

AGREEMENT FOR THE LOW CARBON HYDROGEN PRODUCTION BUSINESS MODEL

INDICATIVE HEADS OF TERMS

~~Note: these draft indicative heads of terms are subject to the "Disclaimer" section at the front of the Government response to the consultation on a Low Carbon Hydrogen Business Model to which they are related.~~

~~Introductory Notes~~

Background

These Heads of Terms are ~~preliminary and indicative~~ draft terms for the agreement for the low carbon hydrogen production business model (the "**Low Carbon Hydrogen Agreement**" also referred to as the "LCHA"). They provide a framework for the principal terms and conditions that will or are expected to be included in the ~~Low Carbon Hydrogen Agreement~~LCHA for initial projects and do not constitute definitive drafting of the ~~Low Carbon Hydrogen Agreement~~LCHA's terms.

~~These Heads of Terms should be read in conjunction with the document ['Government response to the consultation on a Low Carbon Hydrogen Business Model', [●] 2022]~~

The reader may also find it useful to refer to (1) the timelines and diagrams detailed in the Annex (Explanatory Diagrams); and (2) the detailed provisions of the LCHA payment mechanism which BEIS have published alongside these Heads of Terms which builds on the summary set out in Item 4 (Billing and Payment) of Section B (Standard Terms and Conditions).

Where relevant, we have commented below on the potential similarities and differences between the ~~Low Carbon Hydrogen Agreement~~LCHA and (1) the Standard Contracts for Difference (CfD) Terms and Conditions for Allocation Round 4 (~~the "AR4 CfD"~~) for low carbon electricity (the "AR4 CfD"), and (2) the ~~Heads of draft Standard Terms and Conditions~~ for the Dispatchable Power Agreement published in November 2022 (the "**DPA**") and the ~~Heads of draft Standard Terms and Conditions~~ for the Industrial Carbon Capture Contract (the "**ICCC**") for the CCUS programme which BEIS is planning to publish in December 2022 (together, the "**CCUS Programme HoTs Contracts**").

These Heads of Terms also consider the potential interactions between the ~~Low Carbon Hydrogen Agreement~~LCHA and (1) the Low Carbon Hydrogen Standard ~~being developed by BEIS~~, and (2) capex co-funding delivered via the Net Zero Hydrogen Fund.

These Heads of Terms do not indicate any willingness or agreement on the part of the Department for Business, Energy & Industrial Strategy ("**BEIS**") to enter into, or arrange the entry into, the ~~Low Carbon Hydrogen Agreement~~LCHA. These Heads of Terms do not constitute an offer and are not capable of acceptance.

~~In connection with the above, given the Heads of Terms are preliminary and indicative only, the provisions set out therein are subject to further consideration and development by BEIS. A number of the provisions and terms which require particular consideration and development (including where BEIS is yet to make decisions relating to policy matters, commercial issues, risk allocation, and the allocation of the Low Carbon Hydrogen Agreement) have been square bracketed (with footnotes) in the Heads of Terms and completion of necessary contractual documentation.~~ BEIS reserves the right to review and amend ~~these square bracketed provisions, and all other provisions~~all proposals set out ~~in~~within the document, in particular to ensure that proposals provide value for money and are consistent with the current subsidy control regime.

BEIS proposes to continue engagement with interested parties in order to: (1) complete the full form LCHA; and (2) enable the allocation of initial LCHAs during 2023. The timeline for the work in

2023 is expected to be: (A) Q1 2023 for engagement on the Heads of Terms; (B) Q2 2023 for engagement on the draft full form LCHA; and (C) from Q3 2023 for publication of the final LCHA for initial projects. Any enquiries regarding this publication should be sent to the hydrogen.businessmodels@beis.gov.uk mailbox.

GUIDE TO THE LOW CARBON HYDROGEN PRODUCTION BUSINESS MODEL HEADS OF TERMS

This short guide to the LCHA Heads of Terms is intended to aid reader understanding of the policy intent and key structure of the hydrogen production business model ("HPBM").

Key Elements of the Business Model

The HPBM will support selected Producers of low carbon hydrogen by paying them a premium, calculated as the difference between a Strike Price (reflective of the Producer's unit cost of production and negotiated on a project-by-project basis) and a Reference Price (based on the price at which the Producer sells their hydrogen, with a floor at the natural gas price i.e. the most relevant fossil fuel alternative). The HPBM also includes a reward mechanism that incentivises Producers to achieve higher sales prices, which will reduce the size of the support payment under the LCHA.

Producers will only be supported in this way if they produce hydrogen that meets the requirements of the Low Carbon Hydrogen Standard and sell that hydrogen for certain qualifying purposes (including, for instance, power generation, transportation or industrial use, but not including sales for export or blending into the natural gas grid).

For readers seeking an explanation of how the support payment is calculated and the key commercial terms governing the business model, the most relevant sections of the Heads of Terms are set out below.

<u>Key Provision</u>	<u>Heads of Terms Section(s)</u>
<u>Difference Amount (i.e. calculation of the premium)</u>	<u>See 4.1.</u>
<u>Strike Price</u>	<u>See 4.5. For the treatment of hydrogen transport and storage costs see 4.5 also. For Strike Price Indexation, see 4.15.</u>
<u>Reference Prices</u>	<u>See 4.6.</u>
<u>Achieved Sales Prices</u>	<u>See 4.7.</u>
<u>Floor Price</u>	<u>See 4.8. For the alternative floor price for feedstock sales, see 4.9.</u>
<u>Price Discovery Incentive</u>	<u>See 4.11.</u>
<u>Production Cap and Annual Volume Cap</u>	<u>See 4.13.</u>
<u>Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes</u>	<u>See 4.2. For compliance with the Low Carbon Hydrogen Standard, see 6.5 and 7 generally.</u>
<u>Qualifying Offtakers and Non-Qualifying Offtakers</u>	<u>See 4.3.</u>
<u>CO₂ Transport and Storage Charges</u>	<u>See 4.18.</u>
<u>Treatment of UK Emissions Trading Scheme Free Allowances</u>	<u>See 4.14.</u>

Safeguards for Producers

The HPBM also includes mechanisms designed to protect supported Producers from certain risks, including, for instance, the risk that hydrogen offtakers will exit the market or reduce their demand for low carbon hydrogen, or the risk that CO₂ transport and storage infrastructure experiences problems outside of the Producer's control.

For readers seeking an explanation of the key Producer protections, the most relevant sections of the Heads of Terms are set out below.

<u>Key Provision</u>	<u>Heads of Terms</u>
<u>Sliding Scale Volume Support</u>	<u>See 4.12.</u>
<u>Qualifying Change in Law (QCIL)</u>	<u>See 5.1. For QCIL Compensation, see 5.2.</u>
<u>Qualifying Shutdown Events</u>	<u>See 5.3.</u>
<u>CO₂ Transport and Storage</u>	<u>For CO₂ T&S Commissioning Delay Relief, see 2.7. For the treatment of CO₂ T&S Outage Relief Events, see 4.19. For the Consequences of Termination for CO₂ T&S Prolonged Unavailability, see 3.10.</u>

SECTION A – FRONT END AGREEMENT

No.	Subject	Terms
1.	Overview	<p>The contract structure of the Low-Carbon Hydrogen AgreementLCHA will likely follow the AR4 CfD, DPA and ICCG<u>the CCUS Programme Contracts</u>, where each agreement comprises two instruments: (i) the front end agreement and (ii) the standard terms and conditions.</p> <p>The front end agreement will be a bespoke document that contains project-specific information relating to each Producer, including pricing components <u>(such as the initial Strike Price)</u>, capacity, <u>volume (such as the LCHA Production Cap)</u>, and particulars of the Facility <u>(such as the technology type and whether any hydrogen transport and storage infrastructure is included)</u> and the Producer to which the Low-Carbon Hydrogen AgreementLCHA applies.</p> <p>The standard terms and conditions will be a set of contractual terms governing matters which will be applicable to all Low-Carbon Hydrogen AgreementsLCHAs unless otherwise specified in the front end agreement (e.g. certain provisions may only apply to specific technology types, <u>such as CCUS-Enabled Facilities</u>). Producers who are allocated a Low-Carbon Hydrogen AgreementLCHA will sign the front end agreement, which will then incorporate the standard terms and conditions.</p>

SECTION B – STANDARD TERMS AND CONDITIONS

No.	Subject	Terms
1.	Parties	<p>The parties to the Low-Carbon Hydrogen AgreementLCHA will be the HydrogenLCHA Counterparty[‡] and the Producer (each, a "Party" and together the "Parties"). The Parties intend to be legally bound by the Low-Carbon Hydrogen AgreementLCHA which will be a private law, commercial contract. <u>BEIS anticipates that the Low Carbon Contracts Company Ltd will be the LCHA Counterparty, subject to the successful completion of administrative and legislative arrangements.</u></p>
2.	Term, Milestone Requirement and Conditions Precedent	
2.1 2.12. 2	Term Commencement and Specified Expiry Date	<p>BEIS expects the Low-Carbon Hydrogen Agreement toThe LCHA will have a contract term between 10 and of fifteen (15) years for all eligible technologies and project sizes. This reflects: (i) the precedents set by the low-carbon electricityAR4 CfD and CCUS Programme HoTsContracts; (ii) the potential time for thisthe nascent low-carbonhydrogen market to develop; and (iii) a balance between providing price support certainty<u>long enough period</u> for Producers for a proportionate and reasonable period, whilst not locking in production pathways for the long term<u>to secure private sector financing.</u></p> <p>The Low-Carbon Hydrogen AgreementLCHA term will commence on the earlier of the "Start Date" and the last day of a specified "Target Commissioning Window" of [to be determined]<u>twelve (12)</u> months (which will be adjusted day-for-day for any delays that occur due to</p>

[‡]—Note to Reader: The identity of the Hydrogen Counterparty is to be determined.

No.	Subject	Terms
		<p>"Force Majeure", discussed in further detail below). BEIS is still considering other events which are beyond the control of the Producer, the occurrence of which may provide time relief under the Low Carbon Hydrogen Agreement<u>any CO₂ T&S Commissioning Delay Events (for CCUS-Enabled Facilities only) and, where applicable, for delays by the relevant authority in establishing an electricity grid connection, a natural gas grid connection and/or a water connection).</u></p> <p>Therefore, if the Producer fails to commission the Facility by the end of the Target Commissioning Window, the term of the Low Carbon Hydrogen Agreement<u>LCHA</u> will commence and the 10-15<u>fifteen (15)</u> year term will start to erode. However, payments under the Low Carbon Hydrogen Agreement<u>LCHA</u> will not commence unless and until the Start Date occurs. This is to incentivise the relevant Producer to commission the Facility as soon as reasonably practicable following the execution of the Low Carbon Hydrogen Agreement<u>LCHA but no earlier than the first day of the Target Commissioning Window.</u></p> <p><u>The "Specified Expiry Date" will be the fifteenth (15th) anniversary of the earlier of the Start Date and the last day of the Target Commissioning Window. The LCHA will expire on the earlier of:</u></p> <p><u>(a) the Specified Expiry Date; and</u></p> <p><u>(b) the date when the Total Aggregate Volume equals the LCHA Production Cap (see item 4.13 (LCHA Production Cap and Annual Volume Cap)),</u></p> <p><u>unless the LCHA is terminated earlier in accordance with its terms (see item 3 (Termination and Consequences of Termination) for a discussion on early termination of the LCHA).</u></p>
<p>2.2.2- 3</p>	<p>Initial Conditions Precedent</p>	<p>It is envisaged that there<u>The LCHA will be</u>include two sets of conditions precedent, the "Initial Conditions Precedent" and the "Operational Conditions Precedent", similar to the AR4 CfD <u>and CCUS Programme Contracts.</u></p> <p>The "Initial Conditions Precedent" <u>provisions will</u> be designed to ensure that<u>require</u> the Producer meets<u>to meet</u> certain legal and regulatory requirements and conditions relating to the Low Carbon Hydrogen Agreement immediately following the date of the agreement. The satisfaction of these requirements and<u>LCHA as soon as reasonably practicable and in any event by no later than twenty (20) Business Days after the Agreement Date (other than for any Initial Conditions Precedent that may be waived by the LCHA Counterparty, in its absolute discretion). These</u> conditions, <u>which</u> will need to be evidenced in a form and content satisfactory to the Hydrogen<u>LCHA</u> Counterparty, and may<u>will</u> include: (a)-</p> <p><u>(a) the Producer's entry into certain key project documents [such as, where applicable, a hydrogen offtake agreement(s), gas/an electricity grid connection agreements, and agreement, a natural gas grid connection agreement and a water connection agreement, and for CCUS-Enabled Facilities only, a CO₂ T&S construction agreement and a CO₂ T&S connection agreement(s)]; (b)-</u></p>

No.	Subject	Terms
		<p><u>(b) the facilityFacility description (including: (i) a process flow diagram and location ofof the Facility assets; and (ii) an aerial view of the unique geographical location showing the proposed locations of the Facility assets, metering and measurement equipment and supply points); (c) planning permission; and (d) corporate approvals</u></p> <p><u>(c) evidence that the Producer has obtained applicable planning consents for the Facility and associated infrastructure, with the challenge period having expired (or any challenge having been unsuccessful with no further rights of appeal);</u></p> <p><u>(d) a copy of the resolution of the Producer's board of directors approving the terms of and the transactions contemplated by the LCHA and resolving that the Producer executes, delivers and performs the LCHA;</u></p> <p><u>(e) evidence of compliance by the Producer with "know your customer" or similar identification procedures or checks under all applicable laws and regulations pursuant to the transactions contemplated by the LCHA; and</u></p> <p><u>(f) a legal opinion (in form and content satisfactory to the LCHA Counterparty) addressed to the LCHA Counterparty from the Producer's legal advisers confirming that the Producer: (i) is duly formed and validly existing under the law of the jurisdiction of formation; and (ii) has the power to enter into and perform, and has taken all necessary action to authorise its entry into and performance of, the LCHA.</u></p>
2.3	<p><u>Adjustments to Initial Installed Capacity Estimate; and Installed Capacity Estimate</u></p>	<p><u>Under the LCHA, a Producer will be permitted to reduce the Initial Installed Capacity Estimate (or subsequently the Installed Capacity Estimate) in the following circumstances:</u></p> <p><u>(a) Permitted Reduction: A Producer may, at its discretion, reduce its Initial Installed Capacity Estimate by up to [ten per cent. (10%)] prior to the Milestone Delivery Date by issuing an adjustment notice to the LCHA Counterparty. A Producer may only make one permitted reduction, and any adjustment shall be irrevocable.</u></p> <p><u>(b) Relevant Construction Event: A Producer may notify the LCHA Counterparty, no later than three (3) months prior to the Longstop Date, that a Relevant Construction Event has occurred, including supporting information to evidence the new Installed Capacity Estimate and details of any change in assets comprising the Facility. If the LCHA Counterparty agrees with the Producer, both in terms of the Relevant Construction Event's occurrence and the new Installed Capacity Estimate, the new Installed Capacity Estimate will become effective from the date of the LCHA Counterparty's response. If the Installed Capacity Estimate is adjusted in this manner, the new figure will be fixed and the Producer may not subsequently seek to increase it. A Relevant Construction Event adjustment can only be made once.</u></p> <p><u>If the Initial Installed Capacity Estimate and/or Installed Capacity Estimate is adjusted in accordance with the procedures outlined above, it will not result in any adjustment to the Strike Price, but the</u></p>

No.	Subject	Terms
		<p><u>LCHA Production Cap will be reduced (pro-rated) proportionate to the reduced Installed Capacity Estimate. The LCHA Production Cap will then be readjusted once the Final Installed Capacity is determined (see item 2.6 (Longstop Date Required Installed Capacity)).</u></p>
2.4	Milestone Requirement	<p>It is envisaged that the Producer will be required to demonstrate within a certain period of time that it is committed to the Project by evidencing: <u>(a) Following the satisfaction (or waiver, in the LCHA Counterparty's absolute discretion) of the Initial Conditions Precedent, the Milestone Requirement must be fulfilled by the Producer. The "Milestone Requirement" in the LCHA is designed to demonstrate commitment to and progress in respect of the Project, and will require the Producer to evidence the following by the Milestone Delivery Date (both similar to the AR4 CfD requirements):</u></p> <p><u>(a) actual spend of at least a minimum percentage of [to be determinedten per cent. (10%)] of "Total Project Commissioning Costs" (the evidence for which will include invoices, payment receipts and other supporting information necessary to demonstrate that those costs have been incurred in relation to the Project); or (b)</u></p> <p><u>(b) fulfilment of specified "Project Commitments", both similar to the AR4 CfD requirements (the evidence for which will include demonstrating that the Producer has entered into commercially binding arrangements to acquire necessary Material Equipment to deliver the Project by the start of the Target Commissioning Window).</u></p> <p>This is<u>The purpose of the Milestone Requirement will be</u> to deter speculative or underdeveloped projects from applying for a Low Carbon Hydrogen Agreement (over and above any primary checks prior to this point)<u>entering into a LCHA</u>, and to ensure that <u>LCHA</u> budget remains committed only to projects that demonstrate sufficient progress <u>towards developing the relevant Facility</u>. The Hydrogen<u>LCHA</u> Counterparty will be responsible for determining the robustness of the evidence submitted by the Producer.</p> <p><u>The Milestone Delivery Date will be: (i) for CCUS-Enabled Facilities, eighteen (18) months; and (ii) for Electrolytic Facilities, twelve (12) months¹, after the Agreement Date but this period may be extended in some specific circumstances such as Force Majeure, CO₂ T&S Commissioning Delay Events (for CCUS-Enabled Facilities only) and, where applicable, delays by the relevant authority in establishing an electricity grid connection, a natural gas grid connection and/or a water connection.</u></p>
2.5	Operational Conditions Precedent	<p>For the Start Date to occur <u>and for LCHA payments to commence</u>, the Producer will be expected to<u>must</u> satisfy a number of "Operational Conditions Precedent"² <u>(unless waived by the LCHA Counterparty, in its absolute discretion)</u>. These may<u>will</u> include:</p>

¹ Note to Reader: Given the short gap between the end of an 18-month Milestone Requirement period and the projected start of commercial operation of electrolytic projects participating in the joint HPBM-NZHF allocation round, this brings forward the Milestone Requirement to enable the LCHA Counterparty to properly monitor the timely development and deliverability of these projects. This position will be reviewed ahead of the award of future contracts to electrolytic projects. This issue does not affect CCS-enabled projects. Therefore, the Milestone Requirement for CCS-enabled projects follows the 18-month precedent from the AR4 CfD.

² Note to Reader: Further Operational Conditions Precedent may be required.

No.	Subject	Terms
		<p>(a) evidence that the Producer has commissioned an Installed Capacity of not less than <u>[to be determined by BEIS] eighty per cent. (80%)</u> of the Installed Capacity Estimate <u>plus and</u> evidence that the Facility has been commissioned, <u>e.g. proof, such</u> that <u>industry standard commissioning tests have been carried out and that (if applicable) the Facility is connected to the CO₂ T&S Network</u> <u>it is commercially operational</u>;</p> <p>(b) evidence that the Facility <u>(including the hydrogen volumes produced by the Facility)</u> can produce hydrogen that meets the requirements of the <u>LCHS, which will include calculations and supporting evidence (including, where relevant, actual measured/metered data)</u>;</p> <p><u>(c) the Data Collection Plan (as detailed in item 7 (Low Carbon Hydrogen Standard (as further discussed at item 7.3 (Compliance))) having been documented by the Producer and agreed with the LCHA Counterparty;</u></p> <p>(d)(e) <u>evidence that the Facility complies with specified metering² requirements³;</u></p> <p><u>(e) written confirmation from the Producer to the LCHA Counterparty that no subsidy has been received by the Producer or by any other person in relation to the costs of the Project (excluding the subsidy arising under the LCHA and/or any other Approved Scheme of Funding);⁴ and</u></p> <p>(f) (d) <u>[others]</u>² for CCUS-Enabled Facilities only, evidence that the Facility is connected to the CO₂ T&S Network (referred to as the CO₂ T&S Connection Confirmation CP).</p>
2.6	<u>Longstop Date Required Installed Capacity</u>	<p><u>There will be a further requirement for a Producer to demonstrate that it has commissioned an Installed Capacity of not less than ninety-five per cent. (95%) of the Installed Capacity Estimate by the Longstop Date ("Required Installed Capacity").</u></p> <p><u>If the Producer fails to deliver a Final Installed Capacity notice to the LCHA Counterparty by no later than ten (10) Business Days after the Longstop Date, the LCHA Counterparty will have the right, but not the obligation, to terminate the LCHA. If the LCHA Counterparty decides not to terminate the LCHA in these circumstances, the Final Installed Capacity at the Longstop Date will be deemed to be eighty per cent. (80%) of the Installed Capacity Estimate.</u></p> <p><u>Once the Final Installed Capacity is determined in accordance with the above, the LCHA Production Cap (adjusted at the commissioning stage) will be reduced (pro-rated) proportionate to the Final Installed Capacity (or deemed Final Installed Capacity) as against the Installed Capacity Estimate.</u></p>
2.7.2-6	Expiry Date <u>CO₂ T&S Commissioning</u>	The "Expiry Date" will be the 10th-15th anniversary (depending on the precise term length) of the earlier of the Start Date (as discussed in item 2.2 (Commencement)) and the last day of the

²—Note to Reader: Subject to the applicable technology type, the metering requirements could include gas, electricity, H₂ and CO₂ (where applicable).

