NOVA SCOTIA POWER
An Emera Company

January 12, 2011

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

Re: CI #38724 – TRE5 – Superheater, Reheater and Boiler Upgrades - Responses to Information Requests (IRs) P-128.10

Dear Ms. McNeil:

Enclosed are the IR responses pertaining to the capital item referenced above. These IRs were received on December 22, 2010.

Regards,

Lee Thomson-Lutz, MBA, CMA
Manager, Capital

Encl.

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Request IR-1:

Please provide a copy of NSPI's Accounting Policy, Section 6000- Capitalization of Costs

Response IR-1**:**

Please refer to Attachment 1.

NSPI ACCOUNTING POLICY – SECTION 6000 – CAPITALIZATION OF COST

DEFINITION
01 Capital assets include identifiable assets such as property, plant and equipment or intangible assets that are held for use in the production or supply of goods and services. They are intended for use on a continuing basis and are not intended for sale in the ordinary course of business.CICA Handbook, 3061.04.

GENERAL
02 An expenditure must create a benefit having a life of more than one year to be considered capital. Annual fees or maintenance costs do not create an asset; they simply maintain the existing asset base and should be expensed annually as incurred.

03 Other factors indicating an expenditure may be capital in nature include:

a. it extends the service life an existing capital asset;
b. it increases the capacity of an existing capital asset;
c. it substantially improves the production quality of an existing capital asset; or
d. it reduces the operating costs of an existing capital asset.

04 Additional guidance on the capitalization of cost is provided in instructions with the uniform system of accounts as prescribed by the National Association of Regulatory Commissioners and the Federal Energy Regulatory Commission, both of which are American organizations.

05 Capital expenditures are not expensed as incurred, but are recorded as assets that will benefit future periods. They reduce future net earnings through depreciation and amortization. Please refer to Section 5300 for an explanation of depreciation expense.. Depreciation and amortization are methods of charging assets' costs to fiscal periods over their useful life.

06 In order to capitalize an expenditure, there must be reasonable assurance that the benefit will actually be realized by the Company.

POLICIES
07 *Expenditures meeting the criteria described in Paragraphs 02 and 03 create a benefit that will be realized by the Company beyond the current year. Accordingly, they should be capitalized.*

08 *Expenditures should not be capitalized if it is not reasonably certain that the Company will receive a benefit from them.*

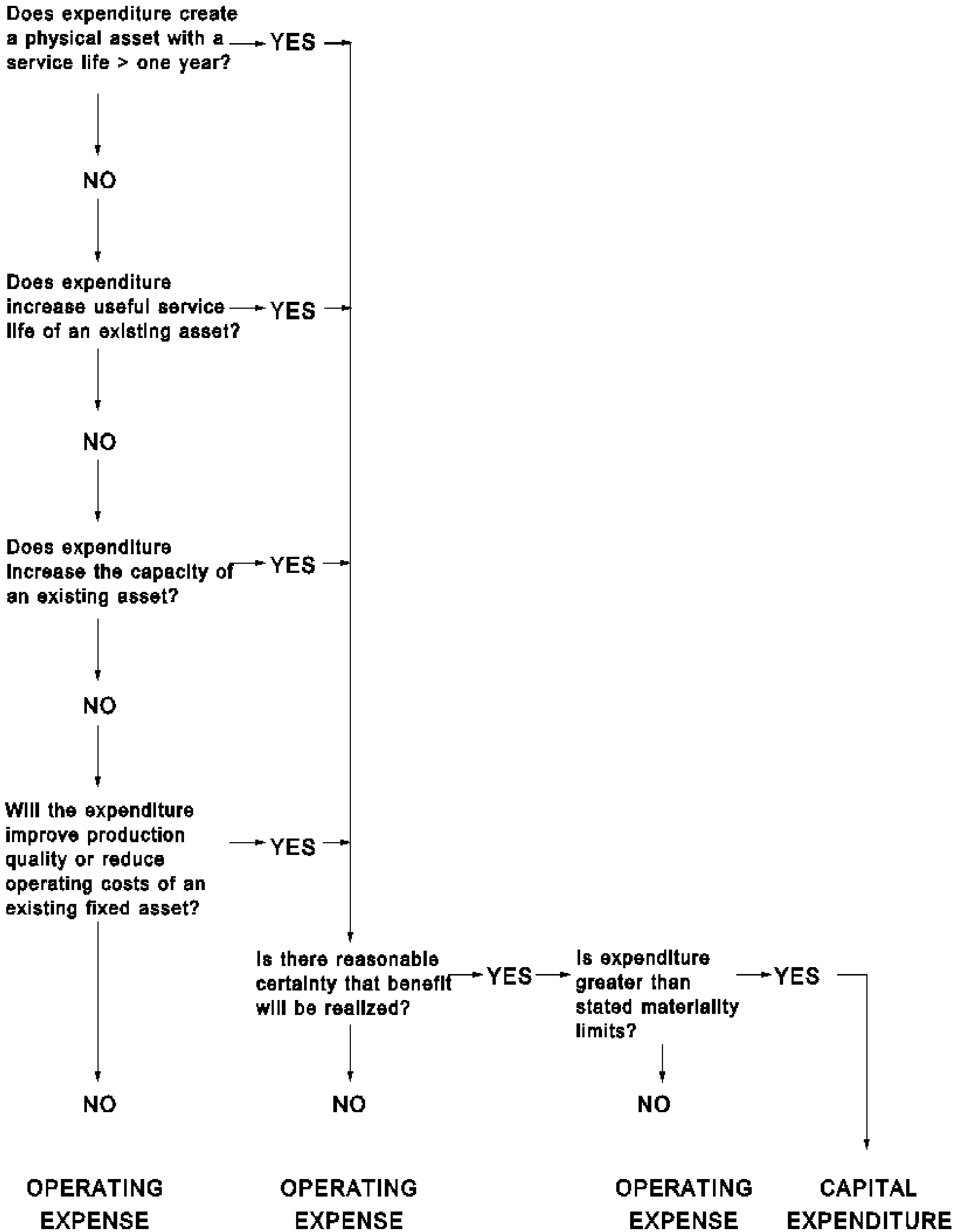
PROCEDURES
09 Every expenditure must be classified as either capital or operating, and should be budgeted and accounted for accordingly. Operating costs are expensed in the year incurred, against the revenue earned in that period. The determination of capital versus operating should be made according to the nature of the item, and each item should be recorded when incurred. Timing of cash payments has no bearing on either of these decisions.

