("FAM") in the 2009 General Rate Decision effective January 1, 2009. The FAM balance is recorded as a regulatory asset or regulatory liability in accordance with NSPI's Accounting Policy and Procedures Manual Section 5110.

04 NSPI applies ASC 980 for specific rate regulated accounting policies which are approved by the UARB.

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POLICY¶
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PREFERRED SHARES - 7300

DEFINITION

01 The authorized preferred share capital consists of an unlimited number of first and second preferred shares issuable in series. These shares shall have the designations, rights, privileges, restrictions and conditions as determined by the Board of Directors' resolutions.

POLICY

02 Preferred shares could be issued in series to maintain an overall capital structure that is within the ranges approved by the Nova Scotia Utility and Review Board ("UARB").

PROCEDURES

03 Proceeds from the issue of preferred shares are recorded in general ledger account 770 - Preferred Shares.

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PREFERRED DIVIDENDS - 7320

NOVA SCOTIA POWER
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POLICY

01 Dividends to preferred shareholders and the associated income tax expense (benefit) are accrued as declared and the dividends are paid based on approved Board of Directors' resolutions.

PROCEDURES

02 Preferred dividends are accrued as declared based on an estimate using financial details of the series (dividend rate).

03 An adjustment for Part VI.1 tax and the income tax benefit arising from the deduction related to the preferred share dividend is also recorded as the dividend is declared.

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DR 1-785 Dividends – Preferred XXX¶
CR 1-610 Dividends – Payable XXX¶

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CR 1-600 Income Tax Payable XXX

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LONG-TERM DEBT - 8100

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POLICY

01 Long-term debt issued by the Company is reported net of long-term debt payable in one year, as long-term debt on the balance sheet of its financial statements. Detail of the long-term debt issued by the Company are reported in the notes to the annual financial statements.

02 Certain commercial paper where the Company has the intention and the unencumbered ability to refinance the obligation for a period greater than one year is reported as long-term debt on the balance sheet of its financial statements.[1]

03 Debentures and medium term notes are issued under a trust indenture and are unsecured.

04 Debt defeasance costs are the incremental costs of investments made over the face amount of the defeased long-term debt of Nova Scotia Power Finance Corporation ("NSPFC") placed in trust. The Nova Scotia Utility and Review Board ("UARB") has permitted the Company to defer these costs and recover them over the life of the related NSPFC debt.

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¶
01 During 1992, the Province of Nova Scotia passed legislation to facilitate the reorganization and privatization of the business of Nova Scotia Power Corporation (NSPC). In effecting the reorganization, pursuant to the Asset Transfer Agreement effective on August 10, 1992, NSPC transferred all of its existing assets (excluding sinking fund assets), liabilities (excluding long-term debt) and retained earnings to NSPI (the Company) in exchange for:¶
¶
a. Matching notes receivable ... [1]

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[1] FASB ASC 470-10-45-14

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REORGANIZATION AND PRIVATIZATION

01 During 1992, the Province of Nova Scotia passed legislation to facilitate the reorganization and privatization of the business of Nova Scotia Power Corporation (NSPC). In effecting the reorganization, pursuant to the Asset Transfer Agreement effective on August 10, 1992, NSPC transferred all of its existing assets (excluding sinking fund assets), liabilities (excluding long-term debt) and retained earnings to NSPI (the Company) in exchange for:

a. Matching notes receivable equivalent to outstanding long-term debt, net of matching notes payable equivalent to sinking fund assets; and
b. 20.1 million fully paid common shares of the Company, which were subsequently sold on August 12, 1992 by the Province of Nova Scotia as a secondary offering.

Concurrently, the $13.3 million of contributed surplus of NSPC was transferred to the retained earnings of the Company.

02 Following the reorganization and privatization, the Company continued the business activities of NSPC. NSPC changed its name to Nova Scotia Power Finance Corporation ("NSPFC") and continues to hold the remaining long-term debt and sinking fund assets.