³—Note to Reader: Subject to the applicable technology type, the metering requirements will include natural gas, electricity, water, hydrogen and CO₂ (where applicable) (see item 6.5 (Producer's Metering Undertakings)).

⁴—Note to Reader: A similar Operational Condition Precedent may be required in respect of the prohibition on applying for or receiving UK ETS free allowances (see item 4.14 (UK ETS free allowances)).

²—Note to Reader: Further Operational Conditions Precedents may be required.

No.	Subject	Terms
	<p>Delay Relief</p>	<p>Target Commissioning Window. The Low Carbon Hydrogen Agreement will expire on the Expiry Date unless it is terminated earlier in accordance with its terms. Please see section 3 (Termination and Consequences of Termination) for a discussion on early termination of the Low Carbon Hydrogen Agreement.<u>The LCHA will provide limited relief for CO₂ T&S Commissioning Delay Events (which are outside the Producer's control). The Producer may, if a CO₂ T&S Commissioning Delay Event has occurred and is continuing, request either:</u></p> <p><u>(a) a day-for-day extension to one or more of the Milestone Delivery Date, the Target Commissioning Window and/or the Longstop Date, for any delay to the Project which is caused by the CO₂ T&S Commissioning Delay Event; or</u></p> <p><u>(b) a waiver by the LCHA Counterparty of the CO₂ T&S Connection Confirmation CP, provided that the Producer CO₂ T&S Connection Works have otherwise been fully completed and all other Operational Conditions Precedent have been satisfied.</u></p> <p><u>This mechanism follows the CCUS Programme Contracts and allows the Producer to manage the CO₂ T&S Commissioning Delay Event in accordance with the Producer's priorities (for example, to deliver security of supply to its Offtakers).</u></p> <p><u>Under paragraph (a) above, in addition to the day-for-day extension, the Producer will be entitled to receive CO₂ T&S Connection Delay Compensation if the Producer has satisfied all Operational Conditions Precedent other than the CO₂ T&S Connection Confirmation CP.</u></p> <p><u>Under paragraph (b) above, where the Producer and the LCHA Counterparty agree that the Producer CO₂ T&S Connection Works have been fully completed such that the Producer would otherwise be ready to connect to the CO₂ T&S Network if it were available, the Producer's obligation to fulfil the CO₂ T&S Connection Confirmation CP will be waived. This means that if all other Operational Conditions Precedent have been satisfied, the Producer can achieve its Start Date and begin to receive payments under the LCHA in respect of Qualifying Volumes produced and sold.</u></p> <p><u>If the CO₂ T&S Connection Confirmation CP is waived by the LCHA Counterparty in accordance with paragraph (b) above:</u></p> <p><u>(a) from the Start Date until the date the Producer satisfies the CO₂ T&S Connection Confirmation Requirement, the requirement to comply with the LCHS will be waived;</u></p> <p><u>(b) the full Strike Price agreed during negotiations (see item 4.5 (Strike Price)) will apply for the purpose of calculating the Difference Amount. However, the Producer will be required to pay the LCHA Counterparty the "CO₂ T&S Outage Relief Event Strike Price Deduction Amount" for each unit of hydrogen that is purchased by a Qualifying Offtaker and in respect of which a waiver of the requirement to comply with the LCHS applies (and which is not a RTFO Volume). A CO₂ T&S Outage Relief Event Strike Price Deduction Amount will be calculated using the applicable "CO₂ T&S Outage Relief Event Strike Price Deduction", which shall be:</u></p> <p><u>(i) between the Start Date and until the date the Producer</u></p>

No.	Subject	Terms
		<p><u>satisfies the CO₂ T&S Connection Confirmation Requirement, the Capital Return Component;</u></p> <p><u>(ii) between the date the Producer satisfies the CO₂ T&S Connection Confirmation Requirement and the second (2nd) anniversary of the CO₂ T&S Network Availability Date, zero (0); and</u></p> <p><u>(iii) following the second (2nd) anniversary of the CO₂ T&S Network Availability Date, the Capital Return Component; and</u></p> <p><u>(c) the Producer will not be entitled to any further: (i) extensions to its Target Commissioning Window and/or Longstop Date in relation to any CO₂ T&S Commissioning Delay Event or (ii) CO₂ T&S Connection Delay Compensation, on the basis that the Start Date will have occurred.</u></p> <p><u>Once the CO₂ T&S Connection Confirmation CP has been waived, either Party will be required to notify the other Party promptly upon becoming aware that the CO₂ T&S Network is or will be available. Following the issue of such notice, the Producer will be required to use reasonable endeavours to fulfil the CO₂ T&S Connection Confirmation Requirement as soon as reasonably practicable and in any event before the date that falls [six (6)] months after the CO₂ T&S Network Availability Date (the "CO₂ T&S Connection Confirmation Deadline").</u></p> <p><u>If the Producer fails to fulfil the CO₂ T&S Connection Confirmation Requirement by the CO₂ T&S Connection Confirmation Deadline, the LCHA Counterparty will have the right (but not the obligation) to terminate the LCHA.</u></p> <p><u>Without prejudice to the LCHA Counterparty's right to terminate the LCHA, if the Producer fails to satisfy the CO₂ T&S Connection Confirmation Requirement within three (3) months following the CO₂ T&S Network Availability Date, the LCHA Counterparty may (at any time following the occurrence of such breach) elect to suspend payment of any amounts payable to the Producer⁵.</u></p> <p><u>Finally, any relief in respect of CO₂ T&S Commissioning Delay Events is subject to the termination procedure for CO₂ T&S Prolonged Unavailability Events (see item 3.9 (Termination for CO₂ T&S Prolonged Unavailability)).</u></p>
3.	Termination and Consequences of Termination	
3.1	Pre-Start Date Termination	<p>Similar to the AR4 CfD, the Low Carbon Hydrogen Agreement and the CCUS Programme Contracts, the LCHA will contain various rights for the Hydrogen LCHA Counterparty to terminate the Low Carbon Hydrogen Agreement LCHA prior to the occurrence of the Start Date where the Producer fails to make sufficient progress in developing the Facility. Such rights will ensure that Low Carbon Hydrogen Agreement LCHA funding that has been committed to support the deployment of low carbon hydrogen production facilities is not tied up indefinitely in a project that has no realistic prospect of being commissioned.</p> <p>The Low Carbon Hydrogen Agreement may <u>LCHA will</u> include the right</p>

⁵ Note to Reader: BEIS is also considering at what point relief from LCHS compliance will end in these circumstances.

No.	Subject	Terms
		<p>(but not the obligation) for the Hydrogen<u>LCHA</u> Counterparty to terminate the Low Carbon Hydrogen Agreement<u>LCHA</u> where:</p> <p>(a) <u>Initial Conditions Precedent</u>: the Producer fails to fulfil the Initial Conditions Precedent within <u>twenty (20) Business Days following</u> the specified time after the date of the Low Carbon Hydrogen Agreement, similar to the position under the AR4 CfD <u>Date</u>;</p> <p>(b) <u>Milestone Requirement</u>: the Producer fails to fulfil the Milestone Requirement before the Milestone Delivery Date. The Milestone Delivery Date will be adjusted day-for-day for any delays that occur due to Force Majeure (and potentially other events outside the Producer's control to be specified), <u>CO₂ T&S Commissioning Delay Events (for CCUS-Enabled Facilities only) and, where applicable, delays by the relevant authority in establishing an electricity grid connection, a natural gas grid connection and/or a water connection</u>;</p> <p>(c) <u>Longstop Date</u>: the Producer fails to satisfy the Operational Conditions Precedent by a specified "Longstop Date". The Longstop Date will be adjusted day-for-day for any delays that occur due to Force Majeure (and potentially other events outside the Producer's control to be specified), <u>CO₂ T&S Commissioning Delay Events (for CCUS-Enabled Facilities only) and, where applicable, delays by the relevant authority in establishing an electricity grid connection, a natural gas grid connection and/or a water connection</u>; <u>and</u></p> <p>(d) <u>Producer Default Termination</u>: if a Producer default event (as detailed in item 3.3.3.4 <u>(Producer Default Termination)</u>) occurs and is continuing at any time prior to the Start Date; and</p> <p>(e) (e) [other]⁴.</p>
3.2	<p><u>Termination for failing to satisfy the Required Installed Capacity or the CO₂ T&S Connection Confirmation Requirement</u></p>	<p><u>The LCHA will include the right (but not the obligation) for the LCHA Counterparty to terminate the LCHA in the following circumstances:</u></p> <p>(a) <u>Termination for failing to meet the Required Installed Capacity</u>: if the Producer fails to:</p> <p>(i) <u>deliver to the LCHA Counterparty the Final Installed Capacity notice by no later than ten (10) Business Days after the Longstop Date</u>; or</p> <p>(ii) <u>meet the Required Installed Capacity at the Longstop Date</u>.</p> <p>(b) <u>Termination for failing to satisfy the CO₂ T&S Connection Confirmation Requirement</u>: <u>for CCUS-Enabled Facilities only, if the LCHA Counterparty has waived the CO₂ T&S Connection Confirmation CP and the Producer fails to fulfil the CO₂ T&S Connection Confirmation Requirement by the CO₂ T&S Connection Confirmation Deadline</u>.</p>
<p>3.3.3. <u>2</u></p>	<p>Consequence of Pre-Start Date Termination; <u>Termination for</u></p>	<p>A pre-start date termination <u>and termination pursuant to one of the termination events summarised in item 3.1 (Pre-Start Date Termination) or 3.2 (Termination for failing to satisfy the Required Installed Capacity or the CO₂ T&S Connection Confirmation</u></p>

⁴—Note to Reader: BEIS is considering whether other pre-start date termination events are included.

No.	Subject	Terms
	<p><u>failing to satisfy the Required Installed Capacity or the CO₂ T&S Connection Confirmation Requirement</u></p>	<p><u>Requirement</u>) will be occur on a no-liability basis under the Low Carbon Hydrogen Agreement.</p>
<p>3.43. 3</p>	<p>Producer Default Termination</p>	<p>The default termination provisions in the Low Carbon Hydrogen Agreement are likely to <u>LCHA will</u> follow the AR4 CfD <u>and the CCUS Programme Contracts</u> by giving the Hydrogen <u>LCHA</u> Counterparty the right to terminate the Low Carbon Hydrogen Agreement <u>LCHA</u> for Producer events of default comprising: (a) insolvency; (b) breach of key obligations relating to ownership of the Facility, no assignment and fraud; (c) breach of key obligations relating to metering; (d) credit support default; and (e) non-payment which is not rectified within a specified cure period.</p> <p>In addition, BEIS is considering whether to <u>the LCHA will</u> include the following Producer events of default: (f) where, after the Start Date, the Producer fails to remedy a prolonged period where the hydrogen produced by the Facility fails to meet the Low Carbon Hydrogen Standard (within a period to be determined); and/or (g) Termination Events (which will give rise to default termination rights, if they occur after the Start Date):</p> <p><u>(a) breach of key obligations relating to the LCHA specific monitoring and reporting obligations;</u></p> <p><u>(b) breach of key obligations relating to Qualifying Offtakers (e.g. the Producer claims LCHA payments for volumes sold to Non-Qualifying Offtakers);</u></p> <p><u>(c) breach of key obligations relating to RTFO Scheme undertakings (e.g. the Producer claims: (i) LCHA payments for volumes in respect of which Renewable Transport Fuel Certificates have been claimed under the RTFO Scheme; or (ii) Renewable Transport Fuel Certificates under the RTFO Scheme in respect of volumes that have been subsidised under the LCHA);</u></p> <p><u>(d) breach of the prohibition on applying for or receiving UK ETS free allowances in respect of the Facility from the UK ETS registry administrator (see item 4.14 (UK ETS free allowances)); and</u></p> <p><u>(e) breach of the obligation not to exceed the Permitted Annual Volume Cap in two (2) (consecutive or non-consecutive) Fiscal Years during the term of the LCHA (see item 4.13 (LCHA Production Cap and Annual Volume Cap)).</u></p> <p><u>BEIS is also considering including a Termination Event where:</u></p> <p><u>(f) if applicable, the Producer's NZHF GFA is terminated due to Producer breach or default (as per <u>in</u> the ICCC HoTs). The intention of (f), if included, would be to ensure that BEIS is only supporting projects that produce low carbon hydrogen in accordance with the Low Carbon Hydrogen Standard. <u>in relation to the ICC GFA</u>); and</u></p>

No.	Subject	Terms
		<p>(g) BEIS is also considering whether there are other termination events that are specific to the hydrogen business model that should be included in the Low Carbon Hydrogen Agreement.</p> <p><u>the Producer fails to sell any (or potentially a volume above a de minimis threshold) of the hydrogen volumes produced by the Facility for a period of [two (2)] years.</u></p>
<p>3.53- 4</p>	<p>Consequences of <u>Producer Default Termination</u></p>	<p>BEIS is considering the appropriate approach in respect of the consequences of a Producer default termination. <u>If a Termination Event occurs after the Start Date and the LCHA Counterparty terminates the LCHA, the Producer will be obliged to pay the LCHA Counterparty a Default Termination Payment. The "Default Termination Payment" will be calculated as follows:</u></p> <p style="text-align: center;"><u>Default Termination Payment = Termination Fee Rate ([£2/MWh (HHV)] x Annual Volume Cap</u></p> <p><u>A Producer will not be liable to pay more than one Default Termination Payment. In the event that more than one Termination Event applies, a single fee of [£2] per MWh (HHV) of the Annual Volume Cap will apply.</u></p> <p><u>The Termination Fee Rate will be indexed to CPI, in line with other financial figures set out in the LCHA. This is to ensure that over the course of the LCHA term, the Termination Fee Rate remains proportionate to the total subsidy received by the Producer and the Producer remains incentivised to comply with the provisions of the LCHA.</u></p>
<p>3.63- 5</p>	<p>No Producer termination right <u>Termination Right</u></p>	<p>BEIS is considering whether to <u>The LCHA will</u> adopt the position in the AR4 CfD and the CCUS Programme HoTs <u>Contracts</u>, whereby the Producer would <u>will</u> not be entitled to terminate the Low Carbon Hydrogen Agreement <u>LCHA</u> unilaterally before the Expiry Date.</p>
<p>3.73- 6</p>	<p>Termination for Prolonged Force Majeure</p>	<p>BEIS may include a Hydrogen Counterparty right to terminate the Low Carbon Hydrogen <u>A prolonged Force Majeure termination right will arise if a prolonged Force Majeure event, that first occurs between the Agreement where, prior to Date and the Milestone Satisfaction Date, the Producer is significantly delayed in achieving the Start Date due to a continuing, unresolved Force Majeure. Such right has been proposed for inclusion in the CCUS Programme HoTs prevents or delays the development, construction, completion, testing or commissioning of the Facility for at least eighteen (18) months.</u></p> <p><u>If such circumstances arise, the LCHA Counterparty will have the right (but not the obligation) to terminate the LCHA while the prolonged Force Majeure event is still ongoing. Such right will be included to ensure that committed funding is not tied up indefinitely in a project that has no realistic prospect of being commissioned due to a continuing, unresolved Force Majeure.</u></p>
<p>3.83- 7</p>	<p>Consequence of Termination for Prolonged Force Majeure</p>	<p>Similar to the CCUS Programme HoTs, if this <u>A termination event is included in the Low Carbon Hydrogen Agreement, termination for prolonged Force Majeure will be occur on a no-liability basis given the non-fault nature of the event.</u></p>
<p>3.93- 8</p>	<p>Termination for <u>CO₂ T&S</u> Prolonged</p>	<p>For a CCUS-Enabled Facility connected to only, the CO₂ T&S Network, BEIS is considering following <u>LCHA will follow</u> the CCUS Programme</p>

No.	Subject	Terms
	<p>CO₂ T&S Unavailability</p>	<p>HoTs and <u>Contracts by</u> including a Hydrogen <u>LCHA</u> Counterparty <u>termination right in the event that a CO₂ T&S Prolonged Unavailability Event (see below) prevents the relevant Facility from exporting its CO₂ to the CO₂ T&S Network for a prolonged period of time. This termination right will seek to ensure that (in the longer term) the LCHA only supports the production of low carbon hydrogen whilst (in the shorter term) allowing an appropriate period of time for the fault in the relevant CO₂ T&S Network to be rectified or, if that is not possible, an Alternative CO₂ T&S Network Solution Plan to be put in place.</u></p> <p><u>A CO₂ T&S Prolonged Unavailability Event will be defined as the occurrence of:</u></p> <p><u>(a) a Full CO₂ T&S Outage Event⁶ which lasts for at least [six (6) months];</u></p> <p><u>(b) a CO₂ T&S Commissioning Delay Event which lasts for at least [six (6) months]; or</u></p> <p><u>(c) a "CO₂ T&S Cessation Event", being any one of the following:</u></p> <p><u>(i) a notice of discontinuation is issued by the Secretary of State to the CO₂ T&S Operator pursuant to the discontinuation agreement entered into between the CO₂ T&S Operator and the Secretary of State;</u></p> <p><u>(ii) the licence of the CO₂ T&S Operator to operate the CO₂ T&S Network is (i) revoked; and (ii) is not transferred to a substitute CO₂ T&S Operator, such that the CO₂ T&S Network ceases to operate or the Producer is no longer able to connect to the CO₂ T&S Network; or</u></p> <p><u>(iii) a determination is made by the relevant competent authority that the Producer's connection to the CO₂ T&S Network is no longer viable.</u></p> <p>Where such an event that a Facility is prevented from accessing the CO₂ T&S Network for a continuous period (with such period to be determined). <u>occurs, the LCHA Counterparty may issue a notice to the Producer, which will specify the date on and from which the LCHA Counterparty has the right (but not the obligation) to terminate the LCHA. Such date will be the CO₂ T&S Prolonged Unavailability Remediation Deadline of [thirty (30)] months after the date the LCHA Counterparty's notice is issued, unless: (i) an Alternative CO₂ T&S Network Solution Plan is implemented in accordance with the process set out below or (ii) an earlier right to terminate arises (as described below).</u></p> <p><u>If a Producer can identify a feasible alternative route to permanent storage for its captured CO₂ (or any substance consisting primarily of CO₂), it must give a response notice specifying that it will provide an Alternative CO₂ T&S Network Solution Plan within [eighteen (18) months] of the LCHA Counterparty's notice. Such plan must set out the required milestones and actions in order to connect the Producer to an alternative CO₂ delivery point and CO₂ T&S Network [or</u></p>

⁶ Note to Reader: BEIS is considering whether this termination right will also apply to substantial constraints of the CO₂ T&S Network.

⁷ Note to Reader: The time periods in this section are subject to further consideration by BEIS.

