

1 Q. **Reference: Application**

2 We understand the federal fuel charge will come into effect as of July 1, 2023 in Newfoundland
3 and Labrador.

4 a) How will that tax apply, if at all, to Hydro's purchases of heavy fuel oil and diesel fuel
5 used in the generation of electricity?

6 b) Is the effect of the federal fuel charge included in Hydro's proposed 5.5% increase in
7 wholesale rates?

8 c) In general, are the cost impacts associated with carbon tax/credits accounted for in the
9 Supply Cost Variance Deferral Account?

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12 A. a) Effective July 1, 2023, the Government of Canada will impose its federal carbon tax backstop
13 in Newfoundland and Labrador. Newfoundland and Labrador Hydro ("Hydro") continues to
14 work with the Government of Canada to understand how this change will impact its
15 operations and what carbon taxes will apply. Regulated industrial facilities under the
16 Management of Greenhouse Gas Regulations are currently exempt from the provincial
17 carbon tax and will also be exempt from the federal carbon tax. Hydro has two facilities that
18 are regulated under the Management of Greenhouse Gas Regulations, the Holyrood
19 Thermal Generating Station and the Holyrood Gas Turbine. Hydro is working closely with the
20 provincial Department of Environment and Climate Change and the federal government to
21 ensure that there is a smooth transition of the exemption on July 1, 2023. Similarly, Hydro
22 expects that the fuel used in all isolated diesel plants will continue to be exempt from the
23 federal carbon tax beyond July 1, 2023. Fuel purchased for the remaining thermal plants in
24 Hydro's fleet are expected to attract carbon taxes beginning July 1, 2023.

25 b) The changes in the federal carbon tax backstop are on a prospective basis and have no
26 impact on the proposed rate change as the proposed rate change is required to recover
27 historical costs.

- 1 c) Revenues from the sale of performance credits by Hydro have been credited to customers in
2 the Supply Cost Variance Deferral Account. The cumulative greenhouse gas credit balance in
3 the Supply Cost Variance Deferral Account is \$12.6 million as at March, 2023. Any cost
4 variances associated with carbon taxes applicable to the relevant supply sources will also be
5 recorded in the deferral account.