03 The reorganization and privatization was accounted using continuity of interest accounting, whereby the assets and liabilities of NSPC were transferred to the Company at their carrying values. The comparative figures in the 1992 financial statements include the results of NSPC from April 1 to August 10, 1992 and the results of the Company thereafter. The Company changed its year-end from March 31 to December 31; resulting in a nine month fiscal period ended December 31, 1992.

GENERAL

04 Specific assets and liabilities of the Company are subject to terms and conditions under six agreements: Asset Transfer Agreement, Matching Notes Agreement, Debt Restructuring Agreement, Sinking Fund Notes Agreement, Sale and Assignment of Receivable Agreement and Management and Administration Agreement. These agreements were entered into at the time of Privatization of the Company on August 10, 1992. The specific assets and liabilities are Sinking Fund Notes receivable and Matching Notes payable. These specific assets and liabilities were required, under the above agreements, to be refinanced by December 31, 1997.

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Maturities in gross outstanding principal amounts are reported in total by year for the first future five years and then by total for five year periods up to the last maturity. Along with maturity details, weighted average coupon and cash required to retire debt and make sinking fund payments are also reported in the notes to the financial statements.[1]

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GENERAL

07 The debentures are issued under a trust indenture and are unsecured.

08 As part of the privatization transaction, the Company issued matching notes to NSPFC in the principal amount of, and substantially the same terms as, the long-term debt owed by NSPFC.

[1] CICA Handbook, 3210.02-.03.

09 On privatization the Company and NSPFC committed, subject to certain conditions, to eliminate NSPFC's long-term debt through repayment and defeasance of the matching notes by December 31, 1997. Defeasance requires qualifying assets to be set aside by the debtor to be used solely for satisfying scheduled payments of principal and interest of a specific obligation whereby the possibility that the debtor will be required to make future payments on that debt is remote. As the original NSPFC debt issue is defeased, both the matching note payable and the related matching note receivable are removed from the Company's balance sheet.

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10 Under the terms of the Defeasance Agreement, subject to certain factors, the minimum amounts of debt to be defeased are as follows:

year	*(millions $)*
1993	$200
1994	500
1995	900
1996	1,150
1997	1,400

MATCHING NOTES

11 Matching Notes will remain on the books of the Company until such time as it makes payment of the principal amount of Matching Notes that mature or are redeemable prior to December 31, 1997, to NSPFC. NSPFC, upon receipt of these payments will forthwith repay the corresponding payment obligations on each series of Public Debt, Savings Bonds or Government of Canada Debt as the case may be. Matching Notes which are defeased will be converted from long-term debt to a contingent liability in the Notes to the company's financial statements. The Company remains responsible for any deficiencies in defeasance assets up to the maturity date of the corresponding series.

12 Matching Notes on the Company's books are accounted for on the same basis as the Company's long-term debt issues. Interest is accrued (please refer to Section 8120) and paid semi-annually or annually as defined by the series. Matching Notes payable in a foreign currency are retranslated at each month end (please refer to Section 2200) to reflect the Canadian equivalent of the payable.

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13 As each series matures or is redeemed the Treasurer's division transfers sufficient funds to a NSPFC bank account. The amount transferred represents the principal amount outstanding plus accrued interest. Accounting for the transfer of funds removes the Matching Note payable from the books of the Company.

14 At this time the Company requests, in writing, NSPFC to release the respective Matching Note and Sinking Fund assets. Copies of this written request are delivered to certain accounting and legal groups representing both the Company and NSPFC. If all parties are in agreement, the sinking fund assets are released to the Company by NSPFC. The sinking fund amount allocated to the respective series may include a portion of the respective series as assets. (The respective NSPFC debentures were bought in the market and held as a sinking fund asset effectively extinguishing that portion of the original debenture principle amount issued) In such an instance, the sinking fund assets allocated to the respective series, net of the assets represented by the respective series, are sold by the sinking fund trustee and the proceeds paid to the Company.

