

NON-CONFIDENTIAL

1 **Request IR-11:**

2
3 **Exhibit N-1, p. 25, line 3**

4
5 **With respect to the Debt Service Reserve Account:**

6
7 **(a) Which interest revenues, if any, would be earned on cash balances outside of the**
8 **Debt Service Reserve Account? Please specify which cash balances are referenced**
9 **here.**

10
11 **(b) Please specify which provisions of the Federal Loan Guarantee require the**
12 **establishment and use of the Debt Service Reserve Account.**

13
14 **(c) Please provide an accounting of the status of the Debt Service Reserve Account from**
15 **inception to the present date.**

16
17 **(d) Is the reference to “bond proceeds” in line 8 on page 25 a reference to the funds**
18 **deposited to the Debt Service Reserve Account? If not, where are these bonds**
19 **proceeds held?**

20
21 **Response IR-11:**

22
23 **(a) In 2018 and 2019, in accordance with Accounting Policy 5300 - Depreciation, NSPML’s**
24 **application includes collection of depreciation in rate revenues. Those funds are expected**
25 **to pay debt principal, starting in 2020, and return invested equity to the shareholder. Until**
26 **such time as these funds will be used for those purposes, the funds will be invested on**
27 **behalf of customers in a segregated account which will be controlled by the Collateral**
28 **Agent. The funds in this account will be invested in “Permitted Investments” as defined**
29 **in the Maritime Link Credit Agreement. Interest revenues earned on these Permitted**

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1 Investments are included in the calculation of net interest expense and are for the benefit
2 of Nova Scotia customers. These interest revenues are estimated to be approximately \$1
3 million in 2018 and \$2 million in 2019. Interest revenue also includes interest earned on
4 the Debt Service Reserve Account (DSRA).

5
6 (b) The Debt Service Reserve Account is noted as a requirement in section 4.16 of the
7 Federal Loan Guarantee (FLG) Term Sheet and Article 8.3 of the ML Credit Agreement.
8 Please refer to NSUARB IR-10(a).

9
10 (c) Attachment 1 shows an accounting for the Debt Service Reserve Account since inception.

11
12 (d) “Bond Proceeds” referenced on page 25, line 8 of Exhibit N-1 refers to the \$1.3 billion
13 bond proceeds received in April 2014. These bond proceeds were deposited in the
14 Maritime Link Trust under the control of the Collateral Agent.

Debt Service Reserve Account

	Opening Balance (\$K)	Initial deposit (\$K)	Interest Revenue Earned (\$K)	Withdrawal (\$K)	Closing Balance (\$K)
Q2-2014	-	22,750	22	-	22,772
Q3-2014	22,772	-	66	-	22,838
Q4-2014	22,838	-	65	(88)	22,815
Q1-2015	22,815	-	62	(65)	22,812
Q2-2015	22,812	-	58	(100)	22,770
Q3-2015	22,770	-	53	-	22,823
Q4-2015	22,823	-	48	(105)	22,766
Q1-2016	22,766	-	48	-	22,814
Q2-2016	22,814	-	49	(97)	22,766
Q3-2016	22,766	-	49	-	22,815
Q4-2016	22,815	-	48	(98)	22,765

Note: The initial deposit to the DSRA was made on May 1, 2014. The account earns interest revenues which are deposited monthly. Interest revenue earned is periodically withdrawn respecting the required minimum balance. Withdrawn amounts are utilized to minimize net interest expense.

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1 **Request IR-12:**

2
3 **Exhibit N-1, p. 27, line 17**

4
5 **With respect to the reference to the savings of more than \$250 million resulting from**
6 **the Federal Loan Guarantee:**

7
8 **(a) Does this \$250 million amount include or exclude the savings contemplated**
9 **under the one-time advance/installment for the financing scheme which was**
10 **used in this case?**

11
12 **(b) Does the \$250 million amount include the hedging costs and other costs of**
13 **corporate structure resulting from the upfront advancement of funds?**

14
15 **(c) Please provide the analysis prepared and inputs included in order to make**
16 **such a claim?**

17
18 **Response IR-12:**

19
20 (a-c) The \$250 million estimated savings arising from the Federal Loan Guarantee (FLG) was
21 a calculation using a straightforward comparison of the impact of different effective
22 interest rates. The estimate assumed between 100 and 150 basis point effective interest
23 rate benefit given the guarantee of the Government of Canada and achieving a 'AAA'
24 rating. The estimated effective interest rate spread benefit took into consideration many
25 factors and not just the basic coupon rate of interest but also potential costs such as
26 hedging, structure, and manner in which the debt would be secured (thus providing an
27 effective rate of interest).

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1 Ms. Allison Manzer explained this concept in her comments during the Technical
2 Conference on February 23, 2016 (a copy of this transcript is provided as
3 Attachment 1). She explains below that many factors must be taken into
4 consideration when designing and implementing a large capital project financing
5 arrangement such as the one put in place for the Maritime Link. These factors
6 include all aspects of project financing such as when debt proceeds are received,
7 and including interest rate hedging, financing structure, amortization period and
8 standard covenants. As Ms. Manzer notes in the excerpt below (from pages 65 and
9 66 of 100 of Attachment 1), all of these factors were taken into account in
10 structuring the Maritime Link financing.

11
12 What really matters is the overall cost of the finance of the entire term of the
13 project that you're looking at. So the net present value of the financing is
14 what matters, not the interest rate. The interest rate is a big component, I'm
15 not going to kid you, but when we're putting together a cost stack we are
16 adding in a number of things besides what the raw cost of the money might
17 look at. We're adding in liquidity premiums, i.e. no liquidity premiums.
18 We're adding in amortization costs, we're adding in placement costs, you're
19 adding in a number of things that looks at your stack. You're also looking at
20 how and when you have to repay your amortizing, over what period of time,
21 so you come up with an overall cost of the financing. Canada's view and
22 everybody's view in this room should have been exactly the same, which is,
23 you need to have the lowest net present value of your financing.

24
25 It is also important to note that financing a large capital project like the Maritime
26 Link is not the same as financing an operational business such as NS Power. This
27 matter is addressed in the response to NSUARB IR-21(d) and (h).

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CERTIFICATE OF COURT TRANSCRIBER

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I hereby certify that I have transcribed the foregoing and that it is a true and accurate transcript of the NSP Maritime Link Incorporated Technical conference, taken by way of electronic recording in Halifax, Nova Scotia on February 23, 2016.

11

12

13



Rita Newton, Certificate No. 2006-56

14

CERTIFIED COURT TRANSCRIBER,

15

PROVINCE OF NOVA SCOTIA

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Halifax, Nova Scotia

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March 24, 2016

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NSP MARITIME LINK INC.

TECHNICAL CONFERENCE

HALIFAX, NOVA SCOTIA

FEBRUARY 23, 2016

This is the transcript of the Maritime Link Project
Technical Conference taken by way of digital recording
held in Halifax, in the Province of Nova Scotia on
February 23, 2016.

Recorded by:

DISCOVER US TRANSCRIPTION SERVICES INC.

Certified Court Reporters

Per: Carolyn Arsenault

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MARY ELLEN GREENOUGH
SENIOR COUNSEL, LEGAL AND REGULATORY AFFAIRS
NSP MARITIME LINK INC.
OPENING COMMENTS AT 1:15 P.M.

So welcome to our technical conference today, so glad that you could be here to join us. First of all, we do have some empty seats at the table up front so those of you who wish to join us you're welcome to come up and take a seat, feel free.

So our intent today is to provide you with an update on the project consistent with the reports that we've been providing to the Board on a quarterly basis to teach you more about our current progress on the project and how we're delivering on our promise to deliver the project.

To start with a few housekeeping matters, you will note that the washrooms are outside these doors past the stairwell to the left, all the way down the hall and they're marked. Also the closest exit is of course the stairwell just outside these doors to your left and down to the front lobby.

I'd ask that you all take an opportunity to

OPENING COMMENTS

1 put your phones on mute during the conference and
2 we'll give you a chance to check your messages at
3 a break. I don't believe that wireless is
4 currently available, I just wanted to let folks
5 know that but I think they could be working on a
6 solution currently so I apologize for that in
7 advance. Also, you'll note that we are recording
8 and transcribing today's event in the interest of
9 maintaining an open and transparent process so,
10 welcome to our transcribers.

11 And today, instead of starting with a safety
12 message, in a few minutes Ken Meade is going to
13 be providing a very detailed safety update to
14 speak about how our approach to safety has
15 evolved through some recent experiences on the
16 project.

17 So, I think I'd like to move to
18 introductions now, and, for those of you who I
19 haven't met, I'm Mary Ellen Greenough; I'm Senior
20 Counsel, Legal and Regulatory Affairs with NSPML.
21 And I'll turn it over to Shellie to start the
22 introductions around the table.

23
24
25

1 **MS. WOOLHAM:** Yes, hi, I am Shellie Woolham
2 with NSPML.

3 **MR. MEADE:** Good afternoon everyone, Ken
4 Meade, Senior Director of Risk Environment and
5 Aboriginal affairs with ENL.

6 **MR. RENDELL:** Hello, it's Brian Rendell, VP
7 Corporate Affairs with NSPML or ENL.

8 **MS. MANZER:** Alison Manzer, I'm with the
9 Toronto law firm, Cassels Brock and Blackwell; I
10 was the engineer of the legal structure that was
11 used for the financing.

12 **MR. MCGRATH:** Steve McGrath, Nova Scotia
13 Department of Justice.

14 **MR. MCCOOMBS:** Scott McCoombs, Nova Scotia
15 Department of Energy.

16 **MR. SPENCE:** Roy Spence, Department of
17 Finance.

18 **MR. FERGUSON:** Eric Ferguson, Nova Scotia
19 Power.

20 **MR. WOOD:** Tim Wood, Nova Scotia Power.

21 **MR. CURRY:** Brian Curry, Nova Scotia Power.

22 **MR. MACLELLAN:** Robert MacLellan, Emera
23 Newfoundland and Labrador.

24 **MR. MAHODY:** Bill Mahody, consumer
25 advocate.

OPENING COMMENTS

1 **MS. FRASER:** Jocelyn Fraser, Utility and
2 Review Board.

3
4 **MS. MACADAM:** Melissa MacAdam, Small
5 Business Advocate.

6 **MR. GALLANT:** René Gallant, Legal and
7 Regulatory Affairs, NSPML.

8 **MR. OUTHOUSE:** Bruce Outhouse, Board
9 counsel.

10 **MR. JANECA:** Rick Janega, President and CEO
11 of Emera Newfoundland and Labrador.

12 **MS. HOWE:** Natasha Howe with NSPML.

13 **MR. BALSAM:** Matthew Balsom, Controller,
14 NSPML.

15 **MS. GREENOUGH:** Thank you. We do have a
16 number of folks who have called in for today and
17 I hope they can hear me.

18 **MS. WOOLHAM:** They are having trouble
19 hearing.

20 **MS. GREENOUGH:** Oh, okay then.

21 **MS. WOOLHAM:** (inaudible, no microphone)

22 **MS. GREENOUGH:** Thanks for that Shellie,
23 okay. Well perhaps what we'll do is speak a bit
24 about the plan for the afternoon. Perhaps I'll
25 give Shellie just a moment though to see if we

1 can quickly address this problem.

2 (inaudible - people speaking without
3 microphones)

4 **MS. GREENOUGH:** I could find out, that's an
5 answer Rick, let's see if we can get a list.

6 **COURT REPORTER:** Please remember you have to
7 hold your microphone down otherwise I can't hear
8 you at all when you're speaking back and forth
9 like that.

10 **MS. GREENOUGH:** Okay. While we try to iron
11 things out I will move on to discuss our plan for
12 the afternoon and once we can get the phones
13 enabled then we're going to go back to allow
14 folks to introduce themselves.

15 Okay, so as far as our agenda for the
16 afternoon is concerned we're going to start with
17 the substantive part of the agenda with Ken's
18 safety update. Then we're going to move to a
19 construction update with Rick Janega where we're
20 going to provide you with an overview of our
21 current status on construction efforts and a view
22 of upcoming schedule and key milestones.

23 After a 15-minute break we're going to move
24 onto a financing update with Brian Rendell and
25 Alison Manzer, who has traveled here today to

8

OPENING COMMENTS

1 speak to us about the federal loan guarantee and
2 Canada's oversight role.

3 And then we're going to close the conference
4 with a report from René Gallant on regulatory
5 planning where he's going to be discussing our
6 process of review over the next 18 to 30 months
7 and how we're going to work on engaging with all
8 of you through that process.

9 So without further ado I'm going to turn it
10 over to Ken for the safety update.

1 **KEN MEADE - SENIOR DIRECTOR OF RISK ENVIRONMENT AND**
2 **ABORIGINAL AFFAIRS**
3 **NSP MARITIME LINK INC.**
4 **SAFETY UPDATE - 1:21 P.M.**

5 Thank you. So good afternoon everyone.
6 As Mary Ellen mentioned we normally start each
7 meeting with a safety moment and so today I'm
8 just going to provide a bit of an update on some
9 recent changes we've made to our safety program,
10 specifically improvements to enhance how we
11 manage high risk activities associated with
12 construction. We did this in response to a
13 series of high risk incidents that we experienced
14 on the project last year and we wanted to take
15 steps to address them.

16 Before I get into that I actually wanted to
17 start with just a bit of an overview of our
18 safety policy from Emera Newfoundland and
19 Labrador. And as is typical for our business,
20 many of you know, it states that safety is more
21 important than any other business interest and
22 for that reason it's our number one priority.

23 The second bullet highlights that we commit
24 to high standards in the workplace when it comes
25 to safety and more importantly, or most

SAFETY UPDATE

1 importantly, I guess, is that that is a shared
2 responsibility for all of our employees and our
3 contractors who work with us. We also share in
4 the belief that all incidents are preventable.
5 And this last point is the thing that drove us to
6 take the steps we did last year to address some
7 trends we were seeing with safety performance on
8 the project.

9 So late last summer we experienced a number
10 of high consequence incidents or potential high
11 consequence incidents associated with
12 construction activities over a short period, over
13 a number of weeks. It's important to highlight
14 there were no injuries associated with any of
15 these incidents, but each of them had the
16 potential for injury to occur. So it was a trend
17 that we were uncomfortable with and we made the
18 decision to shut down all projection construction
19 activities. We did that knowing that we couldn't
20 allow work to continue in a manner that might
21 result in injury. And so we had a safety stand-
22 down and then we pulled our leadership team
23 together and we mapped out all of the work that
24 was planned, that was happening or planned and
25 reviewed all the high risk activities associated

1 with that work. So we created this risk matrix
2 and then we assigned teams to go through and work
3 with contractors to identify the necessary
4 controls and mitigations that needed to be put in
5 place before work restart.

6 So before I get into that in a little bit
7 more detail I actually did want to take a couple
8 of minutes and highlight some of the incidents we
9 have just to provide some context for the steps
10 we took.

11 So this collection of photos illustrates
12 some of the incidents we had. What's important
13 to note is that each of these incidents was
14 preventable and specifically that things were
15 missed as work was being prepared to be
16 initiated. Procedures were not followed, risk
17 assessments weren't adequately done, all of which
18 would have contributed to this work being done
19 safely. Some of these incidents involved vehicle
20 accidents or equipment getting stuck in mud. We
21 had other situations where we had equipment
22 working within established safe buffer zones. Of
23 the five incidents, the most troubling one for us
24 was one that affected the public. So the lower
25 two photos here actually show a home in Cape Ray.

SAFETY UPDATE

1 So Cape Ray is the site of our landing site for
2 the cable in Newfoundland and our work site is
3 adjacent to a small community. So in the
4 incident blast rock or fly rock from a blasting
5 operation actually left the site, struck an
6 adjacent home that was nearby, penetrated the
7 roof, penetrated the ceiling and struck the
8 fridge, as you can see in the lower photo. And I
9 guess the concerning part of this one is that
10 someone was actually sitting in this chair at the
11 time. So this incident was certainly covered in
12 the media and we wanted to talk a bit about this
13 one in particular so everyone understood the
14 steps we took to address it. And I'm going to
15 come back to that one a bit later in the
16 presentation.

17 And these photos show a couple of other work
18 sites where we had incidents. This was the safe
19 buffer zone and this was a location where tree
20 felling was underway and the equipment slipped
21 off the right of way and down an embankment.

22 So I'm going to speak now in a bit more
23 detail about the process we put in place. So as
24 I said, we brought our team together and our
25 objective was really to ensure that we were

1 focused on high risk activities associated with
2 construction. So we put together this process
3 that really takes us and our contractors through
4 a series of steps to ensure that high risk
5 activities are being mitigated before work
6 starts.

7 The process starts with our high risk
8 activities matrix. And I should emphasize that
9 that matrix is continually being updated as we
10 learn - as new activities are planned or new
11 work, new scopes of work are identified.

12 We then go through a process with our
13 contractors whereby they look specifically at the
14 work they have planned and identify and assess
15 the risks associated with that work. The risks
16 are rated and ranked and then the appropriate
17 mitigations are identified. All of this is
18 documented and recorded.

19 The contractor then submits the information;
20 it comes through our team and goes to our project
21 manager for approval. So we have a step where
22 before every piece of work starts we're
23 verifying, reviewing the high risk activities
24 that will be planned, that are a part of the work
25 that is planned and the steps that are being

SAFETY UPDATE

1 taken to mitigate that work. The next step is
2 actually one of sharing that information
3 throughout the project team. So it's shared both
4 with our team and with our contractors to ensure
5 everyone that's involved with the execution of
6 that work has a clear understanding of what the
7 risks are and more importantly what the
8 mitigations are that we're putting in place to
9 prevent incident. Work is then allowed to start
10 and then the following steps just highlight some
11 of the things we're doing to verify it's being
12 done. So each day prior to the start of work
13 what we call a field level risk assessment is
14 done, the contractor does this assessment, our
15 staff participate in that exercise and the intent
16 of that is to verify that all risks, all high
17 risk activities are being planned and executed in
18 a manner that's safe. And for our part we have
19 people in the field monitoring and auditing the
20 work that the contractors are doing. So we're
21 out there on a regular basis watching what's
22 being done. And of course all of this is
23 reported through our regular reporting process.

24 So I really just wanted to highlight some of
25 the key aspects of this process. The approach we

1 now take, it's really an enhancement of a process
2 we had in place. It's focused on high risk
3 activities and conditions and the level of effort
4 we put in is commensurate with the level of risk.

5 Contractors have to provide us with written
6 plans, documented procedures and demonstrate that
7 those plans and procedures have been reviewed
8 prior to the start of work and that the people
9 doing the work have been trained appropriately to
10 do that work. So we want to see the records of
11 training and we want to know that the training is
12 renewed on a regular basis so everything is fresh
13 for people.

14 And throughout the process we have a team in
15 place to watch what's being done, to verify
16 procedures are being followed and to protect the
17 interest of our business as we move forward with
18 the construction activities.

19 So I mentioned we had a safety stand down
20 for all our contractors. Following that safety
21 stand down, contractors returned to work after
22 they demonstrated all the necessary mitigations
23 were in place. So this was done in a staged
24 manner and one of the pieces of work that resumed
25 most recently was work on the - at the Bottom

SAFETY UPDATE

1 Brook site in Newfoundland which is the site of
2 our converter station. And this was the site
3 where we had one of the incidents with the
4 excavator operating on the slope. And this is a
5 proactive incident report that our contractors
6 recently submitted.

7 So they had gone through the process to
8 restart work and were out actually executing on
9 the site when conditions changed. So on one date
10 the site was cold, the ground was frozen, they
11 were doing the work as planned. Overnight the
12 temperatures rose, it was raining, we had snow
13 melt, so what had been a safe work activity
14 became a dangerous work activity and the
15 contractor made the decision to stop work and
16 reassess.

17 And the next step is actually the more
18 important part of the process, prior to
19 restarting work they reassessed again and they
20 made the decision to bring in different equipment
21 to continue with the work, equipment that was
22 better suited to the risks at the site.

23 So this type of reporting from our
24 contractors, for us, illustrates that the risk
25 based decision making that they're making, it

1 gives us confidence in our process going forward.

2 So just in closing I wanted to come back to
3 the work we did in the community of Cape Ray. As
4 I mentioned this is the community where we had
5 the blasting incident. And we've spent a lot of
6 time in that community over the years building a
7 relationship. And certainly when this incident
8 occurred, you know, we were concerned about the
9 trust that this community had in us and our
10 ability to do the work safely. So all through
11 the incident our team was working with them to
12 keep them informed about steps we were taking
13 prior to restart of work and to address concerns
14 that they might have. And, prior to restarting
15 work, we actually co-hosted a town meeting, a
16 community meeting with our contractor to go
17 through a detailed review of everything that was
18 being done to address the initial incident and to
19 prevent another incident from occurring. So it
20 was a very good meeting, a lot of good questions
21 were asked and at the end of it not only was the
22 town appreciative of the work we had done, they
23 actually supported work continuing.

24 So that was an important outcome for us and
25 I would say a prerequisite for work to continue

SAFETY UPDATE

1 at that site. And then in January the town
2 actually hosted an appreciation dinner for our
3 employees at site and our contractor employees
4 for all the good work they'd been doing and I
5 think recognizing the extent to which everyone on
6 site is working to keep the town safe and to keep
7 them informed about what we're doing.

8 So this certainly gives us confidence and it
9 supports our commitment to ensure everyone is
10 safe working around our sites as part of this
11 project.

12 So that's the end of the safety moment and
13 I'm certainly happy to answer any questions you
14 might have.

15 (No questions)

16 Thank you.

17 (Mr. Meade's presentation ends at 1:33 p.m.)

18 **MS. GREENOUGH:** Well thanks very much Ken,
19 it's appreciated. I understand that we've now
20 ironed out our technical difficulties with the
21 phones and I must apologize for those and would
22 ask the folks on the line to introduce themselves
23 at this time.

24 (On the phone) I'm Nelson Blackburn, Small
25 Business Advocate.

1 Nancy Rubin for the Industrial Group.

2 **MS. GREENOUGH:** Wonderful. Well thank you
3 folks, pleased to have you with us by phone. And
4 so with that I'm going to turn things over to
5 Rick Janega for our construction update.

CONSTRUCTION UPDATE

1 RICK JANECA - PRESIDENT AND CEO

2 NSP MARITIME LINK INC.

3 CONSTRUCTION UPDATE - 1:34 P.M.

4 Thanks Mary Ellen. And welcome everyone,
5 thank you for taking the time to be with us this
6 afternoon and for Alison Manzer for joining us
7 and being part of the presentation today.

8 As we go through the construction update
9 there are some photos in here, I'll take a moment
10 just to explain some of what the funding and the
11 capital investment is that are being made on
12 behalf of the Maritime Link. And just walk
13 through an update on how things have been
14 progressing and where we stand today relative to
15 our scheduled completion.

16 So many of you would be familiar with an
17 overview of the map of the footprint of the
18 Maritime Link but if you look in the center, a
19 place that Bruce, you're probably the only person
20 that's been in there other than anybody on the
21 project team. So Granite Canal is the start of
22 the footprint in Newfoundland where we tie in a
23 230KV transmission line, similar to what you see
24 in Nova Scotia, wood pole structure, and I'll
25 show you some photos of that. It will connect

CONSTRUCTION UPDATE

1 into Bottom Brook where - just outside of
2 Stephenville in Newfoundland, and that's where
3 the first converter station will be located.
4 From Bottom Brook there are two transmission
5 lines, one of them is the grounding line which
6 runs out to Indian Head, it's a site we have a
7 photo just to show you the development work
8 that's been done, that's where one of the
9 grounding sites will be located. It's a low
10 voltage distribution class line; it looks much
11 like what you would see on the side of the road.
12 And then the transmission line between Bottom
13 Brook and Cape Ray is a high voltage DC line,
14 200KV and that's just under 150 kilometers. It's
15 a steel tower construction; we'll show you some
16 photos of it. Where it lands at Cape Ray we will
17 then drill holes out into the sea floor to allow
18 the two high voltage cables that cross the Cabot
19 Strait to enter from Newfoundland. Then the two
20 cables will cross about 170 kilometers and come
21 ashore just outside of the Port Aconi generating
22 station where we will again drill holes out into
23 the sea floor and we will bring those two cables
24 into Nova Scotia. Transition to, two overhead
25 transmission lines, very similar to this DC

CONSTRUCTION UPDATE

1 segment in Newfoundland. Steel tower construction
2 between Point Aconi and Woodbine, just outside of
3 Sydney. And at the Woodbine station we will
4 convert back from DC to AC and put that energy
5 onto the Nova Scotia grid. And the other element
6 is grounding line in Nova Scotia that will be
7 built out to site at Big Lorraine on Cape Breton
8 Island, and that's about a 50 kilometer build of
9 very similar construction to the grounding line
10 in Newfoundland.

11 So where we stand today, we're in a very
12 good position, very pleased to be able to stand
13 here and speak about the status of a project that
14 is \$1.5 billion. We are five years into the work
15 that we've been doing on the Maritime Link and
16 the project is about one third complete. So the
17 next two years are going to be very busy for us.
18 We are on budget and we will have it complete by
19 the end of 2017. And Brian will speak about the
20 financials but as well our third commitment with
21 the Utility and Review Board in the decision
22 requiring us to retain and maintain allowance for
23 funds below the \$230 million cap.

24 We are one million hours plus into the work.
25 And, as Ken had talked about regarding safety, we

1 have had some serious incidents that forced us to
2 take a significant stand and reestablish the
3 commitment to safety right across the project but
4 we have had no serious injuries at this point.
5 One lost time incident and three medical aids in
6 the five years that we've been working. And an
7 all injury frequency rate of less than 1.0 which
8 our target is to attain world class safety
9 standards on our construction site and that's
10 very close to it. World class would be deemed
11 somewhere in the .5. So we're operating at .69,
12 it is a very good position to be in but our goal
13 is to come out of this with no serious injuries
14 and avoid every incident that we can. So I think
15 the investment Ken and his team are making in
16 safety with the contractors will ensure nobody
17 gets hurt.

18 Also on the environmental front we have had
19 no significant incidents. We've had one moderate
20 incident which was associated with a release of
21 silt at our Woodbine station as we were
22 developing the site. And when you see the size
23 of the footprint and the type of soil conditions
24 we're working in during heavy rain conditions in
25 November of '14 we did end up with elevated silt

CONSTRUCTION UPDATE

1 release from the site and we put protective
2 measures and actually built catch basins on site
3 as a result of that and the remediation has been
4 successful with no additional events on the rest
5 of the footprint.

6 On the project we are just, as we stand
7 today, probably just around \$600 million. At the
8 end of January, Matthew, we were slightly under
9 \$600 but the spend rate is probably \$1.5 million
10 per day to the close of the project and we are on
11 budget. With the work that's completed we've
12 wrapped up several components of it, about \$70
13 plus million worth of work that was done all by
14 Nova Scotia and Newfoundland companies, that was
15 involved in the tree clearing, the civil site
16 development work we did to prepare for ABB and
17 Abengoa and Nexans to take over our facilities.
18 And as well the establishment of a camp in at
19 Granite Canal and that facility is now complete
20 and operational.

21 So about \$70 million completed by local
22 contractors, work done very well and, as you can
23 see, very few incidents overall but some serious
24 concerns that they've responded with us to
25 support our efforts on safety and environment.

1 We have about \$1.1 billion of contracts
2 awarded on the project and we have a few smaller
3 contracts remaining, they are in the final stages
4 of award. And as it stands today we are very
5 confident with the scope of work with the
6 contractors and the quality of the work done to
7 date. And that puts us at 95 percent complete on
8 that work. \$200 million of it plus, actually as
9 we start up on the transmission work, has been
10 awarded to local companies as well.

11 We have taken efforts to optimize both the
12 cost and the execution of the project. One of
13 the items that we talked about, it seems like a
14 decade ago, but a few years back in the hearing
15 around cost management and how we would progress
16 the project, our effort has been and our team's
17 effort has been to manage the cost of this and
18 deliver on the commitments that we've taken on
19 from the UARB.

20 So we have optimized some of the design of
21 our transmission structures and how we would
22 support those with grouted anchors that will
23 stand up the steel; re-design of our grounding
24 sites, I'll show you a photo of one of the
25 approaches; civil site development managing

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1 tradeoffs between some of the scope of work we
2 had and cost pressures as a result of some of our
3 improvements to the sites and access road
4 upgrades and dealing with issues of that nature.
5 All of those, some of those have cost us
6 schedule, non-critical path items, but we did
7 take advantage to manage the cost down at the
8 sacrifice of some time on the project.

9 So three main components, the converter
10 stations, which is a contract with ABB; they are
11 going to develop the converter sites and the
12 substations, both AC and DC. And they are
13 progressing well, they have started work this
14 year, or sorry, in 2015 that was to pull ahead
15 some of the civil work because we had completed
16 our site preparation at Woodbine and at Bottom
17 Brook. ABB saw an opportunity to advance some of
18 their work to de-risk what was going to happen in
19 2016 and they decided and we agreed to allow that
20 work to start. And I'll show you a photo of some
21 of what took place through last fall.

22 But doing well against schedule on the
23 preparedness they have completed some of the
24 pours of foundations, they've started to deliver
25 precast concrete footings for some of the AC

1 structures, I'll show you in the switch yard.
2 And that work in Bottom Brook continues through
3 the winter but has been shut down in Nova Scotia.
4 They have finalized the design of the IGBT and
5 that's just the electronic module, there's a
6 picture of it here. I'll explain; it's the
7 module that does all of the work, so it takes the
8 AC signal and converts it to DC. What you're
9 seeing in the picture here on the slide is a
10 stack of the IGBT modules, there are 12 of those
11 in each core segment of the converter station and
12 there are four of those segments at site, and
13 I'll show you a photo of it. But just to give
14 you a sense of the scale, when this is hung in
15 place, which it does hang from the ceiling,
16 you'll be able to walk underneath that.

17 So that's a significant test out of the way.
18 The design was completed, the testing was
19 finished, they've passed tests and the mass
20 manufacturing has begun. And that allowed them
21 to finalize the design of the building. So the
22 buildings that will be created for both Woodbine
23 and Bottom Brook are being designed by EastPoint
24 Engineering of Halifax under a subcontract for
25 ABB. And the building is about 60 x 60 meters,

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1 15 meters high. And to date the biggest issues
2 that we've encountered have been really to deal
3 with geotechnical challenges; more rock and more
4 unsuitable materials that we've had to replace
5 with improved goods.

6 Just a photo of work that's happening at
7 site, this is some of the concrete that was
8 poured late last year for the perimeter of the
9 high voltage DC buildings. And in Nova Scotia
10 we've shut that site down, as I indicated, but
11 the design work for the DC components for the
12 system studies that will tell us whether or not
13 the two converter stations are going to work well
14 in each of the provinces are ongoing. And I'm
15 pleased to say, as well, that the indication from
16 all of the studies and the reviews being done
17 would indicate that this thing is going to
18 perform well and will operate to all of the
19 expectations and the design criteria we placed on
20 ABB.

21 With the AC substations the work that's
22 going to expand the Bottom Brook site and the
23 Woodbine site will allow for new interconnections
24 and a new transformer at Woodbine. It will
25 improve the reliability of that substation on

1 both sides and as well an expansion at Granite
2 Canal in the interior of Newfoundland just to
3 allow us to interconnect that new AC line. And
4 that work is progressing well with no surprises.

5 So this is an aerial photo of the Woodbine
6 site, and to give you a sense of what we have
7 been developing. And that's not water around the
8 edges of it, so you haven't lost your
9 perspective. It's on the top of a hill but it's
10 not surrounded by water, that's just to give us
11 the view scape. But the existing substation at
12 Woodbine is, here I'm pointing, for those on the
13 phone I'm just pointing in the upper right hand
14 corner of the gray area that's represented in
15 that photo. That's the existing AC substation.
16 As we expand we will put a new AC substation in
17 the middle, in between the converter and the old
18 site. And then on this photo where you see the
19 orange outline of a square building that's
20 actually the converter building itself. So
21 that's 60 meters by 60 meters. The site that
22 we've developed is just over half a kilometer
23 long and when it's finished we will have that
24 site completely populated with electrical
25 components. So good progress at the site.

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1 This, the next photo is essentially a cut of
2 the building. So the HVDC building will have a
3 lot of electronics in it. While it's operational
4 nobody goes inside of the operating areas. But
5 in the photo that you're looking at with the roof
6 off the building you'll see in the four corners,
7 those are the modules that I showed a photo of
8 earlier, where there's an A and a B side to the
9 Maritime Link, remember two cables, well each
10 half of the building essentially provides the
11 transition from AC to DC or DC back to AC for
12 each of the cables. And you'll see those two
13 rooms which house all of the electronics and in
14 the middle in between the two you'll see what
15 are, look like some gray cans, that's the reactor
16 hall, so that deals with all of the output of the
17 facility and essentially cleans up the electrical
18 signals. Then once it leaves the building all of
19 the components you see scattered around the
20 perimeter, with the exception of the white areas
21 which are just the cooling towers or cooling fans
22 that will keep the electronics cool or running at
23 appropriate temperatures. All of that gear
24 around the outside, every one of those posts
25 require a concrete foundation and something to

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1 stand it on and then it will tie in the
2 electrical for the DC and AC with all the
3 switches, transformers and interconnections
4 required. So a lot of work to happen in both of
5 those sites in the next 16 months. It will
6 actually see the completion of construction with
7 the buildings going together, then populating the
8 interior with all of the electronics and building
9 out the site around it. And by the fall of 2017
10 we'll be commissioning and going in service.

11 The transmission lines, the work that's been
12 contracted to Abengoa and their major
13 subcontractor PowerTel. That work is now underway
14 with the DC lines. The responsibility of Abengoa
15 and their own teams subcontracted the work for
16 the AC line and the two grounding lines to
17 PowerTel but working very closely together. But
18 PowerTel has been up and running on the grounding
19 lines and Abengoa is just getting started with
20 the DC components. But we've received all of the
21 materials for the conductor, insulators, overhead
22 ground wire the communications wire and the steel
23 towers are about 80 percent delivered to sites in
24 both provinces with the rest of the components
25 either on the water or the last bits of it coming

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1 over this summer for installation on the AC lines
2 and some other grillage components.

3 All of the towers that we've procured have
4 gone through testing. So as the engineering was
5 completed and the designs were put together, we,
6 through the subcontractor in India, Kalpataru,
7 they created one of each of the towers and
8 actually assembled it, put it through load tests.
9 So we can see that it had to perform to 100
10 percent of the design criteria which would mimic
11 the ice and the wind and the snow loadings that
12 these structures are going to see. So every one
13 of the towers passed their load tests which
14 allowed them then to enter into full scale
15 production.

16 In the photo what you'll see in the
17 background is a structure that allows the loads
18 to be applied vertically and horizontally on the
19 towers so they not only try to pull it sideways
20 but also try and pull it down. And every one of
21 those have passed.

22 On the construction side for Nova Scotia and
23 Newfoundland the grounding lines are underway.
24 About 38 percent of the almost 1,100 poles in the
25 grounding line in Newfoundland have been

1 installed. About 20 percent of the line has been
2 strung and that work will continue with that
3 grounding line expected to be complete in April
4 of this year.

5 On the AC line, the photo that you see here,
6 are the first two poles being just set in the
7 ground. So that's not a finished structure but
8 there would be a cross brace that will go across
9 the top of those two poles once they're set and
10 then hang the insulators. Once there are enough
11 of those in place they will then begin stringing
12 the conductor and insulating wires.

13 This is the stringing operations that
14 PowerTel are undertaking for the grounding line
15 in Newfoundland. As we indicated, they are about
16 20 percent complete but just to give you a sense
17 of some of the equipment involved in the
18 activities. And where this work is occurring
19 it's in a fairly open area but for a lot of the
20 transmission line we'll be building, especially
21 on the DC components, they actually run adjacent
22 to existing lines. So one of our biggest safety
23 concerns is to be able to complete the assembly,
24 standing up of the towers and then the stringing
25 without incident.

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1 For the subsea cables we have Nexans as the
2 contractor supplying both of those cables. Their
3 scope of work includes the design, manufacture,
4 installation and burial of that work for the two
5 subsea components. Also for placing the land
6 cables, the two segments that will tie into
7 transition compounds where the subsea cables will
8 convert to overland transmission. Their work is
9 going very well; they've been ahead of schedule
10 for the most part on the manufacturing. The
11 first cable we have 85 kilometers of that
12 produced. We are stopped on that side in Japan
13 at this point while we do some quality assurance
14 checks on the lead sheathing process for the
15 cable before it continues on to be completed with
16 its protective layers. The second cable
17 stranding, which is the copper conductor that
18 runs in the center, that work is progressing well
19 and the fiber optic cable that's going to be
20 inserted in each end for about five kilometers is
21 complete. That was manufactured in Norway and
22 will be sent to Japan and to the Norwegian cable
23 plant to be installed as they finish the
24 production of the two subsea cables.

25 The land cables have been produced in

1 Norway, they're just going through their final
2 stage of protection. And the work that was done
3 this past summer by Nexans to reassess the route
4 where the cable is going to be installed near
5 shore has been finished as well as a resurvey of
6 a section where we required additional data to
7 ensure that we were able to achieve the right
8 burial profile for the cable. As a result of
9 both of those we have increased the length of
10 cable that we're going to be installing, the
11 total is about 4.5 kilometers; each cable has
12 plus or minus 2.25 kilometers with them, one a
13 little longer than the other. That, and the
14 reason behind it, is to achieve a burial that
15 will allow the cable to sustain the longest life
16 with a high reliability and avoiding issues like
17 pock marks or gas marks on the sea floor.

18 A marine warranty surveyor has been selected
19 and the engineering works for the HDD have been
20 completed where we completed their trajectory,
21 which just tells us where we're going to exit on
22 the sea floor. The survey work matched and says
23 that's an acceptable location. We've awarded the
24 contracts for the horizontal directional
25 drilling, it's the same company that did the work

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1 for Nalcor. They had a very successful campaign
2 there at the Strait of Belle Isle, they're just
3 beginning to mobilize and will start that work in
4 April of this year. So we'll start in Cape Ray
5 and then we'll move over to Cape Breton to
6 complete the Point Aconi drilling.

7 This is just a photo to give you a sense of
8 the conductor as it's coming off of the line.
9 That reel or that turntable that's in the
10 background actually rotates at a speed that
11 allows the cable to come off of the assembly line
12 and lay in with reduced tension. So it's a very
13 careful approach to how it gets created and then
14 stored. As you're seeing it now the conductor is
15 assembled and the paper lapping has been applied.
16 Then it goes into a storage tank where there's a
17 viscous material applied to it under vacuum, for
18 a period of time, as it absorbs that that creates
19 the electrical insulation. And then the cable is
20 protected in the final stages. And by the end of
21 this year we'll expect to have the first cables
22 ready to come to Canada, the second cable coming
23 out of Norway will actually be loaded onto the
24 installation vessel, which is shown here docked
25 at the facility. That vessel will take one of

1 the cables to Nova Scotia, the other cable will
2 come from Japan on a heavy lift vessel. Once the
3 first cable is installed in the summer of '17
4 they'll then load the second cable onto the
5 vessel and install it.

6 Once the cable is placed on the sea floor,
7 it takes about two weeks to get from side to side
8 with one of the two cables. This is the piece of
9 equipment that will be used. If you look at the
10 tongs sticking off the end of that device that's
11 hanging overboard on the vessel those are the
12 high pressure jets. The cable will run between
13 those two tongs. It essentially blows the dirt
14 out of the way. There is a video, I believe, we
15 have down back that will show the jetting
16 process. But all it does is run along, follows
17 the cable, it uses high pressure sea water and
18 blows the dirt out of the way. It's a very
19 benign process, you can see it doesn't create a
20 lot of disturbance. The cable falls into the
21 trench and the natural material sloughs back in
22 over it to protect the cable. So that will run
23 from elevations or depths of water from our
24 shoreline exits, where we come out off of the HDD
25 and will follow it out to the deeper points of

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1 the water. But in the very deepest portions of
2 the Laurentian Channel the cable will just sit on
3 the sea floor.

4 The remaining work on our site preparation,
5 we have our horizontal drilling pad at Cape Ray,
6 which is just about finished. And that work will
7 allow then Direct Horizontal, the company that
8 will be doing the profiling, to actually come to
9 site, mobilize and start drilling in April. So
10 that's cleaning up well. And at our grounding
11 sites where I talked about taking an opportunity
12 to optimize the design we actually pushed that
13 work out not quite a year but we did that to be
14 able to save money. We reduced the footprint of
15 it, changed the design to reduce the execution
16 risks, and we're actually able to get the work
17 done at an opportunity price that would allow us
18 to deliver it under budget. That helps with some
19 of the other issues we've been working on on the
20 project and at this point, as we've said, we are
21 on budget.