10 The materiality policy must be considered in the capital versus operating decision, since there are administrative costs associated with capitalizing and carrying an asset in the accounting records. NSPI uses different materiality levels for different classes of assets. Please refer to Section 1560 for a discussion of the concept of materiality. Appendix A to Section 1560 provides the current materiality guidelines with respect to capitalization.

11 Once the decision is made that an expenditure is capital, a work order should be raised and approved as part of the ***Annual Capital Expenditure Plan*** ("ACE Plan") or the Unknown and Unforeseen (U&U) process. All costs charged to capital work orders are included in the Oracle General Ledger System with the ***Company Segment*** of the ***Accounting Flex field*** equal to "2".3 Only these accounts will be capitalized and eventually transferred to property, plant and equipment.

12 Expenditures that do not create a new asset or better an existing asset can still be tracked in the operating accounts (Company Segment equal to "1") by using accounts, activities and operating project numbers within a cost centre. However, these costs are charged to expense in the current period.

13 The following decision tree will assist in determining whether an expenditure is capital or operating:


Does expenditure create a physical asset with a service life > one year?
YES
NO
Does expenditure increase useful service life of an existing asset?
YES
NO
Does expenditure increase the capacity of an existing asset?
YES
NO
Will the expenditure improve production quality or reduce operating costs of an existing fixed asset?
YES
Is there reasonable certainty that benefit will be realized?
YES
Is expenditure greater than stated materiality limits?
YES
NO
NO
NO
OPERATING EXPENSE
OPERATING EXPENSE
OPERATING EXPENSE
CAPITAL EXPENDITURE

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Request IR-2:

Please explain how this project conforms to the requirements in Section 6000 of NSPI's Accounting policy.

Response IR-2**:**

This project conforms to the requirements of Accounting Policy 6000 because the scope of work completed will have a service life of greater than one year and result in extended service life of the existing asset. Additionally, this project serves to improve the reliability of Unit #5, which is to the benefit of both the Company and NSPI customers.

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Request IR-3:

Please verify that the $31,383 difference between the revised project budget of $796,383 and the $765,000 spent as of October 15, 2010 is a balance on outstanding invoices.

Response IR-3**:**

Confirmed. The difference between the revised project budget of $796,383 and the $765,000 spent as of October 15, 2010 was a balance on outstanding invoices. As of December 31, 2010, the total spent on this project was $792,194.