No.	Subject	Terms
		<p><u>alternative permanent storage] (either directly by pipeline or indirectly by other means of transportation), in order to remedy a CO₂ T&S Prolonged Unavailability Event.</u></p> <p><u>Following receipt of an Alternative CO₂ T&S Network Solution Plan, the LCHA Counterparty will have [six (6) months] to assess the plan to consider its deliverability, while also assessing the impact the plan would have on the Project's original CO₂ T&S Network as well as information from the CO₂ T&S Operator and the relevant authorities on the progress towards returning the CO₂ T&S Network the Producer is currently using to service.</u></p> <p><u>The LCHA Counterparty will confirm whether it (i) approves the plan (without amendment), (ii) requires more information on the plan, (iii) requires amendments to the plan, or (iv) in its sole and absolute discretion, rejects the plan (and provide such supporting information as it considers necessary to evidence the reasons for such rejection). If the response is (ii), (iii) or (iv), without prejudice to the LCHA Counterparty's rights to terminate the LCHA (as described below), the Producer will then be entitled, within [twenty (20)] Business Days, to submit additional supporting information or an amended draft plan and the review process will be repeated.</u></p> <p><u>The LCHA Counterparty will have a right to terminate the LCHA if:</u></p> <p><u>(a) the CO₂ T&S Prolonged Unavailability Event has not been remedied by the CO₂ T&S Prolonged Unavailability Remediation Deadline;</u></p> <p><u>(b) the Producer has provided evidence that: (i) the CO₂ T&S Prolonged Unavailability Event is not capable of being remedied by the CO₂ T&S Prolonged Unavailability Remediation Deadline and (ii) it is not technically, economically or otherwise feasible for the Producer to provide an Alternative CO₂ T&S Network Solution Plan;</u></p> <p><u>(c) the LCHA Counterparty rejects any Alternative CO₂ T&S Network Solution Plan submitted by the Producer; or</u></p> <p><u>(d) the Producer fails to commence and continue to implement an approved Alternative CO₂ T&S Network Solution Plan.</u></p> <p><u>If the LCHA Counterparty approves an Alternative CO₂ T&S Network Solution Plan, and the Producer implements or is implementing such approved plan in accordance with its terms (which includes meeting specified milestones and carrying out certain actions) in order to remedy the CO₂ T&S Prolonged Unavailability Event, then the LCHA Counterparty will not have a right to terminate the LCHA.</u></p> <p><u>The LCHA Counterparty will have the right to suspend payment of any amounts payable to the Producer under the LCHA, where the Producer fails to comply with certain key CO₂ T&S Prolonged Unavailability Event obligations.</u></p>
<p><u>3.103</u> <u>-9</u></p>	<p>Consequence of Termination for CO₂ T&S Prolonged- CO₂-T&S Unavailability</p>	<p>BEIS is considering the appropriate approach in respect of the consequences of termination for prolonged CO₂ T&S unavailability. In the event that the LCHA is terminated as a result of a CO₂ T&S Prolonged Unavailability Event, the Producer will receive compensation for its irrecoverable and unavoidable out-of-pocket costs which have been, will be or are reasonably likely to be incurred</p>

No.	Subject	Terms
		<p><u>in respect of the Project by the Producer arising directly from the CO₂ T&S Prolonged Unavailability Event. Such costs will comprise:</u></p> <p><u>(a) development and pre-development costs in respect of the Facility;</u></p> <p><u>(b) decommissioning costs in respect of the Facility;</u></p> <p><u>(c) contractual break costs in respect of the Project⁸:</u></p> <p><u>(i) provided that such costs are incurred under contracts that have been entered into on arm's-length, reasonable commercial terms; and</u></p> <p><u>(ii) subject to a cap equal to [●]% of the Total Capex Payment,</u></p> <p><u>and excluding the following break costs:</u></p> <p><u>(iii) loan agreement and other financing agreement break costs;</u></p> <p><u>(iv) interest rate hedging agreement break costs;</u></p> <p><u>(v) ancillary services agreements break costs; and</u></p> <p><u>(vi) H₂ T&S agreement break costs;</u></p> <p><u>(d) costs which are wholly attributable to the construction, installation, testing, completion or commissioning of the Facility,</u></p> <p><u>with such compensation reduced to reflect: (i) any savings made by the Producer in relation to the CO₂ T&S Prolonged Unavailability Event; and (ii) the Net Recoverable Value of the Facility.</u></p> <p><u>The overall compensation amount will be capped at the Total Capex Payment and will specifically exclude certain costs, such as interest on debt and return on equity, costs of compliance with the UK ETS, and any lost revenues from the sale of low carbon hydrogen and any other ancillary services and By-Product sales.</u></p>
4.	Payments and Billing and Payment⁹	
4.1	Difference Amount	<p>The Producer will be paid a premium, calculated as the difference between<u>When</u> the Strike Price and exceeds the Reference Price (discussed immediately below)<u>for Qualifying Volumes, a premium will be payable by the LCHA Counterparty to the Producer for each unit of hydrogen sold that is a Qualifying Volume (see item 4.2 (Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes)). This premium (the "Difference Amount"). This payment, which will also take into consideration the additional amounts discussed in the following paragraphs) will be calculated by deducting the Reference Price for Qualifying Volumes (see item 4.6 (Reference Prices)) from the Strike Price (see item 4.5 (Strike Price)) and multiplying the result by the relevant Qualifying Volumes.</u></p> <p><u>When the Reference Price for Qualifying Volumes exceeds the Strike Price, an amount will be payable by the Producer to the LCHA Counterparty, which will be calculated by deducting the Strike Price</u></p>

⁸ Note to Reader: This limb (c) remains subject to further review by BEIS.

⁹ Note to Reader: The reader may find it useful to refer to the detailed provisions of the LCHA Payment Mechanism published as an annex to these LCHA Heads of Terms in December 2022, which builds on the summary set out in this item 4 (Billing and Payment).

No.	Subject	Terms
		<p><u>from the Reference Price for Qualifying Volumes and multiplying the result by the relevant Qualifying Volumes. This amount will also form part of the Difference Amount.</u></p> <p><u>Finally, Non-Qualifying Volumes will also be taken into consideration in the calculation of the Difference Amount but only when the Reference Price for Non-Qualifying Volumes exceeds the Strike Price, whereby an amount will be payable by the Producer to the LCHA Counterparty. Such amount will be calculated by deducting the Strike Price from the Reference Price for Non-Qualifying Volumes and multiplying the result by the relevant Non-Qualifying Volumes. In these circumstances, the Difference Amount described in the first paragraph above will be reduced or, alternatively, the Producer will be required to make a Difference Amount payment to the LCHA Counterparty, in each case depending on (i) the extent of the difference between each reference price and the Strike Price and (ii) the total hydrogen volumes produced by the Facility that are Qualifying Volumes as opposed to Non-Qualifying Volumes.</u></p> <p><u>BEIS considers that it is appropriate for the Producer to pay the LCHA Counterparty in these circumstances because it is unlikely that any hydrogen volumes would be produced by the Facility if the Producer did not receive support under the LCHA. This protects the two-way payment, protects offtakers from high prices above the Strike Price and mitigates the risk of the market being distorted in favour of Non-Qualifying Volumes.</u></p> <p><u>The structure of the Difference Amount is intended to :</u></p> <p><u>(a) provide the Producer with price certainty, by enabling the Producer to coverrecover the costcosts of <u>producing</u> low carbon hydrogen production and <u>make</u> an allowed return on investment pursuant to a combination of the Difference Amount and the amount received by the Producer through sales of hydrogen volumes. This approach should also ; and</u></p> <p><u>(b) achieve value for money for Government, given it in <u>circumstances where one or both Reference Prices for Qualifying Volumes and/or Non-Qualifying Volumes exceed(s) the Strike Price and an amount is payable by the Producer to the LCHA Counterparty.</u></u></p> <p><u>It is expected that the size of the Difference AmountAmounts payable by the HydrogenLCHA Counterparty to the Producer couldwill reduce in time as the hydrogen market develops.</u></p> <p><u>Payments will be made on a £ per MWh (higher heating value (HHV)) basis. This unit has been selected so that the Strike Price, the NaturalGas <u>Reference</u> Price and the Achieved Sales Price for hydrogen can be compared on a like-for-like basis. In particular, HHV was chosen because it reflects the full energy potential of the fuel and enables a comparison with the Natural Gas Price, which is reported in HHV in the UK.</u></p> <p>Payments will be two ways, with the Producer paying the Hydrogen Counterparty the difference between the Reference Price and the Strike Price if the Reference Price exceeds the Strike Price.</p>
4.2	Trigger for Payment <u>Qualifying</u>	Payment under the Low Carbon Hydrogen Agreement will be conditional on: <u>In order for the Producer to receive a Difference</u>

No.	Subject	Terms
	<p><u>Volumes, Non-Qualifying Volumes and RTFO Volumes</u></p>	<p><u>Amount payment from the LCHA Counterparty, the Producer must have produced and sold Qualifying Volumes in the relevant Billing Period.</u></p> <p><u>"Qualifying Volumes" are the metered hydrogen volumes (expressed in MWh (HHV)) produced by the Facility which:</u></p> <p><u>(a) are purchased by a Qualifying Offtaker; and</u></p> <p><u>(b) comply with the LCHS or, for CCUS-Enabled Facilities only, in the event of a CO₂ T&S Outage Relief Event, receive a waiver of the requirement to comply with the LCHS where certain conditions are met (see item 4.19 (CO₂ T&S Outage Relief Events)).</u></p> <p><u>and are not RTFO Volumes.</u></p> <p><u>"Non-Qualifying Volumes" are:</u></p> <p><u>(a) the sale of hydrogen; and the metered hydrogen volumes (expressed in MWh (HHV)) produced by the Facility which are purchased by:</u></p> <p><u>(i) a Non-Qualifying Offtaker; or</u></p> <p><u>(ii) a Qualifying Offtaker, but where such volumes do not comply with the LCHS (and, for CCUS-Enabled Facilities only, in the event of a CO₂ T&S Outage Relief Event, do not receive a waiver of the requirement to comply with the LCHS - see item 4.19 (CO₂ T&S Outage Relief Events)); or</u></p> <p><u>(b) Excess Volumes that are deemed to be Non-Qualifying Volumes (see item 4.13 (LCHA Production Cap and Annual Volume Cap)).</u></p> <p><u>and are not RTFO Volumes.</u></p> <p><u>"RTFO Volumes" are the metered hydrogen volumes (expressed in MWh (HHV)) produced by the Facility in respect of which Renewable Transport Fuel Certificates are claimed under the RTFO Scheme.</u></p> <p><u>RTFO Volumes will:</u></p> <p><u>(a) not be eligible to receive any subsidy under the LCHA (see item 6.7 (Subsidy Cumulation: Warranty and Undertaking)), on the basis that hydrogen volumes produced by the Facility should not be supported twice in order to avoid overcompensation and market distortions; and</u></p> <p><u>(b) the volumes of hydrogen produced and sold complying with the Low Carbon Hydrogen Standard, not be taken into consideration when calculating the Difference Amount.</u></p>
4.3	<p><u>Qualifying Offtakers and Non-Qualifying Offtakers</u></p>	<p><u>A "Qualifying Offtaker" is an Offtaker of hydrogen volumes produced by the Facility who is not a Non-Qualifying Offtaker and who has been confirmed as a Qualifying Offtaker by the LCHA Counterparty.¹⁰</u></p> <p><u>A "Non-Qualifying Offtaker" is an Offtaker of hydrogen volumes produced by the Facility who:</u></p>

¹⁰ Note to Reader: A Qualifying Offtaker may include a Feedstock Offtaker and/or Own Consumption Offtaker. BEIS is also currently developing the confirmation process that will apply to all offtakers.

No.	Subject	Terms
		<p>(a) <u>is a Risk-Taking Intermediary;</u>¹¹</p> <p>(b) <u>exports such hydrogen volumes for use outside the UK; and/or</u></p> <p>(c) <u>injects such hydrogen volumes into a Gas Transportation System for blending with natural gas;</u>¹²</p> <p><u>and who has been confirmed as a Non-Qualifying Offtaker by the LCHA Counterparty.</u>¹³</p> <p><u>A "Risk-Taking Intermediary" means an Offtaker of hydrogen volumes produced by the Facility who enters into:</u></p> <p>(a) <u>an agreement with the Producer for the supply of, and transfer of the legal title to and beneficial interest in, such hydrogen volumes; and</u></p> <p>(b) <u>one or more agreement(s) to supply, and transfer the legal title to and beneficial interest in, such hydrogen volumes to one or more purchaser(s).</u>¹⁴</p> <p><u>An example of a Risk-Taking Intermediary could be a third party owner of a hydrogen storage facility, if such third party owner took the legal title to and beneficial interest in hydrogen volumes produced by the Facility for the purpose of resale.</u></p> <p><u>As further detailed in item 6.4 (<i>Producer's Monitoring, Reporting and Verification (MRV) Undertakings</i>), the LCHA will include Producer information undertakings relating to specific information that must be provided in order to ensure that only Qualifying Volumes receive support under the LCHA.</u></p> <p><u>The decision that the LCHA will not subsidise sales of hydrogen volumes produced by the Facility to Non-Qualifying Offtakers (where they are Non-Qualifying Volumes) is intended to achieve value for money for Government and maximise decarbonisation in the UK. In particular, the Government considers that Risk-Taking Intermediaries should not directly benefit from LCHA support, so the Risk-Taking Intermediary exclusion represents value for money in the early hydrogen economy.</u></p>
4.4	<u>Payment Metering Points</u>	<p><u>If no hydrogen storage facility is used by a Producer / Offtaker, hydrogen volumes produced by the Facility and purchased by an Offtaker will be metered at the physical boundary of the Facility.</u></p> <p><u>If a hydrogen storage facility is used by a Producer / Offtaker in accordance with the requirements of the LCHA (see item 6.2(f) (<i>Producer's General Undertakings</i>)), hydrogen volumes produced by the Facility and purchased by an Offtaker will, subject to one exception, also be metered at the physical boundary of the Facility. The only exception is if the Producer uses a hydrogen storage facility which is "off-site", which means outside of the physical boundary of</u></p>

¹¹ Note to Reader: BEIS will consider the need to review the Risk-Taking Intermediary position in the future, both for existing LCHAs and LCHAs awarded in future allocation rounds. BEIS is also considering the treatment of the BEIS hydrogen village heating trial, which may require limited use of Risk-Taking Intermediaries to enable the relevant village to be supplied by LCHA subsidised hydrogen volumes.

¹² Note to Reader: BEIS has committed to making a policy decision in 2023 on whether or not to enable blending of up to 20% hydrogen (by volume) into GB gas networks. BEIS is also in the process of assessing different market arrangements and commercial support options to deliver blending, including whether and how the LCHA could support blending in future.

¹³ Note to Reader: BEIS is currently developing the confirmation process that will apply to all off-takers.

¹⁴ Note to Reader: This definition is subject to further development by BEIS.

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		<p><u>the Facility.¹⁵ In that case, hydrogen volumes produced by the Facility and purchased by an Offtaker will be metered at the point at which they exit the off-site hydrogen storage facility.</u></p>
<p>4.54. 3</p>	<p>Strike Price</p>	<p>The "Strike Price" (<i>expressed in £ per MWh (HHV)</i>) will reflect<u>be</u> the <u>unit price</u> a<u>required by the</u> Producer needs to achieve<u>enable it to</u> cover its<u>recover the</u> costs of <u>producing</u> low carbon hydrogen production<u>and</u> <u>make</u> an allowed return on investment. BEIS expects the<u>The</u> level <u>and specific components</u> of the Strike Price and cost components<u>(i) will be negotiated on a project-by-project basis and will include certain "eligible costs" (see below) and (ii) are expected to vary</u> for<u>across</u> different low carbon<u>types of</u> hydrogen <u>production technology</u> types.</p> <p>BEIS is considering the potential constituent elements of the Strike Price and is minded to include the following within the calculation of the Strike Price (which will be negotiated on a project by project basis, although BEIS is still considering this position). This list is not exhaustive:</p> <p><u>Certain costs associated with the production of hydrogen are ineligible for support under the LCHA and will therefore be automatically excluded from the Strike Price. The reason for this is that the HPBM Programme and LCHA are only intended to support the production of commodity hydrogen volumes (and not the provision of additional services) by a Facility which are purchased by a Qualifying Offtaker(s), provided that such volumes comply with the LCHS (or, for CCUS-Enabled Facilities only, in the event of a CO₂ T&S Outage Relief Event, receive a waiver of the requirement to comply with the LCHS where certain conditions are met (see item 4.19 (CO₂ T&S Outage Relief Events)) and are not RTFO Volumes. Some costs that may be associated with the production of hydrogen for sale will not fall within these parameters and therefore will not be included in the Strike Price. This will also support the emergence of a competitive market for value added services.</u></p> <p><u>Conversely, other costs associated with the production of hydrogen are eligible for support under the LCHA and are therefore not automatically excluded from the Strike Price. The range of "eligible costs" (i.e. costs that could, subject to negotiation, be included in the Strike Price) is under consideration by BEIS. However, the current (non-exhaustive) list of eligible costs is as follows:</u></p> <ul style="list-style-type: none"> <u>(a) subject to limbs (d), (e) and (f), capex and opex associated with the construction and operation of the Facility (excluding capex funded by the NZHF GFA <u>and/or any Approved Scheme of Funding</u>);</u> <u>(b) an allowed return on investment (referred to as the <u>Capital Return Component</u>);</u> <u>(c) <u>input energy costs (including associated network and/or use of system charges)</u>;</u> <u>(d)(e) capex, but not opex, associated with small scale<u>the construction of</u> hydrogen transport infrastructure (negotiated on a project by project basis by taking several factors into</u>

¹⁵ Note to Reader: The geographical co-ordinates of the Facility will establish the physical boundary of the Facility and will be set out in the LCHA.