22 The electrical design work for the two
23 grounding sites is underway, that's the last real
24 engineering aspect of the project that needs to
25 be completed. It's a very straight forward

1 design, similar to what Nalcor is doing and that
2 work will follow the completion of the two
3 grounding sites late this year.

4 The top photo that we're looking at here
5 with the - it's not an ad for a Ford F150, it's
6 actually a photo to show you the amount of rock
7 we're dealing with at the Indian Head site. So
8 in Newfoundland we had to build a roadway into
9 the site to be able to get our grounding facility
10 in the water at the best location working with
11 the fish harvesters in the area and for
12 protection long term. And you can just see that
13 the truck is somewhat dwarfed by the amount of
14 rock that had to be excavated. And that was one
15 of the big challenges.

16 The bottom photo is one of Cape Ray at the
17 horizontal drill pad. That is a very recent
18 photo just showing the size of the footprint that
19 we'll be working with. That will be completely
20 populated with drilling equipment to allow us to
21 get out under the sea floor at Cape Ray. And a
22 very similar setup on the Cape Breton side.

23 The work over the next two years, as we
24 said, we're about a third of the way through the
25 project, so this year and next year about a third

CONSTRUCTION UPDATE

1 each. We'll wrap up in 2017 with the
2 commissioning late in the year. We will be
3 developing our commissioning plans this year on
4 top of all the construction activities and we
5 will be developing our long term asset management
6 plans that will allow us to sustain the 50-year
7 life and minimize the amount of investment and
8 protect the assets through the remaining portion
9 of its operating life cycle.

10 On the Nalcor side and our alignment with
11 the Lower Churchill project we know Nalcor has
12 updated people on the cost and schedule
13 projections. We are staying very closely aligned
14 with them on the transmission assets and still
15 aiming for all of the facilities, the Labrador
16 Island Link, the Labrador transmission assets and
17 the Maritime Link to be in service in 2017. And
18 I'll speak to the main reason behind that in a
19 moment. But work has been progressing very well
20 on both of those fronts. On the Labrador
21 transmission asset which connects between Muskrat
22 Falls and the Upper Churchill, that work is going
23 very well. The LIL, they've been focused on the
24 Labrador portion of it through the last year and
25 a bit but have started on the island doing the

1 tree clearing and that's been advancing well.
2 But we know the one area that has been a bit
3 behind for them has been on the hydro site. And
4 they are reviewing schedules now and we'll be
5 working with them as they complete the review.
6 But all of the major contracts for the work, two
7 of them in particular that they were waiting to
8 finalize, had been awarded. The north spur
9 being a key piece of it, if you recall one side
10 of the hydro facility where they were stabilizing
11 the earth works and that work has been underway
12 and going very well. They've completed the
13 spillway and they are focused on the river
14 diversion for 2016, that's a key step for them to
15 allow them to get the berms in place and complete
16 the powerhouse.

17 So progress to date, I know Nalcor have
18 transparency through their reports and oversight
19 committee and we monitor those but they're also
20 available for public viewing.

21 So with that we can see a couple of the
22 photos, on the left, on my left the photo of the
23 fork, essentially, is the land cable installation
24 in Shoal Cove. On the top right hand side is the
25 start of the cofferdam which will allow them to

CONSTRUCTION UPDATE

1 close off the river to divert through the
2 spillway. And that work is underway as indicated
3 and on schedule for diversion in 2016. And in
4 the lower right hand photo, my right hand, the
5 powerhouse construction work which is underway
6 and continues with concrete pours. And that
7 work, again, there's lots of information on their
8 websites and photos that are worth taking a look
9 at, the volume of activity that's going on in
10 Newfoundland and Labrador and the Lower Churchill
11 development as well.

12 With that we know one of the key elements
13 for the interconnection is the electrical
14 connectivity for Nova Scotia. By the end of 2017
15 with the Labrador transmission assets between the
16 Upper Churchill and Muskrat, and with the LIL
17 completed coming across to St. John's in 2017 and
18 the Maritime Link completed, we will have an
19 electrical loop been the Upper Churchill, over
20 5,000 megawatts of hydro, and Nova Scotia,
21 complete. And at this point all of those
22 transmission assets are expected to be complete.
23 Our synchronized schedules with Nalcor for
24 commissioning will take place over several months
25 in 2017 but the objective is that this will all

1 be in service by the end of that year. Any
2 questions?

3 (no questions)

4 Thank you.

5 (Mr. Janega's presentation ends at 2:04
6 p.m.)

7 **MS. GREENOUGH:** Okay, well thank you Rick.
8 As you can tell with so much construction going
9 on it's an exciting time to be working on the
10 project. So we are actually slated for a break
11 at this time so let's see, I think what we will
12 do is reconvene at about 20 after, that's 20
13 after 3:00(sic). But before folks break I do
14 want to encourage everyone to ask questions. And
15 if there are questions that come up that maybe
16 you think about, you know, after a speaker has
17 done their presentation don't hesitate to
18 approach any one of us, you know, come and find
19 us on this break or after the session is over and
20 we'd be happy to answer your questions. So with
21 that let's break.

22

23 **[BREAK 2:05 - 2:24 P.M.]**

24

25

CONSTRUCTION UPDATE

1

2

MS. GREENOUGH: Hi folks, just to let you

3

know that we're going to get started here in a

4

moment with Brian Rendell and our financial

5

update.

1 **BRIAN RENDELL - VICE PRESIDENT OF CORPORATE AFFAIRS**

2 **NSP MARITIME LINK INC.**

3 **FINANCIAL UPDATE - 2:24 P.M.**

4

5 Thank you Mary Ellen, and again, welcome
6 everybody.

7 So I'm going to give a bit of an overview of
8 where we stand to date. Rick has already alluded
9 to that to some degree before, however we'll give
10 a bit more of a snapshot on where our costs are
11 to date on the project. And then also provide a
12 summary of the debt financing that we secured
13 back in April of 2014. So I'll give a bit of an
14 overview of how that worked and some of the
15 processes, really, that are ongoing now every
16 month. And that will sort of be a good segue
17 into me passing it over to Alison Manzer who is
18 representing Canada and explaining the role that
19 Canada and its advisors had during the financing
20 itself and then now on an ongoing basis as we
21 progress through the construction of the project.

22 So, as a bit of a refresher for everyone, we
23 sought and received approval for the UARB at a
24 total capital cost of between \$1.52 to \$1.58
25 billion. Back in Decision Gate 3, which was in

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1 2014, after we had our major contracts in hand we
2 updated our total estimate, which was \$1.577.
3 And when you do the math, which is the 20 for 20
4 principle that we have in place with our partner
5 at Nalcor, what it means is Nova Scotia customers
6 would be responsible for the \$1.55 billion, so
7 it's a 20 for 20 type calculation but that really
8 is the relevant number. And as you can see on
9 this pretty rudimentary little scale here the
10 \$1.55 is really pretty well in the middle of the
11 range that the UARB had approved. So we feel
12 quite good that we're still very much within that
13 range. And as Rick mentioned earlier the AFUDC,
14 which is really the financing costs that we
15 capitalize to the project during construction, in
16 the hearing in the application and in the
17 decision the estimated number was \$230 million.
18 UARB allowed us to go until the end of December
19 of 2017 in capitalizing those costs. And, as
20 Rick said earlier and as we continue to report in
21 our quarterly reports, we're still very much
22 forecasting both of the costs, the capital cost
23 and those financing costs, to be within the range
24 and within the amount that the UARB had approved
25 back in 2013. So a quick snapshot as to where we

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1 are at the end of December of 2015, as you can
2 see down here, Rick alluded before, we're about a
3 third, a little more than a third of the way,
4 here's just a bit of a listing in pretty well the
5 same categories that we report to the UARB each
6 quarter. And you'll see that we've incurred about
7 \$569 million or so to the end of December. And
8 with two years left, obviously doing the math,
9 there's a little over a billion dollars yet to be
10 spent. And obviously if we continue on that
11 path, the full budget being the \$1.577 billion
12 being our Decision Gate 3 budget, which as you've
13 heard us say before, we're still quite
14 comfortable with that budgeted amount. You will
15 note, and I made a note at the bottom here, as
16 part of our estimate back when we set this budget
17 we've set aside \$35 million and \$139 million
18 respectively for escalation and contingency,
19 which is typical for large mega projects like
20 this, that you set aside those funds for the
21 unexpected events. To date, to the end of '15,
22 we have not had to rely upon either of those
23 accounts yet, so we're in a good spot right now.
24 Obviously a lot of work yet to be undertaken in
25 2016 and 2017 so we feel we're in a good place

FINANCIAL UPDATE

1 and we'll obviously be watching those accounts
2 very closely over the next two years as we come
3 into the end of 2017 and completion of the
4 project. So, so far so good and we're watching
5 these contracts very closely. Our finance team,
6 our contract administration team monitoring the
7 work and our contractors to ensure that those
8 budgets are held.

9 So into the financing aspect of this now.
10 During our application and as part of the
11 decision that the UARB provided us back in 2013
12 we outlined the phased approach to traditional
13 large project financing. And this is just a bit
14 of a summary of those phases.

15 The first phase, which is very typical, is
16 that the shareholder invests equity up until such
17 time as debt is in service. So up until April of
18 2014, which is when we secured our federally
19 guaranteed debt, all costs up until that point in
20 time were financed by our shareholder as equity.
21 And again that's typical, major banks or a
22 guarantor like Canada wants the shareholder to
23 have equity invested, skin in the game if you
24 will, in the beginning aspect of any major
25 project like this.

1 And then in April of 2014 we secured the
2 \$1.3 billion of financing, all of which is
3 secured and guaranteed I should say, by the
4 Government of Canada, and Alison will touch upon
5 that in a little bit. And from that time on, so
6 from April 2014 onward then for a period of time,
7 all costs as they were being incurred from that
8 period forward then were funded with this 3.5
9 percent coupon, low interest rate debt. So we
10 had all equity up front and then once the debt
11 was in place all additional costs were funded
12 with this guaranteed debt until we reached a
13 point where the actual, the costs that we have
14 incurred were funded 70 percent with that debt
15 and 30 percent with the equity, and that was the
16 approach that was agreed upon early on with
17 Canada and through the UARB process. And we
18 reached that milestone in December of 2015. So
19 at that point in time 70 percent of all of our
20 costs were funded with federally guaranteed debt
21 and the remaining 30 percent with equity that was
22 invested early on. From that point onwards, so
23 from January 2016 now through until the end of
24 construction, the end of 2017, we will continue
25 that ratio, that debt to equity ratio of 70:30.

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1 So for each month when we estimate what our costs
2 are, and I'll go through that process a little
3 bit in a couple of moments, each monthly draw of
4 costs then comes 70 percent from debt that we've
5 secured and 30 percent from equity from our
6 shareholder. And that 70:30, that debt-equity
7 ratio, will then continue throughout the whole
8 operations period of the project. And, by the
9 end of the project's life as we proceed through
10 the operating period, the debt and the equity
11 then gets repaid or returned to the shareholder
12 such that that same ratio of 70:30 gets
13 maintained.

14 I just noted at the bottom here 70 percent
15 debt capitalization is relatively high in
16 regulatory construct and the benefit of that
17 obviously goes to our customers. So having 70
18 percent of the cost funded with federally
19 guaranteed debt at a very attractive 3.5 percent
20 rate obviously is beneficial for our customers
21 and keeps the cost of financing low.

22 So, as I mentioned before, in April of 2014
23 we secured all of the \$1.3 billion that we were
24 entitled to secure under the federal loan
25 guarantee and we had a very successful bond

1 issuance on that date. And some of the key
2 aspects of that financing, which I'll touch upon
3 briefly and again Alison will also discuss, is a
4 fixed coupon rate of 3.5 percent. So that rate
5 is now fixed for the full amount of the debt
6 financing not only during construction but then
7 of course throughout the full 35 years of
8 operation. So that is a fixed rate not to
9 change. There were some fees, like all
10 significant financing, upfront fees, some hedging
11 costs, some banking commissions, *et cetera* that
12 were incurred in the structuring phase. When you
13 factor all of those costs in, there's an
14 effective rate of approximately 3.85 percent when
15 all those costs are taken into account.

16 We went through a very competitive process
17 in seeking proposals from all of the major
18 Canadian banks and obviously those, the banks
19 were eager to be part of a large financing like
20 this. They had just gone through a very similar
21 process with our partner at Nalcor in December of
22 2013, so four months before that. And so we were
23 able to keep their pencils sharp and enable us to
24 have that successful financing at attractive
25 rates.

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1 The other thing that's important to note
2 here is by borrowing all of the \$1.3 billion up
3 front what it does is not only lock in the
4 interest rate, lock in that fixed coupon rate of
5 3.5 percent but it also gives us the surety of
6 knowing that we have all of the available
7 finances, or all of the available debt I should
8 say, on hand when we need it. Those funds, which
9 I'll get into in a moment, sit in a trust and are
10 invested in safe securities that are approved by
11 the Government of Canada and those securities,
12 the interest on those securities offset or reduce
13 the total cost of the 3.5 percent bonds. And
14 we'll touch on that in a moment.

15 The structure, which we'll talk about in a
16 moment, it provides a very transparent and
17 independent structure for not only the Federal
18 Government as guarantor but also for our
19 stakeholders to see the nature of this financing
20 and how it flows into Nova Scotia or NSP Maritime
21 Link; and, which we'll also touch on in a moment,
22 the oversight of Canada and its representatives
23 during the negotiation and the settlement of the
24 bonds and then also now through construction.

25 So my little tag on at the bottom here, so

1 the customers do benefit from the security of
2 that locked in rate, it's the security of knowing
3 the debt financing is there and all under the
4 watchful eye and oversight of the Federal
5 Government and its advisors.

6 So the debt itself, as I say, we have it all
7 in place, the \$1.3 billion. Of course we're
8 paying interest of 3.5 percent on those bonds
9 from April 2014 onward. The principal on the
10 debt gets phased in, so it begins in December of
11 2020, late in December so December 1st of 2020 and
12 from then on every six months we make a \$20
13 million principal repayment. So from the
14 customer perspective there isn't any debt
15 repayment or return of shareholder equity in 2018
16 of 2019, it starts in 2020 and then fully comes
17 into play in 2021 and then from there on it
18 there's a straight line repayment of the debt and
19 therefore the equity in order to maintain our
20 70:30 debt equity ratio. So saying that again we
21 start repayment of the debt and at the same time
22 we start returning the equity invested to the
23 shareholder so that we're maintaining again that
24 debt equity ratio that we've committed to.

25 So this is a complicated slide, I'll

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1 acknowledge, which is the wrap structure. And
2 I'll give Alison and her colleagues lots of
3 credit for the designing of this. This was
4 effectively the same structure that Nalcor had
5 used on a much bigger financing just a few months
6 before. It worked very well and the whole
7 purpose of such a structure really is to enable
8 us to have, for the benefit of our customers, to
9 have gotten the full benefit of the federal loan
10 guarantee. So what we were looking for was full
11 credit substitution so that we could get the AAA
12 rating of being attached really or having the
13 guarantee from the Government of Canada. And what
14 this structure does is fully enable that. So
15 this structure enabled that full benefit of the
16 federal loan guarantee to be received. And I'm
17 not going to propose to go through this in great
18 detail but I do just want to point out a few of
19 the key points.

20 So you heard me mention before that we
21 raised \$1.3 billion dollars, that came from
22 bondholders, so we issued bonds back in April.
23 So at the top, sort of the right for those on the
24 phone, so you'll see bondholders so of course
25 these institutional investors would have invested

1 in our bonds. The proceeds from the bonds went
2 into the structure in the center there, which I
3 accept is a little difficult to read, is Maritime
4 Link financing trust. And that trust really
5 keeps everything transparent, all of the funds go
6 into that trust, there's a trustee of course,
7 there's your collateral agent, there's a number
8 of institutions that are monitoring the funds in
9 that trust. I mentioned earlier that we invest
10 funds that we don't immediately need for the
11 activities of the project, they are invested in
12 securities. And the interest on those securities
13 help defray the cost of the 3.5 percent payments
14 that we need to make on interest to the
15 bondholders.

16 So the cash stays in that trust until such
17 time as we ask permission for a draw. And at
18 that time funds move from the trust down to NSP
19 Maritime Link, which is the project company. And
20 as I say now that we're into the 70:30, that
21 equity mix where we want to be, my colleagues
22 over here we go through a very detailed process
23 whereby we estimate what our cash requirements
24 are for the next month, I'll touch on this here
25 in a moment, but we submit a request to the trust

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1 for release of funds. At the same time we let
2 our shareholder know and then at the beginning of
3 the subsequent month 70 percent of the funds come
4 from the trust, which is the debt component and
5 30 percent come from the shareholder. And that's
6 basically how we bankroll and ensure that all of
7 our contractors and all of our team costs and
8 everything are being funded. And everything else
9 around all this is really all the oversight and
10 the governance that comes with security of having
11 the Government of Canada as a guarantor.

12 I touched on this briefly before but these
13 are really just a list of the parties that were
14 engaged at the beginning and continue to be
15 engaged throughout this whole process. The
16 company itself that we're all members of where
17 the project is obviously being built, being NSP
18 Maritime Link; Government of Canada, of course,
19 being critical to all of this in providing the
20 guarantee. The trust, which is where the funds
21 reside and funds remain invested until such time
22 as we request a draw; BNY who is the trustee;
23 Computershare who is also, at this time, an
24 indentured trustee. Emera acts as administrator
25 just to make sure that accounts are being kept

1 and tax returns are being filed, things like
2 that. TD Bank is our collateral agent and MWH,
3 as Rick mentioned before, is the independent
4 engineer. And Alison will touch on the oversight
5 that these parties provide on an ongoing basis.

6 So again, we have some very significant
7 parties that are involved in not only the upfront
8 arrangement of the financing but on an ongoing
9 basis through the draw process, through monthly
10 reporting and then finally approval for funds to
11 be released into our company for us to pay our
12 bills.

13 I think I've touched on most of this before,
14 as I say, the trust controls all the proceeds, so
15 all of that debt stays there safely invested
16 until such time as we provide sufficient evidence
17 that we should be able to draw those funds for
18 use on the project.

19 And I'll just mention, toward the third
20 bullet point here, each month we have to or we
21 provide a construction report which gives the
22 independent engineer and the federal government
23 and other parties a detailed update on what has
24 happened in the last month, all the construction
25 activities. We also provide, actually just this

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1 morning we provided the one for this month, a
2 funding and a draw request, which as I alluded
3 before is an estimation and quite a bit of detail
4 by contractor and almost by invoice of all the
5 costs that we're forecasting we'll need to pay in
6 the subsequent month. All of that detail then
7 gets submitted to the federal government and to
8 MWH as the independent engineer, to TD Bank as
9 our collateral agent, and they all have to be
10 satisfied with the details that are contained in
11 those reports before funds can be released from
12 the trust into NSPML for purposes of us paying,
13 again, paying our contractors and other costs.

14 And Rick and I, as officers of the company,
15 have to certify each month that in our
16 professional opinions we're in adherence with all
17 of the requirements of the various legal
18 documents and that, you know, sound engineering
19 is taking place, *et cetera, et cetera*. So there
20 are a number of conditions in the federal
21 agreements and as part of the federal loan
22 guarantee process where we have to certify that
23 we're following all the necessary governance
24 procedures that are required.

25 And that is a summary from my perspective,

1 it gives you a bit of an overview, an oversight I
2 guess of how the financing was first arranged,
3 the governance that's behind it. I'm happy to
4 take any questions before I ask Alison to come up
5 and give you Canada's perspective on all of this.

6 **UNIDENTIFIED MALE:** Brian...

7 **COURT REPORTER:** If you could identify
8 yourself?

9 **MR. MAHODY:** Sure, it's Bill Mahody. Is any
10 portion of those monthly reports that you've just
11 mentioned publicly available?

12 **MR. RENDELL:** I'm going to - René we do
13 provide, if I'm not mistaken, the independent
14 engineer's certificates, correct?

15 **MR. GALLANT:** That's right, with our
16 quarterly reports to the UARB we provide each of
17 the versions of that document for the months
18 leading up to that quarterly report.

19 **MR. RENDELL:** Any other, thank you Bill, any
20 other questions?

21 (No other questions)

22 Okay, thank you very much. Alison?

23 (Mr. Rendell's presentation ends at 2:43
24 p.m.)

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1

ALISON MANZER

2

CASSELS BROCK & BLACKWELL LLP

3

2:44 P.M.

4

5

I knew I wore the wrong outfit since I'm not going to figure how to handle and hold on to this thing.

6

7

8

I do want to thank everybody, actually, for me having the chance to come down, this is home, I keep a house down here in Nova Scotia and don't get enough time to come down, particularly in the winter when I stop thinking about coming down. But I am a three-degree Dal girl and Dal law a long time ago, so it's always a pleasure to come back down.

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I will correct one thing that Brian did say, today while I represent Canada in this transaction and I've represented Canada in this transaction since 2012, I am not today speaking for and on behalf of Canada in any matter whatsoever. I have Canada's authority to come down and talk to you as the person who is primarily responsible for the design and execution of this financing structure.

25

A lot of people when they look at that

1 structure and I did put it in - by the way I did
2 materials, I never speak from slides, I don't
3 herd well so the slides are herding, it doesn't
4 work. I like to just be able to talk with what
5 you seem to be reacting to. But I did prepare
6 you some backgrounding and that backgrounding is
7 kind of more than what I'm even going to talk
8 about today because I wanted to give people a
9 feel for what we went through as we were thinking
10 this through. And by "we" I mean much more than
11 Canada and the core, Canada team. And I'll sort
12 of tell you a little bit about how things came
13 together and the number of people that were
14 involved and the number of times we had to think
15 through the iterations of this structure.

16 The materials I gave you are meant to be a
17 bit explanatory, for those of you who are project
18 finance experts sorry to be a little patronizing,
19 but we tried to give you bits of that background.

20 Well I'll tell you the Number 1 comment I
21 tend to get when people first see that structure
22 is what was that woman thinking? And I will
23 admit that the first iteration of that was on the
24 back of a napkin involving a really good bottle
25 of wine, and excellent meal at Rodney's on Water

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1 Street and the Nalcor senior counsel and myself.

2 And the problem that we had was, I'm going
3 to step back in a minute and talk about the
4 mandate and what was different about this
5 "guarantee" then any other that has ever been
6 done by a public authority in Canada, because
7 there is something different about it. And we
8 were sitting down and we were trying to figure
9 out how we could bring the elements of the
10 mandate together and make it work and a finance
11 that could be executed in the markets. Because
12 the problem that we had was both of the people
13 who ended up with this on their laps to figure
14 out how to make it work weren't at the table when
15 it was negotiated. And quite frankly by the time
16 it was negotiated it was already at cabinet
17 mandate level and we had to work with what we
18 were given.

19 And the problem that we had when working
20 with what we were given was, looking at it it was
21 so horrendously complicated to reconcile the
22 different mandate agenda items that we would have
23 created a financing that would never have been
24 accepted in the public markets because the
25 complexity and need to understand the

1 underpinnings of this project and what would
2 underlie what was attempting to being done that
3 it would condemn it to never being bought. The
4 secret to finance, particularly large scale
5 financing is keep it simple stupid. You have got
6 to have a simple offering. It has got to be
7 capable of the persons that are receiving the
8 documentation, that are looking at what it is
9 that they're going to buy to be able to analyze
10 it, if not instantaneously then as close to
11 instantaneously as you can possibly get it.

12 There is a sector of the markets that does
13 accept complicated concepts, complicated issues,
14 that burrows down and understands difficult
15 projects. I will tell you even in that sector
16 very few of them have understood. And from my
17 viewpoint this isn't a \$1.5 billion project, from
18 my viewpoint this is an \$8 odd billion project
19 because the whole thing has got to work, as far
20 as I'm concerned. So my job is to make sure the
21 whole thing works. And I'm sitting down
22 understanding that if I bring to the markets the
23 complications of four effectively separate
24 projects and undersea cables and a massive
25 powerhouse and transmission lines over ground

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1 that nobody can even picture I am never going to
2 get an investor to buy in unless I've got six
3 months of lead time and I'm prepared to give them
4 350 to 500 basis points. And that is simply not
5 going to be realistic for this.

6 So we are sitting down looking at a mandate
7 that says the whole purpose behind Canada
8 becoming involved is to promote a regional
9 project. So, number one, everything that we do
10 has to ensure that the manner in which we
11 structure and put together the financing
12 overlaying these projects promotes the
13 regionality of the projects. Which means it has
14 to ensure that all four of the projects are
15 coming together and coming together in a way that
16 will integrate and deliver in a consolidated
17 regional way. So that's my first mandate.

18 My second mandate is that we must do so in a
19 manner that will deliver the lowest net present
20 value of the financing. Not the lowest interest
21 rate, by the way any of you who do finance you
22 know that the lowest interest rate is
23 meaningless, or essentially meaningless. What
24 really matters is the overall cost of the finance
25 of the entire term of the project that you're

1 looking at. So the net present value of the
2 financing is what matters, not the interest rate.
3 The interest rate is a big component, I'm not
4 going to kid you, but when we're putting together
5 a cost stack we are adding in a number of things
6 besides what the raw cost of the money might look
7 at. We're adding in liquidity premiums, that is
8 i.e. no liquidity premiums. We're adding in
9 amortization costs, we're adding in placement
10 costs, you're adding in a number of things that
11 looks at your stack. You're also looking at how
12 and when you have to repay your amortizing, over
13 what period of time, so you come up with an
14 overall cost of the financing.

15 Canada's view and everybody's view in this
16 room should have been exactly the same, which is,
17 you need to have the lowest net present value of
18 your financing. Why did Canada care? Well
19 number one, if anything went wrong it's the one
20 primarily on the hook. Granted there's some
21 equity sitting behind it but it's on the hook.
22 But, more importantly, the whole purpose or basis
23 behind what was my first mandate, promoting
24 regionalization. Well Canada is not fulfilling
25 its mandate of promoting the regionalization of a

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1 regional project if it's not bringing down the
2 net overall cost of the project because that's
3 the whole purpose of bringing in the Canada
4 assurance.

5 And why is that different than the norm?
6 Normally people sit down and they think, "Okay,
7 government guarantee, it's kind of like the
8 equivalent to a grant, right, or forgivable loan
9 or they're just going to sit back and let things
10 roll along and if everything goes bad in the end
11 they'll fork the money over." Which is the
12 normal way that guarantees work, whether
13 government or anybody else's. That's not what
14 was approved. And the reason it wasn't approved
15 was because of the Mandate Number 1, which is,
16 you've got to promote a regional project.

17 So in order to do that the thinking behind
18 it was that it had to resemble something of a
19 more commercial finance involvement. So one of
20 the mandates that we were given was this wasn't
21 going to look like any government guarantee that
22 has ever been done before, it was going to be
23 remarkably a commercially responsible and
24 reasonable participation in the project. So we're
25 told coming into this that this is to look like a

1 commercial involvement, this is to be like a
2 commercially based guarantee participation. So
3 that adds another element to the mandate.

4 I'll leave aside all that things that are
5 obvious, promote green energy, you know, all of
6 that because none of that had really anything
7 really to do with how we ended up having to
8 structure things. We knew we had to have all of
9 the environmental pieces in place. We knew we
10 had to have all of the aboriginal consultation in
11 place. We knew we had to have fisheries, we knew
12 we had to have oceans. All of these things had
13 to work, Canada obviously cannot come in as a
14 primary participant here and be violating
15 everything that's going on here. And Canada as
16 the primary federal regulatory of course has its
17 finger in all those pies. So this is what we're
18 facing.

19 So Zeno and I are sitting down, and it was a
20 very good bottle of Chablis, and somehow
21 magically halfway through it I went, "I've got
22 it." And he said, "What do you mean you've got
23 it?" I said, "I've got it." And when I tell you
24 what I got you'll understand how simple what we
25 did really was.

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1 So I took a piece of paper, actually the
2 napkin, drew a line across and on the top I wrote
3 public and on the bottom I wrote project finance.
4 And I said, "We don't have one deal, we have
5 two." We're going to do a simple public bond
6 issue, out to the public. I'm not going to
7 confuse the market, I'm not going to have the
8 market give a darn about what goes on with this
9 project, I don't want any of these guys to even
10 think about it. In fact, I want this, and a
11 couple of people in this room have heard this
12 story before, I want this on the Canada Bond
13 desk, I don't even want the fixed income guys
14 looking at this. Why? What's my lowest interest
15 rate in Canada? Canada Bonds. I want this sold
16 on the bond desk. So in order to put it on the
17 bond desk I said, "Here's what we're going to do,
18 we are going to take the top half and we're going
19 to do what's called a credit wrap, a credit
20 substitution wrap." Everybody kind of already
21 thought about that but they couldn't figure out
22 how to do it. I said, "It's staggeringly simple,
23 we're going to put that thing in the middle, that
24 financing trust, it has a purpose." And its
25 purpose is for me to draw that line. And so

1 above that line is where the bonds are coming in.
2 By the way we didn't know if these bonds were
3 going to be picked up in Canada or Europe, we
4 were ready to do a Luxembourg listing. We had no
5 idea what the appetite in Canada was for
6 basically \$6.5 billion worth of additional bonds
7 going out in the midst of all the bond offers
8 that already going on for Canada, no clue. But
9 we did know that if we made it, basically, "Hi,
10 we're going to borrow the money, we promise to
11 pay you back, this is the way we're going to pay
12 you back. And if we don't pay you back that's
13 these guys, then Canada will." In order to get a
14 credit substitution rating that's basically what
15 we had to do. But I have all the rest of this
16 mandate and the rest of this mandate is to ensure
17 that that project is completed on a regionally
18 responsible basis for the lowest net present
19 value of the financing. Because the whole
20 political purpose behind the regional promotion
21 was to ensure that the rate payers and tax payers
22 of this region were, in fact, getting the benefit
23 of Canada stepping behind it, otherwise why
24 bother getting it, because the whole idea was to
25 lower the cost so the rates could be kept down.

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1 I said, "We're going to take the bottom half and
2 put all the complexity down there, the market
3 will never see it, the market will never care,
4 they've got a Canada equivalent bond." We even
5 wrote the wording so it looked exactly like a
6 Canada bond. I know because I wrote it. We
7 wrote the wording, Canada Bond wording, exactly
8 what it reads like.

9 Then I took the bottom half, and that's the
10 part you're interested in. The top half is what
11 everybody talks about and they look at it and
12 they kind of probably go, you know, it's a simple
13 bond offering and so on. The bottom half is
14 what's different. And the bottom is where all of
15 the stakeholders agreed that this was going to be
16 a commercial transaction and not the government
17 stepping up and, you know, doling out some more
18 handout because in 2012, 2013, well 2012 was when
19 the turn sheet was signed, that could not be
20 done, it had to be done responsibly.

21 So in the bottom what we did was we put in
22 place what I would call a rigid project finance
23 protocol. And the rigid project finance protocol
24 is documented in a series of documents between
25 the trust and Maritime Link, which is the project

1 proponent. There are industry standards,
2 probably actually the toughest set of industry
3 standard credit documentation I've ever written,
4 sitting at this level. It looks like a really
5 good project finance transaction. It's got all
6 of the commercially normal, representations,
7 warranties, covenants, conditions precedent, it
8 could fly in the most rigid assessment of a
9 commercially responsible project finance
10 transaction. That sits here.

11 What we then did was we said, "Okay, Canada
12 has given its guarantee up here, it's on the
13 hook." And you really - this isn't a real
14 secured lender to the proponent is it? Not
15 really, because it's internal. So what are we
16 going to do? Well we're going to effectively
17 assign all of these rights to Canada to support
18 its guarantee obligation because if it has to be
19 called on the guarantee it's going to be able to
20 step in, take on the project, deal with the
21 project and exercise the same rights as if it was
22 a secured lender.

23 That then meant that we went through coming
24 into this project an extensive exercise of due
25 diligence that was designed to answer the five

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1 questions. Can it be built? If it will be built
2 will it work? If it is going to be built can we
3 finance it? If we can finance it can we pay it
4 back? And do we have reasonable expectation that
5 this is going to be providing the most cost
6 effective result? That's all this is for. But
7 within that we ended up a panel that is an
8 oversight panel that is completely independent
9 from the proponents, the folks that are sitting
10 here. And that's the team that I work with. And
11 anybody who thinks that an independent oversight
12 team is a tick box exercise hasn't lived it.
13 This team has been designed so that before the
14 transaction closed it was reviewed by an
15 independent engineer. The independent engineer's
16 report, in case any of you are not sort of fully
17 familiar with working with one, an independent
18 engineer is required to come in and do an
19 independent review of all of the plans and
20 specifications, the budget and the timeline for
21 construction, Y times money. And they are to
22 report back to the person that they are retained
23 by. And in both cases, although the original
24 retainer was with the proponent or alliance
25 agreement transferred the retainer to Canada.

1 They have to report on the viability of the
2 project, can it be built? If it's built will it
3 perform? They had to report on whether the
4 budget was reasonable and the timelines for
5 construction were reasonable. That report had to
6 be in place before the transaction went ahead.

7 We had a review by an independent insurance
8 consultant. Is the insurance backup adequate?
9 And that's not just the insurance for liability
10 and property damage. In a project of this nature
11 it's all of the surrounding, the bonds and the
12 performance and the letters of credit and all of
13 the assurances that we need that the project is
14 going to be safe. It's going to be built and
15 finished and it's going to be insured. If
16 something goes wrong we've got somewhere to look
17 for money. And if you think finding \$6.5 billion
18 - that was the minimum we required that was
19 actually over insured, in the market is easy you
20 can think again. So we worked with an
21 independent insurance consultant. They helped
22 us, by the way, both the independent engineer and
23 independent insurance consultant also helped us
24 drive the covenants of the documents and the
25 follow-up reporting and reviews.

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1 We also worked with independent
2 environmental consultants. We had aboriginal
3 consultants. All of the stuff that I said we
4 were going to dismiss as noise actually did exist
5 on the project. We had independent reviews.
6 Sometimes internal to Canada because let's face
7 it, an aboriginal, they are the experts. But
8 those reviews were done.

9 We had financial advisors doing independent
10 reviews and then obviously my legal team was
11 doing extensive diligence. What did that mean?
12 We're looking at the plans, we're looking at the
13 specifications, we're looking at the land rights,
14 we're looking at the contracts, we're looking at
15 the permitting, we're looking at how things are
16 being brought together. In the context of the
17 whole we're probably the only ones that looked at
18 all four projects and how they fit together. I
19 will not tell you the pangs of dealing with
20 subsea cables, it is not, you know, a simple
21 task. But that was all done in this, it would
22 not normally be done in a guarantee. And that's
23 what's different, it was done as Canada being the
24 equivalent to what's called a monoline credit
25 wrap provider. And that was the model we used.

1 And what that means is this is the equivalent to
2 the secured lenders, taking all of those rights
3 and taking each one of those reviews.

4 We have to do it in three stages. We had
5 the due diligence stage, so that financing didn't
6 close until every single one of those independent
7 reviewers was satisfied that this project could
8 be built, built correctly, operate, deliver the
9 power it's supposed to deliver and that the
10 budget and timelines were reasonable. No more
11 than that commercially reasonable. That was
12 done.

13 We then have the period of construction.
14 And during construction anybody who knows project
15 finance here will know that what happens is the
16 lenders will look and on a regular basis will
17 ensure, number one, the funds are going to the
18 project and nowhere else. That number two,
19 they're being paid against approved expenses.
20 That is for the goods and services that are
21 appropriately contracted for under the approved
22 contracts and against the budget, so we look for
23 that. We look to make sure that we're not
24 getting ahead of that. In other words, as the
25 money is going out it is to pay for things that

FINANCIAL UPDATE

1 have been done or is a direct matching on the
2 expenses. So you're looking for that. You're
3 looking to make sure that you're still running on
4 track, that is that, the quality is still there,
5 the specifications are being met, that the
6 timelines are being met. And you do that every
7 month. And the ultimate hammer you've got is if
8 it isn't they don't get the money. And they
9 don't get the money until we've got an
10 explanation, we agree to changes or it's fixed.
11 That is done every month. And that's pretty
12 normal in project finance on a one-month basis
13 because the majority of contracts are 30-day pays
14 with delays. So that timeframe is not unusual
15 and that might explain the difference between the
16 quarterly and the monthly. Which is a quarterly
17 report to regular are pretty normal. Monthly is
18 required because you've got to keep your payments
19 current and that's the normal cycle.

20 So every single month what will happen is -
21 and the package isn't one piece of paper saying,
22 "Hey, it's all okay, please give us this amount
23 of money." The package is this thick, I can see
24 him greying as I get to know him. The package is
25 this thick and it contains not just, "Here's the

1 numbers," but there is complete invoice by
2 invoice backup of the expenses they say that they
3 are done. We get a construction update report
4 that shows where each one of the contracts are
5 and how they're progressing. It tells us if
6 there's disputes. That is reviewed by the
7 independent engineer and the cycle is four to
8 five days of full time review. This is not
9 tossed off, it can't be, that's the depth of the
10 information that's coming in. I will tell the
11 legal side, fortunately for me, is like an hour
12 or two so it's pretty good. But the independent
13 engineer, literally, has four and five-day review
14 process, that's how long it takes.

15 During the course of that I know the
16 attention is being paid because I get copied in
17 on all of the emails and the questions will come
18 back and forth with question and answer coming
19 on. It's a detailed review. If the independent
20 engineer is not satisfied, he will report as such
21 to the collateral trustee. The collateral
22 trustee being, typically of anybody who has dealt
23 with a collateral trustee, the second there's an
24 issue there is no money moving. And it will get
25 sorted out. So that what this is is it's a catch

FINANCIAL UPDATE

1 it early for problems either in the relationship
2 or in the information or in the project. By the
3 way, there's been nothing, everything has been
4 fine. That's done every month. If we need the
5 insurance consultant because there's a change,
6 then that's fine. We also get a special report,
7 and there will be hands-on meetings if and when
8 this occurs, if there is a material change order
9 or if there is a material change to a material
10 contract that requires consent. That cannot be
11 agreed to without Canada as guarantor agreeing to
12 it. So again you've got that backup oversight.

13 That will continue right through
14 construction and then there is a specialized
15 process developed for the review of
16 commissioning. Again, very intense, ensuring
17 that the commissioning is correct, making sure
18 that the commissioning and the run-ups on the
19 testing is all safe.

20 And then during operations there is also a
21 requirement for a one-year review to ensure that
22 operations and maintenance is going properly
23 because if you're the guarantor of financing,
24 even if it is amortizing down over time, you're
25 still on the hook and you've got an aging asset

1 and you're still out there on the debt you want
2 to make sure it's being looked after properly.
3 So oversight by this team will continue
4 throughout the life of this project, it will
5 never stop.

6 That is relatively classic, but very
7 enthusiastic, project finance techniques. And
8 that's the bottom half of this structure, that's
9 what's different. Canada had never done this
10 before. Most government authorities don't do
11 this before. The decision was made to do this as
12 a commercial style, commercial backed type of
13 arrangement. So we ended up structuring that.

14 That explains kind of how we oversight what
15 is going on. Canada doesn't run this project.
16 Canada doesn't own this project. Canada isn't
17 engineering this project. Canada is doing none
18 of that. But Canada as the buck stops here, the
19 last dollar, if it fails, has the right to be
20 kept fully informed and has secured lender
21 equivalent rights. So they didn't take anything
22 that if you'd gone to the market on, you know, a
23 financing of the whole, they didn't take anything
24 that wouldn't be given anyway. But the rights
25 are fairly extensive and it does keep a really,

FINANCIAL UPDATE

1 really solid second set of eyes on this.

2 We then had to sit down and work, once we
3 sort of had this basic structure, which was "how
4 do we finance it? Where do you go?" We really
5 simplified things now because it means we can go
6 to the bond market as opposed of having to go to
7 the much more complicated fixed income markets or
8 project finance markets. So we know the
9 financing can go to the bond market. But again,
10 I will remind people, I don't have a \$1.5 billion
11 project, I've got a \$6.5 billion financing for a
12 regional project that I have to be concerned
13 about.

14 So we again brought in, like the team that
15 we brought in to assess the project, there was
16 massive consultation. The financing itself, that
17 is the hardcore of looking at exactly what do we
18 do and how do we do this? What do we participate
19 in? What are we prepared to work with was about
20 a year and a half with nine months' intensive
21 time. And during that time as a consequence of
22 the way in which we were able using two RFPs,
23 because remember, I now get the advantage, I got
24 two projects so we can check them off against
25 each other and so on, which is good. We went out

1 in each case in active participation in the
2 process that saw all of the major investment
3 houses in Canada, effectively brought in because
4 everybody wanted to respond to these RFPs, and
5 got the recommendations around how to do the
6 deal.

