

- 1. For Crown Land Fees there are 2 rates, one for reserved lands (3.5%) and one for leased lands (7%). How we should be integrating those rates in our model? – are we reserving the lands during the period present – COD and we apply the 3.5% / year rate. After we become operational we are leasing them and we start applying the 7% / year rate? Or is there some different way of looking at this?**

Crown land reserve fees are annual fees that begin upon issuance of the Wind Application Recommendation Letter awarding exclusive right to pursue the proposed project on Crown lands.

For modelling purposes, apply the 3.5% annual rate to the amount of land held in reserve during the time the land is held in reserve, prior to converting to a crown land lease. Crown land reserve fees will stop and crown land lease fees begin with issuance of the crown land lease and again, for modelling purposes, suggest applying the 7% rate to the assumed value and area approved under the lease for the proposed project annually over the life of the project.

- 2. For Crown Land fees, for the land rate, we are using 1000 CAD/acre?**

The value of crown land is determined by the Department of Fisheries, Forestry and Agriculture direct comparison approach to calculate land values, based on recent known private land sales in the area and any Municipal Assessment Agency land assessments, if required. Calculated land values will be applied to the larger area with reductions for economies of scale as required.

- 3. For Crown Land, which surface area do we need to reserve and/or lease for our project?**

Proponents submitting a Bid to the Crown land Call for Bids for Wind Energy Projects are required to identify the potential area for development as a part of their Bid submission.

Lands identified in successful bids will be placed in reserve, providing the successful bidder with the exclusive right to assess resources in the area identified and to apply for Crown land within the reserve.

There is an annual Crown land rental fee of 3.5 per cent of market value for the land held in reserve for a successful bidder. All land under a reserve will be subject to the annual Crown land reserve fee.

Once a company completes exploration activities and determines the final project footprint, an application for a Crown Land lease must be submitted that identifies the land being requested for lease.

There is no requirement for a proponent to include all of the land in reserve in the Crown land lease application. Land not included in the Crown land application will be released from reserve. The annual fee for a Crown land lease is 7 per cent of market value.

- 4. For the water royalty, at the moment we are running the calculation assuming that we are paying 10% of our net revenue as a fee after 1x cost recovery, 20% of our net revenue after we reached 2x cost recovery, and 25% after 3x cost recovery. Cost is assumed to be the total estimated capex of the project including development and construction costs. Are we looking at this correctly? We assume it is the same as for the oil & gas sector, but without the payments prior to 1x cost recovery.**

For modelling purposes and until the legislative framework is in place, see below:

Cost Recovery

The revenue over cost index (R), allows for deductions of cumulative transportation costs and cumulative prior period water royalty payments from cumulative project revenues in the numerator.

The R denominator allows for cumulative project costs falling into these categories:

1. hydrogen to ammonia conversion, 2. water to hydrogen conversion, 3. energy consumed, 4. water system and 5. other project costs.

- Cumulative total costs under the categories listed above, can include project related capital and operating costs as well as project related costs incurred prior to project sanction. Costs are not limited to capital (i.e. capex) costs during construction and development.
- Further, the R denominator also includes cumulative crown land use fees, water use fees and wind electricity taxes plus the cumulative return allowance.
- The return allowance cost pool is limited to cumulative project related costs (capital or operating) and cumulative crown land use fees, water use fees and wind electricity taxes incurred prior to first production. The return allowance cost pool also includes cumulative return allowance to the prior period (i.e. compounding return allowance) until first production and then converts to a simple interest style calculation (i.e. no further compounding) until simple payout.

Reference to Net Revenue

Once R is greater than or equal to 1, the applicable water royalty rate is applied to the water royalty base (residual value of water). The water royalty base allows for deductions from revenues including transportation costs, project operating and

capital costs generally falling under the categories outlined above along with crown land use fees, water use fees and wind electricity taxes.

- 5. Would it be possible to see the details of the calculations used in your reference case for government revenues. For example: land valuations used, size of land areas used for 1 GW, water usage volumes? Having access to the detailed calculations should help to clear up many questions we have. (NTD - For further discussion)**

The department will meet with individual proponents as necessary to provide additional information regarding computation aspect of the fiscal framework.