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		<p>account including necessity, affordability and value for money for Government, but not opex associated with operating it (excluding capex funded by the NZHF GFA and/or any Approved Scheme of Funding); and</p> <p>(e)(d) capex and/or opex associated with a small scale<u>the construction and/or operation (as applicable) of</u> hydrogen storage infrastructure (negotiated on a project by project basis by taking several factors into account including necessity, affordability and value for money for Government)<u>excluding capex funded by the NZHF GFA and/or any Approved Scheme of Funding); and</u></p> <p>(f) <u>leasing costs associated with specified hydrogen transport and/or hydrogen storage infrastructure.</u></p> <p>In relation<u>The costs referred to the costs referred to</u> in limbs (e) and (d), the<u>(e) and (f) above are included in the current list of "eligible costs". However, in each case, whether or not they will be included in the Strike Price will be negotiated on a project-by-project basis by taking several factors into account including necessity, affordability and value for money for Government. The</u> proposed position reflects a pragmatic approach when considering to the question of <u>whether or not</u> to support small scale<u>limited</u> hydrogen transport and storage costs for initial projects awarded a Low Carbon Hydrogen Agreement<u>LCHA</u>. The <u>automatic</u> exclusion from the Strike Price of opex associated with hydrogen transport infrastructure is <u>intended</u> to incentivise efficient hydrogen transport approaches, while also providing producers<u>Producers</u> with flexibility to change their <u>hydrogen</u> transport approach as the market develops and end users and offtakers<u>Offtakers</u> change.</p> <p>BEIS will consider how any hydrogen T&S infrastructure supported through a Low Carbon Hydrogen Agreement can be future proofed to transition to a future hydrogen T&S network.</p> <p><u>In relation to limb (f) above, in order to be included in the negotiated Strike Price, a Producer will be required to demonstrate that: (i) the lease term represents a significant majority (i.e. more than 75%) of the economic life of the asset being leased; and (ii) as at the date of the lease, the present value of the minimum lease payments amounts to almost all (i.e. more than 90%) of the fair value of the leased asset.</u></p> <p><u>Conversely, the following are "ineligible costs" (i.e. costs that will be automatically excluded from the Strike Price):</u></p> <p><u>(a) indirect and direct taxes and duties (including, but not limited to, green levies on electricity);</u></p> <p><u>(b) any capex and/or opex associated with capturing additional revenue streams from the sale of By-Products;</u></p> <p><u>(c) any costs in relation to Electricity Storage pursuant to the Electricity Storage negative undertaking (see item 6.2 (Producer's General Undertakings)); and</u></p> <p><u>(d) any costs associated with the provision of ancillary services (including, but not limited to, liquefaction).</u></p> <p><u>In addition, if costs falling within limbs (d), (e) and/or (f) in the list</u></p>

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		<p><u>of eligible costs above are not included in the negotiated Strike Price, then they will also be excluded from the Strike Price (even though they are not "ineligible costs" because they will not be automatically excluded from the Strike Price).</u></p>
<p>4.6.4. 4</p>	<p>Reference PricePrices</p>	<p>The "Reference Price" <u>reference prices</u> (expressed in £ per MWh (HHV)) is <u>are</u> intended to represent the market price received by the Producer for low carbon hydrogen. For initial projects, this</p> <p><u>The "Reference Price for Qualifying Volumes" will be the higher of:</u></p> <p><u>(a) the Producer's Achieved Sales Price for Qualifying Volumes; and</u></p> <p><u>(b) the Floor Price or, if applicable, the Alternative Floor Price (see item 4.9 (Feedstock Offtakers: Alternative Floor Price)).</u></p> <p><u>If the Producer sells a unit of hydrogen that is a Qualifying Volume at a price below the relevant floor price as set out in limb (b) above, the discount applied to such floor price will not be subsidised by the LCHA. The intention behind this position is to improve value for money for Government and reduce market distortions.</u></p> <p><u>The "Reference Price for Non-Qualifying Volumes" will be the higher of:</u></p> <p><u>(a) the Producer's Achieved Sales Price <u>for Non-Qualifying Volumes</u>; and the Price Floor (which will be the lower of the Natural Gas Price and</u></p> <p><u>(b) the Strike Price).</u></p> <p>The Reference Price <u>Each reference price</u> will act as the appropriate proxy in the absence of an observable hydrogen market price (for hydrogen (whether low carbon or otherwise) and to <u>will</u> encourage the development of a market benchmark as the hydrogen market develops.</p>
<p>4.7</p>	<p><u>Achieved Sales Prices</u></p>	<p><u>The "Total Sales Price" (expressed in £ per MWh (HHV)) is the unit price charged by the Producer to each Offtaker for the supply of hydrogen (whether low carbon or otherwise).</u></p> <p><u>The "Achieved Sales Price" (expressed in £ per MWh (HHV)) is the Total Sales Price less specified exclusions. Where relevant, there will be an Achieved Sales Price for Qualifying Volumes and for Non-Qualifying Volumes (see below) and each Achieved Sales Price will include only the same eligible costs as the negotiated Strike Price. Therefore, each Achieved Sales Price will not include any "ineligible costs" (as set out in item 4.5 (Strike Price)) or any costs falling within limbs (d), (e) and/or (f) in the list of eligible costs that are not included in the negotiated Strike Price (see item 4.5 (Strike Price)).</u></p> <p><u>It is expected that the Producer will invoice each Offtaker (both Qualifying Offtakers and Non-Qualifying Offtakers) on a monthly basis, with each invoice setting out the Total Sales Price (i.e. the total price per MWh (HHV) that the Producer charges the Offtaker in respect of Qualifying Volumes or Non-Qualifying Volumes (as applicable)) and the corresponding Achieved Sales Price. From the Start Date, the Producer will be required to provide each invoice to</u></p>

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		<p><u>the LCHA Counterparty at the end of the month.</u></p> <p><u>The LCHA Counterparty will then calculate an Achieved Sales Price for (i) Qualifying Volumes and (ii) Non-Qualifying Volumes for the relevant Billing Period. The Achieved Sales Price for Qualifying Volumes will be the unit price for hydrogen volumes produced by the Facility which are purchased by a Qualifying Offtaker(s), provided that such volumes comply with the LCHS (or, for CCUS-Enabled Facilities only, in the event of a CO₂ T&S Outage Relief Event, receive a waiver of the requirement to comply with the LCHS where certain conditions are met (see item 4.19 (CO₂ T&S Outage Relief Events)) and are not RTFO Volumes. The Achieved Sales Price for Non-Qualifying Volumes will be the unit price for hydrogen volumes produced by the Facility which are purchased by (i) a Non-Qualifying Offtaker(s), or (ii) a Qualifying Offtaker(s), but where such volumes do not comply with the LCHS (and, for CCUS-Enabled Facilities only, in the event of a CO₂ T&S Outage Relief Event, do not receive a waiver of the requirement to comply with the LCHS) and, in each case, are not RTFO Volumes.</u></p> <p><u>In BEIS' view, the Achieved Sales Price for Qualifying Volumes best represents the commodity market value of the low carbon hydrogen sold by the Producer in the near term. As such, BEIS considers that it is the most appropriate comparator for the Gas Reference Price in the calculation of the Reference Price for Qualifying Volumes (see item 4.6 (Reference Prices)).</u></p>
4.8	<u>Floor Price</u>	<p><u>The Floor Price (subject to the application of any Alternative Floor Price - see item 4.9 (Feedstock Offtakers: Alternative Floor Price)) will be the lower of (i) the Strike Price and (ii) the Gas Reference Price, for the relevant Billing Period.</u></p>
4.9	<u>Feedstock Offtakers: Alternative Floor Price</u>	<p><u>If Qualifying Volumes are used for Feedstock Purposes by a Qualifying Offtaker, the Alternative Floor Price will apply to those volumes instead of the Floor Price (except in the calculation of the Price Discovery Incentive - see item 4.11 (Price Discovery Incentive)).</u></p> <p><u>The "Alternative Floor Price" shall be the lower of (i) the Strike Price and (ii) the Gas Reference Price multiplied by 1.2, for the relevant Billing Period.</u></p> <p><u>This adjustment to the Floor Price is to ensure Feedstock Offtakers pay a price that is more reflective of the cost of unabated hydrogen. It also ensures that the relevant Producer is not overcompensated for Qualifying Volumes.</u></p>
4.104-5	<u>Natural Gas Reference Price</u>	<p>The "Natural Gas Reference Price" will be the arithmetic average of the daily end of day value of the UK NBP Month Ahead Natural Gas Price published on every business day of the calendar <u>for each Trading Day in the</u> month preceding the relevant Billing Period. The UK NBP for the Month Ahead Natural Gas Price will be the price for natural gas delivered to the National Balancing Point (NBP) Virtual Trading Point, in equal amounts every calendar day of the nearest calendar month <u>Contracts in the relevant Billing Period as determined by the primary gas price source or, if applicable, the fallback gas price source.</u></p> <p>Natural gas is the most prevalent counterfactual fuel from which</p>

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		<p>offtakers<u>Offtakers</u> would switch. Therefore, in BEIS' view, offtakers<u>Offtakers</u> would be likely to pay at least the Natural-Gas Reference Price for hydrogen, especially as they<u>Offtakers subject to carbon pricing</u> would save on CO₂ emissions costs compared to the counterfactual.</p> <p><u>BEIS has proposed month ahead pricing on the basis of its lower volatility (compared to day ahead or on-the-day commodity prices) and greater liquidity (compared to quarter ahead, season ahead and year ahead prices), and because it is a price at which Producers can reasonably contract and hedge using existing market instruments.</u></p> <p><u>Finally, BEIS is still considering (i) the primary gas price source, and the corresponding reference price fallback gas price source and (ii) the circumstances in which the fallback gas price source will apply. The LCHA will also include a review procedure and the fallback mechanism in the event that the relevant to identify a replacement gas price source ceases to publish the UK NBP Month Ahead Natural Gas Price if required.</u></p>
4.6	Achieved Sales Price	<p>The "Achieved Sales Price" will include the same constituent elements as the Strike Price (e.g. opex associated with small scale hydrogen transport infrastructure will be excluded from such price). It will be equal to the volume weighted average price for low carbon hydrogen for the relevant Billing Period in order to reduce the reporting burden for the Producer. In BEIS' view, this component of the Reference Price best represents the market value of the hydrogen sold by the Facility in the near term.</p> <p>BEIS is also considering including audit rights for the Hydrogen Counterparty in order to verify the Achieved Sales Price data provided.</p>
4.7	Price Floor	<p>The "Price Floor" will be the lower of the Natural Gas Price and the Strike Price.</p> <p>If the Producer were to sell a unit of low carbon hydrogen at a price below the Price Floor, the discount provided to the Price Floor would not be subsidised. The intention behind this position is to improve value for money for Government and reduce market distortions.</p> <p>Capping the Price Floor at the Strike Price enables the Producer to recover the cost of hydrogen production and allowed return should they choose to sell hydrogen at a price that is higher than the Strike Price but lower than the Natural Gas Price.</p>
4.114-8	Price Discovery Mechanism Incentive	<p>The Low Carbon Hydrogen Agreement LCHA will include a mechanism that will be designed to aid price discovery.</p> <p>This mechanism will operate so that the Producer receives an amount linked to the increment by which the Reference Price exceeds by incentivising Producers to achieve prices for Qualifying Volumes above the Floor Price Floor for each unit of hydrogen sold, with the calculation of this amount to be determined by BEIS.</p> <p>The intention is to promote price discovery and to also incentivise the Producer to seek higher price sales to (which will, in turn, accelerate the reduction in the Difference Amounts payable by the Hydrogen LCHA Counterparty to the Producer and to encourage</p>

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		<p>investment in hydrogen production on a merchant basis).</p> <p>BEIS is considering whether to cap this reward if the Achieved Sales Price exceeds a specified threshold (to be determined):</p> <p><u>This mechanism will operate so that the Producer receives an amount linked to the increment by which the Reference Price for Qualifying Volumes exceeds the Floor Price (and, for the avoidance of doubt, not the Alternative Floor Price) for each unit of hydrogen that is a Qualifying Volume. If the Reference Price for Qualifying Volumes is higher than the Floor Price and:</u></p> <p><u>(a) the Reference Price for Qualifying Volumes is equal to or lower than the Strike Price, the Producer will receive ten per cent. (10%) of the difference between the Reference Price for Qualifying Volumes and the Floor Price (even where the hydrogen volume is sold to a Feedstock Offtaker i.e. the Alternative Floor Price does not apply in this calculation) for each unit of hydrogen that is a Qualifying Volume; and</u></p> <p><u>(b) the Reference Price for Qualifying Volumes exceeds the Strike Price, the Producer will receive 10% of the difference between the Strike Price and the Floor Price (even where the hydrogen volume is sold to a Feedstock Offtaker i.e. the Alternative Floor Price does not apply in this calculation) for each unit of hydrogen that is a Qualifying Volume.</u></p> <p><u>The cap at the Strike Price ensures that this price discovery incentive remains a proportional payment to Producers and does not incentivise prices beyond the cost of production.</u></p>
<p>4.12</p> <p>4.134</p> <p>-9</p>	<p>Sliding Scale Volume Support</p> <p>LCHA Production Cap and Annual Volume Cap</p>	<p>Volume support will be provided to the Producer through a sliding scale mechanism.</p> <p>Under this mechanism, if the Producer is producing low carbon hydrogen and its offtake/sales volumes fall, the Producer will receive an additional amount for each unit of hydrogen sold <u>which is a Qualifying Volume, being the "Sliding Scale Top Up Amount"</u>. This will be equivalent to paying the Producer a higher level of Strike Price for the low volumes of hydrogen. The calculation of this amount is to be determined by BEIS.</p> <p><u>sold, even though the Strike Price itself will not be adjusted.</u> If the Producer's offtake/sales volumes fall to zero, no volume support will be provided.</p> <p><u>The Sliding Scale Top Up Amount will be payable in a Billing Period when:</u></p> <p><u>(a) offtake/sales volumes and [any Take-or-Pay Volumes]¹⁶ in the relevant Billing Period fall below [fifty per cent. (50%)]¹⁷ of the Annual Volume Cap, pro-rated and applied on a monthly basis; and</u></p> <p><u>(b) the sum of (i) such offtake/sales volumes and [any Take-or-Pay Volumes] in the relevant Billing Period and (ii) the amount by which offtake/sales volumes have been reduced as a direct result of a Qualifying Event(s) in the relevant Billing</u></p>

¹⁶ Note to Reader: This remains subject to further consideration by BEIS.

¹⁷ Note to Reader: This remains subject to further consideration by BEIS.

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		<p><u>Period¹⁸, is greater than [or equal to] [fifty per cent. (50%)] of the Annual Volume Cap, pro-rated and applied on a monthly basis,</u></p> <p><u>(the "Sliding Scale Top Up Condition").</u></p> <p><u>For the purpose of the Sliding Scale Top Up Condition, offtake/sales volumes will include all volumes of hydrogen produced by the Facility (i.e. all Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes) and any [Take-or-Pay Volumes] (noting that the latter volume will not receive any subsidy payment under the LCHA).</u></p> <p><u>A "Qualifying Event" will be defined in the LCHA as an event or circumstance which reduces all volumes of hydrogen produced by the Facility (i.e. all Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes) in the relevant Billing Period, except where such event or circumstance arises as a result of:</u></p> <p><u>(a) the Producer's (or any of its representatives') breach of, or default under, the LCHA or any offtake agreement, or its (or their) negligence;</u></p> <p><u>(b) the Producer operating the Facility in a way that is designed to, or a main purpose of which is to, claim or maximise any Sliding Scale Top Up Amounts under the LCHA, including by curtailing, derating or shutting down the Facility; or</u></p> <p><u>(c) any Facility Outage Event.</u></p> <p><u>The procedure for determining whether the Sliding Scale Top Up Condition has been satisfied in a given month is still being developed by BEIS. However, at a minimum, the Producer will be required to provide the LCHA Counterparty with supporting evidence, accompanied by a directors' certificate, to demonstrate that such condition has been satisfied.</u></p> <p><u>The Sliding Scale Top Up will have the following features¹⁹:</u></p> <p><u>(a) the parameters for the Sliding Scale Top Up will be set out in the LCHA and will not be negotiated at a project level. BEIS is still considering whether it is necessary to adjust these parameters to accommodate different hydrogen production technologies; and</u></p> <p><u>(b) Producers should see their cashflows increase when they sell more hydrogen volumes. The Sliding Scale Top Up will be designed so that the revenue from the sale of low carbon hydrogen, the Difference Amount and the Sliding Scale Top Up should increase with higher offtake/sales volumes.</u></p> <p><u>This sliding scale mechanism will enable the Producer to recover is designed to:</u></p> <p><u>(a) reduce the impact on the Producer of offtake variability which is outside of its control (and not offtake variability which arises due to issues with the Producer's Facility) by providing a relatively greater proportion of its cost of production (compared with no sliding scale mechanism) in via the event</u></p>

¹⁸ Note to Reader: The procedure for agreeing this amount will be developed further by BEIS.

¹⁹ Note to Reader: BEIS is considering the parameters of the Sliding Scale Top Up. In particular, BEIS is considering the volume above which no support will be provided and the volume range in respect of which the cash-settled volume support will be provided, taking into account different production technologies, operating models and offtaker makeup.

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		<p>that offtake/sales volumes fall <u>Sliding Scale Top Up Amount</u>, while incentivising the Producer to produce and sell higher volumes of low carbon hydrogen to increase its revenue. It will also; <u>and</u></p> <p>(b) provide volume support in a way which <u>that</u> balances investability from the perspective of the Producer <u>(and its lenders) with the need to deliver value for money and decarbonisation benefits</u> for Government while minimising the risk of market distortions and other unintended consequences.</p> <p><u>The "LCHA Production Cap" (expressed in MWh (HHV)) will be determined by the Parties at the Agreement Date (subject to any adjustment pursuant to a permitted reduction, Relevant Construction Event, Start Date adjustment and/or Final Installed Capacity reduction) and will represent the Facility's forecast total hydrogen production volumes during the LCHA term (i.e. forecast total Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes). Each Billing Period, the volumes of hydrogen produced and sold by the Facility from the Start Date will be aggregated (subject to any Annual Volume Floor adjustment and/or Excess Volumes adjustment as detailed below) into a "Total Aggregate Volume" figure (expressed in MWh (HHV)), which will then be compared against the LCHA Production Cap to ensure that such cap is not exceeded during the term of the LCHA.²⁰</u></p> <p><u>For each Fiscal Year, the volumes of hydrogen produced and sold by the Facility must not exceed the "Permitted Annual Volume Cap" (expressed in MWh (HHV)), which will be equal to the "Annual Volume Cap" (i.e. the LCHA Production Cap divided by fifteen (15)), multiplied by one hundred and twenty five per cent. (125%). In a Fiscal Year, any volumes of hydrogen produced and sold by the Facility which exceed the Permitted Annual Volume Cap ("Excess Volumes") will be deemed to be Non-Qualifying Volumes [for the purpose of calculating the Difference Amount].</u></p> <p><u>In the event that the volumes of hydrogen produced and sold by the Facility are lower than the "Annual Volume Floor" in a Fiscal Year (being seventy-five per cent. (75%) of the Annual Volume Cap), the volumes of hydrogen produced by the Facility shall be deemed to be equal to the Annual Volume Floor for the purposes of calculating the Total Aggregate Volume.</u></p> <p><u>Without prejudice to the termination right discussed below, in the event that there are Excess Volumes, such volumes will be multiplied by 50% for the purpose of calculating the Total Aggregate Volume. This will accelerate the erosion of the volumes remaining in the LCHA Production Cap, and hence will incentivise Producers to ensure that the volumes of hydrogen produced by the Facility are always below the Permitted Annual Volume Cap.</u></p> <p><u>In addition to this Excess Volumes mechanism, if the Producer breaches the Permitted Annual Volume Cap in two (2) consecutive or non-consecutive Fiscal Years, the LCHA Counterparty will have the right to terminate the LCHA (see item 3.4 (Producer Default</u></p>

²⁰ Note to Reader: A Producer may wish to increase its LCHA Production Cap after the Agreement Date and may submit a request to increase its cap to the LCHA Counterparty, who is under no obligation to acknowledge, reply or grant approval to any request. Any such increase (if granted), would require a renegotiation of other provisions of the LCHA.