7 The number one mandate that they were
8 responding to - so Canada is highly concerned
9 that we've got a regional project, it's good,
10 other people don't care about that. Lending
11 people knew one thing and one thing only, they
12 would not win this mandate if they did not
13 deliver the lowest net present value cost of
14 financing. There were other mandates put in
15 there but that was number one, net present value
16 cost of financing. And every design that came
17 in, and there were sort of a number of
18 variations, relative - amazing consistency by the
19 way, amazing consistency, but that was what had
20 to be delivered. Taking that meant that we had
21 to work with - there were some commercial things
22 that had been built in with the mandate by the
23 way about how things had to amortize to start
24 getting Canada off that type of thing. But the
25 biggest one was lowest cost. And we did make it

FINANCIAL UPDATE

1 clear that was net present value overall cost,
2 not lowest interest rate, because all of us were
3 experienced enough to know that one is not the
4 same as the other and one is way more valuable
5 than the other.

6 So we brought in, in the course of looking
7 at this, beside all of the internal and external
8 advice that Maritime Link had Canada had all the
9 same. So we had independent financial advisors,
10 you know. In my team, I mean I alone, I'm in my
11 39th year of doing project finance, Dal law was a
12 long time ago. And, you know, the rest of my
13 team I've got 25 and 30 year practitioners. So
14 you had a lot of experience there. But we then
15 got on top of all of that, besides the financial
16 advisors and the others, the rating process
17 itself. So you're going to the rating agencies
18 that are canvassing the world, these are
19 international rating organizations, they can
20 reach out all over the world, at every major
21 project finance structure there is out there, we
22 got their input. They don't tell you, a rating
23 agency won't tell you how to do your deal. If
24 you've never dealt with them, they will not tell
25 you how to do your deal. They will tell you when

1 they think you're going in the wrong direction
2 and will steer you back. So we had the rating
3 agencies giving up input around, number one, what
4 we had to do to achieve credit substitution. But
5 then secondly, soft guidance around the way that
6 they thought the markets were going to react and
7 what we had to do.

8 We had every single one of the investment
9 banks in responding on an RFP basis and they were
10 giving a lot of creativity because that was
11 desired. So they were sent away saying,
12 effectively, lowest net present value, other than
13 that you tell us. So you had the brightest minds
14 in financing Canada, hopefully, coming back
15 saying, "We think this is what you should do."
16 So we got all of that input. We also ended up
17 having input, because this was large enough, that
18 this was very much on the radar screens at the
19 very highest levels, so right the way through
20 anybody with a finance function in Canada was
21 giving us advice. Sometimes more formal,
22 sometimes less formal but they were very much at
23 the table. We were getting the brightest minds
24 on bond financing in Canada because Canada does
25 the most bond financing, we had that expertise

1 available.

2 So that in terms of sitting down and looking
3 at how you ended up structuring this the
4 proponents got the advantage of the fact that the
5 largest bond issuer in the country, being the
6 country itself, was at the table with its tools
7 coming available and that was all delivered.
8 Like that was all put out on the table and the
9 suggestions and recommendations.

10 So in the end result the structure of the
11 financing had one primary element to it in the
12 actual way we did the bonds backed by the fact
13 that we had come up with a structure that
14 preserved all of the other mandate issues that I
15 had. And by the way the market loved this
16 structure, it was the right choice, no question
17 about it. But they told us what the bonds had to
18 look like, the market told us. When you're going
19 out with this kind of an offering, \$6.5 billion
20 into the Canadian Bond markets in roughly a
21 three-month period you have to pay attention to
22 the timing of other offerings, the structure of
23 other offerings that's coming out, the pricing on
24 the other offerings, the effect on the Canada
25 Bond rate and a number of other things. The

1 market basically told us what to do. In the end
2 result the execution was remarkable, it was
3 absolutely - I don't know if you know but Nalcor
4 was hugely oversold, the market like the way that
5 it was done. But it was not done the way a lot
6 of people think. Like this is not a classic
7 structure, it might become one because again, the
8 world, the market said, "This is a good
9 structure, keep us out of the noise but make sure
10 we know that the noise is there, that the
11 discipline is there, that the oversight is
12 there." Because even though the bondholders know
13 that they'll get paid no matter what nobody wants
14 to be part of a failed project. So they wanted
15 that discipline down below.

16 So the sort of story for this group is, this
17 wasn't an accident, it might have started on a
18 napkin at Rodney's on Water Street, but this was
19 not an accident, the structure was done to meet
20 some very, very important mandate items that
21 should be yours as well.

22 Lowest cost. Safest possibility of
23 execution. Recognizing the regionality.
24 Ensuring that the projects and the financing for
25 the projects keep the thing working as a whole.

FINANCIAL UPDATE

1 That's what we were mandated to do, that's what
2 we hope we did. So the structure, "What was she
3 thinking?" Well what I was thinking was that,
4 how do I keep it simple to the world? How do I
5 keep it project finance structurally rigid to
6 ensure that - it's like this now becomes my
7 foundation and I've got a solid foundation. So
8 that's what was behind all of this. So when you
9 hear people sort of saying, well it's got this
10 and it's got that, there really was thinking
11 behind it and the thinking behind it was safety,
12 soundness, rate payers. It was exactly all of
13 the right things that we should think about.
14 Remember, I too am a rate payer for my utilities
15 here in Nova Scotia.

16 So if you've got any questions? And the
17 sketch, I don't know, Brian, if you put it in
18 yours but I did put the sketch with the
19 explanatory notes in mine.

20 (no questions)

21 Ms. Manzer's presentation ends at 3:14 p.m.

22

23

24

25 **MS. GREENOUGH:** Well thank you very much

FINANCIAL UPDATE

1 Alison, that was very helpful and very
2 interesting. So with that I'm going to turn
3 things over to René Gallant for a regulatory
4 update.

REGULATORY UPDATE

1 RENÉ GALLANT - VICE PRESIDENT, LEGAL AND REGULATORY

2 AFFAIRS

3 NSP MARITIME LINK INC.

4 REGULATORY UPDATE - 3:14 P.M.

5

6 Okay, I thought it might have been a sign
7 that I didn't have a microphone, but I have one
8 now so good for me.

9 First I just want to say, firstly, thank you
10 to Alison for being here today, Alison represents
11 Canada, as she explained. The only professional
12 relationship we have is that I have to call her
13 from time to time to make sure we're still on
14 track. I called her and said, "You know, we're
15 trying to help explain to people the oversight
16 role that we experience." And Matthew and Brian
17 and his team, their team, experience in terms of
18 our monthly reporting to the independent engineer
19 and our accountability to Canada. And we
20 couldn't think of anyone better to explain it,
21 and Alison you were very gracious to come down
22 and do this for all of the folks who are
23 participating in, you know, the oversight from a
24 regulatory side of our projects. So thank you
25 very much for being here.

1 And I just encourage you as, you know, as
2 we're wrapping up today, if you have questions,
3 either during this open session or afterwards,
4 it's a rare opportunity to ask questions to
5 Alison, someone so expert in this area.

6 I'm just going to take a few minutes, I
7 don't think I have a lot to say here really, I
8 have one slide. I'd had some questions before,
9 one from Nancy Rubin, at least in my recent
10 memory, about what are the processes we're going
11 to use, when are we actually going to be in
12 hearings or in applications for the Maritime Link
13 again? And so I thought I'd lay out the way we
14 see it and while this is subject to change as the
15 project continues to unfold and the construction
16 gets executed, this is what I'm anticipating.
17 And so I thought I would share it with you, if we
18 want to have a discussion that's great, but at
19 least you can think about when you might become
20 involved in official processes. And we can talk
21 as well about more informal stuff like we're
22 doing today.

23 So the **Maritime Link Act**, the regulations
24 actually under the act require an application for
25 an assessment to be made before energy flows over

REGULATORY UPDATE

1 the Maritime Link under the Nalcor transactions
2 as that is a defined term in that Act. And so we
3 are planning to deliver the project, commission
4 it and provide to Nova Scotia Power to operate no
5 later than January 1st, 2018 so we need to set the
6 assessment before then.

7 The challenge that we have as we think about
8 that is that while we are confident about our
9 commissioning date we know that the way these
10 projects work there will continue to be costs
11 incurred post commissioning that are really part
12 of the capital costs of the project so they'll
13 extend into 2018. We'll be closing out the final
14 big contracts, for example, we're trying to avoid
15 any claims but we are realistic and to the extent
16 there are claims we need a little time to close
17 them off. So we won't know our final costs
18 before energy flows. So we have to comply with
19 that legislation but we would really rather be
20 able to come back to you with our final costs.
21 So that being said this is the way we think it
22 will work best in our current plan.

23 So I've just got three phases here. The
24 first one is this quarter and it's actually not
25 NSPML but NSPI. So there's two components of

1 costs here, one is the recovery of revenue and
2 then the other is payment of that revenue to
3 NSPML. So NSPI has to recover the revenue from
4 its customers and under the rate stabilization
5 plan legislation that's recently been enacted.
6 They are compelled to bring forward their three-
7 year base cost of fuel covering the years that
8 include when the Maritime Link comes on. And so
9 we understand NSPI is working away on that and
10 you'll see it in this quarter. And I don't know
11 that I can speak much more to the NSPI
12 application on that other than to say we are
13 expecting that NSPI's base cost of fuel for the
14 FAM during this period is going to commence the
15 recovery of funds necessary to pay the NSPML
16 assessment. And we have provided publically
17 available information to NSPI about the costs.
18 You've heard it today from Brian and Rick, we are
19 on budget and on schedule to deliver on January
20 1st, 2018. And so we would expect the assessment,
21 at least for NSPI's assumption of revenue
22 recovery, to be based upon that information. And
23 that will ensure that when the project comes
24 online that the FAM is recovering the funds to
25 pay the assessment. But it doesn't set the

REGULATORY UPDATE

1 assessment, we have to, as NSPML, bring that
2 application ourselves under the act and under the
3 **Public Utilities Act**. So we will do that. We
4 haven't picked a specific date for that
5 application, in order to maintain flexibility to
6 see how the construction plays out, especially
7 the construction this year which is important.
8 But we could, frankly, bring an application
9 anytime between today and whatever date is
10 necessary to complete the process to have it in
11 place for January 1st, 2018. So, you know, let's
12 say over the course of the next 18 months you'll
13 see an application from us. And since we won't
14 have final costs our current thinking is that
15 that application will be again based upon
16 publically available information about the costs.
17 And if we stay on track, on schedule, the
18 delivery day of January 1st, 2018, I actually
19 expect, sitting here today, it should be the same
20 number that NSPI recovers in its revenue would be
21 out initial assessment. And that will stay in
22 place until our final costs are known and filed
23 with the Board and approved and a new assessment
24 set.

25 So anticipating that you would want to set

1 assessments effective January 1st for payments and
2 revenue recovery purposes so there's an ability
3 to have a smooth transition it's likely that that
4 first assessment will stay in place through 2018.
5 We would hope to be back with our final cost
6 filing with the Board in 2018. And give the
7 Board and stakeholders time to review those
8 costs. The Board will of course set its process
9 for that and, you know, consider any of the
10 substantive questions about the capital cost or
11 about the financing and make a final approval
12 about the costs. If we are able to deliver the
13 costs, you know, on budget it should match the
14 initial assessment. If we are exactly on time
15 and on budget to the assumptions today then
16 January 1st, 2018 you'll have a project at \$1.55
17 billion. If we can bring it in under budget,
18 then that assessment would have to be adjusted to
19 reflect the lower costs that we actually ended up
20 incurring for customers.

21 So we're seeing this in three phases, NSPI
22 is going to start the process to set the revenue
23 recovery as part of its base cost of fuel rate
24 stabilization plan. We will have to come in to
25 set what is probably going to be the same

REGULATORY UPDATE

1 assessment level for a shorter period of time as
2 we can have. When our final costs are known
3 we'll be back, file them all, be completely
4 transparent about it and have what we're calling
5 the final assessment set.

6 Into the future, of course, we are
7 operating, we'll operate the line, we'll be a
8 very small utility just operating one
9 transmission line which, in fact, NSPI is
10 actually going to manage in terms of the rights
11 to use the transmission line and that kind of
12 thing. But we'll be operating and maintaining the
13 line and this will have some employees but we'll
14 have annual operating and maintenance costs. So
15 we would expect over the next 35 years after
16 commissioning that we'll have to come back on a
17 regular basis, but not likely annually, to
18 revisit those costs from time to time and reset
19 the assessment. We haven't - I think refined,
20 the thinking, about how often that would be or
21 how that would look like but we don't expect
22 we're setting, you know, revenue recovery from
23 NSPI to NSPML for a 35-year period when we come
24 back in 2018. But certainly we'll have to come
25 back in 2018 with final costs to get that closer

1 from the Board.

2 So I hope that was clear about our
3 expectations and I'm happy to take any questions
4 about that or over time have more discussions
5 with each of you about, you know, what you want
6 to see in each phase of these applications. I
7 would say, if I could as I'm not seeing any
8 questions, just on the informal kind of
9 engagement. We organized today because even
10 though we're filing quarterly reports and we've
11 come out to see some of you from time to time and
12 have one on one conversations we have a sense
13 that we can be more transparent about how the
14 project is going. And we can share with you some
15 of the details about the construction. Some of
16 the challenges we're facing, like we have today
17 on the safety side, that we are enhancing our
18 practices once we have some experience in the
19 field that we can explain to you some of the
20 things that you might be wondering about. We've
21 had questions, you probably have seen from the
22 Board, in terms of the IRs and filings that we've
23 made over the past couple of years about
24 financing. And we tried to use this as a
25 mechanism to be more transparent and share with

REGULATORY UPDATE

1 you exactly what we've been doing and what we've
2 been experiencing. And it's our view today that
3 when we come back with our final costs if we have
4 done our job in that transparency then you'll
5 have, you'll know what you're seeing, you'll see
6 what you were expecting to see during that
7 filing. There will be very few surprises.
8 You'll know whether something is causing you
9 concern anymore or not and that should be,
10 hopefully in that way, a very smooth process
11 where we're answering any of your final questions
12 about what happened as we closed out the project.
13 But otherwise you'll have a sense of what it took
14 to build the Maritime Link, what those final
15 costs are and how they're going to be recovered.

16 And so, you know, we are very appreciative
17 of you being here today to listen to some of
18 these matters. We also want to be speaking to
19 the things that are on your mind. We've prepared
20 a survey, it's just a one-page, it takes you two
21 minutes to fill it out maybe. I'd appreciate if
22 folks would do that and give us your feedback on
23 whether today was worthwhile or whether there's
24 something you'd like to hear from us, a topic
25 you'd you like to hear from us on the next time

1 we might get a chance to be together. And if
2 there are other ways you'd like to hear from us
3 about the project we're happy to consider those
4 ideas too. But I think you'll have known from
5 your past experience that technical conferences,
6 reports to the Board, these are the key tools
7 that we have to communicate. And of course the
8 opportunity to visit you in your own offices from
9 time to time which we've done in the past with
10 some of you, we're happy to do that as well.

11 Anyone have any questions at all about
12 today? Any questions for Rick or Ken or Brian,
13 Alison?

14 (no questions)

15 Do you want me to wrap up?

16 **MS. GREENOUGH:** I just want to mention we do
17 have a copy of the survey if folks don't have one
18 in their package.

19 **MR. GALLANT:** The survey was in your
20 package, just the one page, if you can fill it
21 out and leave it for us. You don't have to put
22 your name on it but if you want to then if you
23 have any questions we can contact you directly.
24 We'd appreciate your feedback and of course if
25 you think of something after you've gone today

REGULATORY UPDATE

1 you know how to reach all of us. Mary Ellen or I
2 are happy to take your questions at any time.
3 Again, thanks Alison for being here. Thank you
4 to everyone for being here and we'll see you
5 soon.

6

7

8

9

[RECORDING ENDED AT 3:27 P.M.]

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CERTIFICATE OF COURT TRANSCRIBER

I hereby certify that I have transcribed the foregoing and that it is a true and accurate transcript of the NSP Maritime Link Incorporated Technical conference, taken by way of electronic recording in Halifax, Nova Scotia on February 23, 2016.

Rita Newton, Certificate No. 2006-56
CERTIFIED COURT TRANSCRIBER,
PROVINCE OF NOVA SCOTIA

Halifax, Nova Scotia

March 24, 2016

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1 **Request IR-13:**

2

3 **Exhibit N-1, p. 25, line 17**

4

5 **(a) If all bond proceeds were advanced at one time under the Federal Loan Guarantee**
6 **financing arrangement, why are costs being claimed for interest rate hedging?**

7 **Please provide particulars of these costs.**

8

9 **(b) Are there any other costs or potential costs that could result from the Federal Loan**
10 **Guarantee financing approach?**

11

12 Response IR-13:

13

14 (a) Please refer to response to M07254 AFUDC Policy, NSUARB IR-5(b) in Attachment 1.

15

16 Hedging interest rate risk was a requirement of the Federal Loan Guarantee (FLG) as
17 outlined in Section 2.3 of the FLG Term Sheet (provided as Appendix 4.03 to NSPML's
18 initial assessment in 2013 and provided as Attachment 1 to UARB IR-9 in this matter) as
19 noted below:

20

21 As may be required by the nature of the Financing, a hedging program shall
22 be put in place for each Borrower at Financial Close. In order to ensure
23 certainty in the cost of the Financing for each of the Projects, any interest
24 expense risk will be hedged.

25

26 Hedging interest rates protects customers from possible fluctuations in interest rates.

27

28 (b) All anticipated costs associated with the FLG debt financing have been as disclosed to the
29 Board and as estimated in the financial forecast model filed with NSUARB IR-32.

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to NSUARB Information Requests

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1 **Request IR-5:**

2

3 **Within Note 12 (Related Party Transactions) of NSPML's 2014 financial statements,**
4 **NSPML indicates the Emera provided Hedging services to NSPML totaling \$36.3 million.**

5

6 **a) Please explain where such costs are recorded.**

7

8 **b) Please explain what hedging was required if the full funds were drawn upfront.**

9

10 **c) Has NSPML been capitalizing any portion of this to AFUDC?**

11

12 Response IR-5:

13

14 a) Such costs are recorded in Deferred Financing Costs.

15

16 b) Bond forward contracts were established between February 11 and 14, 2014 in advance
17 of Financial Close so as to hedge the interest rate between that time and when the \$1.3
18 billion of bonds were secured in late April.

19

20 c) Yes, the amortization of the Deferred Financing Costs has been capitalized in AFUDC
21 Interest. The portion of unamortized Deferred Financing Costs at the end of construction
22 will be recovered on an annual basis as part of the debt financing costs during the
23 operating period of the project.

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1 **Request IR-14:**

2
3 **Exhibit N-1, p.12, footnote 18**

4
5 **With respect to NSPML's accounting for financing costs:**

6
7 **(a) Please provide copy of NSPML's accounting policies.**

8
9 **(b) Please confirm the only accounting policy that NSPML follows that differs from**
10 **NSPI's policies is for AFUDC.**

11
12 **(c) Why was that policy needed?**

13
14 **(d) Please provide the weighted average cost of capital of NSPML and NSPI that would**
15 **be used to accrue interest on any amounts held for the benefit of ratepayers or the**
16 **project.**

17
18 **(e) How does NSPML intend to account for financing costs once the ML project is**
19 **placed in service?**

20
21 **(f) Beyond the period AFUDC accumulates, does NSPML intend to continue recording**
22 **actual finance costs?**

23
24 **(g) If so, by what mechanism will NSPML track and reconcile potential excess**
25 **earnings?**

26
27 **(h) Does NSPML intend to use the flexibility of earning up to 9.25% once placed "In**
28 **Service" as opposed to the 9% which has been used to establish AFUDC?**

NON-CONFIDENTIAL

1 Response IR-14:

2

3 (a) Where NS Power accounting policies are relevant to NSPML (some NS Power
4 accounting policies, such as those relating to the accounting for fuel, are not relevant to
5 NSPML), they are the same as NS Power's with the exception of NSPML's AFUDC
6 Policy which was provided in M07254 and approved by the Board on June 1, 2016.
7 Please refer to Attachment 1.

8

9 (b) Confirmed.

10

11 (c) The rationale for NSPML's AFUDC Accounting Policy was documented in M07254.
12 The primary rationale was so that *actual* debt and equity costs during construction would
13 be added to AFUDC.

14

15 (d) When amounts are considered fuel costs and therefore part of NS Power's Fuel
16 Adjustment Mechanism (FAM), Accounting Policy 5110 FAM applies. NS Power's
17 current WACC is 6.96 percent. NSPML is not aware of an accounting policy that would
18 require it to pay interest as contemplated in the question. Interest earned on cash
19 balances in NSPML is addressed in the response to NSUARB IR-10(c).

20

21 (e) Once the Maritime Link is in service, NSPML plans to account for financing costs as
22 current costs – interest and return on equity – as opposed to capitalizing such costs via
23 AFUDC. If additional capital costs arise during the operating period, NSPML would
24 expect to capitalize financing costs as AFUDC in a manner consistent with that of
25 NS Power.

26

27 (f) Yes.

Maritime Link Project (NSUARB M07718)
NSPML Responses to NSUARB Information Requests

NON-CONFIDENTIAL

- 1 (g) NSPML's accounting system and processes have the ability to track and reconcile any
2 such amounts in its records.
3
- 4 (h) NSPML expects to record results in accordance with its Accounting Policies and any
5 regulatory rules established by the UARB, which includes earnings flexibility, if
6 appropriate in the circumstances, as described in the question.

INTRODUCTION

**ACCOUNTING POLICIES
AND PROCEDURES MANUAL - 1000****APPROVAL PROCESS**

- 01 The Nova Scotia Power Inc. ("NSPI") Controller will be responsible for the creation of financial policy and procedures for the Company.
- 02 All new accounting policies, and significant changes to existing policies, will be presented to the Nova Scotia Utility and Review Board ("UARB") for its approval, and to the external auditors for their review and comments.
- 03 The NSPI Controller and the Director of Internal Audit will be responsible for the enforcement of financial policies.
- 04 Suggestions for changes in policy should be forwarded to the NSPI Controller who will act as the approval mechanism for all policy changes.

ADMINISTRATION

- 05 To exercise control over the contents and use of this manual, the following procedures will be followed:
 - a. This manual will be published on the NSPI intranet as read-only under Corporate Controller's Policies – "NSPI Accounting Policy & Procedures Manual."
 - b. All accounting policy updates and significant changes will be presented to the UARB for its approval.
 - c. All accounting policy updates and significant changes will be presented to our external auditors on an annual basis for their review and comment.
 - d. The NSPI intranet version of the accounting policy will be updated when UARB approval has been received for the new accounting policy updates and changes.

COMPLIANCE

- 06 NSPI applies ASC 980 for specific rate regulated accounting policies which are approved by the UARB. Where there is no specific accounting policy identified in the Accounting Policy and Procedures Manual, NSPI will follow the applicable U.S. generally accepted accounting principles for non-regulated entities.

GENERAL INFORMATION

KNOWLEDGE OF COMPANY BUSINESS - 1500**DESCRIPTION OF BUSINESS**

- 01 Nova Scotia Power Incorporated ("NSPI") is an investor-owned electric utility headquartered in Halifax, Nova Scotia. NSPI or its predecessors has been engaged in the production and sale of electric energy in Nova Scotia since 1919.
- 02 NSPI is the primary electricity supplier in Nova Scotia, providing over 95% of electricity generation, transmission and distribution in the province
- 03 Through the interconnection with the New Brunswick Power Corporation, NSPI's system is connected to other regional power systems and the rest of the interconnected North American systems. This grid enhances the cost effectiveness, efficiency, reserve capacity and reliability of all participating power systems.

ACT OF INCORPORATION

- 04 NSPI was incorporated under the name International Engineering Services Limited on July 13, 1984 pursuant to the Companies Act of Nova Scotia. On May 11, 1992, its name was changed to Nova Scotia Power Inc.
- 05 In August 1992, the business operated by Nova Scotia Power Corporation ("NSPC"), a crown corporation of the Province of Nova Scotia, was transferred to NSPI and common shares of NSPI were sold to the public.
- 06 A corporate reorganization of NSPI effective January 1, 1999 separated the regulated utility business operated by NSPI from other business interests. The regulated electric utility business of NSPI and the other businesses became subsidiaries of NS Power Holdings Inc. NS Power Holdings Inc. had a name change to Emera Inc. in 2000.

REGULATION

- 06 NSPI is regulated by the Nova Scotia Utility and Review Board ("UARB") pursuant to the Public Utilities Act.
- 07 The Act gives the UARB supervisory powers over NSPI's operations and expenditures. Electricity rates in each of the rate classes under which NSPI serves its customers are also subject to UARB approval.

GENERAL INFORMATION

KNOWLEDGE OF COMPANY BUSINESS - 1500

REORGANIZATION AND PRIVATIZATION

- 08 During 1992, the Province of Nova Scotia passed legislation to facilitate the reorganization and privatization of the business of NSPC. In effecting the reorganization, pursuant to the Asset Transfer Agreement effective on August 10, 1992, NSPC transferred all of its existing assets (excluding sinking fund assets), liabilities (excluding long-term debt) and retained earnings to NSPI in exchange for:
- a. Matching notes receivable equivalent to outstanding long-term debt, net of matching notes payable equivalent to sinking fund assets; and
 - b. 20.1 million fully paid common shares of NSPI, which were subsequently sold on August 12, 1992 by the Province of Nova Scotia as a secondary offering.
- Concurrently, the \$13.3 million of contributed surplus of NSPC was transferred to the retained earnings of NSPI.
- 09 Following the reorganization and privatization, NSPI continued the business activities of NSPC. NSPC changed its name to Nova Scotia Power Finance Corporation ("NSPFC") and continues to hold the remaining long-term debt and sinking fund assets.
- 10 The reorganization and privatization was accounted for using continuity of interest accounting, whereby the assets and liabilities of NSPC were transferred to NSPI at their carrying values. The comparative figures in the 1992 financial statements include the results of NSPC from April 1 to August 10, 1992 and the results of NSPI thereafter. NSPI changed its year-end from March 31 to December 31, resulting in a nine month fiscal period ended December 31, 1992.

YEAR END

- 11 NSPI maintains a fiscal year from January 1st to December 31st.



GENERAL INFORMATION
RATE BASE - 1520

DEFINITION

- 01 Rate base is comprised of the net value of certain assets upon which Nova Scotia Power Inc. ("NSPI") can earn a specified rate of return. The rate base and rate of return are approved by the Nova Scotia Utility and Review Board ("UARB") in compliance with the Public Utilities Act.
- 02 The rate base and the allowed rate of return are periodically reviewed by the UARB.

POLICIES

- 03 The components of rate base should include:
 - a. Cost (gross historical cost less capital contributions) less accumulated depreciation of used and useful plant in service;
 - b. Construction Work-in-Progress;
 - c. Allowance for materials and supplies;
 - d. Allowance for working capital;
 - e. Deferred charges and credits;
 - f. Contract receivable resulting from the settlement between NSPI and its natural gas supplier.
- 04 The excess of the purchase price paid for an acquired company over the amount to be included in rates as approved by the UARB should be excluded from rate base.
- 05 Assets held for future use should be excluded from rate base unless UARB approval has been obtained.

PROCEDURES

- 06 Any capital item with UARB unapproved plant in service above \$250,000, where a capital work order has not been filed with the UARB within 6 months of the project's completion, the spend to date on that project in excess of \$250,000 will be excluded from rate base each quarter until such time as the work order is filed.
- 07 Any capital spend above \$250,000 associated with a preliminary engineering project that has been inactive (i.e. no internal or external engineering or scoping work, exceeding \$10,000, being carried out within the last 12 month period) should be removed from rate base until such time as the preliminary engineering becomes active again or these costs are submitted for approval to the UARB.
- 08 Any capital projects originally budgeted at less than \$250,000, but subsequently exceeding that

GENERAL INFORMATION
RATE BASE - 1520



threshold during project execution that are not filed with the UARB for approval within six months of the project exceeding \$250,000 will have all costs in excess of \$250,000 removed from rate base in the quarter after the six month timeframe until these costs are submitted for approval to the UARB.

- 09 If a previously approved capital project exceeds the allowable variance of the greater of 5% or \$250,000 and is not filed within six months of exceeding the approved amount, then the costs in excess of Board approval will be removed from rate base each quarter until these costs are approved by the UARB. Costs incurred while the project is excluded from rate base may only be recovered from ratepayers if specifically detailed and quantified in the ATO (or FIN) and approved by the Board.

GENERAL INFORMATION

REGULATED RETURN ON EQUITY- 1530



BACKGROUND

- 01 The Nova Scotia Utility and Review Board ("UARB") approves Nova Scotia Power Inc.'s ("NSPI's") Return on Equity ("ROE") range and common equity ratio for rate making purposes.

POLICIES

- 02 NSPI files with the UARB its actual regulated return on equity and regulated average common equity ratio annually.
- 03 The annual regulated return on equity is calculated by dividing the regulated net earnings for the current year by the average of the actual equity amounts for the previous five quarters ending December 31st as per NSPI's regulated financial statements. Equity for this calculation is defined as common shares plus regulated retained earnings and excludes preferred shares and Accumulated Other Comprehensive Income (AOCI).
- 04 The annual regulated average common equity ratio is calculated by dividing the average of the actual equity amounts for the previous five quarters ending December 31st by the average of the actual capitalization amounts for the previous five quarters ending December 31st as per NSPI's regulated financial statements. Equity for this calculation is defined as common shares plus regulated retained earnings and excludes preferred shares and AOCI.



GENERAL INFORMATION

AUDIT COMMITTEE - 1540

POLICY

- 01 The Audit Committee of the Board of Directors should be comprised of a minimum of three Directors, none of whom are officers or employees of the Company.
- 02 As directed by the Nova Scotia Utility and Review Board ("UARB") in its Order NSUARB-NSPI-P-875 dated December 3, 2002, Schedule "C" Board Directives, Nova Scotia Power Inc.'s ("NSPI") audit committee shall have a different Chair than Emera Inc.'s audit committee.

PROCEDURES

- 03 The Committee is responsible for ensuring that appropriate internal control procedures are in place (including internal control over financial reporting, as required by applicable Canadian and U.S. Federal securities laws) and requires management to implement and maintain the appropriate systems and assesses the adequacy and effectiveness of those systems. The Committees' responsibilities are outlined in the Audit Committee Charter.
- 04 The Committee meets at least quarterly with the CEO and CFO, internal auditor, the external auditors and other senior members of management to examine issues pertaining to the presentation of financial information, accounting practices, upcoming accounting pronouncements, internal accounting systems and internal financial controls.
- 05 The Committee examines investment policies and issues. It also reviews and recommends to the Board for approval documents such as the annual report, the management discussion and analysis contained in the annual report, the audited financial statements, and the unaudited interim financial statements and interim management discussion and analysis to shareholders.



GENERAL INFORMATION

MATERIALITY - 1560

DEFINITION

- 01 Financial statement users are interested in information that will aid them in their decision-making process. Materiality is the term used to describe the significance of financial statement information to decision makers. The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.

MATERIALITY LIMITS

- 02 Nova Scotia Power Inc. ("NSPI") sets materiality levels by major financial statement areas to facilitate the processing of large volumes of transactions. Procedures for implementing the materiality policy for these areas are discussed in the applicable sections of this manual.
- 03 The capitalization limits by major function are detailed in NSPI Accounting Policy and Procedures Manual Section 1560A.

POLICIES

- 04 Expenditures for amounts less than the stated capitalization limits should be charged to operations as they are incurred.
- 05 When additional costs associated with capitalizing immaterial amounts exceed the benefits of providing this information to financial statement users, all costs should be expensed.



GENERAL INFORMATION

CAPITALIZATION LIMITS - 1560A**SUMMARY OF CAPITALIZATION LIMITS**

- 01 The following table summarizes the capitalization limits by major function. These limits refer to total cost of acquisition including installation. Please refer to the Capital Expenditure Justification Criteria, Appendix 5 – General Criteria, “Routine Expenditures”, submitted to the Nova Scotia Utility and Review Board (“UARB”) in 1995 and revised in 1997, for guidelines regarding capital expenditures. Items under the capitalization limits are expensed.

Function	Capitalization Level	NSPI Accounting Policy and Procedures Manual Reference
Thermal Generation	\$25,000	6000
Hydro	5,000	
Gas Turbines	5,000	
Transmission	5,000	
Distribution	1,000	
Buildings	2,000	
Tools	1,000	
Transportation Equipment	2,000	
Office Equipment	1,000	
Communication Equipment	1,000	
Hardware	10,000	6215
Telecommunications Equipment	10,000	
Software	5,000	6215
Software Development	25,000	6215
Deferral of Operating Costs Expenditures	UARB Approval	6900
Severance Programs	UARB Approval	6930
Assets Not Used and Useful	UARB Approval	6340



GENERAL INFORMATION

COST ALLOCATION POLICY – 1570**GENERAL**

- 01 Nova Scotia Power Inc. ("NSPI") is the primary operating subsidiary of Emera Inc, a diversified energy company based in Halifax, Nova Scotia
- 02 For financial reporting purposes, NSPI is organized into cost centers and has specific cost centers that provide corporate support services to NSPI and its affiliates. While most of the operating costs related to each affiliate are accumulated in its separate books of account, direct costs associated with corporate support services and certain other general expenses are allocated in a manner that appropriately reflects the cost of the service or benefit provided to that affiliate. Corporate support services costs that cannot be directly attributed to a specific entity must be allocated in a fair manner between NSPI and its affiliates.
- 03 NSPI will ensure that corporate support services costs, general expenses, and other costs, including overhead, are fairly allocated between NSPI and its affiliates.
- 04 The Cost Allocation Policy is consistent with the principles and practices contained in the accounting policies and practices used by NSPI.

POLICY

- 05 Section 6.11 of the affiliate Code of Conduct which is approved by the Nova Scotia Utility and Review Board ("UARB") states that the costs of corporate support services will be fairly allocated between NSPI and its affiliates. The allocation factor employed will depend on the nature of the corporate support service.

SELECTION AND APPLICATION OF ALLOCATION METHODOLOGY

- 06 The procedures followed by Corporate Accounting to allocate the corporate support services Operating, Maintenance and General ("OM&G") to affiliates are:
- a. Identify cost centres that provide corporate support services to both the regulated utility and affiliates;
 - b. Through an interview process with the manager of each corporate support service cost centre:
 - Identify those costs that can be directly charged to a specific entity
 - Identify those costs that are "common" and are shared by affiliates.
 - c. Select an allocation methodology considering industry practice and the situation most relevant to NSPI and its affiliates;
 - d. Using the allocation methodology selected, calculate the amount to be charged to NSPI and its affiliates including overhead load where applicable; and

GENERAL INFORMATION

COST ALLOCATION POLICY – 1570

- e. On a monthly basis, allocate common corporate support services costs to affiliates. Allocation calculations will be updated monthly, quarterly and annually depending on the cost centre. The overhead load factor will be updated annually or more frequently if required.

COSTS INCLUDED IN THE ALLOCATION PROCESS

- 07 NSPI's corporate support services costs include all expenses, both direct and common, required to provide support services to NSPI and its affiliates.
- 08 An overhead load will be charged to NSPI's affiliates to cover indirect support costs not captured in the corporate support group cost centres.

CORPORATE SUPPORT SERVICES

- 09 Corporate support services include the following:
- a. Internal Audit
 - b. Corporate Secretary and General Counsel
 - c. Finance and Accounting
 - d. Risk Management
 - e. Corporate Human Resources
 - f. Environmental Policy and Procedures
 - g. Procurement and Real Estate
 - h. Information Technology

DIRECT EXPENSE ALLOCATION

- 10 Corporate support services costs that can be directly attributed to a specific entity are directly charged to that entity.

COMMON COST ALLOCATORS

- 11 Where services are provided to a number of affiliates and direct charging is not readily determinable or practical, one or more of the following methods or "costs drivers" are used for allocating costs.
- 12 Time Analysis – The Time Analysis cost driver uses documented time keeping records of employee's labour hours in support of work provided to NSPI and its affiliates. Costs are charged to NSPI and its affiliates based on the percentage of time worked for each affiliate.
- 13 Project Analysis – The Project Analysis cost driver uses an estimate of time spent on activities for each affiliate.
- 14 Enterprise Employees - The Enterprise Employee cost driver uses the relative number of employees each affiliate has in the Emera organization.
- 15 Total Capitalization – Total Capitalization uses the relative proportion of total debt and equity each

GENERAL INFORMATION

COST ALLOCATION POLICY – 1570

affiliate has in Emera's consolidated capital structure.

- 16 Number of Invoices – Number of invoices uses the relative proportion of invoices processed for each affiliate.
- 17 Number of Journal Lines – Number of journal entry lines uses the relative proportion of accounting journal entries processed for each affiliate.
- 18 Number of Vehicles – Number of vehicles uses the relative proportion of vehicles owned or leased for each affiliate.
- 19 Asset Value – Asset value uses the relative proportion of total assets owned for each affiliate.
- 20 Total Revenue - Total revenue uses the relative proportion of total revenue for each affiliate.
- 21 Service Level Agreements

OVERHEAD ALLOCATION

- 22 An overhead load will be charged to NSPI's affiliates to cover indirect support costs not captured in the corporate support group cost centres.
- 23 Included in the overhead load are depreciation and carrying charges on office equipment, rent, I/T desktop support services and incentives.

RESPONSIBILITY

- 24 Corporate Accounting Services will be responsible for:
 - a. identifying cost centres that provide services to both NSPI and its affiliates;
 - b. choosing allocation cost drivers in conjunction with the service providers;
 - c. identifying and calculating an appropriate overhead allocation factor to be charged to NSPI's affiliates;
 - d. processing the monthly allocation of common corporate support services costs and overhead load to NSPI's affiliates;
 - e. reviewing the cost drivers and the overhead allocation rate on a quarterly basis to assess the validity of the original assumptions and make adjustments as required;
 - f. re-evaluating the cost drivers and cost centres on an annual basis to assess their reasonableness.
- 25 The Controller of NSPI will be responsible for the management of the Cost Allocation Policy.

GENERAL INFORMATION
COST ALLOCATION POLICY – 1570



REFERENCE

CODE OF CONDUCT

- 26 SECTION 1.1 – The primary purpose of this Code of Conduct is to ensure that all transactions NSPI enters into with affiliates are designed and carried out in a manner reasonably expected to produce demonstrable benefit to NSPI customers, when compared with all other available options.
- 27 SECTION 6.11 - The costs of corporate support services will be fairly allocated between NSPI and its affiliates. The allocation factor employed will depend on the nature of the corporate support service.

DEFINITIONS

- 28 For the purpose of the Cost Allocation Policy and interpretation of this Policy, the following definitions will apply.
- 29 Affiliate - The Nova Scotia Companies Act defines an Affiliate as:
- (1) A company shall be deemed to be an affiliate of another company if one of them is the subsidiary of the other or if both are subsidiaries of the same company or if each of them is controlled by the same person.
 - (2) A company shall be deemed to be controlled by another person or by two or more companies if
 - (a) voting securities of the first-mentioned company carrying more than fifty per cent of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or by or for the benefit of the other companies; and
 - (b) the votes carried by such securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned company.
 - (3) A company shall be deemed to be a subsidiary of another company if
 - (a) it is controlled by
 - that other, or
 - that other and one or more companies each of which is controlled by that other, or
 - two or more companies each of which is controlled by that other; or
 - (b) it is a subsidiary of a company that is that others subsidiary. R.S., c. 81, s. 2; 1990, c.15, s. 2.
- 30 Corporate Support Service - Those services or functions that are not unique to a single NSPI operating business unit or Emera line of business, and are shared to more effectively and efficiently meet business needs.
- 31 Cost Allocation – the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or

GENERAL INFORMATION
COST ALLOCATION POLICY – 1570



-
- more overall factors (also known as general allocators).
- 32 Cost Driver – a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
 - 33 Common Costs – costs associated with services or products that are of joint benefit between two or more companies.
 - 34 Direct Costs – costs that can be directly identified with a particular service or product for a specific entity.
 - 35 Regulated – refers to services or products that are subject to price regulation by regulatory authorities.
 - 36 Non-Regulated – refers to services or products that are not subject to price regulation by regulatory authorities.
 - 37 Total Capitalization – includes common and preferred shares, contributed surplus, retained earnings and total short and long-term debt.



GENERAL INFORMATION
FINANCIAL RECORDS - 1580

GENERAL

- 01 The Company retains sufficient records to satisfy all legal, regulatory, financial, taxation and statistical requirements. These records are situated at head office and field locations as well as the third party record retention facilities.

POLICIES

- 02 Source documents including, but not limited to, purchase orders, invoices, cancelled cheques, requests for cheques, and receipts should be retained for a minimum of seven years to comply with income tax regulations. Acceptable storage media include printed reports, microfiche or electronic data files.
- 03 External auditors' information requirements generally would not exceed one year; however, since historical financial information is required for internal usage on a regular basis, two years' supporting documentation should be readily accessible to Company staff.
- 04 Internal documents not directly supporting financial transactions and results should be retained for a minimum of two years. Examples of these documents include requisitions and newsletters.



