

January 12, 2011

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

**Re: CI 38943 – Boiler Refurbishments - NSPI 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.

Attachments 1 and 2 pertaining to IR-4 are confidential because the Thermal Maintenance Practices are intellectual property of NSPI.

The Company has a reasonable expectation that these proprietary standards and practices will be protected from public disclosure. These standards and practices have been developed over time and have contributed to the reliability of NSPI's thermal generating assets.

Regards,



Lee Thomson-Lutz MBA, CMA  
Manager Capital,

Encl.

CI 38943 – Boiler Refurbishment (NSUARB P-128.10)  
NSPI Responses to UARB Information Requests

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1 **Request IR-1:**

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

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5 Response IR-1:

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7 Please refer to Attachment 1.

# CAPITALIZATION OF COST - 6000

## 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

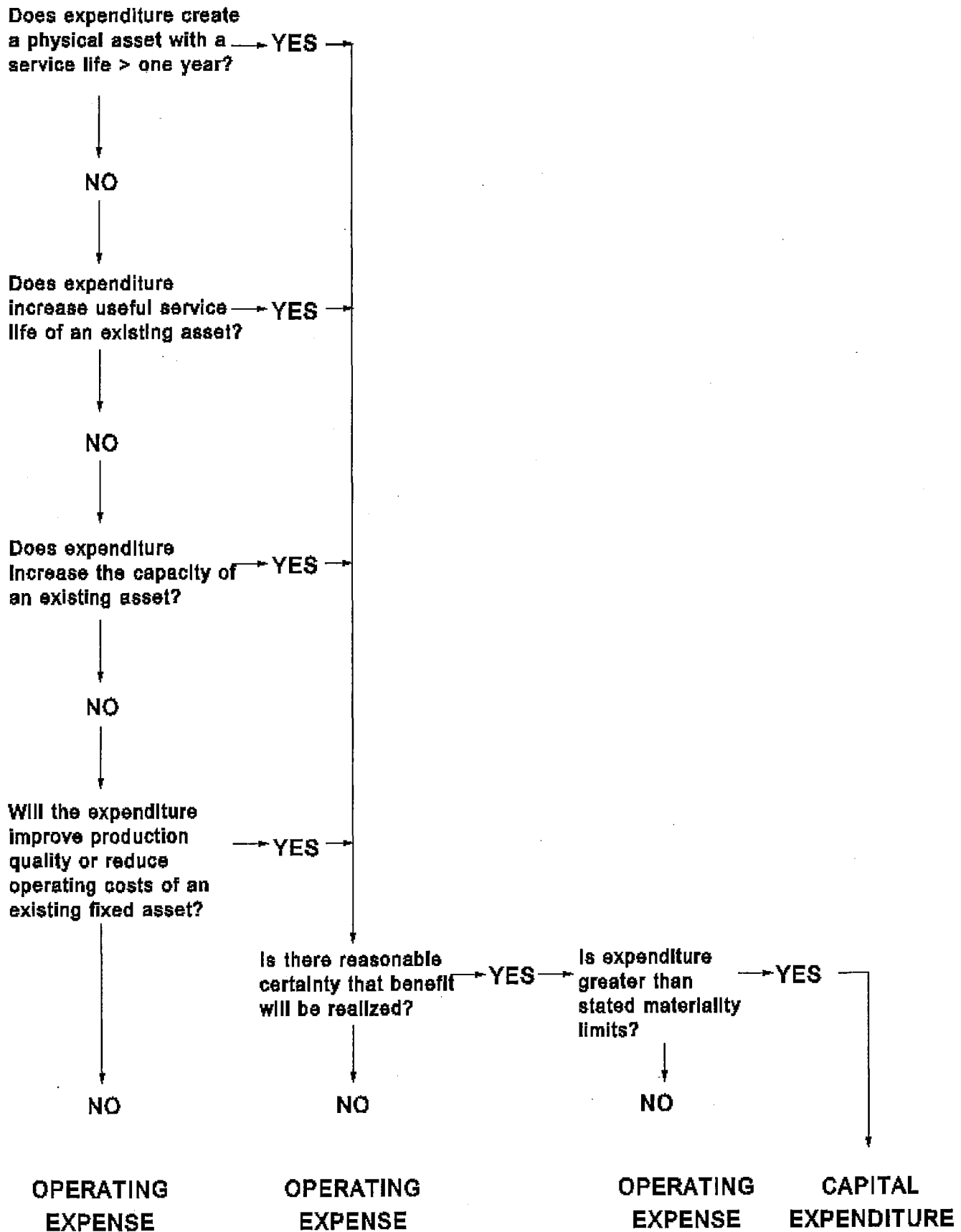
09 Every expenditure must be classified as either capital or operating, and should be budgeted and accounted for accordingly. Operating costs are expensed in the year incurred, against the revenue earned in that period. The determination of capital versus operating should be made according to the nature 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".<sup>3</sup> 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:



