NOVA SCOTIA
POWER
An Emera Company

June 11, 2010

Nancy McNeil
Clerk of the Board
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
P.O. Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: <u>NSPI Accounting Policy and Procedures Manual - Accounting Policy 6960-Accounting for Financial Instruments and Hedges - P11.6</u>

Dear Ms McNeil:

In the Board's Decision dated October 5, 2007, in which the Board approved NSPI's application to amend Accounting Policy 6960 dealing with hedging relationships, the Board provided the following:

> The Board ... directs that NSPI annually file a report with the Board setting out information concerning hedge accounting policies which are followed by other rate-regulated entities in Canada, and also setting out any changes in accounting standards which may impact the existing hedge accounting policies of NSPI. The Board suggests that the first reporting date be June 30, 2008.

NSPI continues to monitor developments in the Canadian utility industry concerning the accounting for financial instruments and hedges. There were several developments over the past year to highlight.

2011 Accounting Standards

In February 2008, the CICA announced Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company began planning its transition to IFRS in 2008 and transition activities progressed on schedule through 2009. In Q4 2009, due primarily to the continued uncertainty around the timing and eventual adoption of a rate-regulated accounting standard under IFRS, management of Emera, NSPI's parent company, began reviewing the option of adopting US GAAP instead of IFRS. Emera's Board of Directors approved the transition to US GAAP financial reporting standards effective 2011.

The adoption of US GAAP is expected to result in fewer significant changes in the

Company's accounting policies than would have been experienced with the adoption of IFRS.

Introduction of the Fuel Adjustment Mechanism

The Fuel Adjustment Mechanism ("FAM") which came into effect January 1, 2009, governs the recovery of NSPI's fuel related costs. Subsequently, the Board approved an amendment to NSPI's Accounting Policy 6960 - Accounting for Financial Instruments and Hedges by letter dated December 11, 2009. The approved amendment effectively matches the recognition of the expense at the time the underlying hedge settles for Tuft's Cove fuel hedges that are no longer required. This change provided an appropriate alignment of fuel costs and customer recoveries under the FAM.

The Company, with support from FAM stakeholders, has explored the potential of extending the accounting treatment to all hedges, including fuels and foreign exchange, so that fuel expense corresponds to hedge settlement. This regulatory approach would remove the quarterly effectiveness testing and recognition of any ineffectiveness of hedges. Based on NSPI's assessment of US GAAP reporting, it is evident that the financial instruments and hedge accounting is more stringent than Canadian GAAP which could result in more ineffectiveness recorded as expense. US GAAP recognizes rate regulated accounting standards such that an extension of NSPI's Accounting Policy 6960 accounting treatment to all hedges should align external financial reporting with fuel expense and FAM reporting.

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.

If the Board requires additional information in this regard, please contact the undersigned.

Yours truly,

Eric Ferguson, CMA
Director, Regulatory Affairs (Acting)