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August 7, 2026

Ms. Crystal Henwood
Regulatory Affairs Officer/Clerk of the Board
Nova Scotia Energy Board
3rd Floor, 1601 Lower Water Street
Halifax, NS B3J 3P6

Dear Ms. Henwood:

Re: Matter M12663 – Nova Scotia Energy System Operator ("IESO") 2026/27 Revenue Requirement and Fees Application – Reply Submissions on behalf of Port Hawkesbury Paper

Port Hawkesbury Paper LP ("PHP") has had the opportunity to review the Closing Submissions of IESO Nova Scotia and the Intervenors in this matter and appreciates the opportunity to submit a reply.

Further to its own closing submission of July 24, 2026, PHP's reply will focus on the need for clarity from the Nova Scotia Energy Board ("Board") on the issue of the process for approval of the IESO's general revenue requirement and capital expenditures.

With respect to the issue of the legislative authority of the Board to disallow forecast costs as part of the IESO's annual revenue requirement filings, PHP believes there is some merit in the IESO's interpretation of the legislation. That said, if the Board finds it does not have the authority to disallow forecast revenue requirements, in PHP's view a referral back to the IESO with recommendations for reductions in the revenue requirement will be tantamount to a disallowance, as until the Board approves a new revenue requirement the fees approved for the previous fiscal year remain in effect unless the Board orders otherwise. The Board is under no obligation to order otherwise, and if the IESO fails to follow the Board's recommendations, the Board is not obliged to approve the proposed revenue requirement.

Once the revenue requirement is approved, the key issue then becomes how to address deviations from the revenue requirement. In its Decision in Matter M12412, the Board established a +/- 10% threshold on variances for further Board review. The IESO stated at page 32 of its Closing Submission that its interpretation of the Board's direction in M12412 "…is that an automatic review is triggered in circumstances in which a cost category incurs a variance which exceeds +/- 10% of the Board approved revenue requirement." It is unclear from this wording if the IESO views the obligation for an automatic review to occur if a cost category incurs a +/- 10% variance of the overall revenue requirement or of the approved revenue requirement for the specified cost category. PHP submits that the reasonable interpretation is the latter, and notes that at page 34 of the IESO's Closing Submission, it "…submits that variance explanations and corresponding prudency review of expenditures less than or greater than 10% apply at the cost category level." PHP believes clarity from the Board on its intention in regard to the application of the +/- 10% variance trigger would be helpful in its decision in the present matter.

The IESO goes on at page 34 to state, in relation to +/- 10% variances, that: "Accordingly, IESO Nova Scotia will provide corresponding information in its future revenue requirement applications where applicable." PHP views this as potentially problematic. As noted by the IESO and other parties, the IESO is a not-for-profit entity, and after the fact findings of imprudence, if allowed, may be of little value if the costs have already been incurred and the IESO is unable to make ratepayers whole in relation to such expenditures. This is why PHP had in its Closing Submission specifically suggested that the Board adopt an approval to overspend (ATO) process as part of any Net Revenue Requirement Variance and Deferral Mechanism. Such a process would ensure that all expenditures that were anticipated to be greater than 10% of the approved relevant revenue requirement cost category would require Board approval prior to the expenditure being incurred. Having reviewed the IESO's Closing Submission and that of the other Intervenors, PHP remains of the view that such an advance approval process is required with respect to overspending. This is to ensure that the IESO does not incur expenses which the Board could subsequently find imprudent or unnecessary but with no meaningful way to recover those expenditures from the IESO. An after the fact review of underspending does not generate the same concern and could be done as part of a subsequent revenue requirement application process with the necessary adjustments made on a go forward basis.

Although the present application by the IESO is under section 29 of the More Access to Energy Act (the "Act"), the various Closing Submissions also make reference to the recovery of certain capital expenditures and the interplay between sections 29 and 30 of the Act.

Subsection 30(1) of the Act provides that: "The IESO shall apply to the Energy Board for the recovery of costs for energy resource supply contracts, and any costs incurred by the IESO for the administration of those contracts, respecting settlements or payments under contracts for energy resources obtained through procurement activities or through reassignments of existing energy supply agreements from NSPI." Subsection (2) then provides that the Board shall establish a mechanism to recover the costs referred to in subsection (1) from ratepayers.

Importantly, section 30 does not set out a timeline for when the IESO is to apply to the Board and thus leaves this to the Board to determine. That said, for the reasons noted above, absent a pre-approval of such costs, there appears to be no meaningful manner to recover costs from the IESO which the Board may subsequently disagree with. Accordingly, PHP submits that the Board should confirm that in relation to section 30 applications, with the exception of "reassignments of existing energy supply agreements from NSPI", the IESO shall require approval from the Board in advance of any final commitment to execute energy resource supply contracts. As such contracts could be orders of magnitude greater than the IESO's annual revenue requirements, clarity on the timing and process, including intervenor participation, for approval of such arrangements is important before the IESO finalizes arrangements in this regard. An ATO process with an applicable threshold trigger should similarly be set for energy resources supply contracts as for the IESO's general revenue requirement applications.

Finally, on an unrelated item, PHP wishes to note its agreement with the submissions made by the Industrial Group ("IG") at page 12 of their Closing Submission with respect to the issue of HST exposure. PHP agrees with the IG that the Board "…should receive confirmation from NSPI and IESO-NS as to how this exposure will be managed, for both the interim relief and the forthcoming cost recovery mechanism, and, if necessary, should impose conditions on the approval to protect ratepayers." It is important that customers receive the benefit of the input tax credits claimable by NSPI directly in their rates.

Thank you for the opportunity to provide these reply submissions.

Yours truly,

James MacDuff

cc: M12663 Participants