NOVA SCOTIA
POWER
An Emera Company

January 18, 2011

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

Re: <u>Request Board Approval for Amendments to the Accounting Policy and Procedures Manual – P-111.6 / Matter No. M03154</u>

Dear Ms. McNeil,

In its Decision dated December 20, 2010, the Board Approved NSPI's request for amendments to the Company's Accounting Policies and Procedures. The Board ordered that:

> On an annual basis, for the next two years, the Board orders NSPI to determine and file any differences in the application of accounting principles that may be caused by: termination costs; accounting for employee future benefits; investment tax credits; income taxes; and internal software costs.

NSPI will determine and file such differences as they occur.

Further, the Board also ordered NSPI to provide statements for comparison purposes.

> The Board also orders NSPI to file comparable annual financial statements as would have been prepared under the "old" C-GAAP as compared to US-GAAP for the first year.

NSPI understands the spirit of the Order is to avoid pitfalls and areas of potential confusion for interested parties, experienced in other jurisdictions, as regulated entities transition to new accounting standards. As noted by the Board;

> The existence of two conflicting accounting policies for regulated assets and liabilities will cause confusion and non-comparability of the financial statements of regulated entities for the next couple of years. In a worst case scenario, a rate regulated entity could adopt IFRS as of January 1, 2011, and write-off all its regulated assets and liabilities. Thereafter, it is a possibility, that the IFRS may be amended, such that rate regulated assets and liabilities can be recognized, in which case the financial statements

would revert back, giving a couple of years of confusing, non-comparable results. The non-recognition of regulatory assets and liabilities would also require regulated entities to maintain two sets of records: one for the published financial statements; and, one for the regulator to use in determining just and reasonable rates.

One of the benefits of NSPI transitioning to US-GAAP, as opposed to IFRS, is the high degree of similarity that USGAAP has to C-GAAP. While other regulated entities may be expecting significant differences to arise on transition, it is NSPI's expectation that such differences will not be significant. Through the transition to US-GAAP, NSPI is able to ensure that rate regulated assets and liabilities continue to be recognized, and interested parties are able to effectively compare changes to financial reporting requirements under C-GAAP and US-GAAP through the transition.

Under US-GAAP, in the Company's 2011 financial statements, NSPI is required to show what 2009 and 2010 results under US-GAAP would have been. This means that 2009 and 2010 financial numbers will be available in both C-GAAP and US-GAAP for the Board and interested parties. That should provide the opportunity for parties to gain assurance that the adjustments are transparent.

Tracking and recording only US-GAAP based reporting for 2011 will reduce costs associated with having to track the differences between US-GAAP and C-GAAP for an additional year. In order to produce 2011 financial statements similar to what would have occurred had NSPI maintained its C-GAAP reporting, accounting for items such as Pension, Preferred Shares, Hedges and Income Taxes would have to be tracked separately. This creates potential for market confusion if both US-GAAP and C-GAAP financial documentation is publicly available.

The benefits of the transition to US-GAAP would be eroded should NSPI continue to prepare its financial statements as would have occurred under the "old" C-GAAP (which is no longer applicable for NSPI or for other companies, which are required to change to IFRS). Transitioning fully in 2011 to USGAAP will contribute to interested parties fully understanding the relationship between the Company's regulated statements and USGAAP as the primary vehicle for external financial reporting.

NSPI respectfully requests that the Board consider the concept that the Company's restatement of 2009 and 2010 previous financial years to US-GAAP will provide sufficient comparability to meet the Board's order regarding comparable statements.

For more information, please contact the undersigned.

Regards,

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

c: Claudette Porter, CA
J. René Gallant