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		<p><u>Termination</u>)).</p> <p><u>Finally, when the Total Aggregate Volume is equal to the LCHA Production Cap, any additional volumes of hydrogen produced and sold by the Facility will be deemed to be zero (0) and the LCHA will [automatically expire] on a no-liability basis (see item 2.1 (Term and Specified Expiry Date)).</u></p> <p><u>This mechanism aims to provide the Producer with the opportunity and flexibility to produce and sell the necessary hydrogen volumes to match demand and deliver its target return, while delivering value for money and decarbonisation benefits for Government, and minimising the risk of market distortions and other unintended consequences.</u></p> <p>BEIS is considering the period over which volume support will be calculated.</p>
4.10	Scaling Up of Production Volumes	<p>BEIS is considering whether a Producer should be permitted to increase the volume produced within an existing Facility above any level initially set out in the Low Carbon Hydrogen Agreement. Any increase in volume produced above any defined level through a new Facility or a new module will not be subsidised pursuant to the Low Carbon Hydrogen Agreement that is initially entered into by a Producer. This position would ensure value for money and affordability for Government on the basis that subsidies for future low carbon hydrogen Facilities or modules are subject to open and fair competition with new production projects in future rounds of contract allocation.</p>
4.144 4.11	UK ETS free allowances	<p>BEIS is considering how to treat UK ETS free allowances in the Low Carbon Hydrogen Agreement<u>Certain hydrogen production facilities may be eligible for the free allocation of allowances under the UK ETS. The LCHA will prohibit Producers (or other third parties, e.g. an operator of a LCHA-subsidised Facility who is not the relevant Producer) from applying for or receiving free allowances from the UK ETS registry administrator in respect of the relevant Facility. BEIS is still considering:</u></p> <p><u>(a) the scope of this prohibition, including whether restrictions on the Producer from applying for free allowances should be introduced, if the it will apply to all Producers (or third parties) or only those where the relevant Facility is may be entitled to free allowances through the UK ETS; allocation under the UK ETS; and</u></p> <p><u>(b) the way in which such prohibition will be detailed in the LCHA.</u></p> <p><u>A breach of the prohibition on applying for or receiving UK ETS free allowances in respect of the Facility from the UK ETS registry administrator will be considered a Producer Termination Event under the LCHA (see item 3.4 (Producer Default Termination)).</u></p>
4.154 4.12	Strike Price Indexation	<p>BEIS' minded to position<u>The approach the LCHA will take in respect of Strike Price indexation for depends on the relevant hydrogen production technology:</u></p> <p><u>(a) CCUS-Enabled Facilities, is for; the natural gas cost component of the Strike Price to be indexed (in a certain (i.e. the input natural gas or refinery off-gas costs that form part of</u></p>

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		<p>the Strike Price) will be calculated by multiplying the monthly Gas Reference Price by an agreed proportion, of up to be determined) to the market price of natural gas, on the basis of a natural gas price benchmark (which may be based on UK NBP Month Ahead Natural Gas Price <u>1.15 MWh (HHV) of natural gas per 1 MWh (HHV) of hydrogen that are produced and sold each month²¹ (with the agreed proportion of hydrogen being set based on the Facility's design efficiency)</u>, and for all other components of the Strike Price to<u>will</u> be indexed to CPI (except for the avoidance of doubt, the CO₂ T&S fees, which are a pass through—see discussion in <u>Charges Amount falls outside of the Strike Price and will be payable pursuant to item 4.174.18 (CO₂ T&S FeesCharges Amount)</u>); and</p> <p>(b)electrolytic Electrolytic Facilities, is for: the full Strike Price to<u>will</u> be indexed to CPI.</p> <p>BEIS is considering the appropriate approach for the indexation in respect of any <u>The</u> costs associated with small-scale hydrogen T&S<u>transport and/or storage</u> infrastructure covered by the Low Carbon Hydrogen Agreement, will also be indexed to CPI, if they are eligible costs and are included in the appropriate approach for the indexation of Strike Prices for other low carbon hydrogen facilities<u>negotiated Strike Price</u>.</p> <p>This <u>approach</u> reflects BEIS' analysis of production costs for each technology in three key areas: (i) providing end users with security of supply, (ii) protecting producers<u>Producers</u> where they are unable to reasonably manage or control changes in costs;+ and (iii) protecting Government from excessive risks and costs.</p>
4.13	Qualifying End-Users	<p>In order to receive support under the Low Carbon Hydrogen Agreement for volumes of low carbon hydrogen produced and sold, these volumes must be sold to Qualifying End Users.</p> <p>Low carbon hydrogen sales will not qualify for support where volumes of hydrogen are sold for use outside of the UK. In addition, BEIS anticipates that, for initial projects, hydrogen blended into the natural gas network will also be excluded from subsidy support. BEIS will consider whether to include a contractual reopener for these initial contracts, which could enable support for blended volumes in future.</p> <p>Subject to compliance with subsidy control rules and potential adjustments to the hydrogen business model (see discussion below in item 4.14 (Feedstock users and self-consumption)), sales to:</p> <p>(a) producers or affiliates, where the hydrogen is produced for self-consumption; and</p> <p>(b) feedstock users,</p> <p>will qualify for support under the Low Carbon Hydrogen Agreement ("Qualifying End Users").</p> <p>As further detailed in item 9.1 (Reporting and Confidentiality), the Low Carbon Hydrogen Agreement may include reporting requirements relating to the identity of end users and the value of</p>

²¹ Note to Reader: This ratio (1.15 MWh (HHV) of natural gas per 1 MWh (HHV) of hydrogen) reflects the best available thermal conversion rate for reforming hydrogen production technologies.

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		<p>sales to end users in order to ensure that only volumes of hydrogen produced and ultimately sold to Qualifying End Users receive support under the Low Carbon Hydrogen Agreement.</p> <p>These provisions are to ensure that the Low Carbon Hydrogen Agreement directly supports the Government's objectives and delivers value for money for Government.</p>
4.14	Feedstock users and self-consumption	<p>BEIS is considering if any adjustment provisions will be included in the Low Carbon Hydrogen Agreement to ensure that the relevant Producer and/or a Qualifying End User are not overcompensated under the Low Carbon Hydrogen Agreement in respect of qualifying volumes.</p> <p>In particular, BEIS is considering possible adjustments to the Price Floor (amongst other options).</p>
4.164 15	Billing and Payment	<p>Once the Start Date has been achieved, payments will be made by the Hydrogen<u>LCHA</u> Counterparty to the Producer, subject to the application of the relevant formulae that will be set out in the Low Carbon Hydrogen Agreement<u>LCHA</u>.</p> <p>The Hydrogen<u>Producer will be required to deliver to the LCHA Counterparty</u> <u>all information that the LCHA Counterparty requires to allow it to produce a billing statement, no later than five (5) Business Days after the end of each "Billing Period" (i.e. a period of one (1) calendar month)²². The LCHA Counterparty will then</u> deliver a billing statement to the Producer for each "Billing Period" (being a period of one calendar month) no later than seventeen (17) <u>seventen (10)</u> Business Days after the end of each<u>the relevant</u> Billing Period. A billing statement will set out the payments for each half hourly settlement period.</p> <p>Payments will <u>then</u> be due to the Producer no later than 28 calendar days <u>ten (10) Business Days</u> after the end<u>delivery</u> of each Billing Period<u>the relevant billing statement, provided that the LCHA Counterparty has received the requisite information from the Producer by the relevant deadline</u>. This is to give sufficient cashflow certainty to the Producer<u>Producers</u> to manage its<u>their</u> working capital position and borrowing costs. Half hourly settlement periods will provide the required granularity to: (i) reflect changes in the carbon intensity of the hydrogen produced; (ii) provide oversight of the performance of the Facility and the administration of the Low Carbon Hydrogen Agreement; and (iii) future proof the settlement system, recognising the trend towards more granular settlement of energy markets.</p> <p>Any payments that are due to the Hydrogen<u>LCHA</u> Counterparty will need to be made by the Producer no later than 10 <u>eight (8)</u> Business Days after the delivery of the <u>relevant</u> billing statement.</p>
4.174 16	Set-Off	<p>The Low Carbon Hydrogen Agreement may<u>LCHA will</u> include reciprocal set-off rights for the Producer and the Hydrogen<u>LCHA</u> Counterparty (i.e. a<u>either</u> Party may reduce the amounts owed by them<u>it</u> to the other Party, by any amounts that are owed to them<u>it</u> by the other Party).</p>
4.184	CO ₂ T&S	<p>For a CCUS-Enabled Facility connected to a CO₂ T&S Network, BEIS-</p>

²² Note to Reader: BEIS is still considering the consequences of a Producer failing to provide such information.

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-17	<u>FeesCharges Amount</u>	<p>is minded to includesome of the CO₂ T&S fees in the payments tocharges that are payable by the Producer fromto a specified CO₂ T&S Operator will be payable by the <u>HydrogenLCHA</u> Counterparty so that such fees can be passed through to the relevant CO₂ T&S Coto the Producer in a proportion in relation to the <u>Qualifying Volumes / Total Volumes ratio</u>^{23, 5}.</p> <p>The <u>June 2022 CO₂ Transport and Storage Business Model update</u>²⁴ confirmed that the "CO₂ T&S Charges Amount" will have three elements comprising:</p> <p>(a) <u>Flow Charge: This charge is based on the mass quantity of the gaseous stream consisting primarily of CO₂ injected into the CO₂ T&S Network by the Producer;</u></p> <p>(b) <u>Capacity Charge: This charge is based on the Producer's booked capacity on the CO₂ T&S Network; and</u></p> <p>(c) <u>Network Charge: This charge covers the remainder of the Producer's share of the CO₂ T&S allowed revenue (i.e. the amount that the CO₂ T&S Operator is entitled to recover in accordance with its licence).</u></p>
4.194 -18	<u>CO₂ T&S Delays, Curtailment and OutagesOutage Relief Events</u>	<p>For a CCUS Enabled Facility connected to a CO₂ T&S Network, BEIS is considering the interface risks between the Facility and the CO₂ T&S Network, including for example the impact of:For <u>CCUS-Enabled Facilities only</u>, where an event or circumstance affecting the CO₂ T&S Network prevents the Capture Plant from accessing the full entry capacity to such network and this causes the Capture Plant to be unavailable, curtailed or derated then, except where such limited or lack of access is due to any act, omission, breach or default of the Producer, a "CO₂ T&S Outage Relief Event" will have occurred. If a CO₂ T&S Outage Relief Event occurs, hydrogen volumes produced by the Facility will receive a waiver of the requirement to comply with the LCHS for the purposes of the definition of Qualifying Volume if certain conditions are met.</p> <p>(a) delays to the construction and commissioning of the network;</p> <p>(b)</p> <p><u>For Qualifying Volumes which have received a waiver of the requirement to comply with the LCHS (as described above), the full Strike Price agreed during negotiations (see item 4.5 (Strike Price)) will apply for the purpose of calculating the Difference Amount. However, the Producer will be required to pay the CO₂ T&S Outage Relief Event Strike Price Deduction Amount to the LCHA Counterparty which will be calculated using the applicable CO₂ T&S Outage Relief Event Strike Price Deduction (see item 2.7 (CO₂ T&S Commissioning Delay Relief)).</u></p> <p><u>The tiered approach of the CO₂ T&S Outage Relief Event Strike Price Deduction reflects the theoretical risk that</u> curtailment of the network; and</p> <p>(c) full network outages;</p>

²³ Note to Reader: BEIS is considering how to apportion CO₂ T&S Charges in relation to Qualifying Volumes and Non-Qualifying Volumes and the treatment of CO₂ T&S charges where no hydrogen is being produced and sold.

⁵ ~~Note to Reader: If applicable, how the CO₂ T&S Fee payment from the Hydrogen Counterparty to the Producer will be paid is subject to further development.~~

²⁴ CCUS Transport and storage business model: June 2022 update

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		<p>on payments under a Low Carbon Hydrogen Agreement to the Producer. This includes considering the appropriateness of the approaches set out in the CCUS Programme HoTs.</p> <p><u>CO₂ T&S Network may occur in the initial years of operation of the CO₂ T&S Network as such network is optimised.</u></p>
5.	Change in Law	
5.1	Qualifying Change in Law	<p>BEIS is considering whether to replicate the<u>The LCHA will contain</u> Qualifying Change in Law ("QCIL") provisions of, following the approach taken in the AR4 CfD, providing a level of cost and the CCUS Programme Contracts, in order to provide fair and revenue proportionate protection for<u>to</u> Producers in respect of QCILs that constitute "discriminatory changes in law" (i.e. that discriminate against the Producer/a Project), "specific changes in law" (i.e. three categories of change in law:</p> <p><u>(a) Discriminatory Change in Law. This is a change in law which specifically applies to the particular: (i) Project; (ii) Facility; or (iii) Producer.</u></p> <p><u>(b) Specific Change in Law. This is a change in law that specifically apply (and not merely indirectly or consequentially or by virtue of the disproportionate effect of any change in law that is of general application) applies to :</u></p> <p><u>(i) facilities with a Low Carbon Hydrogen Agreement/utilising (or the holding companies of entities who operate such facilities) deploying a particular low carbon hydrogen production technology) and "not to any other changes in law" (i.e. that havehydrogen production facilities;</u></p> <p><u>(ii) facilities (or the holding companies of entities who operate such facilities) which are subject to a LCHA, and not to hydrogen production facilities which are not subject to a LCHA; or</u></p> <p><u>(iii) facilities (or the holding companies of entities who operate such facilities) which deploy the same hydrogen production technology as the Producer and which are subject to a LCHA, and not to other facilities which are not the same or similar type of facility and which are subject to a LCHA.</u></p> <p><u>(c) Other Change in Law. This is a change in law which, whilst not specifically applying to Producers or their Facilities, has an undue and discriminatory effect on athe out-of-pocket costs incurred or saved by the Producer's when compared with the out-of-pocket costs in comparison with certainincurred or saved by one of the following comparator groups):</u></p> <p><u>(i) all material hydrogen production facilities;</u></p> <p><u>(ii) all other hydrogen production facilities with the same hydrogen production technology;</u></p> <p><u>(iii) all hydrogen production facilities excluding those with the same hydrogen production technology; or</u></p>

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		<p><u>(iv) hydrogen production facilities not subject to a LCHA.</u></p> <p>The Low Carbon Hydrogen Agreement QCiL provisions may have similar carve-outs to the AR4 CfD, such as for "</p> <p><u>QCIL protection is not available to Producers in respect of foreseeable changes in law", the risk of which, BEIS may add LCHA specific changes in law to the definition of foreseeable change in law in order to clarify in the LCHA that the risk relating to certain possible changes in law will not sit with the LCHA Counterparty but with the Producer.</u></p> <p>BEIS is considering these provisions, including the most appropriate comparator groups for specific changes in law and other (e.g. any changes in law, and how QCiL compensation may be calculated and paid to the RTFO Scheme which impact hydrogen production facilities).</p>
5.2	QCIL Compensation	<p>The form of the QCiL compensation provisions in the Low Carbon Hydrogen Agreement may<u>LCHA will</u> be based on the AR4 CfD and may<u>the CCUS Programme Contracts, and will</u> broadly follow the 'no better, no worse' principles of<u>reflected in</u> the AR4 CfD and the CCUS Programme Contracts (i.e. to place the parties<u>Parties</u> in the position they would have been in had the QCiL not occurred). <u>The provision can have effect both ways whereby the Producer will be entitled to compensation if the QCiL results in net costs for the Producer, and the LCHA Counterparty will be entitled to compensation if the QCiL results in net savings for the Producer. The main categories of compensation that will be payable to/from a Producer relate to QCiLs that:</u></p> <p><u>(a) permanently prevent the construction of a Facility (a "QCIL Construction Event");</u></p> <p><u>(b) affect a Producer's capex;</u></p> <p><u>(c) affect a Producer's opex;</u></p> <p><u>(d) affect a Producer's ability to produce low carbon hydrogen (e.g. QCiLs which restrict/reduce a Facility's capacity or load factor), and hence the market revenue and LCHA subsidy that the Producer receives for such hydrogen; and</u></p> <p><u>(e) permanently prevent a Facility from operating (a "QCIL Operations Cessation Event").</u></p> <p>BEIS is considering how such QCiL compensation should be calculated <u>in the LCHA.</u></p>
5.3	Qualifying Shutdown Events	<p>For shutdown events, BEIS is considering whether to follow the AR4 CfD, providing a level of compensation for the Producer if a "QCIL construction event" (i.e. a change in law which prevents a Project which is still in construction from reaching the Start Date) or a "QCIL operations cessation event" (i.e. a change in law which renders it illegal for a Project to continue operating) occurs. BEIS is considering how any such compensation should be calculated. A</p> <p><u>"Qualifying Shutdown Event" is where the Government or a governmental authority permanently prevents the whole of the Facility from operating or refuses to give approval, for a period exceeding twenty-four (24) months, to a request to re-start</u></p>

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		<p><u>operations at the Facility. There are certain exceptions to this definition, namely where the shutdown event:</u></p> <p><u>(a) occurs because the Government/a governmental authority was required to act in this way under European or International law, provided that the Government/a governmental authority used reasonable endeavours to try to oppose and prevent the adoption of that law;</u></p> <p><u>(b) was for reasons relating to health, safety, security, environment, transport, or damage to the property in relation to the (i) Facility, (ii) the Producer, (iii) the site of the Facility, (iv) the management of the Facility, the Producer, or the site, or (v) (in conjunction with at least one of the other parts of this paragraph (b)) the production of hydrogen using the same production technology as the Facility;</u></p> <p><u>(c) arose as a result of the negligence, breach or fault of, or a failure to act in accordance with the reasonable and prudent standard by the Producer or any of its representatives; and</u></p> <p><u>(d) relates to any decision of the European Commission or any other competent authority on the application of the subsidy control rules to the LCHA.</u></p> <p><u>A Qualifying Shutdown Event that occurs on or after the Start Date will constitute a QCIL Operations Cessation Event under the LCHA (see item 5.2 (QCIL Compensation)), consistent with the position under the AR4 CfD and the CCUS Programme Contracts.</u></p>
5.4	Change in Applicable Law	<p>The change in applicable law provisions may<u>in the LCHA will</u> follow the AR4 CfD7<u> and the CCUS Programme Contracts</u> whereby the Hydrogen<u>LCHA</u> Counterparty would<u>will</u> be entitled to propose amendments to the Low Carbon Hydrogen Agreement<u>LCHA</u> where any new law, or a change to the manner in which an existing law is interpreted or applied, renders the Low Carbon Hydrogen Agreement<u>LCHA</u> illegal, invalid, unenforceable or inoperable.</p>
6.		Representations, Warranties and Undertakings
6.1	<p>Representations7<u> and</u> Warranties and Undertakings</p>	<p>BEIS is considering:</p> <p>(a) following<u>The LCHA will follow</u> the AR4 CfD in respect of the representations7<u> and</u> warranties and undertakings that both the Producer and the Hydrogen<u>LCHA</u> Counterparty are required to provide <u>to</u> each other7<u> and</u></p> <p>(b) whether bespoke representations, warranties and undertakings that are unique to the hydrogen business model will be required in the Low Carbon Hydrogen on the Agreement Date and the Start Date.</p>
6.2	<u>Producer's General Undertakings</u>	<p><u>Based on the AR4 CfD general undertakings, the Producer will provide the following undertakings to the LCHA Counterparty:</u></p> <p><u>(a) Compliance with Laws and Directives: The Producer shall at all times comply with all laws and directives to which it may be subject, if a failure to do so would have or would reasonably be expected to have a material adverse effect.</u></p> <p><u>(b) Required Authorisations: The Producer shall: (i) promptly obtain all Required Authorisations; (ii) at all times perform,</u></p>

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		<p><u>comply with and satisfy all conditions of, and all obligations and liabilities under, all Required Authorisations; and (iii) do all that is necessary to maintain in full force and effect all Required Authorisations, to the extent, in each case, that failure to do so would have or would reasonably be expected to have a material adverse effect.</u></p> <p>(c) <u>Industry Documents: The Producer shall at all times comply with all terms of those industry documents to which it is a party or by which it is bound if failure to do so would have or would reasonably be expected to have a material adverse effect.</u></p> <p>(d) <u>Insolvency Action: The Producer shall not petition, apply for, institute, support or vote for the administration, winding-up or liquidation of the LCHA Counterparty or seek any other relief as against the LCHA Counterparty under any administration, insolvency or bankruptcy law or similar law affecting creditors' rights generally.</u></p> <p>(e) <u>Ownership: The Producer shall at all times be the legal and beneficial owner of the Facility, subject only to any third party rights arising by reason of any security interest created or subsisting over or in respect of the Facility. If hydrogen transport and/or storage infrastructure costs are included in the Strike Price (see item 4.5 (Strike Price)), such infrastructure will be included in the definition of "Facility" such that it is captured by this undertaking.</u></p> <p>(f) <u>Hydrogen Storage: If hydrogen storage infrastructure costs are: (i) included in the Strike Price (see item 4.5 (Strike Price)), the Producer shall at all times ensure that such infrastructure is exclusively owned and used by the Producer to store hydrogen volumes produced by the Facility, or (ii) not included in the Strike Price but such infrastructure is "on-site", the Producer shall also at all times ensure that such infrastructure is exclusively owned and used by the Producer to store hydrogen volumes produced by the Facility. Requirements in relation to "off-site" infrastructure, including metering requirements, are being developed by BEIS.</u></p> <p>(g) <u>Compliance of Technology: The Producer shall at all times ensure that the hydrogen production technology deployed by the Facility is the facility hydrogen production technology. If the Producer fails to comply with the compliance of technology undertaking, the LCHA Counterparty may withhold payment for the period the Producer is not in compliance.</u></p> <p>(h) <u>Facility Fuel: For CCUS-Enabled Facilities only, the Producer shall at all times ensure that the fuel used by the Facility is the Facility Fuel, unless it obtains the prior written consent from the LCHA Counterparty to use an Alternative Fuel(s).</u></p> <p>(i) <u>Electricity Storage: The Producer shall ensure that at all times no Electricity Storage facility shall be used by the Facility.</u></p>
6.3	<u>Producer's Information Undertakings</u>	<p><u>Based on the AR4 CfD general undertakings, the Producer will provide the following undertakings to the LCHA Counterparty:</u></p> <p>(a) <u>Initial Facility Data: The Producer's estimate of amongst other</u></p>