GENERAL ACCOUNTING
STATEMENT OF CASH FLOW - 2100

STATEMENT OBJECTIVE

- 01 The primary objective of a Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The information provided in a Statement of Cash Flows, if used with related disclosures and information in the other financial statements, should help investors, creditors and others to do all of the following:
- a. Assess the entity's ability to generate positive future net cash flows.
 - b. Assess the entity's ability to meet its obligations, its ability to pay dividends and its needs for external financing.
 - c. Assess the reasons for differences between net income and associated cash receipts and payments
 - d. Assess the effects of any entity's financial position on both its cash and noncash investing and financing transactions during the period. ¹

POLICY

- 02 The statement of cash flows shall report the cash effects during a period of an entity's operations, its investing transactions, and its financing transactions. ²
- 03 Nova Scotia Power Inc. ("NSPI") applies the indirect method of reporting cash flows.
- 04 NSPI follows the presentation classification of specific cash flows as outlined in FASB ASC 230 – *Statement of Cash Flows*
- 05 The Statement of Cash Flow should disclose at least the following items:
- a. cash from operations, with the amount of cash from operations reconciled to the Statement of Earnings or the components of cash from operations separately disclosed;
 - b. cash flows resulting from discontinued operations;
 - c. cash flows resulting from extraordinary items;
 - d. outlays for acquisition and proceeds of disposal of assets, by major category;
 - e. the issue, assumption, redemption and repayment of debt;

¹FASB Section 230-10-10

²FASB Section 230-10-45-1



GENERAL ACCOUNTING
STATEMENT OF CASH FLOW - 2100

- f. the issue, redemption and acquisition of share capital;
- g. the payment of dividends on common shares; and
- h. cash and cash equivalents.

FORMAT

- 06 Cash flows from operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.³ Cash flows from operating activities are determined by adjusting net earnings for the effect of non-cash items recorded in earnings, (e.g. depreciation expense and amortization of deferred charges) deferred spending which relates to operations and changes in operating working capital items.
- 07 Cash flows from financing activities include obtaining resources from owners and providing them with a return on, and a return of, their investment; receiving restricted resources that by donor stipulation must be used for long-term purposes; borrowing money and repaying amounts borrowed, or otherwise settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.⁴ Payments of dividends to common shareholders are disclosed separately on the Statement of Cash Flow.
- 08 Cash flows from investing activities include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets, that is, assets held for or used in the production of goods or services by the entity (other than materials that are part of the entity's inventory).⁵
- 09 The classification of cash flows resulting from discontinued operations and extraordinary items will depend on the underlying nature of the item.
- 10 The amounts of interest paid (net of amounts capitalized) and income taxes paid during the period shall be disclosed.⁴

³ FASB Section 230-10-20

⁴ FASB Section 230-10-20

⁵ FASB Section 230-10-20

⁴ FASB Section 230-10-50-2

GENERAL ACCOUNTING
FOREIGN CURRENCY TRANSLATION - 2200



POLICIES

- 01 The functional currency of the company is Canadian dollars. Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency at the rate of exchange prevailing on each balance sheet date.
- 02 All exchange gains and losses resulting from the remeasurement of monetary assets and liabilities that are not denominated in the functional currency are recognized in income.¹
- 03 Non-monetary items should be recorded at historical exchange rates at the date of purchase or acquisition.
- 04 At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be recorded in the functional currency of the recording entity²
- 05 When a foreign currency transaction is hedged, the rate established by the terms of the hedge should be used.
- 06 **Long-term Monetary Assets and Liabilities**
- a. Long-term debt denominated in foreign currencies are translated at each quarter-end using the noon rate on the balance sheet date. Differences between the translation at transaction date and the translation at the balance sheet date are charged to operations.

¹ FASB ASC 830-10-45-17

² FASB ASC 830-10-45-17

GENERAL ACCOUNTING
EMPLOYEE FUTURE BENEFITS - 2400



GENERAL

- 01 The Company maintains contributory defined-benefit and defined-contribution pension plans that cover substantially all employees, and plans providing non-pension benefits for its retirees.
- 02 The defined-benefit pension plans are based on the years of service and average salary at the time the employee terminates employment and provide annual post-retirement indexing equal to the change in the Consumer Price Index up to a maximum increase of 6% per year.
- 03 Other retirement benefit plans include: unfunded pension arrangements, unfunded long service award and contributory health care plan.
- 04 The measurement date for the assets and obligations of each benefit plan is December 31.

POLICIES

- 05 Pension obligations and obligations associated with non-pension post-retirement benefits such as health benefits to retirees and retirement awards, are actuarially determined using the projected benefit method prorated on service and management's best assumptions. The projected benefit obligation is valued based on market interest rates at the valuation date.
- 06 Adjustments to the projected benefit obligation arising from plan amendments are amortized on a straight-line basis over the expected average remaining service period ("ARSP") of active employees.
- 07 Pension fund asset values are calculated using market values at year-end. The expected return on pension assets is determined based on market-related values. The market-related values are determined in a rational and systematic manner so as to recognize asset gains and losses over a five-year period.
- 08 For any given year, when Nova Scotia Power Inc's ("NSPI"'s) net actuarial gain (loss), less the actuarial gain (loss) not yet included in the market-related value of plan assets, exceeds 10% of the greater of the projected benefit obligation and the market-related value of the plan assets, an amount equal to the excess divided by the ARSP is amortized on a straight-line basis.
- 09 On January 1, 2011, NSPI adopted the US accounting standard on employee future benefits retrospectively with restatement.
- 10 Plan surpluses are recognized as assets and plan deficits are recognized as liabilities on the balance sheet. The difference between plan surplus (deficits) and accrued benefit assets (liabilities) is recognized in accumulated other comprehensive income.

GENERAL ACCOUNTING
EMPLOYEE FUTURE BENEFITS - 2400



PROCEDURES

- 11 Actuarial valuations are performed annually for all plans.
- 12 Pension expense, as determined in the annual actuarial valuation, is charged to both operating departments and corporate adjustments.
- 13 Pension funding for pre-funded plans are paid as determined in an annual actuarial valuation.
- 14 Pension plan assets are invested by fund managers. Monthly statements are provided by the trustee showing asset market values, investment income, pension benefits, refunds of contributions and plan expenses.
- 15 A Statement of Net Assets and a Statement of Changes in Net Assets for all pension plans are prepared quarterly. These statements show pension asset market values, contributions receivable, accounts payable, investment income, changes in market values, contributions received, pension benefits paid, refunds of contributions and plan expenses.
- 16 For the defined benefit pension plan, employee contributions for current service are matched by NSPI through the payroll system and remitted to the trustee for investment by fund managers. Additional employer contributions for current service and/or past service, where required, are also remitted to the trustee for investment by the fund managers.
- 17 For the defined contribution pension plan, employee and employer contributions are remitted to a pension plan administrator and invested according to instructions provided by the employee.
- 18 For the defined benefit pension plan, administrative expenses are paid by NSPI and reimbursed from the pension fund through requests to the trustee.



FINANCIAL REPORTING SYSTEM

ORACLE SYSTEM OVERVIEW - 3000

DEFINITION

- 01 Oracle is a relational database system that stores all information in a manner that permits the integration of data between various functions. This database is the corporate standard for development of new systems and allows all systems, both old and new, to have access to the same data.
- 02 In addition to the database itself, the Oracle-developed software is used for General Ledger, Accounts Payable, and Purchasing. The financial database is also used for in-house developed systems such as Invoice Express.

APPLICATION

- 03 After the separation of the regulated utility business of Nova Scotia Power Inc. ("NSPI") and the other businesses of Emera Inc.¹, NSPI segregated its financial data from its affiliates using the "Multi-Org" functionality available within the Oracle environment. An account structure was created more appropriate for non-electric utility businesses and a separate "sets of books" (25-digit account structure vs. 14-digit account structure²) was developed within the financial applications.
- 04 The province-wide availability of Oracle also allows for more decentralization of tasks. Field users enter their own requisitions directly into the system. Requisitions are approved on-line, and are then used to generate purchase orders. These factors allow field managers to better track their own expenditures, and to follow the status of their requisitions through the approval process, the creation of the purchase orders, and the receipt of the goods in question. Also field users can upload any journal entry which reduces the need for re-entry by head office staff.
- 05 The integration of the database allows the information originally entered by the user to continue through the purchasing process to the receiving of the goods and the payment of invoices. All the accounting information is then moved directly into the General Ledger.

¹ Please refer to NSPI Accounting Policy and Procedures Manual 1500 for details

² Please refer to NSPI Accounting Policy and Procedures Manual 3100 for details



FINANCIAL REPORTING SYSTEM

ORACLE SYSTEM OVERVIEW - 3000

ACCESS

- 06 Oracle assigns user access on the basis of responsibilities. These responsibilities have their own menus, determining what functions can be used. With the exception of system administration, database administration and IT functions, all responsibilities, and the related menus, are custom-built by the Oracle system administrators at NSPI.
- 07 The primary reason for the design of the various responsibilities is to separate tasks between users. For instance, the maintenance of the Vendor Master file is kept apart from both Buyers and Accounts Payable Representatives and access to information of one affiliate by another affiliate is limited to the appropriate users (Corporate Accounting Services staff).
- 08 When new users are added to the Oracle system, a record is created of the employee, their personnel number, their location, and their supervisor. If the employee is to be added as someone with signing authority, that employee's signing authority limit is also recorded. At that point a User-ID is created and all appropriate responsibilities are given to that user.



FINANCIAL REPORTING SYSTEM

ACCOUNT STRUCTURE - 3100

INTRODUCTION

- 01 The Chart of Accounts is updated on a regular basis and posted on the Nova Scotia Power Inc. ("NSPI") intranet. It is filed with the Nova Scotia Utility and Review Board ("UARB") annually.
- 02 The Chart of Accounts is intended as a reference document. It includes definitions of segments covering divisional expenditures as well as complete listings of all valid segment values.

OVERVIEW

- 03 The account structure utilized by NSPI has been designed to address operational, financial and regulatory requirements. Accordingly, the account structure meets US generally accepted accounting principles financial reporting needs, UARB needs, and internal needs.
- 04 The Oracle account number consists of a fourteen digit **accounting flex field**. The flex field is made up of five segments as shown below.

Company	Account	Activity	Cost Centre	Project
X -	XXX -	XXX -	XXX -	XXXX

05 **Company Segment**

The first segment titled **Company** is a single digit and will be a 1 for all items except Capital Work Orders. Capital work requires a 2 to be inserted in this field.

06 **Account Segment**

The second segment is the three-digit account number which indicates the type of transaction - revenue, expense, asset, liability or equity. A complete listing of account numbers is provided in the Chart of Accounts.

07 **Activity Segment**

The third segment is titled **Activity** and indicates the function, work program or section involved. If this breakdown is not appropriate, a default of "000", titled "None" is available. A listing of all available activities with definitions is provided in the Chart of Accounts.

08 **Cost Centre Segment**



FINANCIAL REPORTING SYSTEM

ACCOUNT STRUCTURE - 3100

The fourth segment indicates the **Cost Centre**. . A complete list of all cost centres is provided in the Chart of Accounts.

09 Project Segment

The final segment is the four-digit project identifier. The project identifier is optional for operating expenses, but can be used to track specific short-term operating projects. Sequential numbers are assigned to operating projects by Corporate Accounting Services.

A project identifier is mandatory for capital items. The first character in the project code identifies the function involved (S-steam, H-hydro, T-transmission, D-distribution, G-gas turbine, W-Wind Generation and P-general property). The last three characters of a project identifier represent a capital work order number.



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350**GENERAL**

- 01 Generic accounts simply provide a higher level summary of Nova Scotia Power Inc.'s ("NSPI's or the Company's") asset accounts than the break down furnished by the capital and intangible activities. The format conforms to the account descriptions used by the Federal Energy Regulatory Commission ("FERC") in the United States. NSPI's Accounting Policy and Procedures Manual 3350A contains a table that provides a cross reference of the generic accounts reported to the Nova Scotia Utility and Review Board ("UARB") and the activities used to internally track asset costs.

POLICY

- 02 The Company should use generic accounts to summarize its asset activity codes for filings with the UARB.

GENERIC ACCOUNT DESCRIPTIONS**Land and Land Rights**

- 03 Includes the cost of land owned and the rights, interests and privileges held by the Company in land owned by others. Land and land rights shall be classified within the function according to the major purpose for which it was acquired. Some points to note about land and land rights:
- a. When special assessments are assigned to land and are in the form of deferred payments, the full amount of the assessment only shall be charged against the land account.
 - b. When land and buildings are acquired together, the costs shall be apportioned between land and buildings according to an independent appraisal.
 - c. If the buildings acquired are to be demolished without being used for utility operations, the cost of removal and any salvage shall be charged against the land account.
 - d. The first clearing and grading of land and any damage costs to associated property shall be charged to the appropriate plant accounts and not to the land account.
 - e. When the purchase of land for utility operations requires the purchase of more land than is needed the specific land account shall be charged with the cost of land purchased less fair market value of the land that is deemed surplus. This amount shall be charged to an appropriate land held for future use account.
 - f. This account shall be charged with:
 - i. the costs of acquiring land held in fee simple and used for construction and operation of the utility.



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

- ii the cost of removal of any buildings included in the original acquisition of the land.
 - iii the costs associated with acquiring land rights.
- g. This account shall be credited with:
- i. the net proceeds from the sale of timber, cord wood, gravel, etc.
 - ii. the salvage received for the sale of buildings originally included on the land or any salvage received for the components of these buildings.
 - iii. in the case of the disposal of land the original cost of any land or land rights sold.
- h. Any profit or loss on the sale of land shall be charged to an appropriate gain or loss on land sale account in accordance with the procedures in NSPI Accounting Policy and Procedures Manual 6440.

Buildings, Structures and Grounds

- 04 Includes the installed cost of all permanent structures, services and improvements used to house, support, or safeguard property or persons. Also includes those items that are permanently attached to buildings and could not be removed without cutting into the building and any improvement of a permanent nature on or to land. Buildings shall be classified within the function according to the major purpose under which it was acquired or constructed. Some points to note about buildings, structures and grounds:
- a. When land and buildings are acquired together, the costs shall be apportioned between land and buildings according to an independent appraisal.
 - b. If the buildings acquired are to be demolished without being used for utility operations, the cost of removal and any salvage shall be charged against the land account.
 - c. The first clearing and grading of land and any damage costs to associated property shall be charged to the appropriate building account for its initial construction.
 - d. The cost of foundations supplied specifically for and not intended to outlast the machinery or equipment shall be charged to the same account as the machinery or equipment.
 - e. Minor buildings shall be considered to be part of the cost of the facility with which it was constructed.
 - f. When the structure of a dam forms the foundation of a power plant building the foundation shall be charged to the dam.
 - g. If furnaces or boilers provide heat to the plant as an incidental item to their prime purpose these items shall be charged to the appropriate plant account.



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

- h. When material is excavated in connection with the construction of a building the costs of loading, hauling and dumping shall be charged to the project where it is ultimately used.
- i. If the excavated material is sold the expenses incurred less any revenue received will be charged or credited to the construction project from which the material was taken.
- j. This account shall be charged with:
 - i. the costs associated with constructing buildings and all the associated attachments. This includes labour, materials, consulting, contractors' costs, construction overheads and allowance for funds used during construction.
 - ii. the costs associated with the acquisition of a building including legal, broker and appraisal fees, etc.
 - iii. the cost of permanent improvements on or to land.
 - iv. excavation costs such as loading, hauling and dumping fill.
- k. This account shall be credited with:
 - i. the salvage received from the sale of excavated material.

Miscellaneous Equipment

- 05 Includes the installed cost of all miscellaneous items that cannot be attributed to any other specific property unit.

Indirect Costs

- 06 Includes administrative/financial costs of construction (allowance for funds used during construction, administrative overheads, inspections, traffic control, pole stacking, etc.) plus all costs associated with the design, commissioning, field supervision, project management and any survey and mapping costs.

Capital Contributions

- 07 Includes the value of cash or assets received to defray the cost of construction of an asset for customer use. This can take the form of cash payments or asset title transferred to the Company.

Environmental Equipment

- 08 Includes the installed cost of all equipment used to monitor, control and reduce the emission of gases and other environmentally sensitive discharges. This account will also include the cost of facilities used in connection with the conservation of fish and wildlife and for recreational purposes.



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

Site Restoration

- 09 Included in this activity is the present value of the future cost of site restoration associated with the generating facilities.

Prime Movers & Generators

- 10 Includes the installed cost of the steam, gas, hydraulic or wind turbine driven units and associated equipment used primarily for the production of electrical energy.

Boiler Plant Equipment

- 11 Includes the installed cost of the following major equipment used for the production of steam to be used primarily for generating electrical energy:
- a. Furnaces
 - b. Boilers
 - c. Fuel Preparing Equipment
 - d. Fuel and Ash Handling Equipment
 - e. Steam and Feedwater Piping

Electrical Plant

- 12 Includes the installed cost of the following major equipment used primarily for the control and switching of electrical energy and protection of electrical circuits and equipment:
- a. Auxiliary Generators
 - b. Conversion Equipment
 - c. Control Equipment

Please note that Electric Plant does not include equipment designed to change the voltage or frequency of energy for the purpose of more efficiently transmitting or distributing this energy.

Roads, Trails and Bridges

- 13 Includes the cost of all permanent roads, trails and bridges required to provide access for people and equipment to the Company's buildings, dams and other facilities.
-



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

Reservoirs, Dams & Waterways

- 14 Includes the installed cost of facilities used for impounding, collecting, storage, diversion, regulation and delivery of water used primarily for generating electricity.

District Heating & Cooling

- 15 Includes the cost of the water piping network and heat exchangers at both power plant and client facilities.

Poles, Towers and Fixtures

- 16 Includes the installed cost of all poles, towers and associated fixtures used primarily to support distribution and transmission overhead facilities and their connection to underground systems. This account includes the cost of all equipment used to hold these poles in place, but excludes the cost of poles used solely to support street and highway lighting equipment.

Please note that poles used jointly for transmission and distribution should be charged to the transmission function poles.

Overhead Conductor

- 17 Includes the installed cost of all overhead conductors and associated equipment used in the transmission and distribution of electrical energy.

Please note that overhead conductor does not include the cost of conductor, etc., used solely for the street and highway lighting system.

Line Transformers - Overhead

- 18 Includes the installed cost of all transformers and associated equipment used in the transformation of electrical energy in the transmission and distribution overhead system to a voltage that can be used by the customer.

Station Equipment

- 19 Includes the installed cost of all equipment used for the purpose of changing the characteristics (voltage, etc.) of electricity in the distribution level of voltage. This account also includes the cost of buildings erected for the purpose of being used primarily in the substation function.
-



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

Underground Conduit

- 20 Includes the installed cost of all underground conduit and tunnels used to house transmission or distribution wires.

Underground Conductors

- 21 Includes the installed cost of all underground conductors and other equipment used in the underground system. This includes any underwater facilities as well.

Line Transformers - Underground

- 22 Includes the installed cost of all transformers and associated equipment used in the transformation of electrical energy in the underground system to a voltage which can be used by the customer.

Street Lighting

- 23 Includes the installed cost of all equipment used entirely for the unmetered street and highway lighting systems.

Meters

- 24 Includes the purchased cost of all meters and related equipment used to measure the electricity delivered to customers.

Services

- 25 Includes the installed cost of overhead or underground conductors leading from the point where the wires leave the last pole or manhole to the point where it is connected to the customer's service entrance.

Communication Equipment

- 26 Includes the installed cost of all radio, telephone and microwave equipment for use within the Company.

Supervisory Control and Data Acquisition ("SCADA") Equipment

- 27 Includes the installed cost of all SCADA equipment that is a computer directed control system that allows for data acquisition that can remotely direct the energy generation and transmission based on the criteria used to efficiently control generation and transmission of electricity.
-



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

Transportation Equipment

28 Includes the installed cost of all transportation and work vehicles used for utility purposes.

Office Equipment

29 Includes the installed cost of all office related furniture and equipment. This account does not include general purpose computer equipment.

Shop Equipment

30 Includes the installed cost of all equipment used in repair work for general shops.

Leases and Leasehold Improvements

31 Includes the installed cost of all leases and leasehold improvements.

Computer Equipment

32 Includes the installed cost of all computer hardware and software that is used in the general operations of the Company.

Laboratory Equipment

33 Includes the installed cost of all laboratory equipment for all functions of the Company.

Stores Equipment

34 Includes the installed cost of all equipment used in the receiving, shipping, handling and storage of materials and supplies used in the storeroom.

Mining Equipment

35 Includes the value of all mining assets owned by NSPI.

Non-utility



FINANCIAL REPORTING SYSTEM

GENERIC ACCOUNTS - 3350

- 36 Includes the installed cost of all intangible assets that are part of the Company's long-term investment to provide service to the rate payers that is not substantiated by a physical asset as well as the installed cost of all property that is not used directly to supply electric service to a consumer.

FINANCIAL REPORTING SYSTEM
GENERIC ACCOUNTS -

CROSS REFERENCE TO CAPITAL ACTIVITIES - 3350A



GENERIC ACCOUNT	ACTIVITY	CODE	STM (S)	GAS (G)	HYD (H)	TRN (T)	DIST (DP)	GEN (P)	WIND (W)
Land and Land Rights	Land	001	X	X	X	X	X	X	
	Land Rights	002	X	X	X	X	X	X	X
Buildings, Structures & Grounds	Buildings, Structures & Grounds	003	X	X	X	X	X	X	
Miscellaneous Equipment	Miscellaneous Equipment	004	X	X	X	X	X	X	
Indirect Charges	Indirect Charges	005	X	X	X	X	X	X	X
	Design	085	X	X	X	X	X	X	X
	Commissioning	086	X	X	X	X	X	X	X
	Field Supervision and Operations	087	X	X	X	X	X	X	X
	Survey and Mapping	088	X	X	X	X	X	X	X
R&D Activity	R&D Activity	089						X	
Capital Contribution	Capital Contribution	006	X	X	X	X	X	X	
Environmental Equipment	Environmental Equipment	007	X	X	X	X	X	X	
Site Restoration Asset	Site Restoration Asset	008	X		X				
Boiler Plant Equipment	Plant Control and Instrumentation	011	X						
	Boiler	013	X						
	Circulating Water System	014	X						
	Waste Water System	015	X						
	Feedwater System	016	X						
	Draft Equipment/Stacks	017	X						
	Fuel Handling – Natural Gas	012		X					
	Fuel Handling – Coal	018	X						
	Fuel Handling – Oil	019	X	X					
	Fuel Handling – Limestone	020	X						
	Ash Handling Equipment	021	X						
Electrical Plant	Electrical Control Equipment	022	X	X	X				X
	Power Equipment – Station Service	023	X	X	X				
Prime Movers & Generators	Turbogenerator Installation	010	X						
	Turbine	024			X				
	Generator	025			X				
	Gas Turbine Engines	030		X					
	Wind Generating Installation	031			X				X
Reservoirs, Dams & Waterways	Waterways	027	X		X				
	Dams & Spillways	028			X				
	Land Drainage	029			X				
District Heating & Cooling	District Heating & Cooling	032	X						
Roads, Trails & Bridges	Roads, Trails & Bridges	026			X	X			X
Poles, Towers, & Fixtures	Wooden Poles	035				X	X		
	Other Poles	036				X	X		
	Steel Towers	037				X	X		
	Insulators	038				X	X		

FINANCIAL REPORTING SYSTEM
GENERIC ACCOUNTS -
CROSS REFERENCE TO CAPITAL ACTIVITIES - 3350A



GENERIC ACCOUNT	ACTIVITY	CODE	STM (S)	GAS (G)	HYD (H)	TRN (T)	DIST (DP)	GEN (P)	WIND (W)
Overhead Conductor	Overhead Conductor	039				X	X		
	Overhead Conductor Devices	040				X	X		
Line Transformers - Overhead	Overhead Transformers	041					X		
	Overhead Transformer Devices	042					X		
Station Equipment	Substation Devices	043				X	X		
	Substation Transformers	044				X	X		
Underground Circuit	Underground Conduit	045				X			
Underground Conductors	Underground Conductor	046				X	X		
	Underground Conductor Devices	047				X	X		
Line Transformers - Underground	Underground Transformers	048					X		
	Underground Transformer Devices	049					X		
Street Lighting	Street Lighting	050					X		
Meters	Meters	051					X		
Services	Services	052					X		
Communication Equipment	Subscriber Mobile Radio	053						X	
	Remote Monitoring	054						X	
	Teleprotection	055						X	
	Communication Entrance Cables	056						X	
	Leased Communication Facilities	057						X	
	Power Line Carrier	058						X	
	Multiplex	059						X	
	Broadband Radio	060						X	
	Telecommunication Systems	061						X	
	Fibre Optics	062						X	
	Mobile Radio Infrastructure	063						X	
SCADA Equipment	SCADA Equipment	064					X		
Transportation Equipment	Transportation Vehicles	065						X	
	Work Vehicles	066						X	
Office Equipment	Office Equipment	067						X	
	Office Furniture - General	068						X	
	Office Furniture - Modular	069						X	
Shop Equipment	Shop Equipment	070					X		
Leases and Leasehold Improvements	Leasehold Improvements	071						X	
	Capital Lease	075						X	
Computer Equipment	Computer Hardware & Operating Software	072						X	
	Computer Application Software	078						X	
Laboratory Equipment	Laboratory	073					X		
Stores Equipment	Stores	074					X		
Mining Equipment	Mining Equipment	076						X	
	Purchase Price Difference	080						X	
Non-Utility	Non-Utility Property	081						X	



REVENUE
ELECTRIC - 4100

POLICIES

- 01 The Company records revenue from the sale of electricity to customers at rates approved by the Nova Scotia Utility and Review Board ("UARB").
- 02 Revenues are recognized in accordance with *FASB ASC Topic 605-10-25* and *S25 Revenue Recognition*.
- 03 Revenue should be billed on a cyclical basis with an estimate of revenue from energy supplied but not yet billed to customers accrued monthly. The total unbilled revenue receivable should appear on the balance sheet as a current asset.

PROCEDURES

04 **Billed Electric Revenue**

Billed electrical revenue and related kWh statistics are recorded by customer classification from computerized month-end billing reports and from other revenue reports from the Billing Department for certain large customers.

- 05 Revenue associated with the Fuel Adjustment Mechanism ("FAM") is recorded in accordance with Nova Scotia Power Inc.'s ("NSPI's") Accounting Policy and Procedures Manual Section 5110.

06 **Unbilled Electric Revenue**

An estimate of unbilled electrical revenue and related kWh statistics is recorded by customer classification.



REVENUE
OTHER - 4200

DEFINITION

- 01 Other revenue includes:
- a. Revenue from materials and equipment sales;
 - b. Wiring inspection revenue;
 - c. Services provided to others (e.g. storm relief, testing of protective equipment, customer requested work on NSPI and customer owned equipment);
 - d. Customer forfeited discounts;
 - e. Miscellaneous customer charges (e.g., connection fees);
 - f. Rental income from third parties;
 - g. Customer late payment fees;
 - h. Miscellaneous revenue;
 - i. Revenue from steam and ash sales; and
 - j. Equity portion of allowance for funds used during construction.

POLICY

- 02 The Company records "other revenue" from various sources on the same basis as electric revenue -- on either an as-billed or accrued basis as it relates to the service provided.
- 03 Revenues are recognized in accordance with *FASB ASC 605-10-25 and S25 - Recognition*.



COST OF OPERATIONS

FUEL AND POWER PURCHASED - 5100

DEFINITIONS

- 01 Fuel includes the total cost, including freight, of all fuels used in the generation of electrical energy. Nova Scotia Power Inc. ("NSPI") primarily uses solid fuel, natural gas, and heavy fuel oil; however, fuel also includes light fuel oil and fuel additives.
- 02 Power purchased includes the cost of all electrical energy purchased for resale from other power producers.

POLICY

- 03 The Company should record the cost of fuels consumed and the cost of power purchased as an expense in the statement of earnings in the period of consumption or purchase.

PROCEDURES**04 Fuel Consumption**

Fuel costs are charged to expense as follows:

- a. Fuels are recorded as inventory when received.
- b. As fuel is consumed, its cost is relieved from inventory using the weighted average cost method and is charged to fuel expense (accounts 069 to 075). Consumption reports from each generating plant form the basis of these entries.
- c. Entries relating to the settlement of derivative transactions are also included in fuel expense.

05 Power Purchases

The cost of power purchases are charged to expense (account 076) as power is received.



COST OF OPERATIONS

FUEL ADJUSTMENT MECHANISM - 5110**BACKGROUND**

- 1 The Nova Scotia Utility and Review Board ("UARB") approved the implementation of a Fuel Adjustment Mechanism ("FAM") in the 2009 General Rate Decision effective January 1, 2009.

DEFINITION

- 2 The FAM includes the difference between actual fuel costs and amounts recovered from customers in the current period and in prior years. The following are the components of the FAM:
 - a) Base Fuel Costs - Customer rates are set to recover the forecast base amount of fuel costs. The differences between NSPI's actual fuel costs and the fuel costs recovered through the base fuel cost (i.e. what is charged and recovered from consumers) accumulate each month in the FAM as a Regulatory Asset (if NSPI under recovers actual fuel costs) or as a Regulatory Liability (if NSPI over-recovers actual fuel costs). The fuel base rate is reset every two years or as directed by the UARB through a formal regulatory process or during a general rate application.
 - b) Actual Adjustment ("AA") – The AA rates are calculated yearly or as directed by the UARB. The AA rates result from dividing the previous year's Base Cost of Fuel under or over-recovery balance by the upcoming year's sales forecast. The AA is used in determining the current year's electricity rates. As amounts are recovered (rebated) from (to) customers in the current year, the remaining balance of the AA amount decreases.
 - c) Balance Adjustment("BA") - The BA is the residual amount of the AA related to subsequent years that was not fully recovered through the AA, which is based on sales forecasts. The BA rate is established similar to the AA rate using the cumulative remaining FAM Regulatory Asset (Liability) balance divided by forecasted sales for the period. Any residual BA balance at the end of a period is applied to the subsequent year and used in the determination of future BA rates.
 - d) Incentive (disincentive) – The incentive (disincentive) portion of the FAM may be applicable or inapplicable in any given year pursuant to UARB direction. In the years in which the incentive (disincentive) portion of the FAM is applicable, 10% of the accumulated over or under-recovered base fuel cost balance, before interest, , to a maximum of five million dollars will be calculated and will reduce the FAM Regulatory Liability (Asset) balance and fuel adjustment mechanism on the Statements of Income.

POLICIES

- 3 Differences between actual fuel costs and amounts recovered from customers accumulate in the FAM Regulatory Asset (Liability) included in "Regulatory Assets" or "Regulatory Liabilities" on the Balance



COST OF OPERATIONS

FUEL ADJUSTMENT MECHANISM - 5110

Sheet and subsequently become an adjustment (either an addition or deduction) to future year's electricity rates.

- 4 Interest is earned at the current year's weighted average cost of capital ("WACC") compounded semi annually on the accumulated FAM Regulatory Asset (Liability) balance. NSPI earns the interest on a Regulatory Asset and the customer earns the interest on a Regulatory Liability. The interest accumulates in the FAM Regulatory Asset (Liability) account.
- 5 Future income tax is recorded on the FAM Regulatory Asset (Liability) balance resulting in a deferred income tax asset or liability. The income tax expense (recovery) is recorded based on NSPI's applicable statutory income tax rates for the period expected to apply when the 'FAM Regulatory Asset (Liability) reverses.
- 6 The incentive (disincentive) is determined at the end of each year in which the incentive (disincentive) portion of the FAM is applicable. In years in which the incentive (disincentive) portion of the FAM is applicable, an accrual is recorded each quarter based on forecasted sales and fuel expenses for the remainder of the year.
- 7 The balance accumulated in the FAM Regulatory Asset (Liability) includes any incentive (disincentive) component of the FAM, applicable interest and any other non-fuel revenues or credits as directed by the UARB.
- 8 The revenue related to the fuel under or over-recovery in the current year is not billed and collected or refunded until subsequent years. Revenue is therefore recognized when the FAM is billed or refunded to customers.
- 9 Customer rates to recover (refund) the FAM Regulatory Asset (Liability) balance are approved by the UARB. For years in which the AA and BA rates are being reset, a regulatory filing which includes the projected AA and BA balances that are to be recovered or refunded in future periods is filed with the UARB in order to obtain approval for rates effective January 1st of the subsequent year. Any differences in the actual AA and BA balances that are to be recovered or refunded in future periods compared to forecast amounts are recovered through the BA in future years.

PROCEDURES

- 10 The FAM Regulatory Asset (Liability) is recorded on the balance sheet with Regulatory Assets (Liabilities). The interest, incentive and any other non-fuel revenues or credits as directed by the UARB are accumulated to the FAM Regulatory Asset (Liability). The effect of income tax is recorded on the balance sheet as a Deferred Income Tax Asset or Liability.
- 11 The FAM is recorded on the income statement as an addition or deduction to expenses referred to as Fuel Adjustment Mechanism. The Fuel Adjustment Mechanism reflects the net amount of over or



COST OF OPERATIONS

FUEL ADJUSTMENT MECHANISM - 5110

under-recoveries from the current year's base fuel costs, including the incentive, the recognition of AA and BA amounts from prior years, and any other non-fuel revenues or credits as directed by the UARB.

- 12 Revenues associated with the recovery (rebate) of FAM fuel costs are reported as electric revenues. The interest associated with the FAM Regulatory Asset (Liability) is recorded as interest income or interest expense.



COST OF OPERATIONS

OPERATING, MAINTENANCE AND GENERAL - 5200

DEFINITION

- 01 Operating, maintenance and general ("OM&G") expenses include all costs of operations not recognized elsewhere. Examples of OM&G expenses include, but are not limited to, labour, contracts, consultants, materials, travel, office supplies, chemicals and rent.

POLICY

- 02 The Company should record the cost of OM&G expenditures that do not benefit any future period as an expense in the Statement of Earnings in the period that they are incurred.

PROCEDURES

- 03 OM&G expenses are recorded, in both computerized and manual sub-systems, as they are incurred along with any required accruals.
- 04 The major subsystems that interface with the OM&G general ledger accounts include payroll, accounts payable, and materials and supplies inventories. Miscellaneous manual adjustments are processed for minor expense items.
- 05 Additional classifications within the **accounting flex field** structure allow the accumulation of costs by activity.
- 06 Please refer to NSPI Accounting Policy and Procedures Manual Section 3100 for a detailed discussion of the Oracle Financial System account structure.

COST OF OPERATIONS

DEPRECIATION AND AMORTIZATION EXPENSE - 5300**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 live 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 estoppel², 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.

¹FASB ASC 360-10-35-3

²FASB ASC 410-20-15-2

COST OF OPERATIONS

DEPRECIATION AND AMORTIZATION EXPENSE - 5300



-
- 09 The remaining life is forecasted through the use of mortality statistics that determine the best fit *lowa 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.

COST OF OPERATIONS

AMORTIZATION - CAPITAL

CONTRIBUTIONS IN AID OF CONSTRUCTION - 5310



POLICY

- 01 Capital contributions in aid of construction towards the acquisition of fixed assets should be amortized to income using the same depreciation rates as the assets to which they relate.

PROCEDURES

- 02 The amortization base is equal to the amount of the capital contribution received for the specific asset group.
- 03 The timing of commencement of amortization is the same as the associated asset.
- 04 Please refer to NSPI's Accounting Policy and Procedures Manual Section 6220 for recording of capital contributions.



COST OF OPERATIONS

FINANCING CHARGES - 5800**GENERAL****01 Financing charges**

The financing charges figure on the Statement of Earnings is a net amount comprised of several different income and expense items. The individual items may include:

- a. long-term debt interest;
- b. amortization of debt issue costs;
- c. foreign exchange gains/losses;
- d. short-term debt interest;
- e. other expenses –such as bank charges;
- f. gains on the debt defeasance portfolio;
- g. payments/receipts on interest hedge positions;
- h. the debt portion of AFUDC;¹
- i. carrying charges deferred on Demand Side Management Programs (“DSM”) and the Fuel Adjustment Mechanism (“FAM”) approved by the UARB; and
- j. Other interest income earned from activities not related to generating and selling electricity including income from financing equipment sales, managing excess cash and interest tax refunds.

02 Interest expense should be recorded on an accrual basis.

03 Debt Issue Costs

¹ Please refer to NSPI Accounting Policy and Procedures Manual Section 6240 for details



COST OF OPERATIONS

FINANCING CHARGES - 5800

The issue of long-term debt is usually an involved process in which the Company may retain the services of brokers, lawyers and auditors. Since the cost of using these services can be significant and provide future benefit to the company, US GAAP requires these costs to be deferred and amortized over the life of the related debt instrument. Significant amounts such as premiums, discounts and commissions are deferred. The remainder of the costs are expensed in account 084 bank charges.

04 Debt issue costs should be deferred and amortized using the effective interest rate method over the term of the related debt.

05 **Foreign Currency Translation**

Please refer to NSPI Accounting Policy and Procedures Manual Section 2200

PROCEDURES

06 **Long-term Debt - Interest Expense**

Long-term debt interest expense includes interest on Nova Scotia Power Inc. ("NSPI") debentures and medium term notes. Interest expense is accrued monthly based on a 30-day months whether interest payments are made annually or semi-annually. Actual interest payments are debited to the accrued interest account.

07 **Amortization of Long-term Debt Issue Costs**

The Company defers costs associated with the issuance of long-term debt including commissions, discounts/premiums and legal and audit fees, if significant. These costs are amortized monthly using the effective interest rate method over the life of the related debt.

08 **Short-term Interest**

Short-term interest includes all interest, commissions, stamping fees, overdraft charges associated with the issuance of commercial paper, banker's acceptances, hedge settlements, and prime loans. These costs are expensed or amortized monthly over the number of days of the associated debt.



COST OF OPERATIONS

FINANCING CHARGES - 5800

09 Other Financing Charges

The Company expenses related banking costs in the month in which they occur. Stand by fees and letters of credit fees are expensed monthly. Credit facility fees are expensed over the period to which they relate.

10 Foreign Exchange Expense

It is the Company's intent to assign foreign exchange costs directly to the end-use accounts based on an estimate of the foreign exchange rate set for the month. However, due to fluctuations in exchange rates throughout the month, and differences in the timing of the purchases of foreign currency and the payment of foreign denominated invoices, over or under applied foreign exchange costs often arise which are not allocated back to the end-use accounts.

The outstanding balance in the U.S. funds bank account is translated at month end and the foreign exchange account is either debited or credited.

11 Defeasance Earnings

These earnings are generated through the management of the portfolio of investments related to the defeased debt.



COST OF OPERATIONS

INCOME TAXES - 5900

POLICY

- 01 Income tax expense should be categorized as current or deferred income tax expense as appropriate.
- 02 The Company uses the applicable enacted tax rate when measuring current and deferred income tax expense.
- 03 The Company follows the flow-through method of accounting for investment tax credits ("ITC's"). ITC's are recorded in the year earned as a reduction to income tax expense to the extent that realization of such benefit is more likely than not.
- 04 The Company recognizes deferred income tax assets (liabilities) as appropriate. To the extent deferred income taxes are expected to be recovered from or returned to customers in future rates, the Company will recognize a deferred regulatory asset (liability)¹, unless directed otherwise by the Nova Scotia Utility and Review Board.

FEDERAL INCOME TAXES

- 05 The Company is subject to federal income tax at prescribed rates applied to taxable income.

PROVINCIAL INCOME TAXES

- 06 The Company is subject to provincial income tax at prescribed rates applied to taxable income.

PART VI.1 TAX

- 07 The Company is subject to Part VI.1 tax at a prescribed rate applied to preferred share dividends paid. The Company receives a tax deduction equal to a prescribed multiple of the Part VI.1 tax.

1 FASB ASC 980-740-25-2



COST OF OPERATIONS

INCOME TAXES - 5900

PROCEDURES

- 08 A monthly income tax provision is recorded by multiplying the Company's effective combined federal and provincial income tax rate forecasted for the year by the net earnings before tax for the period.
- 09 The net Part VI.1 tax is calculated using enacted rates and recorded as current income tax expense (recovery). The monthly Part VI.1 tax expense is based on the amount of preferred dividends declared in the month. The monthly Part VI.1 tax deduction is based on the annual forecasted Part VI.1 deduction prorated based upon the total preferred dividends declared in a month.
- 10 The Company currently follows the policy of claiming sufficient capital cost allowance and cumulative eligible capital (the tax system's equivalent of depreciation and amortization), to minimize taxable income.
- 11 Federal and provincial income taxes, including net Part VI.1 tax, are included in general ledger account 086 - Income Tax Expense.



