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December 9th, 2010

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

Attention: Ms. Nancy McNeil, Regulatory Affairs Officer/Clerk

This is to confirm that we have received and reviewed the proposed changes to Nova Scotia Power Inc Accounting Policies and Procedures Manual (the Manual), including four separate submissions on July 9th, 2010, September 13th, 2010, September 24th, 2010 and November 24th, 2010.

Based on our review of the proposed changes to the Manual, we wish to confirm that nothing has come to our attention which appears unreasonable or which provides NSPI with an unfair advantage. We have summarized below a few items for your attention going forward:

- Under some circumstances a possibility exists that under US GAAP termination costs could be recognized earlier than Canadian GAAP.

- Accounting for Employee Future Benefits under US GAAP triggers a difference with an expected increase to regulated income in 2011 and 2012. At present accounting for such costs in 2013 and beyond is expected to be consistent with Canadian GAAP.

- Management has elected to account for Investment Tax Credits (ITCs) under US GAAP are directly expensed while under Canadian GAAP these amounts were being netted against the specific asset. This could result in a difference if ITCs become material in the future.

- We recommend that the Board monitor NSPI's first US GAAP statements to identify any transitional changes which might have been processed which have not been reflected in the revised Manual.

The results of our review are outlined within this report.

Yours truly,

BDO Canada LLP

BDO Canada LLP
Chartered Accountants, Licensed Public Accountants

cc: Eric Kirby, Analyst, Petroleum Products
Bruce Outhouse, Legal Counsel

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EXECUTIVE SUMMARY

INTRODUCTION & SCOPE

BDO Canada LLP was engaged by Nova Scotia Utility and Review Board (the Board) to monitor the conversion of Nova Scotia Power Inc's (NSPI) financial accounting and reporting from Canadian to US Generally Accepted Accounting Policies (GAAP) and provide advice and assistance to the Board.

NSPI has proposed changes to its Accounting Policies and Procedures Manual [the Manual]. Specifically, it has submitted three separate submissions on July 9th, 2010, September 13th, 2010 and September 24th, 2010 respectively.

BDO was asked to review the suggested US GAAP changes and provide the Board:

- A review of whether the changes proposed to the manual are reasonable, and
- Identify any policy changes that may provide NSPI with an unfair advantage in future.

FINDINGS & CONCLUSIONS

We would like to thank members of NSPI management for their cooperation and responsiveness to our questions in assessing the proposed changes. We reviewed the submissions and discussed the proposed changes to the Manual in detail and our findings are summarized below.

Note that because many changes to the Manual were made to improve the overall accuracy of the document to reflect existing practices we have chosen to include an appendix for each of the three submissions. These appendices briefly outline those changes within the Manual which are as a result of the change to US GAAP.

Our review did not identify any significant observations and/or findings. However, we have chosen to highlight the following items for the Board's consideration:

Cost Allocation Policy: We noted that the Cost Allocation Policy is comprehensive and all the expected elements appear to be addressed. In an attempt to better understand the calculations and the underlying process we did review sample elements of the process. The following was noted:

- A minor change in management judgment and assumptions could materially impact the amounts capitalized
- Changes in judgment or assumption and a resulting increase or decrease in costs capitalized is not necessarily more or less accurate

Income Taxes: Accounting for Income Taxes under CGAAP and US GAAP has numerous differences and this section of the policy might need to be revisited after the first year of transition. However, the likely impact on regulatory accounting should still be minimal over time given the underlying taxable status does not change as a result of changing accounting standards.

Employee Future Benefits: Accounting for Employee Future Benefits under CGAAP and US GAAP has numerous differences. Current assessment does not trigger substantial differences but any material changes going forward could trigger a difference.

Internal Software Costs: Going forward any significant costs invested in software incurred beyond the development stage would be expensed under US GAAP but these amounts would likely have been capitalized under CGAAP. Note that the preparation of the annual ACE Plan still provides the Board the ability to review and approve or deny such costs including a review of the proposed accounting treatment of the costs.

Termination Costs: Under some circumstances a possibility exists that under US GAAP such costs are recognized earlier than Canadian GAAP. However, the Manual continues to require any termination costs which are greater than 0.25% of the annual revenue requirement to be recorded as a deferred asset and amortized over 3 years. Again any material increase will be deferred.

Based on our review of the proposed changes to the Manual, we wish to confirm that nothing has come to our attention which appears unreasonable or which provides NSPI with an unfair advantage.