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		<p><u>things, the expected Start Date along with estimates as to capacity and commissioning profile of the Facility.</u></p> <p>(b) <u>LCHA Counterparty Information: All information requested by the LCHA Counterparty to comply with its obligations under the LCHA. Information must be provided within five (5) Business Days.</u></p> <p>(c) <u>Forecast Data: The Forecast Data within ten (10) Business Days of the Agreement Date and not later than 31 January in each year and at other regular intervals.</u></p> <p>(d) <u>Notification of Significant Events: Notification of the occurrence of any event or circumstance which will or is reasonably likely to affect any of the key payment values (which will be defined in the LCHA) significantly, together with supporting information.</u></p> <p>(e) <u>Financial Condition / Permitted Purposes: All information reasonably requested by the LCHA Counterparty regarding the financial condition, business or operations of the Producer to enable or assist the LCHA Counterparty to fulfil the LCHA Counterparty permitted purposes. Information must be provided within ten (10) Business Days.</u></p> <p>(f) <u>HPBM Programme Status: All information reasonably requested by the LCHA Counterparty for the purposes of: (i) compiling and evaluating statistics relating to the outcomes of the HPBM Programme and the impact of the HPBM Programme across a range of social and economic factors; and (ii) publishing material relating thereto, including announcements and reports describing the general outcomes, merits and achievements relating to the HPBM Programme. Information must be provided within ten (10) Business Days.</u></p> <p>(g) <u>Compliance with Metering: As soon as reasonably practicable upon request, all information reasonably requested by the LCHA Counterparty for the purposes of assessing compliance by the Producer with the metering obligations.</u></p> <p>(h) <u>Litigation: As soon as reasonably practicable upon becoming aware of them, the details of any litigation, arbitration or administrative suit or proceeding, adjudication, expert determination, tax claim, or tax investigation against the Producer which is current; pending or, so far as the Producer is aware, for which a formal written notice has been received and which, if adversely determined, would have or would be reasonably likely to have a material adverse effect.</u></p> <p>(i) <u>Expected Facility Data: The expected Facility data, (which is subject to further development by BEIS), within two (2) months of the Agreement Date and within two (2) months of the Milestone Delivery Date and then no later than 31 January in each year during the term.</u></p> <p>(j) <u>Project Status: As soon as reasonably practicable, all information reasonably requested that represents the status and progress of the Project to date against contractual and Project milestones, showing the critical path of the Project towards these milestones up to the delivery of the final</u></p>

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		<p><u>commissioning notice.</u>²⁵</p> <p>(k) <u>CO₂ T&S Charges Amount: For CCUS-Enabled Facilities only, all information relating to the CO₂ T&S charges (including any invoice provided by the CO₂ T&S Operator to the Producer). Such information must be provided within three (3) Business Days of receipt from the CO₂ T&S Operator.</u></p>
6.4	<p><u>Producer's Monitoring, Reporting and Verification (MRV) Undertakings</u></p>	<p><u>The LCHA will include certain undertakings relating to the monitoring, reporting and verification framework for the LCHA, including the framework that will apply in relation to the determination of Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes. At a high-level, and subject to ongoing development, the LCHA will require:</u></p> <p>(a) <u>Producer's Monthly Compliance Declaration: The Producer shall give the LCHA Counterparty a written notice each month confirming that: (i) the same hydrogen volumes produced by the Facility have not been claimed under both the LCHA and the RTFO Scheme; and (ii) any Qualifying Volumes have been purchased by a Qualifying Offtaker and comply with the LCHS. Each notice shall be accompanied by a directors' certificate.</u></p> <p>(b) <u>Monthly Submission of Information: The Producer shall submit evidence of the following to the LCHA Counterparty on a monthly basis:</u></p> <p>(i) <u>the total hydrogen volumes produced by the Facility during the relevant Billing Period (which will be metered volumes);</u></p> <p>(ii) <u>the total hydrogen volumes produced by the Facility during the relevant Billing Period (which will be metered) which constitute (A) Qualifying Volumes, (B) Non-Qualifying Volumes and (C) RTFO volumes;</u></p> <p>(iii) <u>any Take-or-Pay Volumes (noting that this volume will not receive any subsidy payment under the LCHA);</u></p> <p>(iv) <u>the total greenhouse gas emissions in respect of the hydrogen volumes produced by the Facility during the relevant Billing Period (which will be metered and/or calculated in accordance with the LCHS)²⁶;</u></p> <p>(v) <u>the breakdown of the total greenhouse gas emissions assigned to (A) Qualifying Volumes, (B) Non-Qualifying Volumes and (C) RTFO Volumes (as applicable) during the relevant Billing Period; and</u></p> <p>(vi) <u>the Producer's invoices to Offtakers during the relevant Billing Period. Each invoice must include the information required by the LCHA Counterparty to determine whether the hydrogen volumes are (A) Qualifying Volumes, (B) Non-Qualifying Volumes, (C) RTFO Volumes and/or (D) Take-or-Pay Volumes, including (but not limited to) the following information: (aa) the</u></p>

²⁵ Note to Reader: BEIS is also considering if enhanced reporting requirements are required, recognising the importance that the first hydrogen projects will have to the success of BEIS' Hydrogen Strategy.

²⁶ Note to Reader: BEIS is considering the evidence that must be submitted to the LCHA Counterparty on a monthly basis in order to evidence compliance with the LCHS, including the metered electricity, natural gas, water input and CO₂ injection data for the Facility.

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		<p><u>identity of each Offtaker; and (bb) the purpose for which the hydrogen volume will be used (except in relation to Take-or-Pay Volumes). A separate invoice will be required for each category of hydrogen volume specified in the LCHA.</u></p> <p>(c) <u>Third party audit report: The Producer shall: (A) procure an auditor to conduct a LCHA compliance review each year; (B) grant the auditor access to the Producer's personnel, offtake agreements, systems, books, records and any other information, in each case as the auditor considers reasonably necessary for the auditor to carry out its compliance review; and (C) submit the third party audit report to the LCHA Counterparty (in form and content satisfactory to the LCHA Counterparty). The third party audit report shall include (but not be limited to) a statement to confirm:</u></p> <p>(i) <u>that the hydrogen volumes produced by the Facility have not been claimed under both the LCHA and the RTFO Scheme;</u></p> <p>(ii) <u>that Qualifying Volumes in respect of which the Producer has received LCHA subsidy comply with the LCHS;²⁷</u></p> <p>(iii) <u>whether the Producer's offtake agreements contain the required pass-down obligations (see below); and</u></p> <p>(iv) <u>whether the Producer has the appropriate mechanisms in place to ensure compliance with the conditions of the LCHA.</u></p> <p>(d) <u>Offtake agreement pass-down: Each offtake agreement entered into by the Producer must include contractual provisions which pass-down the Producer's compliance obligations to the relevant Offtakers, including (but not limited to), the prohibition on the Producer: (i) claiming Renewable Transport Fuel Certificates for LCHA supported volumes; (ii) blending LCHA supported volumes into a Gas Transportation System; and (iii) exporting LCHA supported volumes for use outside the UK.</u></p> <p>(e) <u>Provision of offtake agreements: The Producer shall, as soon as reasonably practicable upon request, provide the LCHA Counterparty with any offtake agreement requested by the LCHA Counterparty for the purposes of assessing compliance by the Producer with the Producer's undertakings.</u></p> <p>(f) <u>LCHA Counterparty Audit Right: The Producer shall grant the LCHA Counterparty access to (i) the Facility; (ii) any plant, machinery, property, processing or storage facility associated with the Facility, in each case owned, occupied or controlled by the Producer and to which the Producer can lawfully grant access; and (iii) the Producer's personnel, offtake agreements, systems, books, records and any other information, in each case as the LCHA Counterparty considers reasonably necessary for the LCHA Counterparty to assess the Producer's compliance with the undertakings detailed above.</u></p>

²⁷ Note to Reader: The precise details of this statement (and the evidence required to support such statement) are still to be confirmed.

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<p>6.5.6-2</p>	<p>Producer's Metering Undertakings</p>	<p>BEIS is considering the hydrogen metering requirements for the Low-Carbon Hydrogen Agreement <u>LCHA</u>, including the extent to which <u>incorporating, and ensuring</u> consistency with the AR4 CfD electricity metering undertakings and CCUS Programme HoTs <u>Contracts</u> metering undertakings is appropriate. This includes how off-site low-carbon hydrogen metering will be governed, which BEIS is considering for the Low Carbon Hydrogen Agreement as payments will only be made in respect of low carbon hydrogen that is produced and sold by the Producer.</p> <p><u>At a high-level, the LCHA will require:</u></p> <ul style="list-style-type: none"> <u>(a) a hydrogen production meter(s) for hydrogen produced (all technologies) in order to demonstrate compliance with the LCHS and payment metering point requirements (see item 4.4 (Payment Metering Points));</u> <u>(b) a post-capture CO₂ meter to determine captured and permanently stored CO₂ emissions (CCUS-Enabled Facilities only) in order to demonstrate compliance with the LCHS and to calculate the Flow Charge (see item 4.18 (CO₂ T&S Charges Amount));</u> <u>(c) an electricity meter for electricity supply (all technologies) in order to demonstrate compliance with the LCHS;</u> <u>(d) a water meter for water usage (all technologies) in order to demonstrate compliance with the LCHS; and</u> <u>(e) a natural gas meter to determine feedstock / fuel supply emissions (CCUS-Enabled Facilities only) in order to demonstrate compliance with the LCHS.</u> <p>BEIS is also considering whether any additional metering or similar obligations will need to be placed on the Producer in respect of the hydrogen business model <u>LCHA</u> including in respect of monitoring, reporting and verifying compliance with the Low Carbon Hydrogen Standard (discussed below in item LCHS (discussed below in item 7 (Low Carbon Hydrogen Standard <u>Low Carbon Hydrogen Standard</u>)).</p>
<p>6.6</p>	<p><u>LCHA and RTFO Scheme Dual Participation Undertakings</u></p>	<p><u>The LCHA will permit the Producer to claim under the LCHA and also participate under the RTFO Scheme and therefore receive Renewable Transport Fuel Certificates for hydrogen produced by the Facility. However, claiming under both schemes in respect of the same volumes of hydrogen will not be permitted to avoid overcompensation and market distortions. The Producer will be required to provide the following undertakings to the LCHA Counterparty under the LCHA in relation to this prohibition:</u></p> <ul style="list-style-type: none"> <u>(a) 'Double claim' prohibition: The Producer shall not claim: (i) LCHA payments for volumes in respect of which Renewable Transport Fuel Certificates have been claimed under the RTFO Scheme; or (ii) Renewable Transport Fuel Certificates under the RTFO Scheme in respect of volumes which have been subsidised under the LCHA.</u> <u>(b) Third party claim prohibition: The Producer shall use all reasonable endeavours to ensure that volumes subsidised by the LCHA are not subsequently claimed under the RTFO Scheme by a third party.</u>

No.	Subject	Terms
6.7	<u>Subsidy Cumulation; Warranty and Undertaking</u>	<p><u>The LCHA will replicate the AR4 CfD provisions in relation to subsidy control. These provisions include a prohibition on subsidy cumulation in respect of the costs of the Project and an obligation for the Producer to repay any subsidy it receives in relation to the costs of the Project other than the LCHA subsidy (with specified exemptions).</u></p> <p><u>The LCHA will also adopt the amendments made to the AR4 CfD provisions in the CCUS Programme Contracts to reflect particular carve-outs to the no cumulation of subsidy position, provided that support is not given for the same Project costs. This is to ensure that the LCHA is compliant with relevant subsidy control rules. Such exemptions to the no subsidy cumulation position will include: (i) NZHF funding; (ii) Renewable Transport Fuel Certificates (as discussed in item 6.6 (LCHA and RTFO Scheme Dual Participation Undertakings)); and (iii) any Approved Scheme of Funding. BEIS is further considering the specific carve-outs that should be included in the LCHA.</u></p> <p><u>Subject to any such carve-outs, a breach of the subsidy cumulation warranty or a failure to comply with the subsidy cumulation undertaking will give the LCHA Counterparty the right to suspend all payments under the LCHA.</u></p>
6.8	<u>Producer's Supply Chain Reporting</u>	<p><u>The LCHA will follow the proposed supply chain reporting requirements in the CCUS Programme Contracts. This will require the Producer to provide a report on economic benefits and its supply chain to the LCHA Counterparty by the following deadlines:</u></p> <ul style="list-style-type: none"> <u>(a) 1st report by the Milestone Delivery Date;</u> <u>(b) 2nd report by the 3rd anniversary of the Start Date (i.e. after the Project becomes operational);</u> <u>(c) 3rd report by the 7th anniversary of the Start Date; and</u> <u>(d) 4th report by the 11th anniversary of the Start Date.</u> <p><u>A breach of this reporting obligation may result in a fee being levied against the Producer, which would be deducted from future payments made by the LCHA Counterparty to the Producer.</u></p>
6.9 3	Collateral Requirement	<p>BEIS is considering whether towill follow the AR4 CfD in requiring a Producer who fails to pay a 'net payable amount' (i.e. where the Reference Price<u>reference price</u> exceeds the Strike Price) to the Hydrogen<u>LCHA</u> Counterparty on a number of occasions to provide a specified amount of collateral.</p>
7.	Low Carbon Hydrogen Standard	
7.1	General	<p>BEIS is considering the interaction between the Low Carbon Hydrogen Standard<u>LCHS</u> and the Low Carbon Hydrogen Agreement<u>LCHA</u>, including how requirements deriving from the Low Carbon Hydrogen Standard<u>LCHS</u> will be included in the Low Carbon Hydrogen Agreement<u>LCHA</u>. <u>Such requirements will be set out in a schedule to the LCHA and in relevant operative provisions, for example relating to metering.</u></p> <p><u>The LCHS schedule will include obligations on the Producer to prepare, and agree with the LCHA Counterparty, a Data Collection Plan, which will be similar to the obligations to prepare and agree the fuel, measurement and sampling procedures in the AR4 CfD.</u></p>

No.	Subject	Terms
		<p><u>(referred to as FMS Procedures in AR4 CfD). The agreed Data Collection Plan will specify all of the data flows that will need to be provided by the Producer to the LCHA Counterparty, and the frequency of such data flows, to demonstrate ongoing compliance with the LCHS from the Start Date.</u></p>
7.2	Payments	<p>As mentioned in item 4.2 (Trigger for Payment<u>Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes</u>), in order for a Producer to receive payments under the Low Carbon Hydrogen Agreement<u>LCHA</u> for volumes of hydrogen produced and sold, those volumes will need to meet the Low Carbon Hydrogen Standard<u>LCHS</u>. This is to ensure that the business model delivers carbon savings and that investment in <u>low carbon</u> hydrogen projects is consistent with the Government's net zero commitments.</p>
7.3	Compliance	<p>BEIS is considering how to<u>The LCHA Counterparty will monitor and assess compliance with the Low Carbon Hydrogen StandardLCHS:</u></p> <p>(a) prior to the Start Date, for example at Initial Conditions Precedent, Milestone Requirement andOperational Conditions Precedent stages<u>stage (see item 2.5 (Operational Conditions Precedent))</u>; and</p> <p>(b) after the Start Date has occurred. In this regard, the Low Carbon Hydrogen Agreement<u>LCHA</u> will include relevant<u>monthly reporting and requirements (pursuant to and in accordance with the Data Collection Plan, with such reports to be accompanied by a directors' certificate) and annual</u> audit requirements.</p> <p>BEIS anticipates that the Hydrogen Counterparty will be responsible for monitoring compliance with the Low Carbon Hydrogen Standard. The outline monitoring, reporting and verification framework is set out above (see item 6.4 (Producer's Monitoring, Reporting and Verification (MRV) Undertakings)) and is subject to further development.</p>
7.4	<p>Failure to comply and/or produce low carbon hydrogen<u>Enforcement</u></p>	<p>BEIS is considering the consequences of failing to comply with the Low Carbon Hydrogen Standard beyond suspension of payment as per item 7.2 (Payments), including what<u>The LCHA will include</u> rights for the Hydrogen<u>LCHA</u> Counterparty should have to enforce compliance with the Low Carbon Hydrogen Standard. LCHS. These rights will include:</p> <p><u>(a) suspension and termination rights if data reported or audited contains materially false or misleading information; and</u></p> <p><u>(b) rights for the LCHA Counterparty to request further information and site access, with suspension and termination rights for failure to provide access.</u></p> <p>In addition, BEIS is considering whether the Hydrogen Counterparty should have a right to terminate the Low Carbon Hydrogen Agreement if, for example, limited or no low carbon hydrogen is produced for a prolonged period of time.<u>if an auditor [or the LCHA Counterparty] determines that a consignment of hydrogen produced by the Facility has not complied with the LCHS where payment in respect of such consignment has already been made, a reconciliation process will apply.</u></p>

No.	Subject	Terms
7.5	Grandfathering	<p>The Low Carbon Hydrogen Agreement <u>LCHS</u> is a minimum threshold that must be met in order for the Producer's hydrogen to be considered 'low carbon' such that it can receive support under the LCHA (provided that the other conditions for payment are also met – see item 4.2 (<i>Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes</i>)).</p> <p>The Producer will be required to comply with the latest version of the <u>LCHS</u>, which will be confirmed by BEIS during the negotiations and specified in the front end agreement of the LCHA. The LCHA will not require the Producer to comply with any future <u>all</u> amendments to the Low Carbon Hydrogen Standard <u>LCHS</u> after the Agreement Date. BEIS is still considering whether an exclusion to the 'grandfathering' provisions should apply in respect of the LCHS Data Annex (and the default data set out in such annex, which includes a value for natural gas upstream emissions that is provided by BEIS), to ensure it remains accurate throughout the duration of the LCHA and support is provided for sufficiently low carbon pathways.</p>
7.6	Certification	<p>BEIS is considering how the Low Carbon Hydrogen Agreement <u>LCHA</u> will interact with a potential future Low Carbon Hydrogen Standard <u>hydrogen</u> certification scheme <u>which is due to be developed by 2025, including how any revenues and costs arising from such certification scheme should be treated under the LCHA and should impact the subsidy payment.</u></p>
8.	Force Majeure	
8.1	Force Majeure Relief	<p>BEIS is minded to <u>The LCHA will</u> follow the provisions of the AR4 CfD, whereby the Producer will be entitled to day-for-day extensions of time (pre-Start Date) and relief from performance of its Low Carbon Hydrogen Agreement <u>LCHA</u> obligations where a Force Majeure event occurs which is beyond the Producer's control and which could not have been reasonably avoided or overcome by the Producer.</p> <p>As with the AR4 CfD <u>and CCUS Programme Contracts</u>, such protection is unlikely to <u>will not</u> apply where the relevant event is caused by the Producer's fault or negligence, or where the relevant event occurred before the date on which the Producer applied for the Low Carbon Hydrogen Agreement <u>Date</u>.</p> <p>BEIS is considering the interplay between <u>For CCUS-Enabled Facilities only, CO₂ T&S Outage Relief Events, CO₂ T&S Commissioning Delay Events and CO₂ T&S Cessation Events will also be excluded from</u> the Force Majeure provisions <u>protection</u> and the provisions relating to delays, curtailment and outages, if applicable, in a CO₂ T&S Network <u>will be subject to a separate regime under the LCHA.</u></p>
9.	Other	
9.1	Reporting and Confidentiality	<p>The reporting and confidentiality provisions in the Low Carbon Hydrogen Agreement will likely be based on the AR4 CfD and the CCUS Programme HoTs. However, in respect of reporting under the Low Carbon Hydrogen Agreement, BEIS may require more detailed and frequent reporting, with the Producer being required to keep the Hydrogen Counterparty fully informed of its progress during the construction, completion, testing and commissioning of the Facility and in satisfying the Operational Conditions Precedent. This is in recognition of the importance the first hydrogen projects will have to</p>

No.	Subject	Terms
		<p>the success of the implementation of Low Carbon Hydrogen Agreements.<u>The confidentiality provisions in the LCHA will be based on the AR4 CfD and the CCUS Programme Contracts, and will reflect the principle that no provision of the LCHA will be considered to be confidential, and thus either Party will be free to disclose any such provision. This will extend to the Project-specific provisions that are included in the front end agreement of the LCHA (including, for example, the Strike Price, the Longstop Date, and the Total Project Pre-Commissioning Costs). However, this will exclude:</u></p> <p>We expect that additional reporting obligations will be included in the Low Carbon Hydrogen Agreement in order for the Hydrogen Counterparty to administer and carry out settlement activities in respect of the hydrogen business model payment mechanism.</p> <p><u>(a) "Producer Confidential Information" which includes:</u></p> <ul style="list-style-type: none"> <u>(i) commercially sensitive information such as corporate strategy or proprietary information;</u> <u>(ii) any information that is disclosed during negotiations in relation to whether a QCIL has in fact occurred or not; and</u> <u>(iii) any information that emerges in relation to any negotiations, discussions and correspondence in connection with the LCHA.</u> <p><u>(b) "LCHA Counterparty Confidential Information" which includes all information relating to Government policy relevant to the LCHA which the Producer, or any of its representatives, receives in relation to the LCHA.</u></p> <p><u>The LCHA Counterparty/Producer will not be permitted to disclose or make use of such Producer Confidential Information/LCHA Counterparty Confidential Information without the other Party's written consent, unless the LCHA Counterparty/Producer (as applicable) plans to use/disclose that information to fulfil one of the permitted purposes set out in the LCHA.</u></p> <p><u>BEIS is considering: (i) the specific permitted purposes required for the LCHA; and (ii) what Project-specific information (other than the information set out in the front end agreement of the LCHA) will be published on the LCHA register on the LCHA Counterparty's website. BEIS is also considering what information will be published by the LCHA Counterparty for the purpose of promoting the emergence of a hydrogen market price.</u></p>
9.2	<p><u>Supply Chain Reporting</u> <u>LCHA Assignment and Stapling Obligation</u></p>	<p>BEIS is minded to follow the proposed CCUS Programme HoTs supply chain reporting requirements. These may require the Producer to provide a report on economic benefits and its supply chain to the Hydrogen Counterparty at the following stages/deadlines:<u>A Producer will not be permitted to transfer or assign its rights or obligations under the LCHA unless:</u></p> <ul style="list-style-type: none"> (a) 1st report by the Milestone Delivery Date; (b) 2nd report by the 3rd anniversary of the Start Date (i.e. after the Project becomes operational); and (c) 3rd report by the 7th anniversary of the Start Date.

