

Wind-Hydrogen Fiscal Framework

February 2023

Wind-Hydrogen Fiscal Framework Principles

- Provide a predictable and transparent fiscal system to inform investment decisions and resource development for wind-hydrogen projects.
- An approach that provides a sharing of financial returns between investors and the Province to achieve a balance between:
 - Recognition of project investment and risk; and
 - Benefits the Province for use of its resources – land, wind and water.
- The framework design utilizes the following concepts:
 - Fees/payments occurring early in the project authorizations/permitting. Fee payments scale to size of project.
 - Water Royalty payments occurring later in the project during operations phase, after a project has recovered initial investment costs.
- Taxes applicable to all wind projects producing electricity for the purposes of producing hydrogen.

Wind-Hydrogen Fiscal Framework Components

Land

- Crown land reserve fee
- Crown land license fee

Wind

- Wind electricity tax

Water

- Water use fee
- Water royalty

Wind-Hydrogen Fiscal Framework – Crown Lands

Crown Land Reserve Fee

- Payments begin upon issuance of Letter awarding exclusive right to pursue project on lands
- Annual charge of 3.5% of market value of reserved lands
- Applicable to Crown lands held in reserve during site and wind resource assessment period

Crown Land Lease Fee

- Payments begin upon issuance of Crown Land lease
- Annual charge of 7% of market value

Wind-Hydrogen Fiscal Framework – Wind

Wind Electricity Tax

- Payments begin when the turbines are “in-service”
- Annual charge of \$4,000 per megawatt on installed capacity
- Applicable to all wind-hydrogen projects (≥ 5 megawatts) producing electricity for the purposes of producing hydrogen

Wind-Hydrogen Fiscal Framework – Water Fees

Water Use Fee

- Payments begin with permit issuance
- Annual charge of \$500 per 1000m³ of water licensed and used
- Annual charge of \$50 per 1000m³ for water licensed and not used
- Fees adjusted annually by the Canadian consumer price index as per current Environment and Climate Change regulatory practice.
- Applicable to all hydrogen facilities

Wind-Hydrogen Fiscal Framework – Water Royalty

Water Royalty

- Payments begin with cost recovery
- Applicable to hydrogen projects.
- Payable based on the calculated residual value of the water
- Rates linked to revenue over cost index calculation (10 per cent to 25 per cent)
- The Province will have the ability to enter into agreements to modify terms in same manner as offshore oil projects

Wind-Hydrogen Fiscal Framework – Water Royalty

- Rates linked to revenue over cost index calculation (10 per cent to 25 per cent)

Water Royalty Calculation Formula

Revenue from Sale of End Product (Ammonia)

Less: Transportation costs to Point of Sale

Conversion costs of Hydrogen to Ammonia

= Value of Hydrogen produced

Less: Conversion costs of Water to Hydrogen

Costs of Energy consumed in conversion

Costs of Water system to collect water

= Value of Water Converted

X Royalty Rate

= Water Royalty Payable to the Province

- Tier 1: R-factor = 1; Rate = 10 per cent (applied after 1x cost recovery)
- Tier 2: R-factor = 2; Rate = 20 per cent (applied after 2x cost recovery)
- Tier 3: R-factor = 3; Rate = 25 per cent (applied after 3x cost recovery)

Fiscal Framework – Example Financial Impacts

Estimated NL Government returns over the 30 year project life for a single Project:

Project Net Cash Flow Summary (MM\$ Cdn)	Price (-20%)	Capex (+20%)	Reference Case	Capex (-20%)	Price (+20%)
NL Government Return Details	\$2,196	\$3,162	\$3,559	\$3,940	\$4,895
- NL CIT	\$1,278	\$1,703	\$1,737	\$1,774	\$2,201
- NL Water Royalty	\$759	\$1,299	\$1,663	\$2,008	\$2,535
- NL Other Fees & Taxes	\$159	\$159	\$159	\$159	\$159

Reference Case Assumptions

- 1000MW Wind Farm / 500MW Hydrogen (Ammonia) Facility
- Capital Costs - \$3.5 Billion (Cdn)
- Annual production at 60k tonnes of hydrogen converted to 344k tonnes of ammonia

Next Steps

- Fiscal Framework has been released as part of the Crown Lands Call for Bids process
- Deadline for submitting bids has been extended to **March 23, 2023**
- Successful Bidders will be awarded the exclusive right to pursue their project through the Crown Lands and Environmental Assessment processes
 - No projects have yet been awarded

Thank You