ASSETS

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.¹

GENERAL

- 02 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 An expenditure must create a benefit having a life of more than one year or adding more than one year to the originally estimated useful life of an existing asset to be considered a capital asset..
- 04 Other factors indicating an expenditure may be capital in nature include:
- a. it extends the service life of an existing capital asset beyond the assets originally estimated useful life;
 - b. it increases the capacity of an existing capital asset beyond the assets originally intended capacity;
 - c. it substantially improves the production quality of an existing capital asset; or
 - d. it reduces the operating costs of an existing capital asset.
- 05 Additional guidance on the capitalization of cost is provided in instructions with the uniform system of accounts as prescribed by Nova Scotia Power Inc.'s Capital Expenditure Justification Criteria ("CEJC") and the National Association of Regulatory Commissioners and the Federal Energy Regulatory Commission, both of which are American organizations.
- 06 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 amortization². Depreciation and amortization are methods of charging assets' costs to fiscal periods over their useful life.

1 FASB ASC 360-10-05-3

2 Please refer to NSPI's Accounting Policy & Procedures Manual Section 5300 for an explanation of depreciation and amortization expense.



ASSETS

CAPITALIZATION OF COST - 6000

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

POLICIES

- 08 Expenditures meeting the criteria described in Paragraphs 02, 03 and 06 create a benefit that will be realized by the Company beyond the current year. Accordingly, they should be capitalized.

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 realized. 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. Nova Scotia Power Inc. ("NSPI") uses different materiality levels for different classes of assets. Please refer to NSPI's Accounting Policy & Procedures Manual Section 1560 for a discussion of the concept of materiality. NSPI's Accounting Policy & Procedures Manual Section 1560A 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) process³. All costs charged to capital work orders are included in the Power Plant System with the **Company Segment** of the **Accounting Flex field** equal to "2".⁴ Only these accounts will be capitalized.

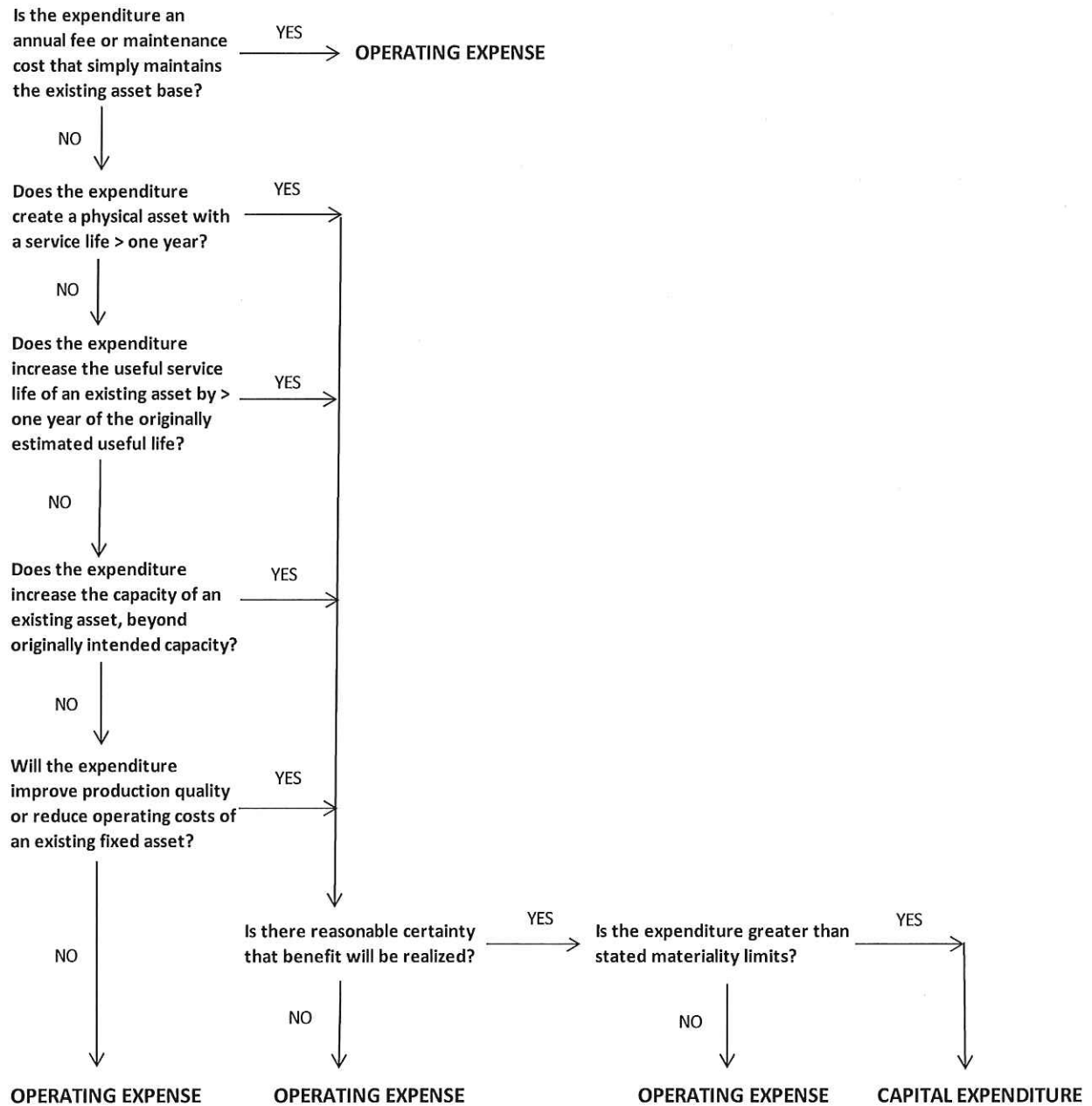
3 Please Refer to NSPI's Accounting Policy & Procedures Manual 6200 for a description of the work order process

4 Please Refer to NSPI's Accounting Policy & Procedures Manual Section 3100 for a detailed description of the general ledger account structure.



ASSETS
CAPITALIZATION OF COST - 6000

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





PROPERTY, PLANT AND EQUIPMENT
COST - 6100

DEFINITION

- 01 Cost is the amount of consideration (cash or other assets) given up to acquire, construct, develop, or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use.

POLICY

- 02 A capital asset should be recorded at cost.¹

PROCEDURES

- 03 The cost of a capital asset includes all expenditures necessary to place the asset in service. Therefore, cost not only includes the purchase price, but also other acquisition costs such as brokers' commissions, installation costs, architectural fees, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing, taxes and preparation charges.
- 04 For assets that are constructed over a long period of time, cost includes labour, materials, overheads and carrying costs incurred during construction. Carrying costs include an allowance for funds used during construction ("AFUDC") and net revenue or expense derived from the asset before it is substantially complete.² For additional guidance on specific inclusions, please refer to NSPI's Accounting Policy & Procedures Manual Sections 6210, 6220, 6230, 6235 and 6240.
- 05 Capitalization of carrying costs ceases when a capital asset is substantially complete and ready for productive use. Determining when a capital asset, or a portion thereof, is substantially complete and ready for productive use requires consideration of the circumstances.
- 06 Capital assets acquired by Nova Scotia Power Inc. ("NSPI") which were previously devoted to public service are recorded at their original cost to the seller, less accumulated depreciation.

¹FASB ASC 360-10-30

²FASB ASC 360-10-30



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**COST COMPONENTS**

Cost components represent examples of the types of major pieces of equipment included in each capital activity. They are created through detailed consultation with our asset builders and maintainers, and conform to Federal Energy Regulatory Commission ("FERC").

COST ELEMENTS

Cost elements are examples of the minor pieces of equipment or expenses included in the capital activities.

ACTIVITY DESCRIPTIONS**Land (001)****Cost Component**

Parcel

Land Rights (002)**Cost Components**

Clearing	Rights of Way
Diversion Rights	

Cost Elements for both (001) and (002)

Appraisal costs prior to closing title
 Arbitrator, in the case of expropriation
 Bulkheads - buried and not requiring maintenance/replacement
 Clearing land for lines
 Condemnation proceedings including court and counsel costs
 Damages to and/or relocation of property of others
 Defence against any outstanding claims
 Expropriation fees including court costs
 Fees, commissions and salaries paid to others
 Initial cost of acquisition including mortgages, etc.
 Liens and leases assumed and/or voided
 Legal and notaries' fees including title searches
 Special assessments levied by public authorities for public improvements
 Rent on land when considered part of purchase
 Retaining walls unless identified with buildings
 Survey and engineering fees
 Taxes assumed to date of transfer of title
 Labour and expenses incurred by Company staff
 Net proceeds from the sale of timber, etc.



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Net proceeds from the sale of buildings
Environmental Assessment

Buildings, Structures and Grounds (003)**Cost Components**

Airport (Heliport)	Excavation	Plant Cleaning System
Bridges	Fencing	Plumbing System
Buildings– Superstructure	Fire, Escape& Protection	Roads & Sidewalks
Canals	Foundation	Roof
Dams	HVAC	Security Systems
Docks & Wharves	Landscaping	Water Supply System
Drainage & Sewer Sys.	Light & Power System	Yard Lighting System
Elevator, Crane or Hoist	Parking Lots	

Cost Elements

Air Conditioner Units	Fences	Permits
Alarms	Fill	Pickets
Architects Plans	Fire Escapes	Pipe
Backfill	Floors	Piping
Blowers	Flotation Devices	Platforms
Boilers	Flow Control Devices	Plugs
Booms	Framing	Plumbing
Braces	Furnaces	Posts
Breakers	Gates	Pumps
Building Inspections	Grading	Retaining Walls
Building Permits	Gratings	Roof
Bulkheads	Gravel	Shelves
Cables	Grounding	Siding
Ceilings	Gutters	Signs
Concrete	Handrails	Sods - First Time
Conduit	Heaters	Soil Stabilization
Controls	Hoists	Stairs
Coolers	Hoses	Switches
Counters	Insulation	Tanks
Cranes	Interior Finish	Tie Downs
Cribwork	Lighting	Timbers
Curbs	Lights	Tracks
Derricks	Linings	Trees & Shrubs - First Time
Doors	Motors	Ventilation
Elevators	Painting - First Time	Wall and Floor Finishes
Excavation	Panels	Wire
Environmental remediation	Partitions	Waterproofing - First Time
Fans	Paving - First Time	Windows



PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Miscellaneous Equipment (004)

Cost Components

Barge, Boat, etc. Comm. Equipment	Laboratory Equipment Miscellaneous Equipment	Tools
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Cost Elements

Public Address System Measuring Device	Glassware Welders	Lathes
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Capital Contributions (006)

Cost Components

Cash
Assets

Environmental Equipment (007)

Cost Components

Fish Ladders Measuring Devices	Storage Devices
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Cost Elements

Concrete Controls Enclosures	Foundations Holding Tanks Meters	Pumps
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Turbogenerator Installation (010) - Steam

Cost Components

Condensing & Cooling Water System Generator Cooling System Instruments and Meters	Turbine Plant Piping Turbogenerator Turbogenerator Oil System
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PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Cost Elements

Accumulator	Gauges	Purifier
Blowers	Generator	Regulators
Concrete	Governor Control System	Screens
Controls	Heat Exchangers	Steel
Cooler	Meters	Tank
Ducts	Motors	Tubes
Excavation	Mounting Devices	Turbine
Exciter	Piping	Valves
Filter	Platforms	Wiring
Foundations	Pumps	

Plant Control and Instrumentation (011)

Cost Components

Automatic Controls
 Panels

Cost Elements

Data Loggers	Meters
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Fuel Handling – Natural Gas (012)

Cost Components

Equipment Enclosure	Pumping System	Tanks
Heating System	Valves	

Cost Elements

Concrete	Heaters	Platforms
Controls	Insulators	Pumps
Excavation	Ladders	Signs
Equipment Foundation	Lining	Steel
Fencing	Measuring Devices	Wiring
Gates	Meters	
Gravel	Painting – First time	
Hangers	Piping	



PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Boiler (013)

Cost Components

Boiler
 Fuel Burning Equipment
 Insulation

Package Boiler
 Piping & Headers
 Reheater

Soot Blower System
 Superheater

Cost Elements

Baffles
 Blowdown System
 Burners
 Desuperheater

Drums
 Enclosures
 Grates
 Motors Water Walls

Stokers
 Tubes
 Valves

Circulating Water System (014)

Cost Components

Tanks
 Demineralizer

Clarifier
 Polishers

Cost Elements

Controls
 Foundations

Meters
 Valves

Wiring

Wastewater Systems (015)

Cost Components

Ponds
 Tanks

Treatment Equipment

Cost Elements

Excavation
 Fencing

Lining
 Motors

Valves
 Wiring

Feedwater System (016)

Cost Components



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Deaerator
Economizer

Feedwater Heaters
Feedwater Pipework

Pumps
Tanks

Cost Elements

Brackets
Controls

Headers
Motors

Wiring

Draft Equipment/Stacks (017)**Cost Components**

Air Heater
Duct System
Fans

Fly Ash Collection System
Precipitators
Scrubbers

Stacks

Cost Elements

Breeching System
Brick
Cleanouts
Concrete
Ducts
Foundations
Guys

Heaters
Hoppers
Insulation
Ladders
Liners
Motors
Painting - First Time

Seals
Sprayers
Steel
Supports
Tanks

Fuel Handling - Coal (018)**Cost Components**

Bins or Bunkers
Car Dumper
Cars
Conveyor System
Crusher

Fans
Fuel Handling Structure
Sampling System
Separator

Track System
Tractor
Weighing Devices

Cost Elements

Architect's Plans
Belts
Chutes
Controls
Dust Collectors
Elevators
Filters

Foundations
Gates
Hoppers
Magnets
Measuring Devices
Motors Wiring
Painting - First Time

Rails
Road Beds
Screening System
Switches
Ties



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Fuel Handling - Oil (019)****Cost Components**

Equipment Enclosure
Equipment Foundation

Pumping System
Heating System

Tanks

Cost Elements

Concrete
Controls
Excavation
Fencing
Gates
Gravel
Hangers
Heaters

Insulation
Ladders
Lining
Measuring Devices
Meters Wiring
Painting - First Time
Piping
Platforms

Pumps
Signs
Steel
Valves

Fuel Handling - Limestone (020)**Cost Components**

Bins or Bunkers
Car Dumper
Cars
Conveyor System
Crusher

Fans
Fuel Handling Structure
Sampling System
Separator
Track System

Tractor
Weighing Devices

Cost Elements

Architect's Plans
Belts
Chutes
Controls
Dust Collectors
Elevators
Filters

Foundations
Gates
Hoppers
Magnets
Measuring Devices
Motors Wiring
Painting - First Time

Rails
Road Beds
Screening System
Switches
Ties

Ash Handling Equipment (021)**Cost Components**

Ash Hopper
Clinker Grinder

Fans
Ponds

Removal System
Storage Bin



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Conveyor System

Pumps

Cost Elements

Belts
Chutes
Controls
Excavation
Fencing

Foundations
Hoppers
Lining
Motors
Mounting Devices

Piping
Slope Protection
Sluiceways
Wiring

Electrical Control Equipment (022)**Cost Components**

Air Compressor
Cable System

Data Acquisition System
Fire Protection System

Telemetering System

Cost Elements

Alarms
Annunciator
Cable
Clamps
Computers
Control Cables
Controls

Data Logger
Fault Recorder
Junction Boxes
Ladders
Meters
Panels
Piping

Protection Equipment
Receivers
Recorders
Relays
Transmitters

Power Equipment – Station Service (023)**Cost Components**

Aux. Generator Set
Battery System
Bus and Wiring
Generator Transformer
Grounding System Panels

Lightning Protection System
Other Switchgear
Station Ser. Transformer
Unit Transformer

Cost Elements

Arresters
Battery Charger
Battery
Breakers

Cooling Systems
Electrical Devices
Fans
Fencing

Mechanical Devices
Meters
Piping
Platforms



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Cables Clamps	Foundations Ground Rods	SF6 Switches
Turbine (024)- Hydro		
Cost Components		
Control Valves - Butterfly Control Valves - Spherical Cooling System Draft Tube Foundation	Governor H.P. Air Supply Instruments & Meters Lubricating System Runner	Scroll Case Seal System Turbine
Cost Elements		
Casing Concrete Controls Cooler Excavation	Filters Lubricating Systems Meters Relays Motors Rings Mounting Devices	Piping Pumps
Generator (025)- Hydro		
Cost Components		
Cooling System Excitation System Foundations	Lubricating System Rotor Seal System	Stator Frame Stator Windings
Cost Elements		
Coils Controls Cooler Exciter Filters	Motors Mounting Devices Pumps Seals Tank	Valves Wiring
Roads, Trails and Bridges (026)		
Cost Components		
Road or Trail Tunnels	Bridge	
Cost Elements		



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Bridges
Clearing
Concrete
Culverts
Fences
Fill

Flooring
Foundations
Gates
Girders
Grading
Gravel

Piers
Steel
Surfacing
Trusses

Waterways (027)**Cost Components**

Canals
Fencing
Fish Ladder and Devices
Penstock - Fibreglass

Penstock - Wood
Penstock - Concrete
Penstock - Steel
Surge Tank - Frost Casing

Surge Tank-Shell
Tailrace
Tunnels

Cost Elements

Braces
Drainage Systems
Drains
Embankments
Excavation
Expansion Joints
Gates

Ladders
Lighting
Linings
Monitoring Equipment
Pipe
Reinforcing Material
Riprap

Signs
Slope Protection
Supporting Structures
Valves
Wire

Dams and Spillways (028)**Cost Components**

Bypass Pipe
Bypass Valve
Bypass Structure
Control Structure
Diversion Dam

Gate
Gate Hoist & Controls
Intake Dam
Spillway Dam
Stoplogs

Storage Dyke
Storage Dams
Superstructure
Trash Rack

Cost Elements

Aprons
Bridges
Concrete
Control Equipment
Culverts
Discharge Channels

Elevating Devices
Excavation
Fill
Foundation
Motors Valves
Pipe

Racks
Slope Protection
Steel
Tainter Gates



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Land Drainage (029)****Cost Components**

Aboiteau
Pump

Cost Elements

Electrical Equipment	Foundations
Excavation	

Gas Turbine Engines (030)**Cost Components**

Combustion Equipment	Foundation	Starting System
Engine	Generator	
Fire Ext. Equipment	Stack	

Cost Elements

Air Ducts	Cleanouts	Cooling System
Air Intake	Clutch	Detection System
Air Filter	Compressor	Excavation
Brackets	Concrete	Exciter
Brick	Controls	

Wind Generating Installation (031)**Cost Components**

Wind Turbine	Wind Turbine Aux.
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Cost Elements

Controls	Wiring
Foundations	

District Heating & Cooling (032)**Cost Components**

Heat Exchangers	Water Piping
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PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Cost Elements

Brackets
 Foundations

Gaskets
 Hangers

Piping

Wooden Poles (035)

Cost Components

Wooden Poles - Treated
 Wooden Poles - Untreated

Cost Elements

Anchors
 Backfill
 Braces
 Brackets
 Crossarms

Epoxy Rods
 Excavation
 Guards
 Guys
 Insulator Pins

Permits
 Poles
 Strain Insulators
 Suspension Bolts

Other Poles (036)

Cost Components

Concrete Poles

Cost Elements

Anchors
 Backfill
 Braces
 Brackets
 Crossarms

Epoxy Rods
 Excavation
 Guards
 Guys
 Insulator Pins

Permits
 Poles
 Strain Insulators
 Suspension Bolts

Steel Towers (037)

Cost Components

Steel Towers

Cost Elements

Anchors
 Backfill

Epoxy Rods
 Excavation

Permits
 Strain Insulators



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Braces
Brackets
Crossarms

Guards
Guys
Insulator Pins

Suspension Bolts

Insulators (038)**Cost Components**

Insulators

Cost Elements

Clamps
Pins (if Permanently Attached)
Ties

Overhead Conductor (039)**Cost Components**

Conductor

Cost Elements

Conductors
Connections

Dead Ends
Jumpers

Splices

Overhead Conductor Devices (040)**Cost Components**

Circuit Breaker
Grounding Systems

Lightning Arresters
Line Switches

Reclosers and Cutouts

Cost Elements

Arresters
Brackets
Clamps

Connectors
Ground Rods
Mounting Devices

Ties
Wiring

Overhead Transformers (041)**Cost Components**



PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Transformer

Cost Elements

Mounting Brackets
 Pads

Transformers
 Wiring

Overhead Transformer Devices (042)

Cost Components

Autoboosters
 Lightning Arresters

Capacitor
 Cutouts

Line Switches
 Voltage Regulator

Cost Elements

Bolts
 Mounting Devices

Brackets
 Wiring

Connectors

Substation Devices (043)

Cost Components

Air Compressor
 Batteries
 Battery Charging Set
 Buildings - Superstructure
 Bus System
 Cable or Conductor
 Capacitor Bank
 Compressor in Structure
 Computer Equipment
 Conduit System
 Control Installation
 Drainage & Sewer Sys.
 Elev., Crane, Hoist, etc.
 Equipment Enclosures

Fans, Blowers
 Fault Recorder
 Fencing
 Fire Protection System
 Foundations - Equipment
 Frequency Control System
 Fuse Equipment
 Grounding System
 Insulators
 Lighting System
 Lightning Arrester
 Manhole
 Meter
 Miscellaneous Equipment

Panels
 Reactor or Resistor
 Support Structure
 Switches
 Switchgear SF6
 Switchgear Metalclad
 Tanks
 Telemetering Equipment
 Testing Equipment
 Thyristor Valve
 Ventilating Equipment
 Voltage Regulator

Cost Elements

Adapters
 Backfill
 Bolts
 Brackets
 Cabinets
 Clamps

Excavation
 Filters
 Foundations
 Gravel
 Ground Rods
 Inspections

Painting - First Time
 Permits
 Piping
 Protective Equipment
 Racks
 Signs



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Concrete
Duct Systems

Ladders
Motors

Tanks

Substation Transformers (044)**Cost Components**

Transformers

Cost Elements

Mounting Brackets

Underground Conduit (045)**Cost Components**

Conduit
Lighting Systems
Manhole

Manhole
Tunnels

Vault
Ventilating Equipment

Cost Elements

Backfill
Concrete
Connectors
Controls
Covers
Drains

Excavation
Fans
Fixtures
Foundations
Grates
Gravel

Ladders
Motors
Pumps
Wires

Underground Conductors (046)**Cost Components**

Cable - Buried
Cable - In Conduit

Cable - Submarine

Cost Elements

Conductors
Connections

Dead Ends
Jumpers

Splices

Underground Conductor Devices (047)



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Cost Components**Circuit Breaker
InsulatorsLightning Arresters
Line SwitchesPump House
Pumping Equipment**Cost Elements**Arresters
Brackets
ClampsConnectors
Ground Rods
Mounting DevicesTies
Wiring**Underground Transformers (048)****Cost Components**

Transformers

Cost ElementsMounting Brackets
PadsTransformers
Wiring**Underground Transformer Devices (049)****Cost Components**Capacitor
CutoutsLightning Arresters
Line SwitchesVault
Voltage Regulator**Cost Elements**Bolts
BracketsConnectors
ExcavationMounting Devices
Wiring**Street Lighting (050)****Cost Components**Conductor
Control EquipmentLuminating Device
Posts & Standards

Transformer

Cost Elements

Dead Ends

Mounting Devices

Timing Devices



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Luminaire

Relays Transformer

Meters (051)**Cost Components**Instrument Transformers
Meters - Demand

Meters - Energy

Cost ElementsCurrent Transformers
Fittings
Potential TransformersMetering Tanks
Protective Devices
Relays**Services (052)****Cost Components**

Overhead Service

Underground Service

Cost ElementsConductor
Insulators

Dead Ends

Subscriber Mobile Radio (053)**Cost Components**Antennas
Base Station
Mobile RadiosPC Consoles (Control Room)
Portable Radios
Remotes**Cost Elements**Antenna
Brackets
CordsExternal Loudspeaker
Microphone
Wiring and Connectors



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Remote Monitoring (054)**Cost Components**

Digital Video Recorders (DVR)	Power Quality Monitors
Environmental Monitors	Sensors
PC Consoles	Surveillance Systems

Cost Elements

Cable Connectors	Supports
Conduit	Terminal Blocks
Structures	Wiring

Teleprotection (055)**Cost Components**

Digital Channel Equipment	Power Supplies
Fibre Optic Cable	Racks
Fibre Optic Modems	Tone Equipment
Panels	

Cost Elements

Cable Connectors	Terminal Blocks
Conduit	Wiring

Communication Entrance Cables and Protection (056)**Cost Components**

Cabinets	Isolation Transformers
Conduit	Junction Boxes
Fibre Optic Cable Systems	Lightning Protectors
High Voltage Protection	Panels

Cost Elements

Cable Connectors	Wiring
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PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Leased Communication Facilities (057)****Cost Components**

Cabinets	Panels
Conduit	Terminal Blocks
Junction Boxes	

Cost Elements

Cable Connectors	Wiring
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Power Line Carrier (058)**Cost Components**

Cabinets	Panels
Conduit	Terminal Equipment
Junction Boxes	Wave Trap

Cost Elements

Cable Connectors	Wiring
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Multiplex (059)**Cost Components**

Multiplex Shelf	Power Supplies
Network Management System	Racks
PC Console	Terminal Blocks
Plug in Cards	

Cost Elements

Cable Connectors	Wiring
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Broadband Radio (060)**Cost Components**

Antenna and Support	HVAC
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PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Feedlines
Foundations
Guys

Motor Generator Set
Radio Transmitters and Receivers
Telecom Building

Cost Elements

Monitoring Equipment
Structures

Supports

Telecommunication Systems (061)**Cost Components**

Network
Phones

PBX/Telephone Switch

Cost Elements

Connections
Panels

Wiring

Fibre Optics (062)**Cost Components**

Fibre Optic Cable
Messenger cable

Supports

Cost Elements

Connectors

Splice Enclosures

Mobile Radio Infrastructure (063)**Cost Components**

Antenna
Receivers

Transmitters

Cost Elements



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Auxiliary Power Supply
Batteries
Foundations

Grounding Systems
Guys
Mounting Devices

Supports
Wiring

SCADA Equipment (064)**Cost Components**

Master Station
Remote Terminal Units

Cost Elements

Wiring
Terminals

Transportation Vehicles (065)**Cost Components**

Automobiles
Pickups and Vans

Four Wheel Drives

Cost Elements

Permits - First Time
Sign Painting - First Time

Work Vehicles (066)**Cost Components**

All Terrain Vehicles
Bombardiers and Tractors
Brush Chippers
Bucket Trucks
Caterpillars

Compressors
Digger Trucks
Forklifts
Helicopters
Loaders and Backhoes

Service Trucks
Stake and Dump Trucks
Trailers

Cost Elements

Aerial Devices
Bodies
Chassis
Compartments

Digger Equipment
Dump Bodies
Hydraulics
Painting - First Time

Permits - First Time
Tracks



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Office Equipment (067)****Cost Component**

Duplicating Equipment
Mailing Equipment
Microfilm, Microfiche

Miscellaneous Equipment
Printing Equipment

Office Furniture - General (068)**Cost Components**

Bookcases
Cabinets
Chairs

Desks
Dividers
Drafting Tables

Tables

Cost Elements

Coffee Credenzas
Filing Cabinets

Supports
Tables

Office Furniture - Modular (069)**Cost Components**

Chairs
Desk Units

Dividers
Tables

Shop Equipment (070)**Cost Components**

Air Compressor
Drill Press
Furnaces
Gas & Oil Tanks & Pumps
Grinders
Hoists

Lathe
Motors
Pipe Threading Machine
Saws
Welders

Cost Elements



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140

Accessories
Carrying Devices
Meters Panels

Miscellaneous Tools
Mounting Devices

Pumps
Wiring

Leasehold Improvements (071)**Cost Components**

Leasehold Improvements
Leases

Cost Elements

Contract Costs
Electrical
Materials

Mechanical
Security

Computer Hardware & Operating Software (072)**Cost Components**

Mainframe & Mini Comp.
Misc. Comp. Equip.

Personal Computers
Word Processing Equipment

Cost Elements

Communication Devices
Data Input Devices
Disk Storage Devices
LANS
Main Configuration
Miscellaneous Equipment
Processors

Other Storage Devices
Plotters
Portable Meter Reading Equip.
Printers
Tape Storage Devices
Terminals

Laboratory Equipment (073)**Cost Components**

Chemical Testing Equipment
Electrical Testing Equipment
Meter Testing Equipment

Transformer Testing Equipment
Miscellaneous Equipment



PROPERTY, PLANT AND EQUIPMENT

COST COMPONENTS AND ELEMENTS - 6140**Cost Elements**Controls
MetersPanels
Wiring**Stores Equipment (074)****Cost Components**Counters & Shelves
Elev & Stack. Equip.Hand & Power Driven Trucks
Storage Bins**Cost Elements**

Mounting Devices

Computer Application Software (078)**Cost Components**Application software procurement
Application software customization
Consulting feesData migration
Project management**Cost Elements**

Middleware software modifications

Purchase Price Difference (080)**Cost Components**

Pur. Diff – Kentville

Pur. Diff – LM6000

Non-Utility Property (081)**Cost Components**Land
OtherOther Intangibles
Royalties, etc.**Cost Elements**



PROPERTY, PLANT AND EQUIPMENT
COST COMPONENTS AND ELEMENTS - 6140

Legal Fees	Surveying
Other Fees	

Coal Pier (082)

Cost Components

Buildings	E-crane
Concrete	Hoppers
Control	Pier
Conveyor System	

Cost Elements

Belts	Hoppers
Controls	Measuring devices
Filters	Motors
Foundations	Wiring



PROPERTY, PLANT AND EQUIPMENT

CONSTRUCTION WORK IN PROGRESS - 6200**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 Plant¹ ("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;

¹ Power Plant is NSPI's Capital Software System



PROPERTY, PLANT AND EQUIPMENT
CONSTRUCTION WORK IN PROGRESS - 6200

- 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") after review when project is complete and within tolerance of \$250,000 of activated amount. If the project spend is over the tolerance, an authorization to overspend ("ATO") is required prior to final cost and close to PPE;
- o. Depreciate PPE item; and
- p. Retire item through retirement capital work order.

PROPERTY, PLANT AND EQUIPMENT

CAPITAL EXPENDITURES - LAND - 6210**GENERAL**

- 01 Unlike most capital assets, land generally does not lose value over time. It is therefore, considered to have an infinite life and is not depreciated. Land must be isolated from depreciable capital assets in the financial records from the time that it is included with plant in service.

POLICY

- 02 The cost of land must be accounted for separately from other capital assets due to its unique life characteristics.

PROCEDURES

- 03 The following are costs which must be considered in determining the total value of a land purchase:
- a. Purchase price;
 - b. Appraisal fees;
 - c. Survey costs;
 - d. Legal fees;
 - e. Transfer taxes;
 - f. Purchasing agent's commission;
 - g. Examination & registration of title;
 - h. Taxes accrued to date of transfer;
 - i. Net cost or proceeds from the removal of marketable timber;
 - j. Construction overheads;
 - k. Removal of old buildings; and
 - l. Environmental assessment costs.
- 04 Land is acquired through a capital work order in the same manner as other capital assets, but in many cases, land is only a portion of the work order for an associated project.

PROPERTY, PLANT AND EQUIPMENT

**CAPITAL EXPENDITURES - COMPUTER
HARDWARE, SOFTWARE AND
TELECOMMUNICATIONS EQUIPMENT - 6215**



POLICY

- 01 Purchases of computer hardware and software, and telecommunications equipment as well as software development projects with a cost in excess of the amount prescribed in NSPI Accounting Policy and Procedures Manual 1560A should be capitalized.
- 02 Large software development and implementation projects can include the following third party and internal costs:
 - a) Costs in the preliminary stages of the project associated with evaluating alternatives and assessing costs and benefits in order to fully develop the software project.
 - b) Data conversion costs
 - c) Training required prior to the software becoming operational
- 03 Please refer to NSPI Accounting Policy and Procedures Manual 6000 for capitalization criteria and NSPI Accounting Policy and Procedures Manual 6100 for a description of amounts to be included in the cost of capital expenditures.

PROPERTY, PLANT AND EQUIPMENT
CAPITAL CONTRIBUTIONS
IN AID OF CONSTRUCTION - 6220



DEFINITION

- 01 Capital contributions in aid of construction include the value of cash, other assets and/or services received to defray the construction costs of capital assets. These contributions are generally received from two sources:
- a. residential, commercial or industrial customers; and
 - b. federal, provincial or municipal governments.

GENERAL

- 02 The Company has an obligation to provide electric service to the consuming public in the most cost effective manner. This obligation is discharged when a customer group receiving special services pays for the cost of those services, thereby avoiding situations in which one customer group subsidizes the rates of another.
- 03 The Company has formulated policies which prescribe the maximum distances over which services will be extended to meet the needs of a single customer or small customer group. The policies are contained in the Rate and Regulations Manual. When the electric service requirements of a specific customer or group of customers exceed these provisions, the associated costs shall be considered as requiring a customer capital contribution.
- 04 In determining the required contribution, every assurance must be made that the proposed solution is the most cost effective one for the customer. Factors that must be considered in calculating capital contributions required from a customer include:
- a. customer location;
 - b. future development and additional revenues;
 - c. public safety;
 - d. premature upgrading or construction of planned line facilities;
 - e. deferral of costs that would normally be spent in maintenance in the near future (e.g., replacement of poles, conductors, etc.); and
 - f. return on investment;

PROPERTY, PLANT AND EQUIPMENT
**CAPITAL CONTRIBUTIONS
IN AID OF CONSTRUCTION - 6220**



POLICIES

- 05 Contributions in aid of construction should be offset against the property, plant or equipment to which they relate so that the net amount is depreciated and included in rate base.
- 06 If a relationship to a specific asset cannot be established, capital contributions should be offset against "Assets in Service" by function, and amortized at the composite rate of the relevant asset class or functional group.

PROCEDURES

- 07 The contributions required from customers are generally determined in accordance with internal operations guidelines and procedures. Contributions may take the form of cash or other assets or services.
- 08 When a contribution is received, the date of receipt, name of contributor and work order reference are included on the receipt.
- 09 Please refer to NSPI's Accounting Policy & Procedures Manual Section 5310 for a discussion of the amortization of capital contributions in aid of construction.



PROPERTY, PLANT AND EQUIPMENT
INTANGIBLE ASSETS - 6225

DEFINITION

- 01 Intangible assets are those that lack physical substance.¹

POLICY

- 02 Intangible assets include land rights and computer software and are capitalized in accordance with NSPI's Accounting Policy & Procedures Manual section 6000.
- 03 Intangible assets with a finite useful life shall be amortized in accordance with NSPI's Accounting Policy & Procedures Manual section 5300.

PROCEDURES

- 04 For the capitalization of computer software please refer to NSPI's Accounting Policy & Procedures Manual section 6215.

¹FASB ASC 350-10-20

PROPERTY, PLANT AND EQUIPMENT

APPLICATION OF ADMINISTRATIVE AND VEHICLE OVERHEAD (SELF - CONSTRUCTED ASSETS) - 6230



GENERAL

- 01 Overhead expenses are integral costs associated with the construction of capital assets. As per NSPI's Accounting Policy & Procedures Manual Section 6100 – Cost, the cost of a capital asset not only includes direct construction or development costs (such as materials and labour), but also overhead costs attributable to construction or development activities.
- 02 Although overhead costs are both real and substantial, they cannot be identified with specific capital projects or expenditures. For this reason, overhead costs that contribute to the capital program must be allocated to capital projects.
- 03 Several practices are widely used to allocate overhead costs, with the most common methods charging overhead to capital projects based on measures such as machine hours, labour hours, labour costs or some combination of the three. In a 1982 ruling, the Public Utilities Board approved the Company's application to apply overhead costs based on direct labour costs. The method has since been accepted by the Nova Scotia Utility and Review Board ("UARB") through its approval of capital work orders that have included a charge for overhead expenses that were calculated based on direct labour costs.

POLICY

- 04 The Company should apply "Capital-related Overhead Expenses" to capital projects based on the direct labour costs charged to those projects

PROCEDURES

IDENTIFICATION OF DIVISIONS

- 05 The first step in the application of overhead costs to capital projects is the disaggregation of Nova Scotia Power Inc.'s ("NSPI's") **Annual Capital Expenditure Plan** ("ACE Plan") into several broad areas of responsibility with similar project types as well as significant eligible overhead expenses. For the purposes of this Section, these areas will be referred to as "divisions". The three divisions presently identified by the Company are Customer Operations, Power Production and Shared Services. Shared Services includes Information Technology

DETERMINATION OF ELIGIBLE OVERHEAD EXPENSES

- 06 The next step is the identification of operating expenses that will benefit construction or development activities. A separate determination is made for each division. The process relies on budgeted

PROPERTY, PLANT AND EQUIPMENT

**APPLICATION OF ADMINISTRATIVE AND VEHICLE
OVERHEAD (SELF - CONSTRUCTED ASSETS) - 6230**

expense figures since the overhead application rate for a particular fiscal year must be determined before the year commences.

07 Customer Operations Division

The nature of operating expenses in the Customer Operations Division is primarily identified by the activity segment of the accounting flex field.¹ The budgeted expenses for all eligible activities are accumulated to obtain the divisional total. A separate allocation of head office expenses are then added to the Division's eligible expenses.

Vehicle Overhead rate is calculated and applied separately. The budgeted expenses related to each eligible vehicle class are identified. Customer Operations is the only area of NSPI that applies a separate overhead rate for vehicle expenses.

08 Power Production Division

Eligible Overhead Expenses for Power Production include all costs incurred by the Division's head office cost centres as well as the costs included in the administration cost centres for all operational generating stations. A separate allocation of head office expenses are then added to the Division's eligible expenses.

09 Shared Services Division

Eligible Overhead Expenses and rates are calculated for each Shared Services Division, deemed to have capital related labour and expenses. These eligible expenses include, but are not limited to, office supplies, training, rent, membership dues, materials, etc. A separate allocation of head office expenses are then added to the Division's eligible expenses.

10 HEAD OFFICE RENT

Head Office expenses are allocated to the three operating divisions based on the square footage occupied by each division.

DETERMINATION OF CAPITAL-RELATED OVERHEAD EXPENSES

11 Once the Eligible Overhead Expenses have been determined, the overhead expenses related to the Company's capital activities must be calculated. This calculation involves prorating the eligible

¹ For a detailed discussion of the general ledger account structure, please refer to NSPI's Accounting Policy and Procedures Manual Section 3100.

PROPERTY, PLANT AND EQUIPMENT

**APPLICATION OF ADMINISTRATIVE AND VEHICLE
OVERHEAD (SELF - CONSTRUCTED ASSETS) - 6230**



overhead expenses determined above based on capital labour to total labour for both administrative and vehicle overheads.

- 12 Some capital-related expenses are recorded outside of the divisional cost centres. Expenses relating to capital labour should be included with the overhead expenses that are to be charged to a capital project. These expenses are allocated to the divisions' overhead based on their capital labour costs.

CALCULATION OF OVERHEAD APPLICATION RATE

- 13 Once the Capital-related Overhead Expenses have been determined, the overhead application rate can be calculated. The application rate is simply the quotient, expressed as a percentage, of the Capital-related Overhead Expenses divided by the capital labour costs. A separate calculation is performed for each division.

REVIEW OF OVERHEAD APPLICATION RATE

- 14 The overhead application rate will be reviewed on an annual basis by Capital Accounting to assess its reasonableness.

APPLICATION OF OVERHEAD

- 15 The overhead charged to a particular project is determined by multiplying the labour costs charged to the project by the appropriate overhead application rate. The charge is debited to a Capital Work Order while the credit is recorded in Operating, Maintenance and General Expenses.

PROPERTY, PLANT AND EQUIPMENT

APPLICATION OF ADMINISTRATIVE OVERHEAD (CONTRACTED ASSETS) - 6235



GENERAL

- 01 Overhead expenses are integral costs associated with the construction of capital assets. As per NSPI's Accounting Policy & Procedures Manual Section 6100 – Cost, the cost of a capital asset not only includes direct construction or development costs (such as materials and labour), but also overhead costs attributable to construction or development activities.
- 02 Although overhead costs are both real and substantial, they cannot be identified with specific capital projects or expenditures. For this reason, overhead costs that contribute to the capital program must be allocated to capital projects.
- 03 Although the application rate for externally contracted projects is based on the contracted costs, the Capital-related Overhead Expenses are determined using labour costs; therefore, the method is in accordance with Public Utilities Board's ruling described in NSPI's Accounting Policy and Procedures Manual Section 6230.

POLICY

- 04 The Company should apply "Capital-related Overhead Expenses" to externally contracted capital projects based on the contract costs charged to those projects.