No.	Subject	Terms
		<p>A breach of this reporting obligation may result in a fee being levied against the Producer, which may be deducted from future payments made to the Producer by the Hydrogen Counterparty.</p> <p><u>(a) it has obtained the LCHA Counterparty's prior written consent to such transfer/assignment; and</u></p> <p><u>(b) it transfers ownership of the Facility to the same transferee at the same time as the LCHA is transferred/assigned.</u></p> <p><u>Any transfer effected, or purported to be effected, in breach of this restriction shall be ineffective and void and will give the LCHA Counterparty the right to terminate the LCHA.</u></p> <p><u>However, a Producer will be permitted to assign all (but not part only) of its rights and benefits under the LCHA by way of security to or in favour of a lender, by giving advance written notice to LCHA Counterparty.</u></p>
9.3	Dispute Resolution Procedure	<p>BEIS is considering following<u>The LCHA will follow</u> the dispute resolution procedure detailed in the AR4 CfD <u>and the CCUS Programme Contracts</u>, with disputes escalated to a meeting of senior representatives followed by final resolution by expert determination or arbitration. <u>BEIS is considering the procedure for metering disputes.</u></p>
9.4	Subsidy Control / Other Incentives	<p>BEIS is considering whether to replicate the AR4 CfD provisions in relation to subsidy control (including provisions prohibiting cumulation in respect of the same eligible costs), and whether provisions related to subsidy cumulation would need to be amended to reflect the proposed business model.</p> <p>BEIS will ensure that subsidy control provisions under the Low Carbon Hydrogen Agreement are consistent with the Subsidy Control Bill (currently going through Parliament) once it becomes law and any other subsidy control rules having legally binding effect in the United Kingdom.</p> <p>BEIS is also considering the most appropriate approach to the Low Carbon Hydrogen Agreement and NZHF allocation which will enable projects to access capital support from the NZHF and revenue support from the Low Carbon Hydrogen Agreement, as well as how to manage interactions with other Government schemes which have the potential to provide support for the same costs. This is to ensure the Low Carbon Hydrogen Agreement is compliant with relevant subsidy control rules.</p>
9.4.5	Limited Recourse Arrangements	<p>The Low Carbon Hydrogen Agreement<u>LCHA</u> will initially be taxpayer funded, with a transition to levy funding taking place no later than 2025, subject to consultation and legislation being in place. BEIS is considering (i) how the Low Carbon Hydrogen Agreement<u>LCHA</u> will be structured and drafted to enable such transition and (ii) how the limited recourse provisions in the AR4 CfD could be adapted in order to reflect the proposed funding models.</p> <p>BEIS' intention is for the provisions to contain a version of the "pay when paid" obligations that are a key feature of the AR4 CfD (i.e. with the Hydrogen<u>LCHA</u> Counterparty only being required to pay Producers to the extent that the Hydrogen<u>LCHA</u> Counterparty receives corresponding and allocated amounts from the relevant</p>

No.	Subject	Terms
		source(s) of funding). BEIS is considering the regulatory structure that will be used for hydrogen when a levy funding transition takes place.
9.5	Direct Agreement	<p>The LCHA will include a form of lender direct agreement which follows the AR4 CfD template. This will be a tripartite agreement entered into by a lender or security trustee on behalf of the lender(s), the Producer and the LCHA Counterparty.</p> <p>In order to be eligible to enter into a lender direct agreement with the LCHA Counterparty, the relevant entity must be a lender or affected person (or an agent or security trustee of the affected person) with the benefit of first ranking security over all, or substantially all, of the assets of the Producer, and in whose favour the Producer assigns its rights under the LCHA.</p> <p>The lender direct agreement will safeguard the interests of the relevant lender, affected person or security trustee (as the case may be), by giving them the ability to step-in to cure any Producer breach of the LCHA which would otherwise give the LCHA Counterparty the right to suspend payments under, or terminate, the LCHA.</p>
9.6	Boilerplate Provisions	<p>The Low Carbon Hydrogen AgreementLCHA will contain standard and miscellaneous provisions, largely following the AR4 CfD and the CCUS Programme Contracts, including provisions relating to:</p> <p>(a) intellectual property rights (with such provisions aligned, as appropriate, with the IPR provisions in the CCUS Programme HoTsContracts);</p> <p>(b) assignment;</p> <p>(b)(e) marketing, publicity or communication;</p> <p>(c)(d) notices; and</p> <p>(d)(e) governing law.</p>

SECTION C – DEFINITIONS

In this document capitalised terms not otherwise defined shall have the following meaning:

Term	Definition
Achieved Sales Price	has the meaning given to that term in item 4.6 <u>4.7</u> (<i>Achieved Sales Price</i> Prices).
Agreement Date	means the date of the Low Carbon Hydrogen Agreement <u>LCHA</u> .
<u>Alternative CO₂ T&S Network Solution Plan</u>	<u>means a plan developed by the Producer setting out the required milestones and actions in order to connect the Facility to an alternative CO₂ delivery point and CO₂ T&S Network [or alternative permanent storage] (either directly by pipeline, or indirectly by other means of transportation), in order to remedy a CO₂ T&S Prolonged Unavailability Event.</u>
<u>Alternative Floor Price</u>	<u>has the meaning given to that term in item 4.9 (<i>Feedstock Offtakers: Alternative Floor Price</i>).</u>
<u>Alternative Fuel</u>	<u>means:</u> (a) <u>biomethane; or</u> (b) <u>an alternative fuel which the Producer proposes to use at the CCUS-Enabled Facility.</u>
<u>Annual Volume Cap</u>	<u>has the meaning given to that term in item 4.13 (<i>LCHA Production Cap and Annual Volume Cap</i>).</u>
<u>Annual Volume Floor</u>	<u>has the meaning given to that term in item 4.13 (<i>LCHA Production Cap and Annual Volume Cap</i>).</u>
<u>Approved Scheme of Funding</u>	<u>means a funding scheme approved by the LCHA Counterparty (to be negotiated on a project-by-project basis).</u>
Billing Period	has the meaning given to that term in item 4.15 <u>4.16</u> (<i>Billing and Payment</i>).
Business Day(s)	means a day (other than a Saturday or a Sunday) on which banks are open for general business in London.
<u>By-Product</u>	<u>means any additional product, other than hydrogen, which results from the hydrogen production process and which has a market value, regardless of whether or not such additional product was an expected or intended result of the hydrogen production process.</u>
<u>Capital Return Component</u>	<u>means the allowed return on investment component of the Strike Price, as determined at the Agreement Date.</u>
CCUS-Enabled Facility<u>Capture Plant</u>	means a natural gas reformation and/or gasification <u>the part of the CCUS-Enabled Facility with</u> which is designed, constructed and operated for the purpose of producing low carbon hydrogen and capable of capturing, monitoring, metering and exporting CO ₂ (or any substance consisting primarily of CO ₂) produced by the <u>CCUS-Enabled Facility</u> . ²⁸
<u>CCUS-Enabled Facility</u>	<u>means a hydrogen production facility which deploys CO₂ Capture Technology.</u>
<u>CO₂ Capture Technology</u>	<u>means technology which is installed or implemented pursuant to the HPBM Programme and which:</u> (a) <u>captures some or all of the CO₂ or any substance consisting</u>

²⁸ Note to Reader: This definition remains subject to further consideration by BEIS.

Term	Definition
	<p><u>primarily of CO₂; and</u></p> <p>(b) <u>temporarily stores, processes and exports CO₂ (or any substance consisting primarily of CO₂) for permanent storage; or</u></p> <p>(c) <u>carries out any other process which is preparatory or ancillary to limbs (a) and (b) of this definition.</u></p>
<u>CO₂ T&S Cessation Event</u>	<u>has the meaning given to that term in item 3.9 (Termination for CO₂ T&S Prolonged Unavailability).</u>
<u>CO₂ T&S Charges Amount</u>	<u>has the meaning given to that term in item 4.18 (CO₂ T&S Charges Amount).</u>
<u>CO₂ T&S Commissioning Delay Event</u>	<u>means an event or circumstance that prevents or delays the development, construction, completion, and/or commissioning of the CO₂ T&S Network and as a result prevents or delays the Facility from exporting captured CO₂ (or any substance consisting primarily of CO₂) to the CO₂ T&S Network (except to the extent that such event or circumstance arises out of or in connection with an act, omission breach or default of the Producer or its representatives, including any breach by the Producer or its representatives of an Industry Document). This includes but is not limited to the failure of the relevant CO₂ T&S Operator to carry out in a timely manner: (A) any connection works specified in the CO₂ T&S construction agreement; or (B) any required works to the CO₂ T&S Network in order for the Facility to export captured CO₂ (or any substance consisting primarily of CO₂) to the CO₂ T&S Network.</u>
<u>CO₂ T&S Connection Confirmation CP</u>	<u>means evidence, in form and content satisfactory to the LCHA Counterparty, that the Facility has connected to the CO₂ T&S Network in accordance with the CO₂ T&S Operator's compliance requirements.</u>
<u>CO₂ T&S Connection Confirmation Deadline</u>	<u>has the meaning given to that term in item 2.7 (CO₂ T&S Commissioning Delay Relief).</u>
<u>CO₂ T&S Connection Confirmation Requirement</u>	<u>means the evidence, in form and content satisfactory to the LCHA Counterparty, that the Facility has connected to the CO₂ T&S Network in accordance with the CO₂ T&S Operator's compliance requirements, to be delivered by the Producer to the LCHA Counterparty.</u>
<u>CO₂ T&S Connection Delay Compensation</u>	<p><u>means all irrecoverable and unavoidable out-of-pocket costs which have been, will be or are reasonably likely to be incurred in respect of the Project by the Producer arising directly from an extension to one (1) or more of the Milestone Delivery Date, the Target Commissioning Window and/or the Longstop Date in accordance with item 2.7 (CO₂ T&S Commissioning Delay Relief), if and to the extent that such costs have been reasonably and properly incurred by the Producer on or after the Agreement Date and such costs constitute:</u></p> <p>(a) <u>costs relating to staff required to preserve, maintain and recommission the Facility;</u></p> <p>(b) <u>costs relating to extending warranties in respect of the Facility and associated equipment;</u></p> <p>(c) <u>costs relating to extending insurance coverage in respect of the Facility and associated equipment; and</u></p> <p>(d) <u>other operating costs relating to preserving and maintaining the</u></p>

Term	Definition
	<p><u>Facility</u>, provided that such costs shall exclude:</p> <ul style="list-style-type: none"> (e) <u>the Capital Return Component;</u> (f) <u>all costs associated with the Producer's appointment and retention of professional advisers in relation to the Project;</u> (g) <u>all costs associated with the Producer's financing arrangements in respect of the Project (including all interest incurred in respect of the Producer's financing arrangements);</u> (h) <u>all capital costs required to preserve, maintain and recommission the Facility; and</u> (i) <u>costs in respect of staff bonuses.</u>
CO₂ T&S Network	<p>means the <u>a</u> network including, but not limited to:</p> <ul style="list-style-type: none"> (a) pipelines used for the transportation of <u>captured CO₂ (or any substance consisting primarily of CO₂)</u> from one capture unit <u>plant</u> to a storage facility or to or from any <u>captured CO₂ pipeline network</u>; or (b) routes used for the transportation of CO₂ from one capture plant to a storage facility or to or from any CO₂ (or any substance consisting primarily of CO₂) pipeline network; and/or (b)(e) <u>storage facilities for the permanent storage of captured CO₂ (or any substance consisting primarily of CO₂),</u> <u>owned and operated by a CO₂ T&S Operator within the United Kingdom, which may include onshore and offshore components and which, for the avoidance of doubt, shall not include any pipelines, routes or storage facilities for CO₂ Utilisation.</u>
CO₂ T&S Network Availability Date	<p><u>means the first to occur of:</u></p> <ul style="list-style-type: none"> (a) <u>the date that either Party gives notice to the other Party that the relevant CO₂ T&S Network is available to enable the Facility to export captured CO₂ (or any substance consisting primarily of CO₂) to the relevant CO₂ T&S Network so that the Producer may fulfil or procure the fulfilment of the CO₂ T&S Connection Confirmation CP; and</u> (b) <u>the date on which the Producer fulfils the CO₂ T&S Connection Confirmation CP.</u>
CO₂ T&S Operator	<p><u>means a licensed company operating and maintaining a CO₂ T&S Network.</u></p>
CO₂ T&S Outage Relief Event	<p><u>has the meaning given to that term in item 4.19 (CO₂ T&S Outage Relief Events).</u></p>
CO₂ T&S Prolonged Unavailability Event	<p><u>means if, at any time after the Agreement Date, the LCHA Counterparty determines that:</u></p> <ul style="list-style-type: none"> (a) <u>one (1) of the following events has occurred and has been continuing for a continuous period of at least [six (6)] Months:</u> <ul style="list-style-type: none"> (i) <u>a CO₂ T&S Commissioning Delay Event;</u> (ii) <u>a Full CO₂ T&S Outage Event; or</u>

Term	Definition
	(b) <u>a CO₂ T&S Cessation Event has occurred.</u>
<u>CO₂ T&S Prolonged Unavailability Remediation Deadline</u>	<u>means the date on and from which the LCHA Counterparty may terminate the LCHA being the date which falls [thirty (30)] Months from the date of the CO₂ T&S Prolonged Unavailability Event notice.</u>
<u>CO₂ T&S Outage Relief Event Strike Price Deduction Amount</u>	<u>has the meaning given to that term in item 2.7 (CO₂ T&S Commissioning Delay Relief).</u>
<u>CO₂ Utilisation</u>	<u>means any process or method which: (i) uses or intends to use any captured CO₂ from the Facility as a feedstock; or (ii) sells or intends to sell captured CO₂, in each case excluding any captured CO₂ (or any substance consisting primarily of CO₂) from the Facility that is directed to a CO₂ T&S Network.</u>
<u>Construction Event</u>	<u>means a geological condition or physical constraint affecting the Facility (including the presence of new or unknown fauna or flora, unexploded ordnance, mudstone, archaeological remains, antiquities or hazardous materials).</u>
CPI	means: <ul style="list-style-type: none"> (a) the all items index of consumer price inflation published each month by the Office for National Statistics; or (b) if that index is no longer being published, such index as the HydrogenLCHA Counterparty may reasonably determine to be appropriate in the circumstances; or (c) if there is a material change to the basis of that index, such other index as the HydrogenLCHA Counterparty may from time to time reasonably determine to be appropriate in the circumstances.
<u>Data Collection Plan</u>	<u>means the data collection plan that the Producer will document and agree with the LCHA Counterparty, which specifies the data flows that will need to be provided by the Producer to the LCHA Counterparty, and the frequency of such data flows, to demonstrate ongoing compliance with the LCHS.</u>
<u>Default Termination Payment</u>	<u>has the meaning given to that term in item 3.5 (Consequences of Producer Default Termination).</u>
Difference Amount	has the meaning given to that term in item 4.1 (Difference Amount).
<u>Electricity Storage</u>	<u>means the conversion of electrical energy into a form of energy which can be stored, the storing of that energy, and the subsequent reconversion of that energy back into electrical energy.</u>
<u>Electrolytic Facility</u>	<u>means a hydrogen production facility which deploys Electrolytic Technology.</u>
<u>Electrolytic Technology</u>	<u>means technology which is installed or implemented pursuant to the HPBM Programme and which produces hydrogen via water electrolysis, where water is split into hydrogen and oxygen using electricity.</u>
Expiry Date<u>Excess Volumes</u>	has the meaning given to that term in item 2.64.13 (Expiry Date) LCHA <u>Production Cap and Annual Volume Cap.</u>
Installed Capacity<u>Facility</u>	means the capacity of the Facility (expressed in MWh (HHV)) were it to be operated at optimal operating conditions on a continual basis for a

Term	Definition
	<p>sustained period at the maximum capacity possible, assuming that any source of power used by the Facility to produce hydrogen was available without interruption.<u>means:</u></p> <p>(a) <u>the hydrogen production plant and all ancillary facilities and equipment for the safe, efficient, timely and economic operation of the hydrogen production plant in a manner to satisfy fully the requirements under the LCHA; and</u></p> <p>(b) <u>if agreed between the Parties at the Agreement Date (negotiated on a project-by-project basis by taking several factors into account including necessity, affordability and value for money for Government):</u></p> <p style="padding-left: 40px;">(i) <u>the hydrogen transport infrastructure and all ancillary facilities and equipment for the safe, efficient, timely and economic operation of the hydrogen transport infrastructure in a manner to satisfy fully the requirements under the LCHA; and/or</u></p> <p style="padding-left: 40px;">(ii) <u>the hydrogen storage infrastructure and all ancillary facilities and equipment for the safe, efficient, timely and economic operation of the hydrogen storage infrastructure in a manner to satisfy fully the requirements under the LCHA.</u></p>
Facility Fuel	<u>will be defined in the front end agreement of the LCHA.²⁹</u>
Facility Outage Event	<u>means an event where the Facility is unavailable, curtailed or derated (which, for the avoidance of doubt, shall include a Full Facility Outage Event).</u>
Feedstock Offtaker	<u>means a person that enters into an agreement with the Producer for the supply of, and transfer of the legal and beneficial title in, hydrogen volumes produced by the Facility, which that person intends to use for Feedstock Purposes.</u>
Feedstock Purposes	<p><u>means the use of the Facility's metered hydrogen volumes:</u></p> <p>(a) <u>as an input material to produce or manufacture any product(s) with a different chemical composition to hydrogen (including ammonia, petrochemicals, and synthetic fuels); or</u></p> <p>(a) <u>not as a fuel for heat, power, or combustion purposes,</u> <u>in either case as determined by the LCHA Counterparty, acting reasonably.</u></p>
Final Installed Capacity-Estimate	[is the Facility capacity determined at the Agreement Date] <u>means (i) the Installed Capacity which has been commissioned as at the date of the final installed capacity notice (to be delivered following the Start Date, and in any event no later than ten (10) Business Days after the Longstop Date) which shall not, in any event, exceed the Installed Capacity Estimate; or (ii) the deemed Final Installed Capacity determined in accordance with the LCHA (see item 2.6 (Longstop Date Required Installed Capacity)).</u>
Fiscal Year	<u>means the period from 1 April in any calendar year until and including 31 March in the following calendar year.</u>

²⁹ Note to Reader: For CCUS-Enabled Facilities, the fuel used by the Facility will be agreed between the Parties at the Agreement Date. For example, natural gas and refinery off-gases.