APPENDIX 1: SUBMISSION 1

The following table summarizes the proposed changes to NSPI's Accounting Manual within Submission 1 by section:

SECTION	COMMENTS
1000: Introduction	Reference from Canadian GAAP to US GAAP in paragraph 06 is the only change in this section as a result of the transition to US GAAP.
2100: Statement of Cash flow	Statement Objective, Policy and Format sections have been revised to reflect the definition of the Statement of Cash Flow from a US GAAP perspective including references to the relevant US GAAP. Impact, if any, from these changes would be presentation of information within the statement but not the underlying balances.
3100: Account Structure	Reference to US GAAP added to paragraphs 03. No US GAAP changes noted.
6215: Capital Expenditures: Computer Hardware, Software and Telecommunication Equipment	Additional wording in paragraph 02 and 03 are to define allowable costs under US GAAP.
6500: Cash	Reference to US GAAP added to paragraphs 01. No US GAAP changes noted.
6600: Receivables	Additional wording added to paragraph 04 aligns the policy to what is expected under US GAAP but is not a material change from existing practice. No other US GAAP changes noted.
6800: Prepaid Expenses	Additional wording added to paragraph 03 makes reference to US GAAP but is not a change from existing practice. No other US GAAP changes noted.
6960: Accounting for Financial Instruments and Hedges	This section of the Manual outlines various changes to reflect accounting for financial instruments going forward under US GAAP. Based on discussion with NSPI management we note the following: - All unrealized gains at the end of each reporting period will not impact regulatory income, - Similarly any unrealized gains or losses on open positions as at January 1, 2011 will not be recognized in regulatory income, - The Board approved that only realized gains/losses from financial instruments used to hedge fuel costs, interest and/or foreign exchange movements can be offset against the related amounts in the income statement.

As confirmed with NSPI Management, the following sections within Submission 1 did not have any updates that were triggered by the change to US GAAP:

- 1500: Knowledge of Company Business
- 1560A: Capitalization Limits
- 1580: Financial Records
- 3300: Oracle System Overview
- 3350: Generic Accounts
- 3350A: Generic Accounts: Cross Reference to Capital Activities
- 6200: Construction work in Progress
- 6210: Capital Expenditures – Land
- 6250: Purchase Price Discrepancy
- 6260: Transfer Values
- 6340: Redundant Assets
- 6550: Short Term Investments
- 7100: Common Shares
- 7120: Common Dividends
- 8220: Accounts Payable & Accrued Charges
- 8400: Dividends Payable

APPENDIX 2: SUBMISSION 2

The following table summarizes the proposed changes to NSPI's Accounting Manual within Submission 2 by section:

SECTION	COMMENTS
1540: Audit, Nominating and Corporate Governance Committee	Reference to US Securities Law added to paragraph 03. Outlines the requirement for an audit of internal controls over financial reporting. No other US GAAP changes noted.
1560: Materiality	Additional wording added to paragraph 01 adding the definition of materiality under US GAAP which is not a material change. No other US GAAP changes noted.
2200: Foreign Currency Translation	Additional wording added to paragraph 01, 02 and 03 outlines foreign currency translation under US GAAP. Given that the currency with respect to the majority of NSPI's assets, revenues and expenses, related to regulated activities, are very unlikely to change these amendments are not expected to be material.
4100: Electric Revenue	Additional wording added to paragraph 02 to reference Revenue Recognition under US GAAP. No US GAAP impact proposed.
5100: Fuel and Power Purchased	Paragraph 04 b outlines that fuel and power inventory is measured using the weighted average cost method. This is a change from FIFO. Discussion with NSPI management and review of filings with the Board confirm that this change was approved in 2006 under CGAAP.
6000: Capitalization of Cost	Reference to US GAAP added to paragraph 01. No other US GAAP changes noted.
6100: Cost	Reference to US GAAP added to paragraphs 02 & 04. No other US GAAP changes noted.
6240: Allowance for Funds Used During Construction (AFUDC)	Reference to US GAAP added to paragraphs 01 and 02. Paragraph 02 outlines allowable AFUDC under US GAAP which is consistent with current practice. No other US GAAP changes noted.
6360: Long Lived Assets to be disposed of by Sale	Additional wording added to paragraph 01 and 06 to outline accounting for long lived assets held for sale under US GAAP. The new criteria could result in different presentation of the results. However, as the assets are sold the overall impact on income under either GAAP is expected to be the same.
6420: Retirement and Disposal of Capital Assets	Reference to US GAAP added to paragraphs 01. US GAAP definition for an Asset Retirement and Environmental Obligations (ARO) added to paragraph 15. Management does not expect an impact to AROs on transition to US GAAP. No other US GAAP changes noted.
6700: Inventories	A reference to US GAAP has been added to paragraph 03. Paragraph 03 states: *"Market means current replacement cost provided that market does not exceed the net realizable value and market shall not be less than net realizable value reduced by an allowance for normal profit margin."* Management indicates that this was its current CGAAP practice. No other US GAAP changes noted. Per NSPI Management the change from weighted average to FIFO as approved by the Board in 2006.
6930: Termination Costs	Paragraphs 01, 02 and 03 have been amended to outline accounting for termination costs under US GAAP. Under some scenarios/circumstances this accounting policy could result in earlier recognition of termination costs as compared to CGAAP. However, the Policy continues to require any termination costs which are greater than 0.25% of the annual revenue requirement to be recorded as a deferred asset and amortized over 3 years.
6940: New Business Costs	Paragraphs 01 and 02 have been amended to outline accounting for start up costs under US GAAP. These changes are not expected to result in a material difference from current accounting.