PROCEDURES

IDENTIFICATION OF DIVISIONS

- 05 The first step in the application of overhead costs to capital projects is the disaggregation of Nova Scotia Power Inc's ("NSPI's") **Annual Capital Expenditure Plan** ("ACE Plan") into several broad areas of responsibility with similar project types as well as significant eligible overhead expenses. For the purposes of this Section, these areas will be referred to as "divisions". The three divisions presently identified by the Company are Customer Operations, Power Production and Shared Services. Shared Services includes Information Technology

DETERMINATION OF ELIGIBLE OVERHEAD EXPENSES

- 06 The next step is the identification of operating expenses that will benefit construction or development activities. A separate determination is made for each division. The process relies on budgeted expense figures since the overhead application rate for a particular fiscal year must be determined before the year commences.

PROPERTY, PLANT AND EQUIPMENT

**APPLICATION OF ADMINISTRATIVE
OVERHEAD (CONTRACTED ASSETS) - 6235****Customer Operations Division**

07 The nature of operating expenses in the Customer Service Division is primarily identified by the activity segment of the accounting flex field.¹ The budgeted expenses for all eligible activities are accumulated to obtain the divisional total.

08 Power Production Division

Eligible Overhead Expenses for Power Production include all costs incurred by the Division's head office cost centres as well as the costs included in the administration cost centres for all operational generating stations.

09 Shared Services Division

Eligible Overhead Expenses and rates are calculated for each Shared Services Division deemed to have capital related labour and expenses. These eligible expenses include, but are not limited to, office supplies, training, rent, membership dues, materials, etc.

DETERMINATION OF CAPITAL-RELATED OVERHEAD EXPENSES

10 Once the Eligible Overhead Expenses have been determined, the overhead expenses related to the Company's capital activities must be calculated. This calculation involves prorating the remaining eligible overhead expenses determined above based on contractor labour to total labour for each division.

11 The double application of the self-constructed overhead costs is avoided by applying the self-constructed rate to the Eligible Overhead Expenses and then reducing those expenses by the result. The remaining expenses are then eligible to be included in the contract overhead rate.

CALCULATION OF OVERHEAD APPLICATION RATE

12 Once the Capital-related Overhead Expenses have been determined, the overhead application rate can be calculated. The application rate is simply the quotient, expressed as a percentage, of the Capital-related Overhead Expenses divided by the contract costs.

¹ For a detailed discussion of the general ledger account structure, please refer to NSPI's Accounting Policy and Procedures Manual Section 3100.

PROPERTY, PLANT AND EQUIPMENT
**APPLICATION OF ADMINISTRATIVE
OVERHEAD (CONTRACTED ASSETS) - 6235**



REVIEW OF OVERHEAD APPLICATION RATE

- 13 The overhead application rate will be reviewed on an annual basis by Capital Accounting to assess its reasonableness.

APPLICATION OF OVERHEAD

- 14 The overhead charged to a particular project is determined by multiplying the contract costs charged to the project by the appropriate overhead application rate. The charge is debited to a Capital Work Order while the credit is recorded in Operating, Maintenance and General Expenses

PROPERTY, PLANT AND EQUIPMENT
**ALLOWANCE FOR FUNDS
 USED DURING CONSTRUCTION - 6240**



GENERAL

- 01 The cost-of-capital invested in construction work in progress is included in an allowance for funds used during construction¹ ("AFUDC") as an addition to the cost of property constructed using a weighted average cost-of-capital. This will be charged to operations through depreciation over the service life of the related assets and recovered through future revenues.
- 02 The AFUDC includes a designated cost of equity funds, to be capitalized as part of the acquisition of the related asset. That cost shall be capitalized under those circumstances only if its subsequent inclusion in allowable costs for rate-making purposes is probable.²
- 03 The cost to acquire or construct a capital asset over time should include the cost of financing that asset until it is placed in service. By including AFUDC in the cost of the capital asset, the associated financing costs will be more equitably recovered from customers, through depreciation, over the service life of the asset,

POLICY

- 04 Allowance for funds used during construction should be capitalized at the effective cost-of-capital rate, compounded semi-annually, except in the following circumstances:
- a. Projects that will be under construction for less than a predetermined time;
 - b. Projects delayed for more than one year due to extraordinary circumstances; and
 - c. Projects with an economic value or future benefits that will be exceeded by such capitalization.

PROCEDURES

05 **Criteria for Application**

AFUDC is applied to all capital work orders with the following exceptions:

- a. work orders with a construction period less than two months (e.g. routine work orders);
- b. work orders used to purchase assets that are in-service immediately upon delivery (e.g. office furniture, tools, vehicles, computer hardware, etc.);
- c. work orders for the purchase of land or land rights that will be held for future use;
- d. work orders with customer contributions equal to 100% of construction costs and receivable as costs are incurred;
- e. work orders that are deferred for more than one year; and
- f. retirement work orders.

1 FASB ASC 980-360-20

2 FASB ASC 980-360-25-1

January 1, 2011

PROPERTY, PLANT AND EQUIPMENT
**ALLOWANCE FOR FUNDS
USED DURING CONSTRUCTION - 6240**



06 **Basis for Application**

The application base for AFUDC includes the cumulative total of all direct and indirect charges to work orders, but excludes all AFUDC related to spending subsequent to January 1 or July 1, whichever is the latest. This exclusion effectively results in semi-annual compounding of AFUDC.

07 **Timing of Application**

AFUDC application begins in the month in which a work order receives charges and continues until the month the work order becomes operational plant. On most work orders, AFUDC is applied at the full rate to cumulative charges to the end of the current month. In the case of major capital work orders, the actual start date and the operational date will be taken into consideration when applying AFUDC.

08 **Calculation of AFUDC Rate**

The rate used to capitalize AFUDC is the Company's ***weighted average cost of capital before tax***. The rate is calculated annually, in advance, by dividing the forecasted annual interest expense, preferred dividends and net earnings applicable to common shareholders by the forecasted average debt and equity. The annual AFUDC rate is then divided by twelve to arrive at the monthly rate.



PROPERTY, PLANT AND EQUIPMENT

PURCHASE PRICE DISCREPANCY - 6250

DEFINITION

- 01 Purchase price discrepancy is the excess of the cost of acquired assets over the net of the amount assigned to assets acquired and liabilities assumed as approved by the Nova Scotia Utility and Review Board ("UARB").

POLICY

- 02 Purchase price discrepancies should be recorded as assets.
- 03 Purchase price discrepancies are not included in rate base¹.

¹ Please refer to NSPI Accounting Policy and Procedures Manual 1520 for details.



PROPERTY, PLANT AND EQUIPMENT
TRANSFER VALUES - 6260

POLICY

- 01 The cost and accumulated depreciation of capital assets transferred from one function to another within Nova Scotia Power Inc. ("NSPI") should be removed from the existing function and recorded by the acquiring function.

PROCEDURE

- 02 When a capital asset is transferred from one location to another within the Company, the following accounting procedures are performed:
- a. original installation costs are retired;
 - b. costs of removal are charged to accumulated depreciation;
 - c. original cost and accumulated depreciation are transferred; and
 - d. costs to install the equipment are added to the original cost transferred.

PROPERTY, PLANT AND EQUIPMENT

ASSET RETIREMENT OBLIGATIONS (ARO) - 6320**DEFINITION**

- 01 An asset retirement obligation is an obligation associated with the retirement of a tangible long-lived asset that an entity 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.¹

GENERAL

- 02 The present value of this estimated future expenditure is recognized as a liability with an equivalent amount added to the carrying amount of the associated fixed asset consistent with *FASB ASC 410-20*.
- 03 The Nova Scotia Utility and Review Board ("UARB") provided a depreciation order effective January 1, 2004 approving the amount of future expenditures associated with the removal of long-lived assets. Any difference between the amount approved by the UARB as depreciation expense and the amount that is calculated under GAAP is recognized as a regulated asset.

POLICY

- 04 A liability for an asset retirement obligation should be recognized when a reasonable estimate of fair value can be made.²
- 05 Upon initial recognition, the carrying amount of the related long-lived asset will be increased by the same amount as the asset retirement liability. Subsequently, asset retirement costs will be allocated to expense using a systematic and rational method over the useful life of the asset.³
- 06 After initial recognition, period-to-period changes in the liability should be recognized in the liability for the asset retirement obligation resulting from passage of time and revisions to either the timing or the amount of the original estimate.⁴

¹ FASB ASC 410-20-15-2

² FASB ASC 410-20-25-4

³ FASB ASC 410-20-35-2

⁴ FASB ASC 410-20-35-3



PROPERTY, PLANT AND EQUIPMENT
REDUNDANT ASSETS - 6340

DEFINITION

- 01 A redundant asset is one that is no longer required at a specific location, or has become excess by virtue of technology, system changes, etc., and is no longer used and useful at this location.

POLICY

- 02 Redundant assets should be retired from property, plant and equipment and, therefore, excluded from rate base¹.

PROCEDURE

- 03 Assets that are identified as being redundant are evaluated to assess whether they should be returned to inventory, retired² or transferred to another location³.

¹ Please refer to NSPI Accounting Policy and Procedures Manual 1520 for details.

² Please refer to NSPI Accounting Policy and Procedures Manual 6420 for details.

³ Please refer to NSPI Accounting Policy and Procedures Manual 6260 for details.



PROPERTY, PLANT AND EQUIPMENT

ASSETS - NOT USED AND USEFUL - 6350**GENERAL**

- 01 When an asset no longer provides a benefit, and is not expected to provide any benefit in the future, its undepreciated cost should be written off in the period that it is recognized as being neither used nor useful. In determining the write off, future removal costs and potential proceeds should be considered.
- 02 If an asset is not being used, but it is available for service, and is part of the normal level of standby capacity it is to be treated as a used and useful asset, and depreciated over its expected useful life.
- 03 The cost of assets not currently used, but that will be useful in providing service to future customers should not be charged against current net earnings.
- 04 Transfers from one category to another are at book value and gains or losses (through write downs or sales) will be included in rate base and recovered from customers in the manner described above.

POLICY

- 05 Assets that are not both used and useful should be classified in one of the following categories:
 - a. Not used and not useful;
 - b. Not used but useful for standby purposes; or
 - c. Not used but useful for future service.

NOT USED AND NOT USEFUL

- 06 Assets meeting the following criteria are included in this category:
 - a. they do not currently provide service to the consuming public; and
 - b. they are not expected to provide a benefit to customers in the foreseeable future.
- 07 Where an asset is neither used nor useful, there is no current or future benefit against which the undepreciated cost of the asset can be matched. Therefore the undepreciated cost should be written off in the period in which an asset is determined to be not used and useful.
- 08 In order to enhance rate stability, where the write off is significant and Nova Scotia Utility and Review Board ("UARB") approval is obtained, the undepreciated cost of the asset should be amortized, on a straight-line basis, over five years or over a reasonable period, subject to UARB approval. The unamortized cost may remain in rate base, and any cost of capital should be expensed in the period incurred. This method recognizes the benefit of recovering the cost of the asset, over a period of time, through regulated rates.

PROPERTY, PLANT AND EQUIPMENT

ASSETS - NOT USED AND USEFUL - 6350**NOT USED BUT USEFUL FOR STANDBY PURPOSES**

- 09 Assets meeting the following criteria are included in this category:
- a they do not currently provide service to the consuming public; and
 - b they are available for service and are required to maintain standby capacity.
- 10 Assets used as standby facilities provide service to customers even though they may not actually be used to generate power or otherwise meet customer requirements. They provide insurance to current customers that their requirements will be met even if there were to be an equipment failure, unexpected increase in demand or other event that would prevent the currently used and useful assets from meeting customer requirements.
- 11 An asset that is not used but is useful as a standby facility is to be treated the same as an asset that is used and useful. The asset is to be depreciated over its expected useful life. The undepreciated cost of the asset is to be included in rate base, and the related cost of capital recognized as an expense of the period in which it is incurred.

NOT USED BUT USEFUL FOR FUTURE USE

- 12 Assets meeting the following criteria are included in this category:
- a they do not currently provide service to the consuming public; and
 - b they are expected to be used and useful in providing service in the future or to form part of the normal level of standby capacity in the future.
- 13 Assets not currently used, but expected to be used in providing service in the future will provide value to customers at a future date. Accordingly, the cost of the asset is to be matched to the future periods in which the asset will provide value to customers.
- 14 To the extent that the cost of the asset plus any other costs of maintaining the asset until it is placed (or returned) to service exceed its expected future value, the excess cost is similar to the cost of an asset that is neither used nor useful. Where it is expected that there will be an impairment loss of the long-lived asset when returned to service, the excess is to be written off and recovered from customers in the period in which the excess is identified.¹ However, to enhance rate stability, where the excess is significant, it may be deferred and amortized over a five year period or over a reasonable period subject to the approval of the UARB.
- 15 Depreciation on these assets is deferred until they are returned to service. The unamortized cost of the assets (net of any write offs) is to remain in rate base.

¹ FASB ASC 360-10-35-17



PROPERTY, PLANT AND EQUIPMENT

ASSETS - NOT USED AND USEFUL - 6350

- 16 No cost of capital (neither return nor interest) is to be capitalized on the existing cost base during the out of service period. Any related cost of capital is to be recovered from customers and expensed, as applicable, in the period the cost is incurred.
- 17 The costs of maintaining assets while out of service are to be expensed as incurred. These costs include the cost of mothballing the facilities and returning the asset to service. Where the mothballing costs are approved as significant, the amounts may be deferred. Subject to UARB approval, the deferred costs may be amortized and recovered from customers over a five year period including the year that the cost is incurred, or over such period as the UARB deems prudent. Where the costs of placing (or returning) assets to service are significant, they may be added to the assets' capital costs.

PROPERTY, PLANT AND EQUIPMENT

LONG LIVED ASSETS TO BE DISPOSED OF BY SALE – 6360**GENERAL**

- 01 A long-lived asset to be sold should be classified as held for sale in the period in which all of the following criteria are met:
- Management, having the authority to approve the action, commits to a plan to sell the asset,
 - The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets,
 - An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated,
 - The sale of the asset is probable and transfer of the asset is expected to qualify for recognition as a completed sale within one year, except as permitted by ASC 360-10-45-11
 - The asset is being actively marketed for sale at a price that is reasonable in relation to fair market value.
 - Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn¹
- 02 A newly acquired long-lived asset that will be sold rather than used is classified as held for sale at the acquisition date if the one-year requirement is met.²

POLICY

- 03 Long-lived assets identified as being disposed of by sale, shall be classified as held for sale in the period the criteria for long-lived assets to be disposed of by sale are met.
- 04 A long-lived asset classified as held for sale should be measured at the lower of its carry amount or fair value less cost to sell.³
- 05 A long-lived asset should not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the long-lived asset should continue to be accrued.⁴
- 06 If a long-lived asset is no longer being held for sale, it should be reclassified as held and used or as detailed in NSPI Accounting Policy and Procedures Manual Section 6350. Long-lived assets should be reclassified at the lower of:
- Carrying value before it was classified as held for sale, adjusted for any depreciation expense that would have been recognized; or
 - Fair value at the date of the decision not to sell⁵

1 FASB ASC 360-10-45-9

2 FASB ASC 360-10-45-12

3 FASB ASC 360-10-35-43

4 FASB ASC 360-10-35-43

5 FASB ASC 360-10-35-44



PROPERTY, PLANT AND EQUIPMENT
ACCUMULATED DEPRECIATION - 6400

DEFINITION

- 01 Accumulated depreciation, or depreciation reserves, are capital asset contra accounts that are offset against gross capital asset accounts to provide the net book value of the assets at a particular point in time.

GENERAL

- 02 The accounts for accumulated depreciation summarize data relating to the depreciation, retirement of capital assets, and capital contributions. These accounts reflect the accumulated activity for a particular asset group from the date of inception to the current date. This information is maintained by cost centre in Production Plant (steam, gas turbine, hydro and wind) and by activity in mass plant (Transmission, Distribution and General Property).

- 03 With the exceptions of the sale of land and the retirement of a production plant, no gains or losses are immediately recognized on the retirement of capital assets¹

POLICY

- 04 Accumulated depreciation should be netted against the assets so that the assets are reported at their net book values.

PROCEDURES

- 05 At a particular point in time, the balance in the accumulated depreciation accounts is comprised of the following amounts:
- a. total depreciation expense taken to date;
 - b. total depreciation associated with the original decommissioning asset;
 - c. accretion relating to asset retirement obligations as approved by the Nova Scotia Utility and Review Board ("UARB");
 - d. less net - salvage allowances; and
 - e. less original costs of any assets that have been retired.

¹ Please refer to NSPI's Accounting Policy & Procedures Manual Section 6440 for more details



PROPERTY, PLANT AND EQUIPMENT
ACCUMULATED DEPRECIATION - 6400

- 06 When conducting a depreciation rate study to set depreciation rates², the balances in the accounts are taken into consideration when setting the final rate. If the assets in an individual depreciable group have been over/under depreciated to date, a reserve difference will result. This difference must be written off over the remaining life of the assets. This will result in an adjustment in the depreciation rate to ensure the reserve balance will be properly credited over the remaining life.

² Please refer to NSPI's Accounting Policy & Procedures Manual Section 5300 for more details

PROPERTY, PLANT AND EQUIPMENT
**RETIREMENT AND DISPOSAL
OF CAPITAL ASSETS - 6420**



DEFINITIONS

01 Cost

Cost is the main component of most **retirement work orders**. Refer to NSPI's Accounting Policy & Procedures Manual 6100 for a more detailed description of the items included in cost. The amounts that must be removed to record the deletion of an asset from service includes its cost and related accumulated depreciation.

02 Asset Retirement Obligations ("AROs")

An asset retirement obligation is an obligation associated with the retirement of a tangible long-lived asset.¹ These costs include but are not limited to labour, materials, overhead and vehicle expenses.

03 Removal Costs

Removal costs refer to the charges associated with removing a retired asset from its in-service location. These costs include but are not limited to labour, materials, overhead and vehicle expenses.

04 Salvage Value

Salvage value refers to the proceeds from the sale of a retired asset or, if a retired asset is returned to inventory, the inventory value at which it is recorded.

05 Net Salvage Value

Salvage value less cost of removal is referred to as net salvage value. The amount may be either positive or negative and is charged or credited to accumulated depreciation.

06 Retirement Work Order

Retirement costs can be recorded in a retirement work order or in a new capital work order. Retirement work orders are used to collect all retirement costs and salvage values associated with a retirement project. They are subject to the same approval process as **new capital work orders**. Within new capital work orders, retirement, salvage and original cost amounts are captured under retirement accounts.

¹ FASB ASC 410-20-20

PROPERTY, PLANT AND EQUIPMENT
**RETIREMENT AND DISPOSAL
 OF CAPITAL ASSETS - 6420**



GENERAL

- 07 Plant in service refers only to assets that are currently used and useful in the provision of electric service to the consuming public or assets that are not used but are useful for standby purposes or future services. Factors causing assets to lose their ability to provide service include:
- a. reaching the end of their useful lives;
 - b. irreparable equipment failure; and
 - c. technological obsolescence.

POLICY

- 08 Assets that are not used and not expected to be used in the foreseeable future should be retired from plant in service.²

PROCEDURES

- 09 For retirements of property, plant and equipment other than land ,the original cost plus any costs of removal less salvage proceeds is charged to accumulated depreciation, with no immediate gain or loss recognized.
- 10 A retirement work order must be submitted for any proposed significant capital asset retirement and it must follow the same approval procedures as new Capital Work Orders. These are used to remove costs from the capital asset records. For new capital work orders that have a retirement component, the work order will be set up and approved with retirement accounts to capture the cost of retiring assets, the original cost of the asset to retire and any salvage received from the sale or amount recorded if the asset was returned to inventory. NSPI's Accounting Policy & Procedures Manual Section 6200 explains the procedures for approval of new Capital Work Orders.
- 11 When retired assets are physically removed from their in-service locations and subsequently sold or returned to inventory, costs of removal along with any proceeds of disposal are accumulated in the proper accounts within a capital work order.
- 12 In the event that salvage is in the form of proceeds from an insurance claim, the work order is credited with the total claim (including the deductible) while the deductible amount only is charged to operations.

²Please refer to NSPI's Accounting Policy & Procedures Manual Section 6350 for a discussion of the classification of assets.

PROPERTY, PLANT AND EQUIPMENT
**RETIREMENT AND DISPOSAL
OF CAPITAL ASSETS - 6420**



-
- 13 When a work order has received final cost approval, an entry is made for the final disposition of charges to capital assets in service and accumulated depreciation.

Retirement of Assets Other than Land

- 14 When assets are disposed of, a retirement work order is set up or retirement accounts are set up within a capital work order.
- 15 Asset retirement obligations have been set up for the decommissioning of applicable assets³ consistent with *FASB ASC 410-20 Asset Retirement and Environmental Obligations, Asset Retirement Obligations*. The obligation is determined consistent with FASB ASC 410-20-30, *Asset Retirement and Environmental Obligations, Asset Retirement Obligations, Initial Measurement*. The obligation is revised as required under the FASB ASC 410-20-35 *Asset Retirement and Environmental Obligations, Asset Retirement Obligations, Subsequent Measurement*.

Retirement of Land

- 16 When land is disposed of, retirement accounts within a work order are used to remove its cost from the capital asset records.
- 17 If the proceeds from the sale of land are greater than the cost of the land plus the retirement costs than a gain on the sale must be recognized. Consequently, if the proceeds are less than a loss on the sale must be recorded.

³Please refer to NSPI's Accounting Policy & Procedures Manual 6320 for a discussion of the Asset Retirement Obligations.

PROPERTY, PLANT AND EQUIPMENT
**GAIN OR LOSS ON DISPOSITION
OF CAPITAL ASSETS - 6440**



POLICIES

- 01 Gains or losses on capital assets, with the exception of land, are deferred to accumulated depreciation.
- 02 Gains or losses arising from the sale of land are recognized immediately.

PROCEDURES

- 03 Please refer to NSPI's Accounting Policy & Procedures Manual Section 6420 for the procedures to record the retirement of capital assets.



CURRENT ASSETS
CASH - 6500

POLICIES

- 01 Cash should be presented in the financial statements in accordance with FASB ASC Section 305-10.
- 02 Items under the caption "Cash" on the financial statements, the Company should include petty cash funds and the net total of the bank accounts, if the total is in a debit position (positive).
- 03 If the net total of the Company's bank accounts is in a credit (overdraft) position, this amount should be reclassified under the caption "Bank indebtedness" for financial statement presentation purposes.
- 04 Separate disclosure shall be made for cash and cash items which are restricted as to withdrawal or usage.

PROCEDURES

- 05 Monthly bank reconciliations are performed to ensure that all bank statements agree to the accounting records and that all required adjustments are recorded through journal entries.
- 06 If the net total of the bank accounts is in a credit position (overdraft), the recurring entry to record the reclassification is:

DR	Bank (various)	XXX	
CR	1-500 Bank indebtedness		XXX



CURRENT ASSETS

SHORT-TERM INVESTMENTS - 6550

GENERAL

- 01 There may be times when the amount of cash on deposit in Nova Scotia Power Inc.'s ("NSPI's") bank accounts exceeds the amount determined necessary for daily operations. These surpluses usually arise on those days during which no short-term borrowings are due for repayment meaning that the Company must hold this excess cash until one of its short-term borrowing instruments matures. Cash surpluses may also arise for short periods when the proceeds of long-term debt or equity are received and are awaiting to be invested or used to repay other obligations.
- 02 Please refer to NSPI Accounting Policy and Procedures Manual 8110 for a discussion of short-term borrowings.
- 03 Rather than have excess cash balances sit idle in bank accounts, NSPI invests these funds in short-term investments to maximize interest income.

POLICY

- 04 The Company should invest excess cash balances in short-term investment instruments so that interest income is maximized.

PROCEDURES

- 05 The Treasurer or their designate is responsible for reviewing the Company's cash position on a daily basis and determining whether or not there will be a cash surplus. Should a surplus be projected, the following factors are considered in the decision to invest the excess cash:
- a. the amount of the surplus;
 - b. the projected cash requirements for the immediate future; and
 - c. the prevailing rates available.
- 06 Once an amount and term are determined, treasury staff solicits bids from at least two money market dealers to obtain the most competitive rate for the amount and term to be invested. These rates will be compared to the rates NSPI can receive from deposits in its Business Investment Account ("BIA").
- 07 When interest on short-term investments is earned, it is credited to interest income.
- 08 Please refer to NSPI Accounting Policy and Procedures Manual 5800 for a more detailed discussion of the accounting treatment for interest income.
-



CURRENT ASSETS

RECEIVABLES - 6600

DEFINITIONS

- 01 Receivables are claims held against others for money, goods, or services. They are further classified as trade receivables and non-trade receivables. Trade receivables are amounts owed by customers for goods and services rendered as part of the Company's normal operations and comprise the largest portion of "Accounts receivable" on the financial statements. Non-trade receivables arise from a variety of transactions and, because of their peculiar nature, are often separately disclosed on the financial statements if they are considered material.¹ Nova Scotia Power Inc. ("NSPI") sub classifies non-trade receivables into business, employee and miscellaneous receivables.
- 02 The allowance for doubtful accounts is a contra account (*i.e.* it is offset against other receivable balances to arrive at a net amount) used to record the estimate of uncollectible receivables.
- 03 Receivables are considered financial instruments for accounting purposes.

POLICIES

- 04 All receivables (trade and non-trade) are classified as loans and receivables and follow an amortized cost model. Receivables that have a relatively short period (less than one year) of time to maturity are not adjusted to reflect discounting as the effect is considered de-minimus. This excludes derivatives which are accounted for using a fair value model.
- 05 Receivables should be recorded at fair value when the transaction, giving rise to the receivable, has occurred.
- 06 An allowance for doubtful accounts should be recorded to adjust receivable balances to amounts that will ultimately be collected by NSPI.

PROCEDURES

¹FASB ASC Paragraph 210-10-S99-1



CURRENT ASSETS

RECEIVABLES - 6600**07 Trade Receivables**

Electric service accounts receivable are generated by sales and billings to customers for power consumed. The receivables resulting from the billings system is recorded in two general ledger accounts to facilitate account analysis and improve internal control. The general ledger accounts used to record electric service receivables are:

- 330 Electric Service Receivables
- 335 Large Customer Receivables

08 Non-trade Business Receivables

Non-trade business receivables include demand side management ("DSM") financing receivables, financial derivatives, contract receivable, accrued interest receivable and financing contracts for water heaters and ETS units. DSM financing receivables are generated in the normal course of operations and are based on contractual agreements. Financial derivative receivables are generated in the normal course of operations and are based on contractual agreements. Contract receivable is based on a contractual agreement. Accrued interest receivable includes interest earned on short-term investments that has not been received as at the financial statement date. The general ledger accounts used to record non-trade business receivables include:

- 334 DSM Financing Receivable
- 340 Financial Derivative Receivable
- 348 Contract Receivable
- 350 Accrued Interest Receivable
- 353 Water Heater Loans
- 356 Receivable Marketing & Sales

09 Nontrade Employee Receivables

Nontrade employee receivables include payroll advances, expense advances, vacation payroll advances, etc. These amounts are recovered on a timely basis through payroll deductions and submission of employee expense statements. The general ledger accounts used to record nontrade employee receivables include:

- 341 Payroll Standing Advances
- 342 Other Employee Advances



CURRENT ASSETS

RECEIVABLES - 6600

343	Employee Expense Advances
344	Payroll Advances
345	Employee Purchases Receivable
347	Employee Share Purchase Loans
349	Retirement Award Advance

10 Nontrade Miscellaneous Receivables

Nontrade miscellaneous receivables mainly arise from sales of surplus material and equipment and returns to suppliers. Interest charges apply to past due balances. The general ledger accounts used to record nontrade miscellaneous receivables include:

337	Miscellaneous Receivables
352	Returns to Suppliers
354	Other Receivables

11 Provincial Sales Tax ("PST") Rebate Receivables

PST rebate receivables are recorded in general ledger account 338.

12 Allowance for Doubtful Accounts

The allowance for doubtful accounts is calculated and adjusted monthly to reflect the Company's best estimate of uncollectible receivables. Large industrial and commercial accounts are assessed for collectibility on an individual basis while all other accounts are assessed based on an analysis of aged listings of receivables. The rates (factors) used to estimate the uncollectible accounts for each aging category are based on past data and experience and consider the following:

- a. age of the outstanding amounts;
- b. age of receivable write offs;
- c. percentage of recoveries of write offs.

The general ledger account used to record the allowance for doubtful accounts is:



CURRENT ASSETS

RECEIVABLES - 6600

339 Allowance for Doubtful Accounts



CURRENT ASSETS

UNBILLED REVENUE RECEIVABLE - 6650

DEFINITION

01 The unbilled revenue receivable relates to revenue for service rendered but not billed to customers.

POLICY

02 The Company accrues revenue for service rendered but not billed to customers and presents it under current assets as "Unbilled revenue receivable" on the balance sheet.¹

03 The Company's unbilled revenue receivable includes receivables associated with the "Demand Side Management" ("DSM") Program which are excluded from revenue.

PROCEDURES

04 Unbilled revenue receivable is charged to account 355.

¹Please refer to NSPI's Accounting Policy and Procedures Manual Section 4100, paragraphs .02



CURRENT ASSETS

INVENTORIES - 6700

DEFINITION

- 01 Inventories include the following significant categories:
- a. thermal materials;
 - b. transmission and distribution materials; and
 - c. fuel.

POLICIES

- 02 Inventories are measured at the lower of cost and market. Market means current replacement cost provided that market does not exceed the net realizable value and market shall not be less than net realizable value reduced by an allowance for normal profit margin.
- 03 Inventories should be recognized, measured and presented in the financial statements in accordance with FASB ASC Topic 330 - Inventory.

PROCEDURES**Materials**

- 04 Materials are accounted for using a computerized perpetual inventory system. Purchases are recorded at cost and issues are charged to capital or operating accounts at average cost.
- 05 Physical counts are performed on a rotating basis and adjustments or write-offs required are expensed.
- 06 Each storeroom receives a monthly interest charge based on an annual rate to cover the carrying cost of its inventory. The interest rate is set in advance of the fiscal year and is based on the Company's average cost of short-term borrowing over the preceding twelve months.

Fuel

- 07 Fuel inventories, consisting of oil, coal and fuel additives, are accounted for using the weighted average cost method. This method assigns costs between fuel inventory on hand and fuel consumed on the assumption that fuel is consumed at a weighted average cost of the inventory.
-



CURRENT ASSETS

INVENTORIES - 6700

- 08 Each month fuel reports are prepared for every plant showing fuel purchased and consumed and the resulting inventory balance. Consumed fuel is recorded as an expense on the statement of earnings.
- 09 Fuel purchases received by the Company by the end of a reporting period but not yet invoiced by suppliers are included in inventory. The amount of the purchase is accrued and recorded as an accrued liability on the balance sheet.
- 10 Physical counts and surveys are performed quarterly for coal and monthly for oil with any adjustments charged or credited to fuel expense based on the Nova Scotia Utility and Review Board ("UARB") approved fuel manual practices.



CURRENT ASSETS
PREPAID EXPENSES - 6800

DEFINITION

- 01 Current assets that will benefit more than one period will have their cost allocated over the periods they benefit.

POLICIES

- 02 Expenses paid on an annual basis should be recorded as prepaid assets and amortized on a straight-line basis over the months to which the expense applies.
- 03 Prepaid expenses should be presented in the financial statements in accordance with FASB ASC 210-10-45-2 and FASB ASC 210-10-45-1(g) as a current asset.



DEFERRED CHARGES

GENERAL PRINCIPLES - 6900

POLICY

- 01 Rate-regulated enterprises such as Nova Scotia Power Inc. ("NSPI") have to consider the impact of accounting decisions on revenue requirements and rate stability. If a regulatory authority approves the recovery of certain costs in a period other than the period in which the costs would be charged to expense by an unregulated entity, it can result in amounts being deferred. If a future economic benefit equal to the deferred amounts exists, the amount should be recorded as a regulatory asset for accounting purposes. If a future cash outflow equal to the deferred amount exists the amount should be recorded as a regulatory liability for accounting purposes. As the deferred amounts are recovered through or reduce rates, the amortization of the deferred amount is matched to the recovery through or reduction in rates.
- 02 Certain large operating expenditures incurred by NSPI may be considered material, and eligible for deferral and amortization, subject to the approval of the Nova Scotia Utility and Review Board ("UARB"). These costs are deferred and amortized over the approved period, rather than expensed and recovered from customers in the year incurred.
- 03 In addition to large operating expenditures, the UARB approved the implementation of a Fuel Adjustment Mechanism ("FAM") in the 2009 General Rate Decision effective January 1, 2009. The FAM balance is recorded as a regulatory asset or regulatory liability in accordance with NSPI's Accounting Policy and Procedures Manual Section 5110.
- 04 NSPI applies ASC 980 for specific rate regulated accounting policies which are approved by the UARB.



DEFERRED CHARGES

TERMINATION COSTS - 6930

POLICIES

- 01 The Company accrues a liability for termination costs associated with severance programs consistent with the requirements of *FASB ASC Topic 420 – Exit or Disposal Cost Obligations* or *ASC Topic 712 – Compensation – Nonretirement Post Retirement Benefits* except as noted in paragraphs 03, 05 and 06 below.
- 02 Liabilities associated with termination costs are recognized when there is little or no discretion to avoid these costs and the amount is determinable. The criteria for recognition depends on the type of termination benefit as follows:
- A One-time termination costs are benefits offered above and beyond contractual or legal requirements to employees that are involuntary terminated. *FASB ASC paragraph 420-10-25-4* provides guidance on the criteria that must be met to recognize the obligation.
 - B Special terminations benefits are offered for a short period of time in exchange for an employees termination of service. *FASB ASC paragraph 712-10-25-1* provides guidance on the criteria that must be met to recognize the obligation.
 - C Contractual termination benefits are benefits that are either provided for in employment law, employment contracts or through corporate policy and past practice. *FASB ASC paragraph 712-10-25-2* provides guidance on the criteria that must be met to recognize the obligation.
- 03 Generally accepted accounting principles prescribe termination costs be expensed when the liability is recognized except in situations where there exists an ongoing obligation for the employee to render service until they are terminated beyond a minimum retention period which is represented by the legal notification period which would follow guidance in *FASB ASC paragraph 420-10-25-9*; however, the Company's accounting treatment of costs associated with a severance program will depend on the program's total cost and the impact on revenue requirement and rate stability. The justification for treating programs differently based on their costs is described in NSPI's Accounting Policy and Procedures Manual 6900.
- 04 When the costs of a severance program are not expected to exceed 0.25% of the annual revenue requirement of a given year they will be expensed in the year in which a program is initiated.
- 05 When the costs of a severance program are expected to exceed 0.25% of the annual revenue requirement of a given year, the Company defers the costs of these severance programs and



DEFERRED CHARGES

TERMINATION COSTS - 6930

amortizes them on a straight-line basis over a three-year period, commencing in the year in which a program is initiated.

- 06 Regulatory decisions allowing the recovery of deferred costs through future rates create a future economic benefit or asset equal to the deferred amounts. Amortization matches the cost of that asset to revenue, as the deferred amounts are recovered through allowed rates. Since severance programs are often part of restructuring programs designed to reduce future costs, amortizing the cost of these programs over a three-year period matches the cost of the programs with the resulting cost savings.

PROCEDURES

- 07 The total expected cost of a severance program should be accrued in the year that conditions for recognition are met based on the type of benefit offered as outlined in paragraph 2.
- 08 If the program's total expected cost is less than 0.25% of the annual revenue requirement, all costs should be charged to operations and recorded in the applicable general ledger account segments along with a unique project identifier in the accounting flex field that will allow management to monitor the program's cost.
- 09 If the program's total expected cost exceeds 0.25% of the annual revenue requirement, the following expenditures should be recorded as a deferred asset:
- a. employee termination amounts;
 - b. additional pension costs or benefits;
 - c. retirement awards and other allowances;
 - d. employee counselling costs;
 - e. consulting fees, actuarial and legal costs; and
 - f. relocation costs directly attributable to the severance program.
- 10 The accrued liability will be reduced as cash payments are made, while the deferred asset will be amortized to expense monthly over a three year period, through a recurring journal entry.



DEFERRED CHARGES

NEW BUSINESS COSTS - 6940

DEFINITION

- 01 Start-up costs include all expenses incurred by Nova Scotia Power Inc. ("NSPI") for the development of business opportunities outside the Company's normal sphere of regulated generation and delivery of electricity. Start-up costs are costs associated with start-up activities which are defined in *FASB ASC 720-15-20*.
- 02 *FASB ASC 720-15-55* provides examples of the types of costs that would be considered. Other costs that are not within the scope of *FASB ASC 720-15* should be accounted for based on the specific guidance related to the nature of the expense and the appropriate section of NSPI's Accounting Policy and Procedures Manual

POLICIES

- 03 All start-up costs associated with the development of new business should be expensed.
- 04 All NSPI employees who perform work on non-regulated activities should charge an overhead application rate as per NSPI's Accounting Policy and Procedures Manual Section 6940A.

PROCEDURES

- 05 All new business costs should be charged to an operating project. An Operating Project Approval Form can be obtained from Corporate Accounting Services ("CAS"). CAS will assign a new project number to collect costs associated with each new business venture.



DEFERRED CHARGES

OVERHEAD APPLICATION RATE**- 6940A**

01 An overhead charge will apply to labour costs of Nova Scotia Power Inc. ("NSPI") employees outside of the corporate support groups relating to affiliate or non-regulated activities. This charge is designed to recover all administrative costs benefiting, but not specifically identifiable with these activities so that ratepayers are not adversely affected.

02 The following operating, maintenance and general ("OM&G") expense accounts are included in the calculation of the overhead application rate:

001	Executive Labour
010	Office Supplies
012	Materials
015	Freight and Postage
016	Tools and Equipment
020	Royalties and Easements
021	Telephone
023	Data Communication Circuits
025	Leasing
027	Corporate Filing Fees
029	Membership Dues
032	Subscriptions
033	Equipment and Software Rental and Maintenance
034	Application Software
035	Computer Hardware and Operating Software
036	Directors' Fees and Expenses
037	Legal and Audit
038	Annual Shareholders Meeting
040	Advertising
042	Employee Benefits (includes Workers' Compensation)
043	Insurance
044	Energy Use
050	Rent
055	Warranty and Service Contracts
056	Conference and Tuition Fees
057	Corporate Support Allocation
058	Personal Equipment
059	Amortization of Prepaid Items
060	Commissions and Bank Charges



DEFERRED CHARGES

OVERHEAD APPLICATION RATE

- 6940A

- 03 The calculation of the overhead application rate should be reviewed annually by Corporate Accounting Services and communicated throughout the Company.

DEFERRED CHARGES

OVERHEAD APPLICATION RATE

- 6940A



- 04 The overhead application rate is calculated based on total OM&G expenses identified above divided by total operating labour.

ACCOUNTING FOR FINANCIAL INSTRUMENTS AND HEDGES - 6960**OBJECTIVE**

- 01 The Company's financial instruments will adhere to the requirements of US Generally Accepted Accounting Principles (US GAAP) including ASC 815 – Derivatives and Hedging.
- 02 This policy sets out general guidance for accounting for certain financial instruments and hedging activities of the Company and the documentation requirements.

DEFINITIONS

- 03 Derivative instruments designed to mitigate the risk of the Company's exposure to changes in market prices of, for example, natural gas, oil, coal & other commodities, interest rates, and foreign currency exchange rates, will be considered as hedging activities of the Company. All remaining derivative instruments would be considered a part of trading activities.
- 04 Derivative Instrument: Is a financial instrument or other contract with all three of the following characteristics: (i) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable (sometimes called the "underlying"), (ii) it requires little or no initial net investment; and (iii) its terms require or permit net settlement. Derivatives include financial instruments used to mitigate the risk of the Company's exposure to changes in market prices of, for example, natural gas, oil, coal, and other commodities. Derivatives include, but are not restricted to, such items as swaps, options, caps, collars, and forwards.
- 05 Fair Market Value: Is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties, who are under no compulsion to act.
- 06 Hedging Relationship: Is a relationship established by the Company's management between a hedged item and a hedging item.
- 07 Hedged Item: Is all or a specified portion of an asset, liability or an anticipated transaction, or group of assets, liabilities or anticipated transactions, having an identified risk exposure that the Company has taken steps to modify.
- 08 Hedging Item: Is all or a specified proportion of a derivative financial instrument acquired to modify the changes in cash flows or fair values arising from the risk exposure identified in the hedged item.
- 09 Hedge Accounting: Is a method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship, such that those gains, losses, revenues and expenses are recognized in income in the same period when they would otherwise be recognized in different periods.

ACCOUNTING FOR FINANCIAL INSTRUMENTS AND HEDGES - 6960

-
- 10 Mark-to-Market Accounting: Under the mark-to-market method of accounting, all financial instruments, other than instruments in a valid hedging relationship, are recorded at fair market value through net earnings.