15 The sinking fund assets held in the respective series are surrendered to the Company for cancellation, if they are held in a certificated position. If they are held in a book base (non-certificated record of your security holdings) position the agent for the custodian will be

requested to cancel the investments under instructions from the custodian (Province of Nova Scotia). Upon receipt of payment the Sinking Fund Note receivable is removed from the books of the Company. The Matching Note may not be released at the same time. NSPFC will not surrender the Matching Note to the Company until all respective bondholders have processed their debentures for redemption.

16 Accounting for Matching Notes that are defeased is exactly the same as the accounting procedures described above for the remaining Matching Notes up to the point of defeasance. Defeasance requires the Company to surrender qualifying assets to the custodian rather than funding a NSPFC bank account for the principal value and value of related interest of the respective Matching Note. Under the terms of the Management and Administration agreement, the Company is responsible for all deficiencies in defeasance assets up to the maturity date of the corresponding matching note. Since the Company is subject to a potential liability to make up for any deemed or real deficiency, NSPFC will not surrender the respective Matching Note until its maturity date.

Page 1: [6] Deleted **AI141** **9/15/2010 1:53:00 PM**

17 Depending on interest rates prevailing at the time of defeasance of the Matching Notes, the Company may incur costs to effect such defeasance including, but not limited to, (i) the difference between the cost to Company of acquiring the Defeasance Assets and the principal amount of the Matching Notes, (ii) fees and other issuance costs incurred by the Company in respect of new debt arranged by the Company for the purpose of acquiring the Defeasance Assets, and (iii) brokerage and other transaction costs incurred by the Company in acquiring the Defeasance Assets.

18 The Company will amortize the defeasance costs referred to in (i) and (iii) above over the remaining life of the Matching Notes. The Company will amortize new issue costs referred to in (ii) above over a period not exceeding the life of the new debt.

19 The Company has the right to sell any defeasance asset held in trust by the custodian if the Company feels the asset is overvalued or is considered to have the potential to create a deficiency in required cash flows. The Company must at the same time replace the defeasance asset sold with another qualifying defeasance asset.

INCOME TAXES PAYABLE - 8300

POLICY

01 Includes all income taxes payable to both levels of government.[1]

[1] Please refer to NSPI Accounting Policy and Procedures Manual Section 5900.

Deleted: August 10, 2006

Grant Thornton

September 23, 2010

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Ms. Claudette Porter, CA
Controller
Nova Scotia Power Inc. ("NSPI" or the "Company")
1894 Barrington Street
Barrington Tower
Halifax, NS B3J 2A8

Dear Ms. Porter:

Re: NSPI Accounting Policies and Procedures Manual sections "1530, 2400, 4200, 5300, 5800, 5900, 6230, 6235, 6250, 6320, 6350, 6400, 6900, 7300, 7320, 8100, 8300.

We recently received your request to review the above noted accounting policies and procedures of NSPI included in the Company's Accounting Policies and Procedures Manual (the "Manual"). You have asked us to review the appropriateness of the proposed accounting policies under US generally accepted accounting principles ("US GAAP") for regulated entities.

The accounting policies and procedures selected by the Company are the responsibility of management. As outlined in the Introduction to the Accounting Manual Section 1000, NSPI applies ASC 980 for specific rate regulated accounting policies which are approved by the Nova Scotia Utility Review Board. Where there is no specific accounting policy identified in the Manual, NSPI will follow the applicable U.S. generally accepted accounting principles for non-regulated entities.

Based on our review of the above noted proposed accounting policies and procedures, we wish to confirm there is nothing that has come to our attention which contradicts US GAAP for regulated entities. Our review is based on the accounting standards in effect as at the date of this letter. Should there be future changes to US accounting standards, the Company's Manual may need to be updated.

If you have any questions, please contact us.

Yours very truly,

Grant Thornton LLP

Gerald D. Hutchings, CA
Partner