Section	Comments
7200: Retained Earnings	Under Canadian GAAP dividends on preferred shares were expensed as a part of financing charges. Under US GAAP these amounts are recorded as a reduction to retained earnings; and as a reduction from net income to net income attributable to common shareholders. Under US GAAP, NSPI no longer amortizes issuance costs.
8110: Debt due within 1 Year	A reference to US GAAP was added. No other US GAAP changes noted.

As confirmed with NSPI Management, the following sections within Submission 2 did not have any updates that were triggered by the change to US GAAP:

- 1520: Rate Base
- 1530: Regulated Return of Equity
- 1570: Cost Allocation Policy
- 5110: Fuel Adjustment Mechanism
- 5200: Operating, Maintenance & General
- 5310: Amortization -Capital Contributions in Aid of Construction
- 6140: Cost Components and Elements
- 6220: Capital Contributions in Aid of Construction
- 6225: Intangibles
- 6440: Gain or Loss on Disposition of Capital Assets
- 6650: Unbilled Revenue Receivable
- 6940A: Overhead Application Rate (New Business Costs)
- 8120: Accrued Interest on Long-term Debt
- 8200: Bank indebtedness

APPENDIX 3: SUBMISSION 3

The following table summarizes the proposed changes to NSPI's Accounting Manual within Submission 3 by section:

SECTION	COMMENTS
1530: Regulated Return of Equity	Paragraphs 03 and 04 have been modified to provide a more detailed and accurate description of the regulated return on equity calculation. The adoption of US GAAP has resulted in some adjustments which do not impact the calculation because the adjustment is booked through AOCI. For example: - Employee Future Benefits – Unfunded Liability - Preferred Shares

2400: Employee Future Benefits	The following US GAAP adjustments are noted:
	- Paragraph 09 and 10 outline that a transitional adjustment is required on Jan 1, 2011.
	- Paragraph 09 outlines that the amounts are restated retrospectively.
	- Paragraph 10 outlines that Plan Surpluses and Deficits are recognized in the balance sheet as either an asset or liability and the change is recorded in accumulated other comprehensive income (therefore no expected impact on return on equity).
	- Per discussion with NSPI Management based on detailed analysis:
	  - Over the next two years (2011 & 2012) regulated income is expected to increase under US GAAP versus the results under Canadian GAAP.
	  - Effective 2013 and going forward the accounting under CGAAP and US GAAP is expected to be very similar.

4200: Other Revenue	References to US GAAP added in paragraph 03. No other US GAAP changes noted.
5300: Depreciation Expense	References to US GAAP added in paragraph 01 and 04. Useful life or lives has replaced the term estimated service life or lives. Note that any change in depreciation rates still requires Board approval. No other US GAAP changes noted.
5800: Financing Charges	Under CGAAP some Debt Issuance costs could have been expensed but all such material costs must be deferred and amortized over the life of the instrument using the effective interest rate method. No other US GAAP changes noted.
5900: Income Taxes	NSPI will use enacted rates under US GAAP versus substantively enacted under CGAAP to recognize current and deferred taxes. Ultimately the financial statements under either GAAP will reflect the actual taxes liability but this change could cause a timing difference. Management has elected to account for Investment Tax Credits (ITCs) under US GAAP are directly expensed while under Canadian GAAP these amounts were being netted against the specific asset. This could result in a difference if ITCs become material in the future.
6320: Asset Retirement Obligation	A reference to US GAAP has been added to paragraph 01 and the US GAAP definition for an Asset Retirement and Environmental Obligations (ARO) has been added to 15. Management does not expect an impact to AROs on transition to US GAAP. No other US GAAP changes noted.
6350: Assets: Not Used and Useful	Changes in wording better represent what has been practiced by NSPI under CGAAP which is expected to continue. Therefore the transition to US GAAP is not expected to change the treatment of assets and the underlying depreciation.
6400: Accumulated Depreciation	Changes in wording better represent what has been practiced by NSPI under CGAAP which is expected to continue. Therefore the transition to US GAAP is not expected to change the accounting and recording of accumulated depreciation.
6900: General Principles	Changes in wording better represent what has been practiced by NSPI under CGAAP which is expected to continue.

As confirmed with NSPI Management, the following sections within Submission 2 did not have any updates that were triggered by the change to US GAAP:

- 6230: Application of Administrative and Vehicle Overhead
- 6235: Application of Administrative Overhead
- 6250: Purchase Price Discrepancy
- 7300: Preferred Reserves
- 7320: Preferred Dividends
- 8100: Long-term Debt and Matching Notes
- 8300: Income Taxes Payable