Information provided at individual meetings will be provided to all proponents through the Crown Lands Call for Bids for Wind Energy projects website at <https://www.gov.nl.ca/iet/bidding-on-crown-land-for-wind-energy-projects/>

- 6. A wind farm has a virtual boundary line within which any new turbine operations or large structures would interfere with power generation from our turbines. Within that boundary area the wind farm itself will make use of a small portion of land for the turbine, other facilities such as electrolyzers, and easements for roads, pipelines, etc. The rest of the area within the virtual boundary would remain free for other uses. In the November consultations we believe it was stated that the land leases (and fees) would be only for the actual land area used for the wind farm. Is this correct? Assuming this is correct, what legal protection will a lessor receive to prevent another wind farm or large structure from encroaching within the virtual boundary of the original wind farm (in order to protect the original investment)?**

Lands identified in successful bids will be placed in reserve, providing the successful bidder with the exclusive right to assess resources in the area identified and to apply for Crown land within the reserve. Once a company completes exploration activities and determines their proposed final project footprint, an application for a Crown Land lease must be submitted that identifies the land being requested for lease. There is no requirement for a proponent to include all of the land in reserve in the Crown land lease application. Land not included in the Crown land application will be released from reserve.

Final, setback distances, operational buffers and associated land use restrictions for all project-related infrastructure will be determined through subsequent Crown land and EA processes and will be taken into consideration when determining the final, approved, project footprint and associated leases.

- 7. Relative to the above question, how is the area "in reserve" calculated? At this early stage of development, before environmental studies, detailed wind resource assessments, etc are known, the siting of turbines and other facilities is not known precisely. Does this mean that the total area within the**

virtual boundary reserved for a proponent will be considered in reserve for payment calculations (a fee in the millions of dollars for even a small project)? Or will the calculation be based on the amount of land expected to be used (based on number of turbines, etc) within the virtual boundary?

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- 8. In the calculation of water royalties, what expenditures are considered as "costs" in the calculation of such items as "transportation costs", "conversion cost of H₂ to NH₃", "conversion cost of water to H₂", "costs of energy consumed in conversion", "costs of water system"? For example, are development costs (wind resource assessment, environmental studies), operation and maintenance costs, and financing costs included in the "costs"? Are fees paid for land leases, water, and the electricity tax considered costs?**

The Water Royalty considers various costs in the numerator and denominator of revenue over cost index calculation (R) and the water royalty base or what the water royalty rates apply to after it becomes payable.

From the March 2 consultation presentation, project cost eligibility was referenced with the following points:

- Royalty is assessed and costs reported on a cash basis
- A project cost shall generally qualify as eligible only to the extent that:
 - It is directly attributable to the project
 - It is not a cost under another project (i.e. projects are ring fenced)
 - Transportation costs are related to transporting the product (hydrogen or ammonia) to the point of sale or where ownership of the product changes hands
 - Decommissioning project costs will be allowed with the potential inclusion of carryback provisions

More generally, costs falling into the following categories (1. hydrogen to ammonia conversion, 2. water to hydrogen conversion, 3. energy consumed, 4. water system and 5. other project costs) or costs referred to as pre-development or development costs, can include project related capital and operating costs (before and after production start-up).

While project financing related costs will not be eligible costs in the Water Royalty calculation, there is a return allowance (RA) provision in the R calculation. The RA works as a proxy for project debt financing costs.

Crown land fees, water use fees and the wind electricity tax will also be eligible costs in the water royalty calculation.

The legislative framework, including eligibility rules for costs in the Water Royalty calculation, is still under development.

9. Are land and water lease, electricity tax, and water royalty payments deductible when calculating corporate income taxes?

The Federal Government administers corporate income tax on behalf of the Province and the provincial corporate income tax rate is applied to the same taxable income as is calculated for the purposes of the federal corporate income tax system.

10. Could the department please confirm that in the water royalty calculation, the denominator includes cumulative capital and operating costs? (taken from a response to 1st set of questions)

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11. Could the department please provide an estimate on land values well in advance of bid date?

Land values cannot be provided in advance of the closure of the bid process and successful bidders have been selected and project areas are known.