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Nova Scotia
Utility and Review Board

February 4, 2011

Ms. Nancy McNeil
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
Halifax, NS B3J 3P6

Dear Ms. McNeil:

Re: UARB Approval of Amendments to NSPI's Accounting Policies and Procedures Manual – Matter No. M03154

In the Board's letter dated January 25, 2011 concerning NSPI's Compliance Filing of January 11, 2011, the Board noted "four discrepancies from the wording as originally submitted for approval". For two of these items, Section 1530 and Section 6235, the Board approved the changes. For the two other items, Section 5300 and Section 6200, the Board advised NSPI should consider rewording these policies.

NSPI has reviewed sections 5300 and 6200 as filed January 25, 2011 and confirms that the versions included in the Compliance Filing were outdated and included in the Compliance Filing in error. The correct versions of these policies, as approved by the Board, are attached to complete the Compliance Filing. Policy 5300 is as filed with the Board on September 24, 2010. Policy 6200 is as filed with the Board on October 22, 2010. NSPI regrets the confusion this error may have caused.

With respect to Section 6200, the Board's letter provides the following:

> "Section 6200, construction work in progress, the policy 02(n) has dropped the specific reference to UARB approval. As well, this section talks about a tolerance of \$250,000, whereas in the approved version, in subsection I reference is made to 5% and \$25,000 as the tolerance level. The Board accepts the new tolerance level of \$250,000, but is concerned that the percentage variance has been removed. A \$250,000 overspend on an original budget of \$400,000 is much more significant than a \$250,000 overspend on a budget item of \$2,000,000. The Board is also concerned about items that may have an original budget of less than \$250,000 but, with an overspend of \$250,000, now exceed the amount that would normally have received Board scrutiny. NSPI should reconsider rewording subsection n and submit it for approval."

With regard to Board approval of capital items, Section 02(n) in the attached includes the following:

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

This provision reflects the Board's current practice. UARB approved capital projects with a cost greater than $1 million require Board Final Cost approval, and if applicable ATO approval. Capital items approved by the Board for less than $1 million do not require subsequent Board approval where spending remains less than $1 million. For these items, variances are identified to the Board through the quarterly capital reports filed with the UARB.

With respect to the Board's concern with "items that may have an original budget of less than $250,000 but, with an overspend of $250,000, now exceed the amount that would normally have received Board scrutiny", NSPI confirms that such items would be submitted to the Board for separate capital item approval.

Please contact the undersigned should the Board have any directions or questions in this matter.

Yours truly,

Eric Ferguson, CMA
Director, Regulatory Affairs

c: Claudette Porter
J. René Gallant
Bruce Outhouse, Q.C.

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.

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

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.

GENERAL

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

WORK ORDER PROCESS

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

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

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

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

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

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

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

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

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

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

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

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

i. Approval of CI by UARB;

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

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1 Power Plant is NSPI's Capital Software System

k. Set up the capital work order in CWIP;

l. Summarize and control charges;

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

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

o. Depreciate PPE item; and

p. Retire item through retirement capital work order.