POLICY

- 11 The Company engages in risk management activities to manage the Company's exposure to changes in the market prices of commodities, foreign exchange and interest rates.
- 12 The Company does not use derivative instruments for trading or speculative activities. All derivative instruments are entered into for risk management purposes and should adhere to this policy and these procedures.
- 13 The Company manages its commodity risk management activities in accordance with its Fuel Manual and Risk Management Policy as approved from time to time by management of the Company.
- 14 The Company manages its foreign exchange risk management activities in accordance with its Currency Risk Management Policy as approved from time to time by management of the Company.
- 15 The Company manages its interest rate risk management activities in accordance with its Interest Risk Management Policy as approved from time to time by management of the Company.
- 16 The Company enters into derivative instruments to manage the impact of market fluctuations on assets, liabilities, contractual commitments, and anticipated transactions. The Company defers the impact of changes in the fair market value of these derivative instruments to a regulatory asset or liability and includes the gains and losses on the derivative instruments in the measurement of the related hedged item when the hedged item is recognized.
- 17 Physical contracts are not marked to market through net earnings. Examples include contracts for natural gas and heavy fuel oil. Physical contracts are recognized through net earnings as the fuel is consumed or resold. Where a physical contract is considered a derivative instrument under US GAAP, the Company defers the net earnings effect to a regulatory asset or liability as appropriate.
- 18 The Company does not test or measure the effectiveness of its derivative instruments used as hedges. The derivative instruments used as hedges in accordance with the Company's risk management policies are assumed to be 100% effective.

PROCEDURES

- 19 Hedge accounting should apply to all hedging activities of the Company in order to ensure gains, losses, revenues and expenses on hedging and hedged items are recognized in the same period(s).
- 20 To ensure the proper accounting of hedging activities, at the inception of the hedging relationship:

ACCOUNTING FOR FINANCIAL INSTRUMENTS AND HEDGES - 6960

-
- a. The front office should ensure the hedging activity is in compliance with the appropriate risk management policy;
 - b. The front office should document the specific risk exposure being hedged in accordance with its risk management objective and strategy, the hedged item, the hedging item, and the intended term of the hedging relationship;
 - c. The front office should have the latest quarterly forecast to support the specific risk exposure; and
 - d. The documentation should be approved by the preparer of the document, the manager of the back office, and the manager responsible for the front office.
- 21 At each quarter end, the fair value of derivative instruments used to hedge are recognized on the balance sheet as either a held-for-trading asset or a held for trading-for-trading liability. Changes in fair value should be recognized as either a regulatory asset or regulatory liability, as appropriate.
- 22 At each quarter end, any held-for-trading assets, held-for-trading liabilities, regulatory assets, and regulatory liabilities denominated in a foreign currency should be translated at the month end foreign exchange rate.
- 23 Realized and unrealized gains and losses on derivative instruments used to hedge risk management activities should be amortized in a systematic and rational basis over the term of the hedged item.
- 24 Realized and unrealized gains and losses on derivative instruments used to hedge fuel purchases should be included as part of the cost of the fuel as the hedged item is realized.
- 25 Realized and unrealized gains and losses on derivative instruments used to hedge capital projects should be included as a cost of the project as the hedged item is realized and expensed to depreciation expense as the project is depreciated.
- 26 Realized and unrealized gains and losses on derivative instruments used to hedge interest rates should be included in the measurement of the hedged interest expense using the effective interest method.
- 27 Foreign currency denominated financial assets and liabilities should be measured at the period end rate. Any hedged foreign currency exposure should be deferred to a regulatory asset or liability and will reverse when the hedged financial assets and liabilities settle.
- 28 Option premiums paid are amortized over the term of the option.
- 29 If the Company is required to pay a fee on the signing of an agreement, the fee should be deferred and amortized over the hedged term. Ongoing fees should be expensed as incurred.
- 30 If the hedged item no longer exists and the hedging item is no longer required, the hedging relationship is terminated. The hedging item is effectively disposed of and any resulting gains and losses should be deferred in a regulatory asset or regulatory liability and recognized in the same
-

ACCOUNTING FOR FINANCIAL INSTRUMENTS AND HEDGES - 6960

balance sheet or income statement item that would have been used had the hedged item still existed in the month the underlying hedging item settles.

- 31 If the timing of the hedged item moves forward or back, the Company may change the timing of the hedging item in order to ensure continued effectiveness of the hedging relationship. Changing the timing of the hedging item usually involves the effective settlement of the initial hedge and obtaining a new hedging item. Any gains or losses on settling the initial transaction should be deferred as a regulatory asset or regulatory liability until recognition and measurement of the hedged item. Any new hedging item should be accounted for in accordance with this policy.
- 32 Front Office Staff will be responsible for ensuring the documentation as outlined in this policy is completed. Back Office Staff will be responsible for reviewing documentation to ensure compliance with the accounting policy, and ensuring the appropriate accounting treatment.
- 33 Due to the complexity of derivative instruments, it is unlikely that all situations have been adequately covered in this Policy. Employees should endeavour to follow the spirit of the Policy and consult with Corporate Accounting as required to ensure a particular derivative instrument is accounted for correctly.

TRANSITIONAL PROVISIONS

- 34 This policy is effective January 1, 2011 and should be applied retroactively with restatement of prior periods except as outlined below.
- 35 Any item of property, plant and equipment, construction work-in-progress and intangibles recognized prior to January 1, 2011 should be translated at the foreign exchange rate used prior to January 1, 2011.
- 36 Any required transitional adjustment as a result of the change in foreign exchange rates applied to regulatory assets and liabilities as compared to accumulated other comprehensive income should be deferred and recognized in foreign exchange expense as the related derivative settles beginning January 1, 2011.
- 37 Any other required transitional adjustment as a result of implementing the policy (most likely due to ineffectiveness recognized prior to January 1, 2011) should be deferred and expensed over the weighted average life of the related derivatives beginning January 1, 2011.
- 38 All transitional adjustments should be to the balance sheet only. Net earnings of years prior to 2011 will not be restated.



SHAREHOLDERS' EQUITY
COMMON SHARES - 7100

DEFINITION

- 01 The authorized common share capital of the Company consists of an unlimited number of common shares, no par value, one vote per share on all matters to be voted on by shareholders and entitled to receive dividends as declared by the Board of Directors.
- 02 Common shares are shown in the financial statements as issued and outstanding shares.

POLICY

- 03 Common equity, defined as common shares and retained earnings, should be used to maintain an overall capital structure that is within the range(s) approved by the Nova Scotia Utility and Review Board ("UARB").

PROCEDURES

- 04 The UARB defines the maximum common equity percentage of the total capital structure.
- 05 Share capital may be issued to maintain an appropriate capital structure. These transactions are recorded in general ledger account 750 - Common Shares.



SHAREHOLDERS' EQUITY
COMMON DIVIDENDS - 7120

POLICY

- 01 Dividends to common shareholders should be recorded as declared by authorization of an approved Board of Directors resolution.

PROCEDURES

- 02 When notification is received via a Board of Directors approved resolution, a dividend payable is recorded in the accounting records:

DR	1-780	Dividends - Common	XXXX
CR	1-610	Dividends Payable	XXXX

- 03 When dividends are paid, the transaction is recorded:

DR	1-610	Dividends Payable	XXXX
CR	Bank		XXXX



SHAREHOLDERS' EQUITY
RETAINED EARNINGS - 7200

DEFINITION

- 01 Retained earnings consists of net earnings (losses) before dividends, dividends on common and preferred shares considered to be equity, and other appropriate amounts.

POLICY

- 02 Retained earnings should be sufficient to maintain the Company's overall capital structure within the ranges prescribed by the Nova Scotia Utility and Review Board ("UARB").¹

¹ Please refer to NSPI Accounting Policy and Procedures Manual Section 7100 for details.

SHAREHOLDERS' EQUITY
PREFERRED SHARES - 7300



DEFINITION

- 01 The authorized preferred share capital consists of an unlimited number of first and second preferred shares issuable in series. These shares shall have the designations, rights, privileges, restrictions and conditions as determined by the Board of Directors' resolutions.

POLICY

- 02 Preferred shares could be issued in series to maintain an overall capital structure that is within the ranges approved by the Nova Scotia Utility and Review Board ("UARB").

PROCEDURES

- 03 Proceeds from the issue of preferred shares are recorded in general ledger account 770 - Preferred Shares.



SHAREHOLDERS' EQUITY
PREFERRED DIVIDENDS - 7320

POLICY

- 01 Dividends to preferred shareholders and the associated income tax expense (benefit) are accrued as declared and the dividends are paid based on approved Board of Directors' resolutions.

PROCEDURES

- 02 Preferred dividends are accrued as declared based on an estimate using financial details of the series (dividend rate).
- 03 An adjustment for Part VI.1 tax and the income tax benefit arising from the deduction related to the preferred share dividend is also recorded as the dividend is declared.



LIABILITIES

LONG-TERM DEBT - 8100

POLICY

- 01 Long-term debt issued by the Company is reported net of long-term debt payable in one year, as long-term debt on the balance sheet of its financial statements. Detail of the long-term debt issued by the Company are reported in the notes to the annual financial statements.
- 02 Certain commercial paper where the Company has the intention and the unencumbered ability to refinance the obligation for a period greater than one year is reported as long-term debt on the balance sheet of its financial statements.¹
- 03 Debentures and medium term notes are issued under a trust indenture and are unsecured.
- 04 Debt defeasance costs are the incremental costs of investments made over the face amount of the defeased long-term debt of Nova Scotia Power Finance Corporation ("NSPFC") placed in trust. The Nova Scotia Utility and Review Board ("UARB") has permitted the Company to defer these costs and recover them over the life of the related NSPFC debt.

1 FASB ASC 470-10-45-14



LIABILITIES

DEBT DUE WITHIN ONE YEAR - 8110

POLICIES

01 Debt which is due within one year should be disclosed under this balance sheet heading, reducing the corresponding part of the debt structure.¹

¹ FASB ASC 210-10-45-9



LIABILITIES

ACCRUED INTEREST ON LONG-TERM DEBT - 8120

POLICY

- 01 Interest on long-term debt should be accrued on a 30-day month basis using the principal outstanding and prevailing rate for each debt instrument.

PROCEDURES

- 02 The interest expense for each debt instrument is credited to this account and the resulting payments, as they occur, are charged to this account.



LIABILITIES

BANK INDEBTEDNESS - 8200

POLICY

- 01 Short-term credit requirements used to maintain the Company's bank accounts as at period end should be presented as "Debt due within one year" on the Balance Sheet with the exception of short-term credit where the Company has the intention and the unencumbered ability to refinance the obligation for a period greater than one year.¹

¹ FASB ASC 470-10-45-14



LIABILITIES
**ACCOUNTS PAYABLE
AND ACCRUED CHARGES - 8220**

POLICY

- 01 The costs of any goods or services received but not yet paid for and payment is intended in the next 12 months are included as a current liability on the balance sheet.

PROCEDURES

- 02 Goods or services received but not yet invoiced or entered into Oracle are accrued monthly.
- 03 Accounts payable and accrued liabilities include fuel, materials or services received, payroll and payroll deductions, employee contributions, and other miscellaneous payables.



LIABILITIES

INCOME TAXES PAYABLE - 8300

POLICY

01 Includes all income taxes payable to both levels of government.¹

¹ Please refer to NSPI Accounting Policy and Procedures Manual Section 5900.



LIABILITIES

DIVIDENDS PAYABLE - 8400

POLICY

- 01 Includes all accrued and/or declared dividends on both common and preferred shares.¹
- 02 Dividends payable for cumulative preferred shares are in accordance with the terms of the preferred shares.

¹Please refer to NSPI Accounting Policy and Procedures Manual 7120 and 7320.

Handling of Input Tax Credits for Canadian Expense Reporting

This overview is applicable to those Canadian reporting entities using procurement cards (corporate BMO credit cards) or outlaying personal funds for business purposes (personal visa, mastercard or cash) and submitting an expense report for reimbursement. This is not applicable for any US employees or the Caribbean region.

Please note that any provincial sales tax and non-Canadian sales tax (i.e. Maine or US state sales tax) are not recoverable by any Canadian organization and should be coded to the expense account of the specific item being claimed

For hotel or meeting charges, such as any meals, telephone, and/or internet charges incurred on a procurement card for business expense purposes needs to be broken out and coded to each type of cost incurred from the total bill/invoice. Laundry is charged to the travel expense account. In addition, the tax paid in Canada for such costs need to be broken out and allocated to each expense item accordingly.

- Example: \$1,150 Halifax hotel bill with \$700 in room charges, \$275 in meals, \$25 in long-distance phone and \$150 tax.

$\$700 \text{ travel} + \$105 \text{ HST } (\$700 * 15\%) = \$805 \text{ total expense including tax}$

$\$275 \text{ meals and entertainment} + \$20.62 \text{ HST } [(\$275 * 15\%) / 2]$ and half of HST applicable to meals is charged back to meals and entertainment = \$295.62 total expense including tax

$\$25 \text{ telephones} + \$3.75 \text{ HST } (\$25 * 15\%) = \$28.75 \text{ total expense including tax}$

If you have a procurement card charge using your corporate BMO card and the applicable receipt does not separately disclose the tax, when you are calculating the tax you can take the total charge and deduct any tip, if a meal, and multiply the net amount by 15 and divide by 115 for the tax payment field in invoice express. **This assumes that the good or service is subject to tax and the tax is included in the invoice total.** Tax on meal receipts must always be calculated before the tip you awarded. (If there is any doubt that a service or product does not have tax applied to the invoice/bill then HST should not be claimed as an input tax credit.) In these instances, the item/charge must be created as “non-tax/pre-tax charge” and coded to the applicable general ledger expense account.

- Example: purchased a bag of groceries including fresh apples, lettuce, milk, cereal, chicken, pork, eggs and coffee for \$65.40. There is no tax applied to the receipt thus nothing to claim for expense report purposes.

If you have incurred and paid any costs via cash or your personal visa/mastercard and the receipt does not separately disclose the tax, the invoice express system will automatically calculate the tax as the total gross amount times 14 divided by 114. This is automatic within the IEX system that we are using.

- Example: \$42 NS taxi chit, including tax and a tip of \$2

For NS procurement card charges (BMO card purchases) in a 15% tax province the calculation is:

$\$40 (\$42 - \$2) * (15/115) = \5.21 in tax and $\$42 - 5.21 = \36.79 in pre-tax expense

Using personal cash (or personal credit card charges) in Nova Scotia a 15% tax province:

$\$42 * (14/114) = \5.16 in tax and $\$42 - \$5.16 = \$36.84$ in pre-tax expense

Given our travel policy requires detailed receipts for all expenditures any amount on an invoice should be broken out in sufficient detail for the preparer to claim the applicable tax paid on a service/product using a corporate procurement card. In this next example, we are assuming that the tax amount is not broken out on any invoice or document received from the vendor/supplier.

- Example: your receipt is for an item which does not separate out the tax but you know tax was charged. The total bill is \$125 and was purchased in Nova Scotia.

For NS procurement card charges (BMO card purchases) in a 15% tax province:

$\$125 * (15/115) = \16.30 in tax and $\$125 - \$16.30 = \$108.70$ in pre-tax expense

Using personal cash (or personal credit card charges) in a 15% tax province:

$\$125 * (14/114) = \15.35 in tax and $\$125 - 15.35 = \109.65 in pre-tax expense

Should the tax amount not be separated on the invoice, a Nova Scotia meal paid on a procurement card requires the tip amount be removed when calculating the tax amount from the detailed receipt which is then input in IEX (invoice express) by multiplying the pre-tax total less any tip by 15/115 rate. If you are claiming meals and entertainment expenses for any procurement charge after calculating the tax field then a 50% inclusion rate for the input tax credit is applied by the system as we are limited to this reduced rate percentage by CRA.

A Nova Scotia meal paid with personal cash or on a personal credit card and thus the employee is submitting a reimbursement of personal expenses, the IEX system will automatically calculate the tax as a function of 14/114 rate and populate directly into the system and will adjust for a 50% inclusion rate for the input tax credit if the expense is for meals and entertainment.

In the event that a grocery item was purchased and there is no tax applied on the receipt you would not calculate any tax nor claim any input tax credit as a business related expense or reimbursement of costs. The supply of basic groceries, which includes most food and beverages marketed for human consumption is not taxable; however, there are exceptions to the rules (such as prepared food) so please look closely at any receipt.

- Example: purchased a bag of groceries including fresh apples, lettuce, milk, cereal, chicken, pork, eggs and coffee for \$65.40. There is no tax applied to the receipt thus nothing to claim for expense report purposes.

Tax should include **HST/GST** only. Ensure that only GST/HST is coded as "tax" not other taxes such as fuel taxes and other charges often called "tax" on airline bills.

Tax included charges – formulas as examples:

- 15% HST Provinces (NS Only) - Gross (net of any tips) x 15/115
- 13% HST Provinces (Ont, NB, Nfld) - Gross (net of any tips) x 13/113- 5% GST provinces (PEI, Que, Man, Sask, Alb, NWT, Nun, Yuk) - Gross (net of any tips) x 5/105. PEI will soon be moving to HST.

Other taxes you may see on receipts – **do not include these amounts in the tax line of the expense report.**

- PEI PST – 11%
- Quebec QST – 7.5%
- Ontario PST – 8%
- Ontario Hotel Room Tax – 5%
- Manitoba PST – 7%
- Saskatchewan PST – 5%
- BC PST – 7%
- BC Hotel Room tax – 8%
- BC Municipal or City Tax (on hotel rooms) – 2%
- State sales taxes and hotel taxes in the US – various rates
- DO NOT claim tax from US or International destinations.

Please ensure you select the proper zone when calculating tax on expense reports.



Nova Scotia Power Inc.

Accounting Policy and Procedures Manual

March 31, 2015

ACCOUNTING POLICY AND PROCEDURES MANUAL

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ACCOUNTING POLICY AND PROCEDURES MANUAL

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NON-CONFIDENTIAL

1 **Request IR-15:**

2

3 **Exhibit N-1, p. 28, line 7**

4

5 **The Board understands that the repayment of debt does not begin until December 2020:**

6

7 (a) **Please confirm.**

8

9 (b) **Please provide a schedule of required payments.**

10

11 (c) **Would the debt repayment schedule change if the “20 for 20” agreement is delayed
12 beyond December 2020? Please provide detail.**

13

14 Response IR-15:

15

16 (a) Confirmed. The first principal payment is due December 1, 2020.

17

18 (b) Please refer to Attachment 1 (from NSPML’s response to BDO IR-15 relating to AFUDC
19 Policy [M07254]), which provides the schedule of principal and interest payments
20 required.

21

22 (c) The debt repayment schedule is prescribed in a bond indenture with external bond
23 holders and would not change.

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

1 **Request IR-15:**

2
3 **Interest Rates:**

- 4
- 5 a) **Please confirm the interest rate on the entire FLG loan is 3.5% and is fixed for the**
6 **entire life of the project.**
- 7 b) **Please confirm the terms and interest rates of all other interest income earned on**
8 **invested funds from the \$1.3 billion loan and whether there are any possibilities of**
9 **fluctuations.**
- 10 c) **As the upfront approach of withdrawing the full amount of funds of the FLG loan**
11 **was taken, under the FLG Agreement, this provided the opportunity to secure a**
12 **fixed interest rate on the loan. As a result, NSPML confirmed that the upfront**
13 **withdrawal was selected as the “draw as needed” approach would have required an**
14 **interest rate hedging program to hedge the interest rate risk. In the 2014 financial**
15 **statements, note M indicates that the impact of these hedges is included in CWIP**
16 **and the interest rate derivative contracts were entered into to protect against a rise**
17 **in interest rates in advance of the issuance of long-term debt. Since the upfront**
18 **approach was taken, please provide an explanation of what the hedging costs in**
19 **2014 related to and why was hedging necessary.**
- 20 d) **Please provide an actual debt continuity schedule with planned interest payments**
21 **and principal payments.**
- 22

23 **Response IR-15:**

- 24
- 25 a) Confirmed. The 3.5 percent coupon rate is fixed for the \$1.3 billion of bonds secured
26 pursuant to the FLG.

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

- 1 b) Please refer to NSUARB IR-3(c, d, f)
- 2
- 3 c) Please refer to NSUARB IR-5(b).
- 4
- 5 d) The following table provides the timing of interest and principle payments on the \$1.3
- 6 billion of bonds secured under the FLG:
- 7

Scheduled Bond Payment Dates	Opening Principal Balance (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Ending Principal Balance (\$)
1-Jun-14	1,300,000,000	4,861,644	-	4,861,644	1,300,000,000
1-Dec-14	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-15	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-15	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-16	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-16	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-17	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-17	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-18	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-18	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-19	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-19	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Jun-20	1,300,000,000	22,750,000	-	22,750,000	1,300,000,000
1-Dec-20	1,300,000,000	22,750,000	20,000,000	42,750,000	1,280,000,000

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

Scheduled Bond Payment Dates	Opening Principal Balance (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Ending Principal Balance (\$)
1-Jun-21	1,280,000,000	22,400,000	20,000,000	42,400,000	1,260,000,000
1-Dec-21	1,260,000,000	22,050,000	20,000,000	42,050,000	1,240,000,000
1-Jun-22	1,240,000,000	21,700,000	20,000,000	41,700,000	1,220,000,000
1-Dec-22	1,220,000,000	21,350,000	20,000,000	41,350,000	1,200,000,000
1-Jun-23	1,200,000,000	21,000,000	20,000,000	41,000,000	1,180,000,000
1-Dec-23	1,180,000,000	20,650,000	20,000,000	40,650,000	1,160,000,000
1-Jun-24	1,160,000,000	20,300,000	20,000,000	40,300,000	1,140,000,000
1-Dec-24	1,140,000,000	19,950,000	20,000,000	39,950,000	1,120,000,000
1-Jun-25	1,120,000,000	19,600,000	20,000,000	39,600,000	1,100,000,000
1-Dec-25	1,100,000,000	19,250,000	20,000,000	39,250,000	1,080,000,000
1-Jun-26	1,080,000,000	18,900,000	20,000,000	38,900,000	1,060,000,000
1-Dec-26	1,060,000,000	18,550,000	20,000,000	38,550,000	1,040,000,000
1-Jun-27	1,040,000,000	18,200,000	20,000,000	38,200,000	1,020,000,000
1-Dec-27	1,020,000,000	17,850,000	20,000,000	37,850,000	1,000,000,000
1-Jun-28	1,000,000,000	17,500,000	20,000,000	37,500,000	980,000,000
1-Dec-28	980,000,000	17,150,000	20,000,000	37,150,000	960,000,000
1-Jun-29	960,000,000	16,800,000	20,000,000	36,800,000	940,000,000
1-Dec-29	940,000,000	16,450,000	20,000,000	36,450,000	920,000,000
1-Jun-30	920,000,000	16,100,000	20,000,000	36,100,000	900,000,000

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

Scheduled Bond Payment Dates	Opening Principal Balance (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Ending Principal Balance (\$)
1-Dec-30	900,000,000	15,750,000	20,000,000	35,750,000	880,000,000
1-Jun-31	880,000,000	15,400,000	20,000,000	35,400,000	860,000,000
1-Dec-31	860,000,000	15,050,000	20,000,000	35,050,000	840,000,000
1-Jun-32	840,000,000	14,700,000	20,000,000	34,700,000	820,000,000
1-Dec-32	820,000,000	14,350,000	20,000,000	34,350,000	800,000,000
1-Jun-33	800,000,000	14,000,000	20,000,000	34,000,000	780,000,000
1-Dec-33	780,000,000	13,650,000	20,000,000	33,650,000	760,000,000
1-Jun-34	760,000,000	13,300,000	20,000,000	33,300,000	740,000,000
1-Dec-34	740,000,000	12,950,000	20,000,000	32,950,000	720,000,000
1-Jun-35	720,000,000	12,600,000	20,000,000	32,600,000	700,000,000
1-Dec-35	700,000,000	12,250,000	20,000,000	32,250,000	680,000,000
1-Jun-36	680,000,000	11,900,000	20,000,000	31,900,000	660,000,000
1-Dec-36	660,000,000	11,550,000	20,000,000	31,550,000	640,000,000
1-Jun-37	640,000,000	11,200,000	20,000,000	31,200,000	620,000,000
1-Dec-37	620,000,000	10,850,000	20,000,000	30,850,000	600,000,000
1-Jun-38	600,000,000	10,500,000	20,000,000	30,500,000	580,000,000
1-Dec-38	580,000,000	10,150,000	20,000,000	30,150,000	560,000,000
1-Jun-39	560,000,000	9,800,000	20,000,000	29,800,000	540,000,000
1-Dec-39	540,000,000	9,450,000	20,000,000	29,450,000	520,000,000

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

Scheduled Bond Payment Dates	Opening Principal Balance (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Ending Principal Balance (\$)
1-Jun-40	520,000,000	9,100,000	20,000,000	29,100,000	500,000,000
1-Dec-40	500,000,000	8,750,000	20,000,000	28,750,000	480,000,000
1-Jun-41	480,000,000	8,400,000	20,000,000	28,400,000	460,000,000
1-Dec-41	460,000,000	8,050,000	20,000,000	28,050,000	440,000,000
1-Jun-42	440,000,000	7,700,000	20,000,000	27,700,000	420,000,000
1-Dec-42	420,000,000	7,350,000	20,000,000	27,350,000	400,000,000
1-Jun-43	400,000,000	7,000,000	20,000,000	27,000,000	380,000,000
1-Dec-43	380,000,000	6,650,000	20,000,000	26,650,000	360,000,000
1-Jun-44	360,000,000	6,300,000	20,000,000	26,300,000	340,000,000
1-Dec-44	340,000,000	5,950,000	20,000,000	25,950,000	320,000,000
1-Jun-45	320,000,000	5,600,000	20,000,000	25,600,000	300,000,000
1-Dec-45	300,000,000	5,250,000	20,000,000	25,250,000	280,000,000
1-Jun-46	280,000,000	4,900,000	20,000,000	24,900,000	260,000,000
1-Dec-46	260,000,000	4,550,000	20,000,000	24,550,000	240,000,000
1-Jun-47	240,000,000	4,200,000	20,000,000	24,200,000	220,000,000
1-Dec-47	220,000,000	3,850,000	20,000,000	23,850,000	200,000,000
1-Jun-48	200,000,000	3,500,000	20,000,000	23,500,000	180,000,000
1-Dec-48	180,000,000	3,150,000	20,000,000	23,150,000	160,000,000
1-Jun-49	160,000,000	2,800,000	20,000,000	22,800,000	140,000,000

Maritime Link Project (NSUARB ML-2013-01)
NSPML Responses to Board Council BDO Canada LLP Information Requests

NON-CONFIDENTIAL

Scheduled Bond Payment Dates	Opening Principal Balance (\$)	Interest Payment (\$)	Principal Payment (\$)	Total Payment (\$)	Ending Principal Balance (\$)
1-Dec-49	140,000,000	2,450,000	20,000,000	22,450,000	120,000,000
1-Jun-50	120,000,000	2,100,000	20,000,000	22,100,000	100,000,000
1-Dec-50	100,000,000	1,750,000	20,000,000	21,750,000	80,000,000
1-Jun-51	80,000,000	1,400,000	20,000,000	21,400,000	60,000,000
1-Dec-51	60,000,000	1,050,000	20,000,000	21,050,000	40,000,000
1-Jun-52	40,000,000	700,000	20,000,000	20,700,000	20,000,000
1-Dec-52	20,000,000	350,000	20,000,000	20,350,000	-

1

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1 **Request IR-16:**

2
3 **Exhibit N-1, p. 9, line 17**

4
5 **The Board made the importance of managing costs, including finance costs, imperative for**
6 **the project. In order to verify the savings NSPML is claiming:**

7
8 **(a) Please quantify the total AFUDC, plus additional finance costs the utility is asking**
9 **to assign to ratepayers under the proposed approach through December 31, 2019.**

10
11 **(b) Please provide the total rate base and AFUDC that would be recorded if this project**
12 **continued as CWIP through December 31, 2019, and had no cap.**

13
14 **Response IR-16:**

15
16 **(a) Under the proposed approach, no more than \$230 million of AFUDC is forecasted as at**
17 **December 31, 2017.**

18
19 The financing costs forecasted to be recovered in rates in 2018 and 2019 are described in
20 NSPML's response to NSUARB IR-17(d) from M07348 (NSPI Base Cost of Fuel Reset)
21 and reproduced below:

22

	2018	2019
	(\$M)	(\$M)
Debt Financing Costs	\$46	\$44
Equity Financing Costs	\$51	\$51
Total	\$97	\$95

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1 (b) If the project continues as CWIP, it is assumed that the project has not reached
2 Commissioning as defined in the ML Credit Agreement. In that case, NSPML is
3 assuming that under the ML Credit Agreement, it could borrow Additional Debt to
4 finance 70 percent of the cost of carrying the Project for these additional two years. Since
5 this Additional Debt will be subordinate to the existing FLG debt, the cost of this debt
6 would be higher than the current debt.

7
8 During this period, NSPML would also have to pay certain required costs to maintain the
9 assets such as insurance, security and environmental monitoring costs. For purposes of
10 this analysis, it is assumed that 80 percent of the Operating and Maintenance costs
11 forecasted for full operations in 2018 and 2019 would continue to be incurred in these
12 two years of standby.

13
14 Attachment 1 shows that AFUDC would increase to \$438 million and capital costs to
15 construct would increase to \$1.58 billion. Total rate base would approximate
16 \$2.09 billion as compared to \$1.86 billion; \$203 million higher.

17
18 During this two-year period, total costs of financing would have increased by
19 approximately \$13 million as compared to the interim application amounts. The
20 \$203 million of additional capitalized costs noted above would then have to be
21 depreciated and financed over the operating period resulting in *additional* financing costs,
22 greater than what is estimated above, over the subsequent 35 years.

NSUARB IR-16 Attachment 1

Incremental financing costs for 2018-2019 assuming all costs are capitalized (\$M)

Table 1. Increase in capitalized costs

	<u>Dec.31/2017</u>	<u>2018 & 2019</u>	<u>Dec.31/2019</u>	
Capital costs	1,555	25	1,580	Includes maintenance costs in 18 & 19
AFUDC	230	208	438	See Table 2 for AFUDC Calculations
Deferred financing costs	52	(3)	49	
DSRA	23	-	23	
Total	1,860	230	2,090	

Table 2. Incremental AFUDC:

Coupon interest	91	
ROE	108	See Table 3 for ROE calculations
Deferred financing amortization	3	
Interest revenue (DSRA)	(1)	Estimated interest revenue on the DSRA
Interest on additional debt	7	See Table 4 for Interest on Additional Debt calculations
Total	208	

Table 3. Equity & ROE Calculations

	<u>Opening Equity</u>	<u>ROE</u>	<u>Closing Equity</u>
2018 (Q1 & Q2)	560	25	585
2018 (Q3 & Q4)	585	26	612
2019 (Q1 & Q2)	612	28	639
2019 (Q3 & Q4)	639	29	668
Total		108	

Table 4. Additional Debt Balance

	<u>2018</u>	<u>2019</u>	
Opening	-	58	
Borrowing	58	65	See Table 5 for detail of additional cash requirements
Closing	58	123	
Interest Expense	2	5	
Interest Rate	6.00%		

Table 5. Additional Cash Requirement

	<u>2018</u>	<u>2019</u>	<u>Total</u>
Coupon interest payment	46	46	91
Interest on additional debt	2	5	7
Additional capital / maintenance	11	14	25
Sum of annual cash requirement	58	65	123

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1 **Request IR-17:**

2
3 **Exhibit N-3, Section 5.0 and Exhibit N-1, p. 6, NSPML states:**

4
5 **If the assessment is not paid to NSPML, customer rates would need to**
6 **be adjusted in the short term, and increased more than otherwise**
7 **necessary beginning in 2020. In other words, rate stability would no**
8 **longer be in place and customers would experience a significant**
9 **increase in 2020 to accommodate the change. An objective of the rate**
10 **stability legislation, to smooth the recovery of the Maritime Link costs**
11 **over the Fuel Stability Period, would be undermined.**
12

13 **(a) Please support the above statement from the application. Specifically, explain**
14 **what would require NSPI to refund any portion of the already approved**
15 **2017-2019 rates earmarked for the NSPML cost assessment.**

16
17 **(b) Please explain why customer rates under the Rate Stability Plan would**
18 **necessarily be required to be adjusted in the short-term if the assessment is**
19 **not paid by NSPI to NSPML?**

20
21 **(c) In such an instance, why would it not be possible for NSPI to hold the**
22 **Interim Assessment funds in a deferral account (with interest accruing for**
23 **the benefit of customers) until such time as the Board approves the payment**
24 **or partial payment of the Interim Assessment from NSPI to NSPML?**

25
26 **(d) Please provide the calculation for the current WACC/AFUDC rate for NSPI.**

27
28 **(e) Please provide the calculation for the current WACC/AFUDC rate for**
29 **NSPML.**

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1 **(f) Does NSPML agree that so long as the funds remain in NSPI, the WACC**
2 **applied to the benefit of ratepayers will be higher than the benefit of**
3 **offsetting carrying costs being incurred within NSPML? If not, please**
4 **quantify and explain.**

5
6 **(g) With respect to the carrying cost on funds collected from ratepayers, please**
7 **explain why the shareholder should make 9% if the funds are moved to**
8 **NSPML and held as a cash reserve?**

9
10 Response IR-17:

11
12 (a-b) Section 12 of the Electricity Plan Implementation Act provides the following:

13
14 “12 (1) The Board may approve adjustments made pursuant to the
15 Fuel Adjustment Mechanism for implementation during
16 the Rate Stability Period in respect of exceptional
17 circumstances resulting in a variance in the actual
18 recovery of the base cost of fuel and other costs approved
19 for recovery through the Fuel Adjustment Mechanism
20 from the approved forecasted recovery of those costs that
21 the Board determines has caused or will cause substantial
22 financial harm to Nova Scotia Power or its customers.”
23

24 If NS Power cannot transfer the funds forecast in the Base Cost of Fuel
25 proceeding to NSPML, there will be a significant imbalance in the costs that rates
26 are recovering and actual fuel expenses. That imbalance could result in an
27 application by NS Power to the UARB for a change in fuel rates under the
28 Electricity Plan Implementation Act and a corresponding reduction to customer
29 rates may occur. A reduction to customer rates during the 2017 through 2019
30 period would result in a larger gap between the revenue required for 2020 fuel
31 costs relative to overall revenue.

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1 (c) NS Power submits that it would not be proper to require it to hold the Interim
2 Assessment in the manner contemplated.

3
4 The FAM is in place to ensure that customers only pay the actual cost of fuel and
5 is designed so that the forecasted balance at the end of each FAM period is at a
6 zero balance. NS Power's application, as well as customer representatives'
7 positions during the recent NS Power BCF process, was consistent with these
8 principles. NS Power's expectation at the time of the BCF process and when it
9 committed to no non-fuel rate increases during the rate stability period was that
10 these principles would continue to be applicable. Requiring NS Power to hold
11 Interim Assessment funds in the manner proposed is not consistent nor would it
12 have been a reasonably anticipated expectation of NS Power during the time of
13 the BCF process.

14
15 NS Power's expectation is also supported by its accounting policies (i.e., NS
16 Power Accounting Policy 5300 Section 7 - depreciation), is consistent with the
17 treatment of other large capital projects, and consistent with the information
18 available to participants during NS Power's 2017 – 2019 Base Cost of Fuel
19 proceeding. In terms of the last point, participants in the BCF process were aware
20 of an expected delay between commissioning of the Maritime Link and delivery
21 of the NS Block, which is evidenced by the fact that the majority of customers
22 assumed the NS Block would not be available during the rate stability period.
23 Customers were also aware that the depreciation expense was included in the
24 assessment amount, even though repayment of NSPML's debt does not
25 commence until 2020.

26
27 Given the above and that there has been no material change in information since
28 the time of the BCF approval, NS Power does not believe it would be appropriate
29 to require it to hold the additional assessment funds.

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Please also refer to UARB IR-42.

(d) The current approved WACC/AFUDC rate for NS Power is 6.96 percent, effective February 1, 2017 as approved by the Board in M07777. Please refer to M07777 for the calculations on which this approved rate is based.

(e) NSPML calculates AFUDC during the construction phase of the Project using actual costs of financing debt and equity due to its unique standalone nature as approved in M07254. The return on equity of 9 percent and an effective cost of debt of 3.85 percent, as reported in the October 2014 Quarterly Report, results in a forecasted WACC of 5.4 percent.

(f) NSPML is required to deposit cash received from rate revenues received from NS Power in an account that is controlled by the Collateral Agent. Cash retained in this account is required to be invested in Permitted Investments as defined in the ML Credit Agreement.

a. Permitted Investments are defined as:

"Permitted Investments" means book based securities, negotiable instruments, investments or securities that evidence:

- (i) obligations issued or fully guaranteed by the Government of Canada;
- (ii) obligations issued or fully guaranteed by any Province of Canada which has a long term debt rating of "A+" or better by S&P, "A (high)" or better by DBRS or "A1" or better by Moody's, and has such rating from at least two of the Rating Agencies;
- (iii) demand deposits of depository institutions, term deposits of depository institutions or certificates of deposit of depository institutions, in each case where any such depository institution is either (a) one of the five largest (by assets) Canadian Schedule I

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- 1 Banks or (b) is a depository institution that has a combined
2 capital and surplus of at least CDN\$1 billion, has a short term
3 debt rating of "A 1+" or better by S&P or "R-1 (middle)" or
4 better by DBRS and is regulated by the Office of the
5 Superintendent of Financial Institutions (Canada);
6 (iv) deposits with and notes or bankers' acceptances issued or
7 accepted by any depository institution described in (iii) above;
8 (v) money market funds which have a rating of "AAA m" or better
9 by S&P or "R-1 (middle)" or better by DBRS or have otherwise
10 been approved in writing by the Collateral Agent; and
11 (vi) any other investments approved in writing by the Collateral
12 Agent;

13
14 To date, the return earned on Permitted Investments has been less than
15 NS Power's WACC.
16

- 17 (g) Shareholder equity at the end of 2018 and 2019 does not increase from December
18 31, 2017. This is illustrated in the financial model attached to NSUARB IR-32(e).
19 Therefore the receipt and investment for customers of cash received from NS
20 Power relating to depreciation expense does not result in NSPML's shareholder
21 earning an additional return. The basis on which NSPML's shareholder is earning
22 a return in 2018 and 2019 is the same as the total equity that NSPML's
23 shareholder invested in constructing the Maritime Link.

Nova Scotia Power Inc.
Estimated Average Capital and Cost of Capital
Years Ended December 31st
Millions of Dollars

FOR-10**2017 Financial Outlook**

<u>2017</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Opening	Closing	Average Capital	Capital Ratio	Cost Pre-tax Factor	Cost After-tax Factor	Weighted Pre-tax Cost	Weighted After-tax Cost
Estimated Cost of Capital								
Short-term debt	\$263.3	\$299.1	\$281.2	7.5%	1.48%	1.02%	0.11%	0.08%
Long-term debt	\$2,060.1	\$2,060.0	\$2,060.1	55.0%	6.32%	4.41%	3.48%	2.42%
Total debt	\$2,323.5	\$2,359.1	\$2,341.3	62.5%			3.59%	2.50%
Common equity	\$1,394.0	\$1,415.9	\$1,405.0	37.5%	9.00%	9.00%	3.38%	3.38%
Total	\$3,717.5	\$3,775.0	\$3,746.3	100.0%			6.96%	5.88%

Notes:

- 1) Figures presented reflect whole numbers which may cause \$0.1M in rounding differences on some line items.
- 2) Pre-tax equity cost excludes the income tax gross-up factor.
- 3) Average capital reflects average of year-end balances.

Nova Scotia Power Inc.
Capital Structure and Ratios
Years Ended December 31st
Millions of Dollars

CS-1-3

2017 Financial Outlook

(1)
**Proposed
 Rates
 2017**

Capitalization:

Debt %	62.5%
Common %	37.5%
Total Regulated Capitalization (\$):	\$3,775

Financial Ratios:

Return on average common equity (%)	9.0%
Average common equity (\$)	\$1,405

Details of Debt:

Short Term (\$M):	
Current portion of long-term debt	-
Bank indebtedness	299.1
Total Short Term Debt	\$299.1

Long Term (\$M):	Maturity Date	
Series: "3"	2-Aug-2019	95.0
Series: "F"	19-May-2025	125.0
Series: "M"	14-Aug-2026	40.0
Series: "P"	9-Apr-2029	40.0
Series: "R"	14-Jul-2031	75.0
Series: "S"	25-Aug-2033	200.0
Series: "V"	14-Nov-2035	150.0
Series: "L"	21-Mar-2036	60.0
Series: "N"	25-Jul-2097	50.0
Series: "W"	27-Jul-2039	200.0
Series: "X"	15-Jun-2040	300.0
Series "Y"	5-Mar-2042	250.0
Series "Z"	5-Jul-2043	300.0
Series "AA"	1-May-2045	175.0
Capital Lease Obligations		0.1
Total Long-Term Debt, net		\$2,060.1

Notes:

1) Figures presented reflect whole numbers which may cause \$0.1M in rounding differences on some line items.

