Nova Scotia Utility and Review Board

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Via Email: eric.ferguson@nspower.ca

Mr. Eric Ferguson
Director, Regulatory Affairs
Nova Scotia Power Inc.
14th Floor, Barrington Tower
P. O. Box 910, Scotia Square
Halifax, NS B3J 2W5

Dear Mr. Ferguson:

Nova Scotia Power Inc. – Accounting Policy and Procedures Manual – P-111.6

This letter is a summary of the Board's present understanding of the review of the proposed changes to the Accounting Policy and Procedures Manual (the "Manual").

On May 14, 2010, the Board received proposed changes to the Manual using Canadian Generally Accepted Accounting Principles ("C GAAP"). The proposal also included notification that the Company was going to move to United States Generally Accepted Accounting Principles ("US GAAP").

On June 11, 2010, NSPI submitted changes to interpretation of C GAAP for accounting policy 6960, Accounting for Financial Instruments and Hedging. In the covering letter:

> By June 30, 2010, NSPI will file a proposed amendment of its accounting policy for financial instruments and hedges for the Board's review and approval in advance of the adoption of US GAAP accounting standards on January 1, 2011. This amendment will limit the volatility in fuel expense and appropriately match the recognition of the expense with the hedge settlement period.

NSPI confirmed that the Manual changes to incorporate US GAAP will be submitted in three parts for Board approval. The dates of the submissions were planned to be July 9, September 3, and September 30.

The first of the three submissions was received on July 9, 2010. This filing also included a US GAAP version of accounting policy 6960. The following is an excerpt from the covering letter:

> NSPI intends to make three batch filings with the Board as sections of the external auditor review are completed. Please find attached, NSPI's first filing of revisions to the 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 the 24 sections listed in Appendix A (attached) is a copy of Accounting Policy 6960 Accounting for Financial Instruments and Hedging which was filed with the Board on June 30, 2010.

The second and third submissions were received on September 15, and September 24, 2010, respectively.

As you are aware the Board is working with a consultant from BDO Canada on the proposed changes to the Manual to align the policies and procedures with US GAAP. The consultant has finished work on the first submission, but due to the interrelation between submissions will not be completing three individual reports to the Board, but rather a final report that encompasses all the submissions. The consultant expects to file with the Board the final report by October 22, 2010.

Please confirm if the Board's summary of the process and proposed approvals are correct.

In addition, the Board has the following questions about the May 14 and September 15 submissions:

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.

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.

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.

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.

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.

6. Re: Construction Work in Progress – 6200
Policy 2(I) 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?

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.

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).

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.

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?

A response by October 22, 2010, would be appreciated.

Yours very truly,

D. O'Brien

For / Nancy McNeil
Regulatory Affairs Officer/Clerk