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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 this work will extend the service life of the existing asset by more than one year.

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**Request IR-3:**

**Why weren't the eroded tubes included in the scope of the ATO not detected in the inspection(s) that served as the basis for developing the original project scope and the original ACE budget of \$501,583?**

**Response IR-3:**

The boiler survey completed in 2008 served as the basis for the original project scope and baseline estimate.

An unplanned inspection was completed in January 2010 after the 2010 ACE Plan was finalized. As such, the scope of work presented in the ATO was not included in the original scope of the project. The scope of the eroded tubes for the HTSH and LTSH sections of the boiler identified in the ATO were not identified as part of this 2010 inspection because this inspection was unplanned and undertaken in response to a boiler tube leak in the division wall. Only the division wall was inspected at this time. The inspection results were used to confirm division wall sections for replacement.

The last boiler survey was completed during a planned outage in 2008 (October – December 2008). Information from this 2008 survey identified 15 HTSH-SH5 tubes for replacement during future planned outages as well as addition of various shields and pads in the LTSH section of the boiler.

The original project scope did not include contingency for any additional discoveries arising from the 2010 boiler survey completed during the planned outage or recognize the extended boiler outage duration (7 weeks) which provided time for additional inspection and preventative refurbishment.

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1 Response IR-3: (cont'd)

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3 The scope of work included in the ATO for CI 38943 is a result of unplanned work that includes  
4 the division wall scope and significant preventive measures such as shielding and padding in  
5 response to higher ash fuel consumption. The unplanned work also resulted from greater than  
6 expected wear in some areas due to the aggressive ash loading (HTSH- A section and LTSH -1-  
7 2-H-I sections wall penetration tubes).



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**Request IR-4:**

**Are consistent procedures being followed in the periodic internal inspections such that most/all tubes approaching end of useful life should be detected in a timely manner?**

**Response IR-4:**

Consistent procedures are employed to detect tubes that are approaching the end of their useful life. Please refer to Confidential Attachment 1 for the TMP 004 – Boiler Tube Inspection Procedure and Confidential Attachment 2 for the TMP 017 – Boiler Tube Failure Reduction Program.

Boiler condition surveys employing visual and ultrasonic thickness testing in areas subject to corrosion or erosion wastage are undertaken during planned outages. To the degree possible, evaluation and refurbishment activities are undertaken as inspection proceeds due to the limited outage time available. Inspection results and observations are evaluated and actions for future planned and unplanned outages are established.

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1 **Request IR-5:**

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3 **Have there been any substantive changes in boiler operating procedures between the initial**  
4 **inspection from which the \$501,583 budget was developed and the \$1,658,585 ATO that are**  
5 **contributing to accelerated wear of HTSH/LTSH/Division Wall tubes?**

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7 **Response IR-5:**

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9 Between the time frame that the original budget was developed and the submission of the ATO  
10 for this work, there have been no substantive changes in boiler operating procedures.

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1 **Request IR-6:**

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3 **How many years and/or hours have the tubes included in the scope of the ATO been in**  
4 **service?**

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6 Response IR-6:

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8 The tubes included in the scope of the ATO have been in service since 1979 for approximately  
9 238,200 operating hours.

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1 **Request IR-7:**

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3 **What is a typical life expectancy for these tubes based on historical NSPI data?**

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5 Response IR-7:

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7 The typical life expectancy of the tubes is 20 years.

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1 **Request IR-8:**

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3 **Are the tubes being replaced meeting typical life expectancy for tubes in similar service?**

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5 Response IR-8:

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7 The tubes being replaced have exceeded their typical life expectancy.