Forecasts are compiled for purposes of this rate application and are not intended to be relied upon for other purposes.

Nova Scotia Power Inc.
Details of Interest and Other Expenses
Years Ended December 31st
Millions of Dollars

FOR-11

2017 Financial Outlook

1		(1)
		Proposed
		Rates
2		2017
<hr/>		
3	Interest on long-term debt	\$121.9
4	Interest on short-term borrowings	4.2
5	Other financing charges & adjustments	1.0
6	Amortization of deferred financing charges	7.3
7	Total Regulated Financing Cost	\$134.4
<hr/>		

8

9 **Notes:**

- 10 1) Figures presented reflect whole numbers which may cause \$0.1 million in rounding differences on some line items.

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1 **Request IR-18:**

2
3 **Exhibit N-3, p. 23 and Exhibit N-1, p. 24, Section 5.3 (ii)**

4
5 **With respect to the deferred financing costs:**

6
7 **(a) Please identify what these costs are specifically related to and how they differ from**
8 **financing costs recorded as AFUDC.**

9
10 **(b) Please explain why deferred financing costs were not capitalized with the AFUDC**
11 **“finance costs” intended to be amortized over the life of the project.**

12
13 **(c) Please clarify whether NSPML is requesting to amortize these costs over 35 years or**
14 **37 years.**

15
16 **(d) Please explain why the amortization would not match the repayment of the debt.**

17
18 **(e) Reference Exhibit N-3, p. 16, Table – Under “Financing”, what is meant by the**
19 **statement “These additional financing costs would begin during construction and**
20 **extend throughout the operations phase to coincide with the depreciation”. Please**
21 **explain this statement in the context of the 35 or 37 year period referenced in**
22 **subsection (c).**

23
24 **Response IR-18:**

25
26 **(a-b) Deferred financing costs identified in Section 5.3 as part of “Debt financing costs” are the**
27 **recovery of the unamortized portion of deferred financing charges that specifically relate**
28 **to the long-term debt of NSPML and are outlined in Exhibit N-3, p. 23 comprised of the**
29 **following:**

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- 1 i) Bond forward hedge
- 2 ii) Financing commission
- 3 iii) Bond discount
- 4 iv) Associated financial and legal advisory fees
- 5 v) Independent Engineer and Insurance Consultant fees
- 6 vi) Credit Rating Agencies, admin, other fees
- 7 vii) Third party fees (for example, Rating agency fees)

8
9 While these costs were *incurred* during the construction period, they are not exclusively
10 relating to the construction period and as such were not, in total, added to AFUDC. These
11 costs relate to the placement of debt which extends throughout the construction period
12 and ends when the debt is fully repaid on December 1, 2052. Consequently, the costs
13 have been deferred for accounting purposes and are being amortized over the life of the
14 associated debt, as reported in NSPML's audited financial statements and consistent with
15 Accounting Policy 5800 – Financing Charges. The amortization of these costs during the
16 construction period has been capitalized to AFUDC and the unamortized balance at the
17 time the Maritime Link is placed in service will be amortized as part of ongoing debt
18 financing costs during operations until the term of the debt ends in 2052.

- 19
20 (c-e) These costs are being amortized over the term of the underlying debt and as such match
21 the repayment of the debt.

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1 **Request IR-19:**

2

3 **Exhibit N-1, p. 9, lines 12-23**

4

5 **The Application states that NSPML’s forecasted Interim Assessment assumes that AFUDC**
6 **is capitalized to December 31, 2017, and that the Maritime Link goes in service on**
7 **January 1, 2018.**

8

9 (a) **If the Board were to find that the Maritime Link is not “used and useful” prior to**
10 **commissioning of the Muskrat Falls Generating Station and the LIL, is it NSPML’s**
11 **intention to seek recovery of AFUDC beyond December 31, 2017? If so, on what**
12 **basis would such a request be made?**

13

14 Response IR-19:

15

16 (a) NSPML has provided evidence that the Maritime Link will be used and useful and in
17 service on January 1, 2018, thus requiring the collection of revenues and not the
18 continuation of AFUDC (as it is non-cash). If this Interim Assessment Application is not
19 approved by the Board because the construction of the Maritime Link is not completed as
20 scheduled, NSPML will need to consider what further application, such as seeking
21 approval of additional AFUDC, would be necessary, in part dependent upon the content
22 of the Board’s decision. Please refer to NSUARB IR-2(d).

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1 **Request IR-20:**

2

3 **Exhibit N-1, p. 26, line 8**

4

5 **The Application states that the equity component of the financing is calculated on a**
6 **monthly basis.**

7

8 **(a) Is this calculation done in the identical manner as that done for NSPI?**

9

10 **(b) If the answer to question (a) is no, please explain why.**

11

12 Response IR-20:

13

14 For purposes of estimating rate revenues, NSPML is following Accounting Policy 1530 –
15 Regulated Return on Equity and using a five quarter average basis in its calculation. NS Power
16 uses this policy in determining its annual regulated return on equity.

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1 **Request IR-21:**

2
3 **Exhibit N-1, Appendix B**

4
5 **Through Mr. Reed's evidence there are numerous references to a requirement under,**
6 **presumably, the Federal Loan Guarantee where NSPML MUST obtain rate**
7 **revenues/recovery.**

8
9 **Beginning in 2018, Maritime Link debt financing costs (including interest during**
10 **operations as noted above) must be funded through rate revenues/recovery rather than**
11 **using debt and equity investment as was the case during construction. Therefore, NS Power**
12 **must commence payments to NSPML when the Maritime Link is commissioned and made**
13 **available to NS Power, beginning on January 1, 2018. (emphasis added)**

14
15 **(a) Please identify what information Mr. Reed relied upon to make such a statement.**

16
17 **(b) Please explain why the federal government or any other party would require such**
18 **requirement.**

19
20 **(c) Is this a reference to the 1.4 times Debt Service Covered Ratio referenced on page 23**
21 **of Exhibit N-3?**

22
23 **(d) Does NSPI have similar requirements? If so, how are they managed?**

24
25 **(e) Did NSPML agree to such a requirement or other similar covenants without**
26 **approval of the Board? If so, why?**

27
28 **(f) Is there a risk of non-compliance with a covenant or other requirement of the**
29 **Federal Loan Guarantee if NSPML's request is denied or altered in any way?**

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1 **(g) If so, please provide specific details of these Federal Loan Guarantee created risks.**

2
3 **(h) Please provide the analysis that NSPML prepared to ensure this was still the best**
4 **financing option for the project.**

5
6 Response IR-21:

7
8 (a) Mr. Reed is relying on the terms of the Federal Loan Guarantee (FLG) Term Sheet which
9 was provided as evidence in NSPML's 2013 original application as Appendix 4.03 and
10 the ML Credit Agreement dated February 24, 2014, the written evidence submitted by
11 NSPML in this proceeding, as well as on discussions he has had with NSPML. The
12 specific provisions of the ML Credit Agreement include Articles 10.25 and 13.19 as well
13 as the definitions of "Prospective Debt Service Coverage Ratio" and "Retrospective Debt
14 Service Coverage Ratio" as found in Exhibit A "Definitions" of the ML Credit
15 Agreement (Attachment 2 to NSUARB IR-9).

16
17 (b) In Mr. Reed's experience, this is common for large project-capital financings. The
18 lenders and guarantor under the FLG debt would, understandably, wish to have assurance
19 as to both the commencement date of the repayment obligation, and the sustainability of
20 the payment of debt service. Continued borrowing or recurring equity infusions to meet
21 the debt service payments after the achievement of commercial operation are not viewed
22 as being sustainable. The terms of the financing do provide for limited exceptions, such
23 as for the financing of new sustaining capital expenditures. However, for the debt
24 associated with the original construction of the Maritime Link, the debt service is to be
25 funded out of revenues derived from the approved rates for the project, or from the
26 liquidity reserve account which would be a costly solution given this account would most
27 likely be required to be funded with equity and the shareholder would expect to earn a
28 rate of return on such investment.

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1 Further, the FLG Term Sheet which was provided in NSPML's original 2013 application
2 as Appendix 4.03 noted in section 4.19 that covenants would be "Customary affirmative
3 and negative covenants." This indicates that the FLG Term Sheet and subsequent ML
4 Credit Agreement would contain covenants and terms which are customary and market
5 normal for large capital project financings. The objective, which was achieved, was to put
6 in place a market-normal large capital project financing structure and terms that achieved
7 full credit substitution and a "AAA" rating given the support of the Government of
8 Canada.

9
10 On page 72 of the transcript of her presentation at the February 23, 2016 NSPML
11 Technical Conference (please refer to Attachment 1 to NSUARB IR-12), Ms. Allison
12 Manzer commented on the terms relating to the FLG financing and structure:

13
14 It's got all of the commercially normal, representations, warranties,
15 covenants, conditions precedent, it could fly in the most rigid assessment
16 of a commercially responsible project finance transaction.
17

18 (c) The debt service coverage ratio is the principal provision that is being referenced by Mr.
19 Reed.

20
21 (d) Mr. Reed is not familiar with all of the debt covenants of NS Power, so he is unable to
22 answer this question. However, covenants such as those contained in the ML Credit
23 Agreement are common for large capital-project financing arrangements, such as the debt
24 financing of NSPML, but are much less common for debt issuances relating to funding an
25 integrated and operational utility such as NS Power. For large project financing, the
26 provisions in credit agreements are typically restrictive in terms of coverage ratios, cash
27 sweeps, distribution blockers, credit dilution, the use of reserve funds, and repayment of
28 principal. These features are not common in the terms for general corporate debt used to
29 fund operations and ongoing capital as is the case for NS Power.

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1 As noted above in (b), the terms and covenants of the FLG financing are customary for
2 large capital project financing arrangements.

- 3
- 4 (e) The key terms contained in the ML Credit Agreement are principally the same as those
5 contained in the FLG Term Sheet that was provided by NSPML as part of its 2013 initial
6 application with the UARB (Appendix 4.03). In that FLG Term Sheet, the Debt Service
7 Coverage Ratio of 1.40 was specified in sections 3.1(A)(iii), 4.1 and 4.2 and the Debt
8 Service Reserve Account was specified in section 4.16. Please refer to NSUARB IR-9
9 and related attachments for additional details.

10

11 NSPML agreed to these terms because, as noted above in (b) they were customary and
12 instrumental to achieving the “AAA” rating for the Maritime Link Project. Achieving
13 that result was the express objective of the Federal government in providing the FLG, and
14 the terms were developed in close cooperation between the Federal government, the
15 financial institutions involved in the financing, and NSPML. Please refer to the response
16 to (h) below. The principal terms of the financing were made available to the Board with
17 the Agreements as part of the original filing in 2013, as they were contained in the FLG
18 Term Sheet, which was dated November 30, 2012.

19

20 In its 2013 Decision, the Board noted in its Findings in 6.5.1.1. (line 302) that:

21

22 The Board understands the flexibility requirements for purposes of
23 complying with the covenants of the FLG, including a Debt Service
24 Coverage Ratio.

- 25
- 26 (f-g) Please refer to the response to NSUARB IR-9(e) with respect to maintaining the required
27 DSCR and the risk associated with attempting to estimate an optimal amount given the
28 retrospective and prospective calculation requirements.

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1
2 The FLG has not created risks. As noted in (b) above, the requirements and covenants
3 contained in the FLG Term Sheet and ML Credit Agreement are not new and are
4 customary for large capital project financing arrangements. The Maritime Link financing
5 was a major project financing of \$1.3 billion.
6

- 7 (h) NSPML arranged and secured project financing for the Maritime Link in a holistic
8 manner that minimized interest rate risk exposure, minimized market access ensuring
9 access to required debt proceeds and best matched the terms of the FLG, all by using an
10 up-front amortizing bond approach to reflect the life of the Project (thus avoiding risks
11 associated with rates of return on sinking funds throughout the debt period, which would
12 have been necessary under a bullet bond approach). This work was done in cooperation
13 with the Government of Canada and its advisors as noted in detail below.
14

15 In its 2013 Decision, (Findings, section 6.5.1.1, line 301) the Board commented as
16 follows:

17
18 The Board notes the general acceptance by Intervenors of the capital
19 structure proposed and finds it appropriate to take maximum advantage of
20 the low cost of debt and benefits associated with the backing of the FLG.
21 The Board approves the 70:30 debt to equity capital structure.
22

23 As approved by the Board, NSPML maximized the benefit of the FLG by financing 70
24 percent of the project with FLG supported financing, thus reducing the percentage of the
25 project that is equity financed. The bonds issued to finance the Maritime Link achieved
26 full credit substitution (equivalent to Government of Canada bonds) and received an
27 “AAA” rating given the structure of the financing and the accompanying guarantee from
28 the Government of Canada. Absent a Federal Loan Guarantee, the Maritime Link would
29 have been financed by NS Power which has a higher percentage of equity (37.5 percent
30 equity in NS Power as compared to 30 percent equity in NSPML) and a lower debt rating
31 (in April 2014 at the time the Maritime Link debt was secured, NS Power had an “A

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1 (low) Stable” rating from DBRS and a “BBB+ Negative Outlook” rating from Standard
2 & Pooors). Both of these factors would have resulted in a significantly higher financing
3 cost.

4
5 The Government of Canada and its advisors including Ms. Allison Manzer had a mandate
6 to enable the lowest cost large capital project financing arrangement for the Maritime
7 Link. Ms. Manzer referenced that goal and how that goal was accomplished in her
8 presentation at the February 23, 2016 Technical Conference.

9
10 Key excerpts from Ms. Manzer’s transcript from that presentation (please refer to pages
11 81 to 87 of Attachment 1 to NSUARB IR-12) are noted below. Note that Ms. Manzer is
12 describing the approach to structuring and financing both the Nalcor lead Lower
13 Churchill Phase I Projects and the Maritime Link Project (emphases added):

14
15 We went out in each case in active participation in the process that saw all
16 of the major investment houses in Canada ... and got the
17 recommendations around how to do the deal. Lending people knew one
18 thing and one thing only, they would not win this mandate if they did not
19 deliver the lowest net present value cost of financing. **There were other**
20 **mandates put in there but that was number one, net present value cost**
21 **of financing.** And we did make it clear that was net present value overall
22 cost, not lowest interest rate, because all of us were experienced enough to
23 know that one is not the same as the other and one is way more valuable
24 than the other. So we brought in, in the course of looking at this, beside all
25 of the internal and external advice that Maritime Link had, Canada had, all
26 the same. So we had independent financial advisors, you know. In my
27 team, I mean I alone, I’m in my 39th year of doing project finance ... And,
28 you know, the rest of my team I’ve got 25 and 30 year practitioners. So
29 you had a lot of experience there. But we then got on top of all of that,
30 besides the financial advisors and the others, the rating process itself. So
31 you’re going to the rating agencies that are canvassing the world, these are
32 international rating organizations, they can reach out all over the world, at
33 every major project finance structure there is out there, we got their input.
34 So they were sent away saying, effectively, lowest net present value, other
35 than that you tell us. **So you had the brightest minds in financing**
36 **Canada, hopefully, coming back saying, “We think this is what you**

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1 **should do.” So we got all of that input.** We also ended up having input,
2 because this was large enough, that this was very much on the radar
3 screens at the very highest levels, so right the way through anybody with a
4 finance function in Canada was giving us advice. **We were getting the**
5 **brightest minds on bond financing in Canada** because Canada does the
6 most bond financing, we had that expertise available. **So that in terms of**
7 **sitting down and looking at how you ended up structuring this the**
8 **proponents got the advantage of the fact that the largest bond issuer**
9 **in the country, being the country itself, was at the table with its tools**
10 **coming available and that was all delivered.** Like that was all put out on
11 the table and the suggestions and recommendations. So in the end result,
12 the structure of the financing had one primary element to it in the actual
13 way we did the bonds backed by the fact that we had come up with a
14 structure that preserved all of the other mandate issues that I had. **And by**
15 **the way the market loved this structure, it was the right choice, no**
16 **question about it. In the end result the execution was remarkable, it**
17 **was absolutely ...the structure was done to meet some very, very**
18 **important mandate items that should be yours as well. Lowest cost.**
19 **Safest possibility of execution. Recognizing the regionality. Ensuring**
20 **that the projects and the financing for the projects keep the thing**
21 **working as a whole.**

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1 **Request IR-22:**

2
3 **Exhibit N-1, p. 23**

4
5 **(a) The Application states that Accounting Policy 5300, which is to be applied by**
6 **NSPML, requires that an asset begin to be depreciated when the asset is placed in**
7 **service. Is it NSPML’s position that the phrase “placed in service” is to be equated**
8 **for all intents and purposes to the phrase “used and useful”? Please explain.**

9
10 **(b) Assuming depreciation is approved to take effect upon commissioning of the**
11 **Maritime Link on January 1, 2018, please answer the following questions:**

12
13 **i) Will depreciation be applied on a straight-line basis?**

14
15 **ii) When would the final depreciation be applied to the Maritime Link?**

16
17 **iii) Would such circumstances mean that no depreciation would be taken on the**
18 **Maritime Link for the final two years of the NS Block?**

19
20 **iv) Would the above scenario offend intergenerational principles of ratemaking?**

21
22 **(c) If the Board accepts NSPML’s proposal, what amount of depreciation does NSPML**
23 **propose be recorded in each of the years prior to receipt of the NS Block in**
24 **accordance with the Board’s Decision.**

25
26 **(d) Confirm there is nothing restricting a change in depreciation policy.**
27

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1 Response IR-22:
2

3 (a) It is not NSPML's position that the phrase "placed in service" is synonymous with the
4 phrase "used and useful." Rather, it is NSPML's position that once an asset is used and
5 useful, it is to be placed into service (though "used and useful" is one, but not the only,
6 basis upon which recovery of an investment in utility assets may be approved).
7 Accounting policy 5300 indicates that once an asset is placed in service, depreciation of
8 that asset begins.
9

10 (b) (i) Yes.
11

12 (ii)(iii) Depreciation Policy 5300, section 01 provides that "the cost of property, plant
13 and equipment and intangibles should be depreciated or amortized over the
14 useful life of the assets." For the Maritime Link, this would begin on January 1,
15 2018. According to the Accounting Policy, depreciation would end at the end of
16 the Maritime Link's useful life to NSPML which would be at the conclusion of
17 the NS Block which is currently forecasted to be in 2054, thus providing for a
18 37-year depreciation period.
19

20 In NS Power's BCF filing, the depreciation period for the Maritime Link was
21 estimated to be 35 years which provided an annual depreciation expense of
22 \$51 million. This period was based upon the original schedule for the NS Block
23 and coincided with the term of the FLG debt since the final debt is repaid on
24 December 1, 2052. If the depreciation period is extended beyond that period,
25 additional debt and equity will be required to be invested in order to enable
26 repayment of the FLG debt in accordance with the terms of the FLG bonds. If,
27 during NSPML's final cost assessment process, it is determined that it would be
28 preferable for the asset to be depreciated over 35 years, NSPML will thus seek
29 an amendment to the Depreciation Policy to preclude the requirement for

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1 additional debt and equity and associated costs for customers. Assuming
2 approval of an amendment to the Depreciation Policy to that effect, there would
3 be no depreciation expense in the period following the final repayment of the
4 FLG debt on December 1, 2052.

5
6 Please refer to attachments to NSUARB IR-32 (e) and (f) for further analysis on
7 this point.

8
9 (iv) It is NSPML's view that adjusting the depreciation period from 37 to 35 years
10 would not materially offend intergenerational principles of ratemaking.

11
12 (c) The amount of depreciation in each of the years prior to receipt of the NS Block is
13 proposed to be \$51 million, which is based on current project cost estimates and a
14 35-year depreciation period. NSPML expects that the final determination of depreciation,
15 both in amount and duration will be addressed during its final cost assessment process in
16 2018. At that time, actual costs will be known and the period over which the Maritime
17 Link should be depreciated will be made.

18
19 (d) NSPML understands that the Board has the power to amend a depreciation policy and
20 NSPML will be requesting any appropriate amendments at the time of the final costing
21 assessment when depreciation will be set for the Project.

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1 **Request IR-23:**

2

3 **Exhibit N-3, Appendix C, M07348 IR-17(a)**

4

5 **What does NSPML intend to include in rate base? Please provide this year over year.**

6

7 Response IR-23:

8

9 NSPML intends to include all assets capitalized under Generally Accepted Accounting
10 Principles (GAAP) relating to the construction, financing and operation of the Maritime Link in
11 its rate base. Please refer to NSUARB IR-32(e), Attachment 1. When NSPML files its final cost
12 assessment, a final determination of amounts to be included in rate base will be made and may
13 include other amounts such as an allowance for working capital in accordance with Accounting
14 Policy 1520 – Rate Base.

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1 **Request IR-24:**

2

3 **Exhibit N-3, Appendix C, M07348 IR-17(a)**

4

5 **The presentation of information referenced by NSPML and provided in IR-17 (M07348)**
6 **gives the impression that NSPML is proposing to include “Cash” in Rate Base.**

7

8 **(a) Please confirm that NSPML was intending to include cash in its rate base.**

9

10 **(b) Please confirm if this was included in rate base, this would result in equity return**
11 **(or AFUDC if the project remained in CWIP) on the cash NSPML is accumulating**
12 **in excess of its cost of service.**

13

14 **(c) Please explain why cash, whether this is the cash reserve or otherwise, should be**
15 **included in rate base?**

16

17 **Response IR-24:**

18

19 **(a-c) Please see response to NSUARB IR-25 and NSUARB IR-17(g).**

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1 **Request IR-25:**

2
3 **Exhibit N-3, Appendix C, M07348 IR-17(a)**

4
5 **The Debt Service Reserve Account and the deferred finance asset appear to be increasing**
6 **the rate base to an amount that exceeds the total approved cost of this project. Please**
7 **clarify:**

8
9 **(a) Why has NSPML added these items to the rate base, for which return is calculated**
10 **on?**

11
12 **(b) Does the total cost outlined of \$1.86 billion accurately reflect the total cost of the**
13 **project?**

14
15 **(c) If so, is it fair to continue to claim the project is on time and on budget?**

16
17 **(d) Does the \$1.86 billion represent a revised total cost of the project, assuming the**
18 **project construction is complete December 31, 2017?**

19
20 **(e) Please recast the costs, by year, through 2020 assuming these items are excluded**
21 **from rate base.**

22
23 **Response IR-25:**

24
25 **(a) NSPML expects to include in its rate base all costs capitalized under GAAP and required**
26 **to construct, finance and operate the Maritime Link Project on behalf of customers.**
27 **Accounting Policy 1520 – Rate Base section 03 provides that rate base include not just**
28 **Construction Work in Progress and Property, Plant and Equipment but also other assets**
29 **such as deferred charges and credits and allowance for working capital. NSPML believes**

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1 that costs capitalized in accordance with GAAP, which are forecasted to total
2 \$1.86 billion, are part of rate base. Please refer to the response to Synapse IR-14(a) with
3 respect to section 8 of the Regulations which references all costs associated with the
4 Maritime Link.

5
6 (b) The \$1.86 billion is the current estimate of total assets that will be capitalized as at
7 December 31, 2017 including the cost that will become Property, Plant and Equipment, a
8 fund required to be maintained for FLG purposes (Debt Service Reserve Account
9 “DSRA” – please refer to NSUARB IR-10 for additional details) and deferred financing
10 costs which are being amortized, according to GAAP, over the life of the associated debt
11 (during construction as AFUDC and during operations as a component of debt financing
12 cost). The final costs will be determined at the final cost assessment proceeding.

13
14 c) Yes. In its decision, the UARB approved total capital costs to construct the Maritime
15 Link (up to \$1.58 billion for construction and AFUDC up to \$230 million). As NSPML
16 has been reporting, its current capital cost forecast to construct the Maritime Link is
17 \$1.55 billion (given the 20 for 20 Principle) and AFUDC is within the \$230 million
18 approved amount.

19
20 Further, in its 2013 application, NSPML provided a copy of the FLG Term Sheet as
21 Appendix 4.03. In that FLG Term Sheet, the Debt Service Reserve Account was specified
22 in section 4.16 as being required.

23
24 The Debt Service Reserve Account is not an additional cost outlay but rather a reserve
25 required by the FLG. This balance will be reduced to zero by the end of the project such
26 that it does not represent an additional outlay for customers.

27
28 The deferred financing account is effectively part of the annual cost of debt financing
29 throughout the project’s construction and operating period. It is being accounted for,

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1 according to GAAP, by being capitalized and amortized over the period of the associated
2 debt. The amortization of this cost during construction has been capitalized to AFUDC
3 and the amortization of this cost during operations is included in NSPML's annual
4 interest expense. The fact that GAAP requires this cost to be capitalized and amortized
5 during the operating period does not mean that it represents a cost in excess of what the
6 UARB has approved. It is part of the effective interest expense of NSPML's debt
7 financing during the period of the debt – both during construction and operations.
8

9 A portion of the deferred financing balance relates to hedging costs which were explained
10 during NSPML's AFUDC Accounting Policy proceeding and are noted in the response to
11 NSUARB IR-13(a). Hedging interest rate risk was a requirement of the FLG as contained
12 in the FLG Term Sheet which was filed in NSPML's 2013 initial application as Appendix
13 4.03. In that Term Sheet, section 3.5(B)(vi) noted:

14
15 As required by the nature of the Financing, an interest rate hedging
16 program be in place to hedge expected interest expense with respect to the
17 Guaranteed Debt.
18

19 Section 2.3 of the FLG Term Sheet noted:

20
21 As may be required by the nature of the Financing, a hedging program
22 shall be put in place for each Borrower at Financial Close. In order to
23 ensure certainty in the cost of the Financing for each of the Projects, any
24 interest expense risk will be hedged.
25

26 The Board approved amounts related to Construction Work In Progress (capital cost of
27 \$1.52 billion plus a \$60 million variance and AFUDC of \$230 million) as opposed to a
28 cap on rate base. This is the same as when NS Power seeks approval to construct a capital
29 asset. In order to construct and operate its business, a utility is required to have other
30 assets in its rate base beyond Construction Work In Progress and Property, Plant and
31 Equipment. Rate base also includes other assets as noted in (a) above.
32

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1 NSPML's original approval application proceeding included information relating to the
2 Debt Service Reserve Account and hedging requirements under the FLG Term Sheet at
3 the time the project was approved, as noted above. As noted in the responses to
4 NSUARB IR-21, these requirements are common and customary for large capital project
5 financing arrangements.
6

7 (d) No. As noted in (b) the DSRA and deferred financing account do not represent additional
8 construction or AFUDC costs.
9

10 (e) NSPML has not performed this analysis since it believes that all costs incurred to
11 construct, finance and operate the Maritime Link should be included in rate base. If these
12 costs were not included, rate base would decrease by approximately \$73 million,
13 \$72 million and \$90 million in 2018, 2019 and 2020, respectively, based on the current
14 forecast. Details of these balances are contained in the attachment to NSUARB IR-32(e).
15 The forecast included in the attachments to NSUARB IR-32 assumes that the full amount
16 of the DSRA is being addressed as cash on hand. When the Maritime Link is in the
17 operations phase and thus in an improved credit position due to the receipt of cash
18 revenues, NSPML will investigate the benefit of securing a letter of credit to reduce the
19 level of DSRA cash balance.

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1 **Request IR-26:**

2

3 **Exhibit N-1, p. 15, lines 12-14**

4

5 **Under any scenario, NSPML will be required to defend the prudence of its decisions**
6 **related to costs of the project.**

7

8 **(a) To date have all costs of the project been capitalized to the capital asset?**

9

10 **(b) If not, please identify all costs otherwise written off or accounted for in another**
11 **manner. Please provide an itemized value and what specifically such costs related to.**

12

13 **(c) How would NSPML track and reconcile the allocation of such funds for both the**
14 **final assessment and prudence review of the capital project?**

15

16 **Response IR-26:**

17

18 (a-b) All costs of the project have been capitalized as reported in NSPML's annual audited
19 financial statements.

20

21 (c) All Project costs are being tracked and accounted for in an open and transparent manner.
22 NSPML is confident that its accounting records are able to track costs so as to enable any
23 necessary reconciliations at the time of the Board's final cost assessment of the Project
24 when the actual costs of the Project are assessed.

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1 **Request IR-27:**

2

3 **Exhibit N-1, p. 20, Line 14**

4

5 **NSPML states: "...NSPML's Contract Administration Team is focused on claims**
6 **mitigation and management of change in the administration of major project contracts in**
7 **recognition of the need to ensure contractors are meeting the obligations of their contracts**
8 **on the approved schedule and within budget."**

9

10 **(a) How many extra claims have been filed on the project to date and what is the total**
11 **value of these claims?**

12

13 **(b) Have the costs for extra claims been drawn entirely from the project contingency? If**
14 **not, where have these extra costs been absorbed?**

15

16 **Response IR-27:**

17

18 (a) The status of contractor change requests and claims mitigation activities remain active
19 while the Project proceeds through construction. Such matters will be addressed at the
20 time of NSPML's final cost filing, when actual costs are known, as part of a full and
21 transparent review of the completed Project.

22

23 (b) NSPML continues to forecast being on budget, which includes contractor change
24 requests. For further details respecting contingency included in the Project budget, please
25 refer to NSUARB IR-39.

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1 **Request IR-28:**

2
3 **Exhibit N-1, p. 22, Line 1**

4
5 **NSPML states: “The components of the Interim Assessment are as set out in Figure 2**
6 **below. These are the same components as approved by the Board in the Anticipated**
7 **Assessment set out in NS Power’s Fuel Stability Plan Application.”**

8
9 **(a) The numbers noted in Figure 2 are the same numbers included in the NSPI’s Fuel**
10 **Stability Plan (FSP) application. When the FSP was submitted, the NS Block was**
11 **expected to be ready for delivery by April 2018. As such, why does NSPML believe**
12 **the numbers in Figure 2 should not be changed to reflect the now projected**
13 **two-year delay in delivery of the NS Block?**

14
15 **(b) What impact, if any, will not using the full amount of the project contingency have**
16 **on the numbers in Figure 2?**

17
18 **Response IR-28:**

19
20 **(a) The Maritime Link Interim Assessment costs outlined in Figure 2 of the Application**
21 **relate to costs of constructing, financing and operating the Maritime Link which are not**
22 **affected by a delay in the delivery of the NS Block. Consequently, the amounts remain**
23 **the same as those contained in NS Power’s Fuel Stability Plan (FSP) application.**

24
25 **(b) Any variation, (including a lesser amount of project contingency), between NSPML’s**
26 **Interim Assessment approved in this Application and the actual cost of the Maritime Link**
27 **as determined by the Board pursuant to NSPML’s approved final cost filing, will be**
28 **reconciled as part of the final cost assessment process.**

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1 **Request IR-29:**

2
3 **Exhibit N-3, Appendix C, M07348 IR-17(a)**

4
5 **NSPI provided cost information in IR-17 of M07348 to support its request for an interim**
6 **assessment. Approval of this assessment will allow NSPI to begin collecting funds from**
7 **ratepayers for the Maritime Link project. This was a requirement of legislation¹, intended**
8 **in part to smooth the financial impact of rate increases.**

9
10 **(a) Please identify the cash outflow obligations of NSPML, by year and specific line**
11 **item (similar to IR-17d), through the 2017-2019 Rate Stability Period.**

12
13 **(b) What portion of each of the cost items would NSPML capitalize as part of the**
14 **project?**

15
16 **(c) What portion of each of the cost items could NSPML capitalize as part of the**
17 **project, if so directed?**

18
19 **(d) If operating and finance costs continued to be capitalized (as is currently occurring)**
20 **to the project, but NSPML collected the funds it is requesting, would the cash**
21 **accumulating, in excess of the obligations, in the utility accrue to result in at least an**
22 **equal benefit for ratepayers that the current proposal? Please quantify and provide**
23 **the analysis complete to support your response.**

24
25 **(e) Why should existing ratepayers, alone, bear the entire obligation of equity return if**
26 **they are not yet receiving the NS Block or an equivalent value of benefit?**

27

¹ Section 4(1)(e) of the *Electricity Plan Implementation (2015) Act*

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1 **(f) Why should existing ratepayers, alone, bear the entire obligation of depreciation if**
2 **they are not yet receiving the NS Block or an equivalent value of benefit?**

3
4 Response IR-29:

5
6 (a) In 2017, NSPML continues to have cash outflow obligations associated with constructing
7 the Maritime Link and paying interest on its debt. These costs are being capitalized to
8 Construction Work in Progress (CWIP) and AFUDC and remain within the amounts
9 approved by the Board in its 2013 decision.

10
11 When the Maritime Link is in service beginning in 2018, NSPML will have cash outflow
12 obligations relating to operating and maintenance as well as debt (interest) and equity
13 (return on equity) financing costs. Please refer to NSUARB IR-32(e), Attachment 1.

14
15 (b) All costs (construction and financing) in 2017 are being capitalized. For purposes of
16 estimating rate revenue requirements in this interim assessment, all costs forecasted to
17 arise in 2018 and 2019 (operating and maintenance, depreciation and financing costs)
18 have been reflected as current operating costs, and not capitalized. Please refer to the
19 assumption in the next paragraph.

20
21 For purposes of estimating this interim assessment rate requirements, it has been assumed
22 that at the end of 2017 (after construction has been completed), NSPML will forecast and
23 accrue its expected total cost of construction expecting that some costs associated with
24 constructing the Maritime Link that may actually be expended (cash outflow) after 2017
25 (that is, final payments to contractors and costs associated with final regulatory
26 compliance matters). A final true up of capital costs will also be required should these
27 accruals differ from actual results.

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1 (c) In general terms, if the UARB directed NSPML to capitalize certain costs in 2018 and
2 2019 as they relate to rate making, NSPML expects that such costs could be capitalized
3 under USGAAP. This would have to be examined on a case-by-case basis.
4

5 (d) NSPML has not undertaken such an analysis. It does not appear that this approach would
6 be in accordance with GAAP for a utility with an asset that is in service.
7

8 (e-f) NSPML's supplemental evidence confirms that Nova Scotia electricity customers will be
9 receiving significant benefits from the Maritime Link as of the January 1, 2018 in-service
10 date of the facilities.
11

12 As the evidence of John Reed explains [John Reed Direct Evidence, please refer to pages
13 16-17], the typical formula for utility cost recovery involves a declining rate base (due to
14 straight-line depreciation), while a project's benefits typically increase over time (due to
15 general price rises in the economy). This usually results in projects having an "economic
16 crossover" point in time, before which costs exceed benefits (often described as "front
17 end loading" of costs), and after which benefits exceed costs (often described as "back
18 end loading" of benefits).
19

20 Further, the evidence presented at the time of Maritime Link approval provided a
21 perspective of the variation in benefits across the lifespan of the project, not unlike other
22 major energy infrastructure projects, which the Board considered as part of its approval
23 of the Maritime Link. [Please refer to John Reed Direct Evidence, pages 18 and 21.] As
24 of January 1, 2018 the Maritime Link will be fully energized, is expected to move
25 significant amounts of power, and will provide benefits to NS Power and its customers.
26 The costs of the Maritime Link will not necessarily match the quantitative near-term
27 benefits from the Maritime Link in the early years. That is the result that has always been
28 expected, and is typical of major new power supply projects. [Please refer to
29 Supplementary Direct Evidence of John Reed, page 4.]

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1 The record in NSUARB Docket M05419 upon which the Board approved the Maritime
2 Link indicated that NS Power did not have a near-term need for additional capacity, and
3 that the timing of the Maritime Link Project was driven by the need to meet renewable
4 energy standards in Nova Scotia by 2020 (not 2018). In other words, it was always
5 contemplated that ratepayers would utilize, and be responsible for the costs of, the
6 Maritime Link as of January 2018, though the NS Block was not actually required until
7 2020.

8
9 Further, as discussed in the response to NSUARB IR-42, the *Electricity Plan*
10 *Implementation (2015) Act* expressly anticipates rate smoothing, including in particular
11 early recovery as part of NSPI's Fuel Adjustment Mechanism of the Anticipated
12 Assessment, which early, smoothed recovery has now been implemented by the UARB.

13
14 The issue of the allocation of risk, and benefit, as between ratepayers and investors was
15 addressed in the Maritime Link approval decision, as discussed in John Reed's
16 Supplemental Direct Evidence (see generally starting at page 5). In particular, Mr. Reed
17 notes that:

- 18
19 • The issue of delay of one or more segments of the overall Project and the
20 potential that the commercial operation date of all of the segments may not align
21 was fully canvassed in the 2013 Maritime Link approval case.
- 22
23 • In considering this risk, the Board set out its expectations that NSPML would be
24 required to prudently manage construction of the Maritime Link in a manner
25 consistent with the construction schedule of the other components of the Nalcor
26 Transactions, while remaining mindful of the total impact on costs in order to
27 minimize costs to ratepayers. The Board further set out its expectations that
28 AFUDC would accumulate only until the end of 2017, subject to a further

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1 prudence review in respect of additional AFUDC caused by delay in completion
2 of the Maritime Link.

- 3
- 4 • NSPML has done everything that the Board asked of it in its 2013 Decision, and
5 has thereby minimized costs to Nova Scotia electricity customers. In proceeding
6 to complete the Maritime Link on time, as initially planned, NSPML will avoid
7 incremental costs to Nova Scotia electricity customers forecast to be between
8 approximately \$400 and \$530 million [please refer to NSPML Supplementary
9 Evidence, page 16].

- 10
- 11 • The approval by the Board, and in particular its expectations for prudent
12 management of the schedule risk noted above, informed investors' decisions in
13 regard to the Maritime Link Project. Emera and its investors understood the
14 prudence and AFUDC disallowance risks, and assessed that those risks could be
15 appropriately managed by NSPML, which they have been.

- 16
- 17 • In the result, there is no basis for adopting any rate that would cause NSPML to
18 experience a disallowance or degradation in its earnings, having prudently
19 managed Project costs when the Maritime Link achieves commercial operation
20 as of January 1, 2018. Standard ratemaking principles should be applied, as
21 NSPML's application requests.

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1 **Request IR-30:**

2
3 **Exhibit N-1, p. 32, line 5**

4
5 **NSPI states: “Although the timing of the NS Block has shifted, it is still contractually**
6 **guaranteed for a 35 year term for the benefit of customers, and the two-year delay in the**
7 **commencement of the benefits provided by the NS Block will be accompanied by a two-**
8 **year extension in the duration of those benefits to a time when such energy will be valuable**
9 **to customers.”**

10
11 **(a) Please identify for each item contributing to the \$162 million and \$164 million totals**
12 **what the future value of these early payments are worth.**

13
14 **(b) Do customers in year 36 and 37 incur any costs? If so, please itemize and tie to the**
15 **revised financial presentation requested in IR-30(b).**

16
17 **(c) Does this advantage future ratepayers? If not, why not?**

18
19 **Response IR-30:**

20
21 (a-c) As noted in evidence provided to date and in these IR responses, Nova Scotia customers
22 will receive benefits from use of the Maritime Link from the time it is placed in service in
23 2018 through until the end of the NS Block. For a project such as the Maritime Link, the
24 benefits of the Project should be viewed as a whole and in combination with all
25 NS Power assets as opposed to focusing on short periods of time for the Maritime Link
26 only. NSPML has not performed a future value analysis.

27
28 In the final two years of the NS Block, customers will pay operating and maintenance
29 costs but would not have to pay depreciation, debt financing costs and return on equity if
30 the Maritime Link is depreciated to coincide with the term of the FLG debt – over 35
31 years. If the Maritime Link is depreciated over 37 years, then customers in those two
32 final years will also pay such costs but will pay less depreciation in prior years. Please

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1 refer to responses to NSUARB IR-32 (e) and (f), which show the two scenarios of
2 depreciating the Maritime Link over 35 or 37 years.

3
4 As noted by John Reed in his Direct Evidence in this matter, the shift in the timing of the
5 NS Block does not materially change the total benefit of the Maritime Link Project to
6 customers. It has the effect of removing the NS Block power from the 2018 to 2019
7 period, which is when NS Power does not expect to need new resources and has less
8 expensive sources of power available to it, and adds this power as a resource in the 2053
9 to 2054 timeframe, when NS Power expects to need this power and does not anticipate
10 having less expensive resources available. While this does cause a modest increase in the
11 level of front-end cost loading and back-end benefit loading for the Maritime Link
12 Project, we view this as modest when the Maritime Link Project is viewed over its entire
13 life, and is not atypical for large utility capital programs. [Please refer to John Reed
14 Direct Evidence, pages 16-17 and 19-20 and to NSUARB IR-29(e-f)].