Term	Definition
Floor Price	<u>means the lower of (i) the Strike Price and (ii) the Gas Reference Price, for the relevant Billing Period.</u>
Facility	means the hydrogen production plant and all necessary interfaces and any other facilities or equipment for the safe, efficient, timely and economical operation of the hydrogen production plant in a manner to satisfy fully the requirements under the Low Carbon Hydrogen Agreement.
FM Affected Party	means a Party affected by Force Majeure.
Force Majeure	<p>means any event or circumstance <u>including: (A) any change in law (which expression, for the purposes of this definition, shall not include any foreseeable change in law, and, in the period to the Start Date, shall include any change after the Agreement Date in the policy or guidance of any competent authority); and (B) any event or circumstance resulting from any action or omission by or of any LCHA settlement services provider,</u> provided that such event or circumstance:</p> <p>(a) is beyond the reasonable control of the FM Affected Party or, if relevant, its representatives (in the case of the Producer and its representatives, acting and having acted in accordance with <u>at the</u> reasonable and prudent standard);</p> <p>(b) could not reasonably have been avoided or overcome by the FM Affected Party or its representatives (as appropriate); and</p> <p>(c) is not due to the FM Affected Party's fault or negligence (or that of its representatives⁶); <u>and</u></p> <p><u>(d) is not a CO₂ T&S Outage Relief Event, a CO₂ T&S Commissioning Delay Event or a CO₂ T&S Cessation Event,</u></p> <p><u>provided always that:</u></p> <p style="padding-left: 40px;"><u>(i) neither non-availability of funds nor the lack of funds shall ever constitute Force Majeure; and</u></p> <p style="padding-left: 40px;"><u>(ii) no event or circumstance which has occurred before the Agreement Date of which, at or before the Agreement Date, the Producer or any of its representatives either was aware, or (if it or they had made all due and careful enquiries and acted to the reasonable and prudent standard) could be expected to have been aware, shall constitute a Force Majeure.</u></p>
Forecast Data	<p><u>means:</u></p> <p><u>for Electrolytic Facilities and CCUS-Enabled Facilities:</u></p> <p>(a) <u>the availability of the Facility;</u></p> <p>(b) <u>the Qualifying Volumes;</u></p> <p>(c) <u>the RTFO Volumes;</u></p> <p>(d) <u>the Non-Qualifying Volumes;</u></p> <p>(e) <u>[any other information to be determined]</u></p> <p><u>in addition, for CCUS-Enabled Facilities only:</u></p> <p>(f) <u>CO₂ T&S Charges Amount; and</u></p>

⁶Note to Reader: this definition is still under development.

Term	Definition
	(g) <u>[any other information to be determined]</u> .
<u>Full CO₂ T&S Outage Event</u>	<u>means an event or circumstance affecting the relevant CO₂ T&S Network which does not arise out of or in connection with any act, omission, breach or default by the Producer or its representatives, and which prevents the Facility from accessing and exporting any CO₂ to such CO₂ T&S Network.</u>
<u>Full Facility Outage Event</u>	<u>means an event where the Facility is fully unavailable to produce hydrogen.</u>
<u>Gas Act</u>	<u>means the Gas Act 1986 as such act is amended or subsequent gas acts and any regulations made thereunder as amended or re-enacted from time to time.</u>
<u>Gas Licensed Transporter</u>	<u>means a person who is authorised by a Gas Transporter Licence to distribute natural gas.</u>
<u>Gas Reference Price</u>	<u>has the meaning given to that term in item 4.10 (<i>Gas Reference Price</i>).</u>
<u>Gas Transportation System</u>	<u>means all or part of a transportation system in the United Kingdom operated by a Gas Licensed Transporter.</u>
<u>Gas Transporter Licence</u>	<u>means a licence granted under Section 7 of the Gas Act.</u>
<u>HPBM Programme</u>	<u>means the programme to incentivise the production of low carbon hydrogen in the UK through multiple production routes including (but not limited to):</u> (a) <u>CCUS-enabled hydrogen production; and</u> (b) <u>electrolytic hydrogen production.</u>
<u>ICC GFA</u>	<u>means the grant funding agreement awarded to an industrial emitter in connection with the CCUS programme.</u>
<u>IFRS 13 Fair Value Measurement</u>	<u>means the IFRS 13 fair value measurement standard issued by the International Accounting Standards Board.</u>
<u>Hydrogen-Counterparty</u>	<u>means the person designated as a counterparty for the Low Carbon Hydrogen Agreement.</u>
<u>Hydrogen T&S-Infrastructure</u>	<u>[this definition is still under development]</u>
<u>Initial Conditions Precedent</u>	<u>means the conditions precedent set out in item 2.32.2 (<i>Initial Conditions Precedent</i>).</u>
<u>Initial Installed Capacity Estimate</u>	<u>will be defined in the front end agreement of the LCHA.</u>
<u>Installed Capacity</u>	<u>means the capacity of the Facility (expressed in [MW] (HHV)) were it to be operated at optimal operating conditions on a continual basis for a sustained period at the maximum capacity possible, assuming that any source of power used by the Facility to produce hydrogen was available without interruption.</u>
<u>Installed Capacity Estimate</u>	<u>means the Producer's estimate of the Installed Capacity from time to time, being the Initial Installed Capacity Estimate as may be adjusted pursuant to the occurrence of any Relevant Construction Event and/or permitted reduction.</u>
<u>LCHA Counterparty</u>	<u>means the person designated as a counterparty for the LCHA.</u>

Term	Definition
<u>LCHA Counterparty Confidential Information</u>	<u>has the meaning given to that term in item 9.1 (Confidentiality).</u>
<u>LCHA Production Cap</u>	<u>has the meaning given to that term in item 4.13 (LCHA Production Cap and Annual Volume Cap).</u>
<u>LCHS Data Annex</u>	<u>means the Data Annex to the Low Carbon Hydrogen Standard.</u>
Longstop Date	means the last day of the [a period to be determined] <u>twelve (12) months</u> following the final day of the Target Commissioning Window.
Low Carbon Hydrogen Standard / LCHS	means the UK low carbon hydrogen standard developed by BEIS. <u>means the latest version of the UK Low Carbon Hydrogen Standard, which will be confirmed by BEIS during negotiations and specified in the front end agreement of the LCHA.</u>
<u>Material Equipment</u>	<u>will be defined in the front end agreement of the LCHA.</u>
Milestone Delivery Date	means a date [a period to be determined] after the Agreement Date. <u>means a date: (i) for CCUS-Enabled Facilities, eighteen (18) months; and (ii) for Electrolytic Facilities, twelve (12) months after the Agreement Date but this period may be extended in some specific circumstances such as Force Majeure, CO₂ T&S Commissioning Delay Events (for CCUS-Enabled Facilities only) and, where applicable, for delays by the relevant authority in establishing an electricity grid connection, gas grid connection and/or water connection.</u>
Milestone Requirement	[this definition is still under development] <u>has the meaning given to that term in item 2.4 (Milestone Requirement).</u>
Milestone Satisfaction Date	means the date of the notice from the Hydrogen <u>LCHA</u> Counterparty to the Producer specifying that the Producer has complied with and fulfilled a Milestone Requirement.
<u>Month Ahead Natural Gas Contract</u>	<u>means a contract for the delivery of a firm volume of natural gas to the National Balancing Point Virtual Trading Point, in equal amounts, in each calendar day of the relevant Billing Period.</u>
<u>Net Recoverable Value of the Facility</u>	<u>means the anticipated fair market value of the whole of the Facility or, where it is not reasonably practicable to effect the sale and transfer of the whole of the Facility, the individual components forming part of the Facility (the "Facility Assets"), being the amount for which the Facility Assets could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale, or the actual selling price of the Facility Assets, in each case whether for re-use or scrap, with such value:</u> <ul style="list-style-type: none"> (a) <u>determined in accordance with IFRS 13 Fair Value Measurement (or any suitable, alternative accounting standard that is agreed by the Parties, acting reasonably);</u> (b) <u>based on the assumption that the Facility Assets reflect the standard that they would have been in had the Producer operated and/or maintained such assets in accordance with the reasonable and prudent standard (but excluding the costs of any rectification and/or maintenance works that would be required to bring the Facility Assets up to such standard);</u> (c) <u>reduced to reflect the reasonable costs of marketing and entering one or more agreement(s) for the sale and transfer of</u>

Term	Definition
	<p><u>the Facility Assets (including any legal and/or accountancy costs);</u></p> <p>(d) <u>reduced to reflect the reasonable costs of disconnecting, disassembling, packaging, handling, removing, transporting and/or delivering the Facility Assets as part of their sale and transfer; and</u></p> <p>(e) <u>deemed to be zero (0), where it is less than zero (0).</u></p>
Natural Gas-Price Non-Qualifying Offtaker	has the meaning given to that term in item 4.54.3 (Natural Gas-Price); <u>Qualifying Offtakers and Non-Qualifying Offtakers</u>).
Non-Qualifying Volume	<u>has the meaning given to that term in item 4.2 (Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes).</u>
NZHF	means the Net Zero Hydrogen Fund.
NZHF GFA	means the NZHF grant funding agreement awarded to the Producer.
Offtaker	<u>means any person who purchases hydrogen volumes produced by the Facility from the Producer pursuant to an offtake agreement, and who has been confirmed as a Qualifying Offtaker or Non-Qualifying Offtaker by the LCHA Counterparty.³⁰</u>
Operational Conditions Precedent	means the conditions precedent set out in item 2.42.5 (Operational Conditions Precedent).
Own Consumption Offtaker	<u>means the Producer in the event that it intends to use the hydrogen produced by the Facility.³¹</u>
Price-Floor Permitted Annual Volume Cap	has the meaning given to that term in item 4.74.13 (Price-Floor); <u>LCHA Production Cap and Annual Volume Cap</u>).
Producer	<u>the producer counterparty to the LCHA, as defined in the front end agreement of the LCHA.</u>
Producer CO₂ T&S Connection Works	means a person who intends to carry out hydrogen production activities in relation to a hydrogen production facility. <u>means the CO₂ T&S Network connection works that the Producer is required or elects to carry out and complete pursuant to the CO₂ T&S construction agreement.</u>
Producer Confidential Information	<u>has the meaning given to that term in item 9.1 (Confidentiality).</u>
Project	means the design, development, construction, completion, testing, commissioning, operation, maintenance and decommissioning of the Facility.
QCIL Construction Event	<u>has the meaning give to that term in item 5.2 (QCIL Compensation).</u>
QCIL Operations Cessation Event	<u>has the meaning give to that term in item 5.2 (QCIL Compensation).</u>
Qualifying Change in Law	[this definition is still under development] <u>has the meaning given to that term in item 5.1 (Qualifying Change in Law).</u>
Qualifying End-Users Event	has the meaning given to that term in item 4.134.12 (Qualifying End-Users); <u>Sliding Scale Volume Support</u>).

³⁰ Note to Reader: BEIS is currently developing the confirmation process that will apply to all offtakers.

³¹ Note to Reader: BEIS is still considering the position relating to the calculation of the Achieved Sales Price for Own Consumption Offtakers.

Term	Definition
<u>Qualifying Offtaker</u>	<u>has the meaning given to that term in item 4.3 (Qualifying Offtakers and Non-Qualifying Offtakers).</u>
<u>Qualifying Shutdown Event</u>	<u>has the meaning given to that term in item 5.3 (Qualifying Shutdown Events).</u>
<u>Qualifying Volumes</u>	<u>has the meaning given to that term in item 4.2 (Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes).</u>
<u>Reference Price for Non-Qualifying Volumes</u>	has the meaning given to that term in item 4.4 <u>4.6</u> (Reference Price <u>Prices</u>).
<u>Reference Price for Qualifying Volumes</u>	<u>has the meaning given to that term in item 4.6 (Reference Prices).</u>
<u>Relevant Construction Event</u>	<u>means a Construction Event:</u> (a) <u>_____ of which no Producer acting in accordance with a reasonable and prudent standard and having made all due and careful enquiries would have been aware, and of which the Producer was not aware, at the Agreement Date; and</u> (b) <u>_____ which renders the development, completion, construction, conversion, installation or commissioning of the Facility to meet the Installed Capacity Estimate uneconomic.</u>
<u>Required Authorisation</u>	<u>means, in relation to each Party and at any time, each authorisation, licence, accreditation, permit, consent, certificate, resolution, clearance, exemption, order confirmation, permission or other approval of or from any competent authority required at such time to enable the relevant Party to perform and comply with its obligations under the LCHA and the other LCHA documents and, in the case of the Producer, for the Project.</u>
<u>Required Installed Capacity</u>	<u>has the meaning given to that term in item 2.6 (Longstop Date Required Installed Capacity).</u>
<u>Risk-Taking Intermediary</u>	<u>has the meaning give to that term in item 4.3 (Qualifying Offtakers and Non-Qualifying Offtakers).</u>
<u>RTFO Scheme</u>	<u>means the Renewable Transport Fuel Obligation scheme established under the Renewable Transport Fuel Obligations Order 2007 (as amended).</u>
<u>RTFO Volumes</u>	<u>has the meaning given to that term in item 4.2 (Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes).</u>
<u>Secretary of State</u>	<u>means the Secretary of State for Business, Energy and Industrial Strategy, acting in that capacity, unless otherwise expressly stated or the context otherwise requires.</u>
<u>Sliding Scale Top Up Amount</u>	<u>has the meaning given to that term in item 4.12 (Sliding Scale Volume Support).</u>
<u>Sliding Scale Top Up Condition</u>	<u>has the meaning given to that term in item 4.12 (Sliding Scale Volume Support).</u>
<u>Specified Expiry Date</u>	<u>has the meaning given to that term in item 2.1 (Term and Specified Expiry Date).</u>
<u>Start Date</u>	means the date on which the Producer notifies the Hydrogen <u>LCHA</u> Counterparty that the Operational Conditions Precedent have been

Term	Definition
	fulfilled (or waived by the Hydrogen LCHA Counterparty).
Strike Price	has the meaning given to that term in item 4.3 4.5 (<i>Strike Price</i>).
<u>Take-or-Pay Volumes</u>	<u>means hydrogen that the Producer has not produced and sold but in respect of which it has received payment under a take-or-pay (or similar) arrangement with an Offtaker(s).</u>
Target Commissioning Window	means {a defined the twelve (12) months period {commencing on a date to be determined}} before agreed on a project-by-project basis and after agreed at the target commissioning date notified by the Producer to the relevant authority in its application for the Low Carbon Hydrogen Agreement Date.
<u>Termination Event</u>	<u>refers to the termination events set out in item 3.4 (<i>Producer Default Termination</i>).</u>
<u>Termination Fee Rate</u>	<u>has the meaning given to that term in item 3.5 (<i>Consequences of Producer Default Termination</i>).</u>
<u>Total Aggregate Volume</u>	<u>has the meaning given to that term in item 4.13 (<i>LCHA Production Cap and Annual Volume Cap</i>).</u>
<u>Total Capex Payment</u>	<u>means the total capital expenditure for the Facility (and associated facilities/equipment) that will be subsidised via the LCHA. Such capital expenditure must have been incurred post-Agreement Date. It will not include development (i.e. pre-FEED and FEED) costs, as such costs will be incurred prior to the Agreement Date.</u>
Total Project Commissioning Costs	[<i>this definition is still under development</i>].
<u>Total Sales Price</u>	<u>has the meaning given to that term in item 4.7 (<i>Achieved Sales Prices</i>).</u>
<u>Total Volumes</u>	<u>means, in the relevant period, the Facility's total metered hydrogen volumes (expressed in MWh (HHV)).</u>
<u>Trading Day</u>	<u>means any day on which trading on the market from which the relevant gas price source is derived ordinarily takes place.</u>
UK ETS	means the emissions trading scheme in the UK established pursuant to The Greenhouse Gas Emissions Trading Scheme Order 2020.
UK NBP Month Ahead Natural Gas Contract	means a contract relating to the delivery of a firm volume of gas entered into the preceding calendar month.
UK NBP Month Ahead Natural Gas Price	means the price for a UK NBP Month Ahead Gas Contract as reflected in an UK NBP Index.
UK NBP Index	means an index of UK NBP Month Ahead Natural Gas Price.

ANNEX
EXPLANATORY DIAGRAMS

Term, Milestone Requirement and Conditions Precedent (LCHA HoTs Item 2)

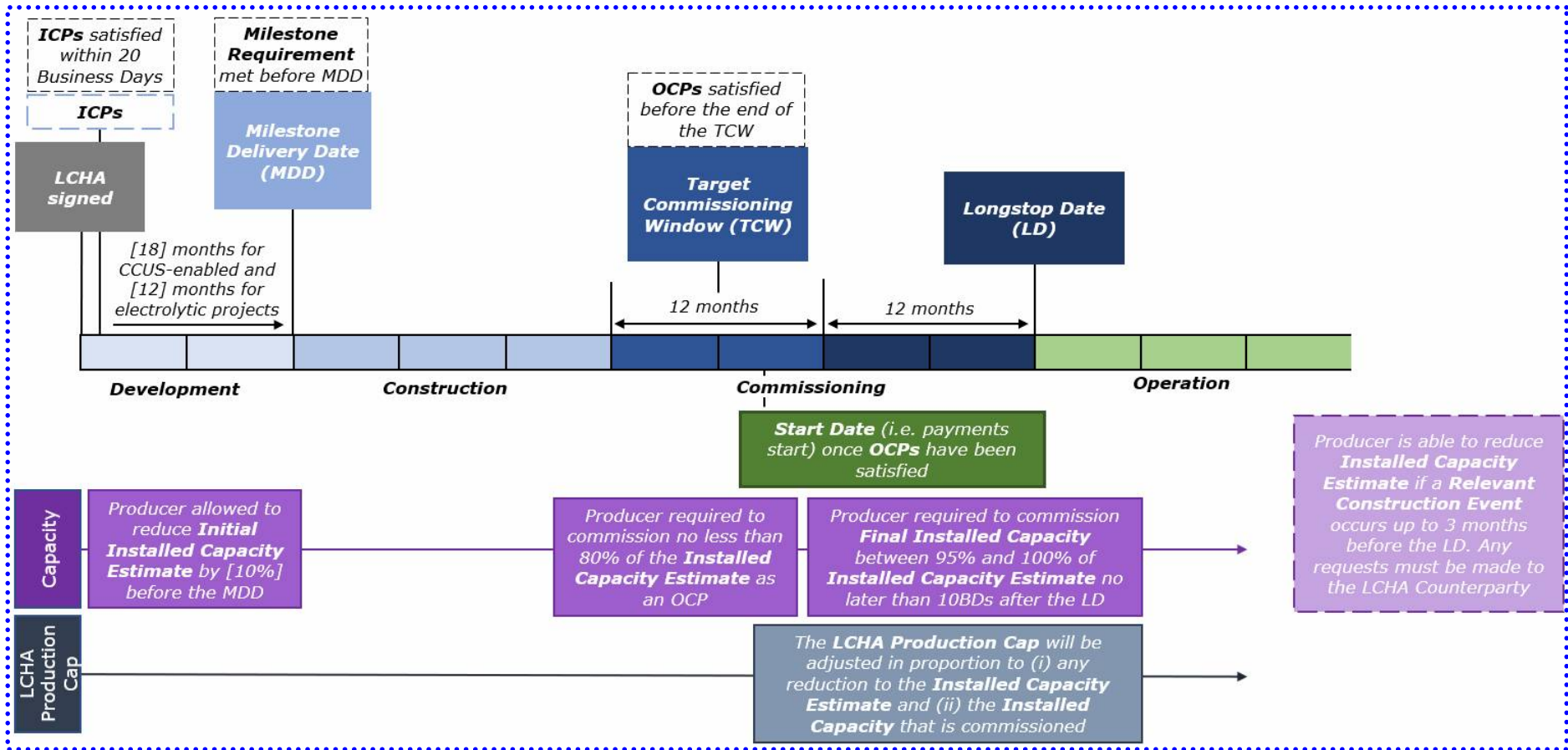


Figure 1: Indicative timeline of LCHA milestones

CO₂ T&S Commissioning Delay Event (LCHA HoTs Item 2.7)

Time Relief (and if applicable, CO₂ T&S Connection Delay Compensation)

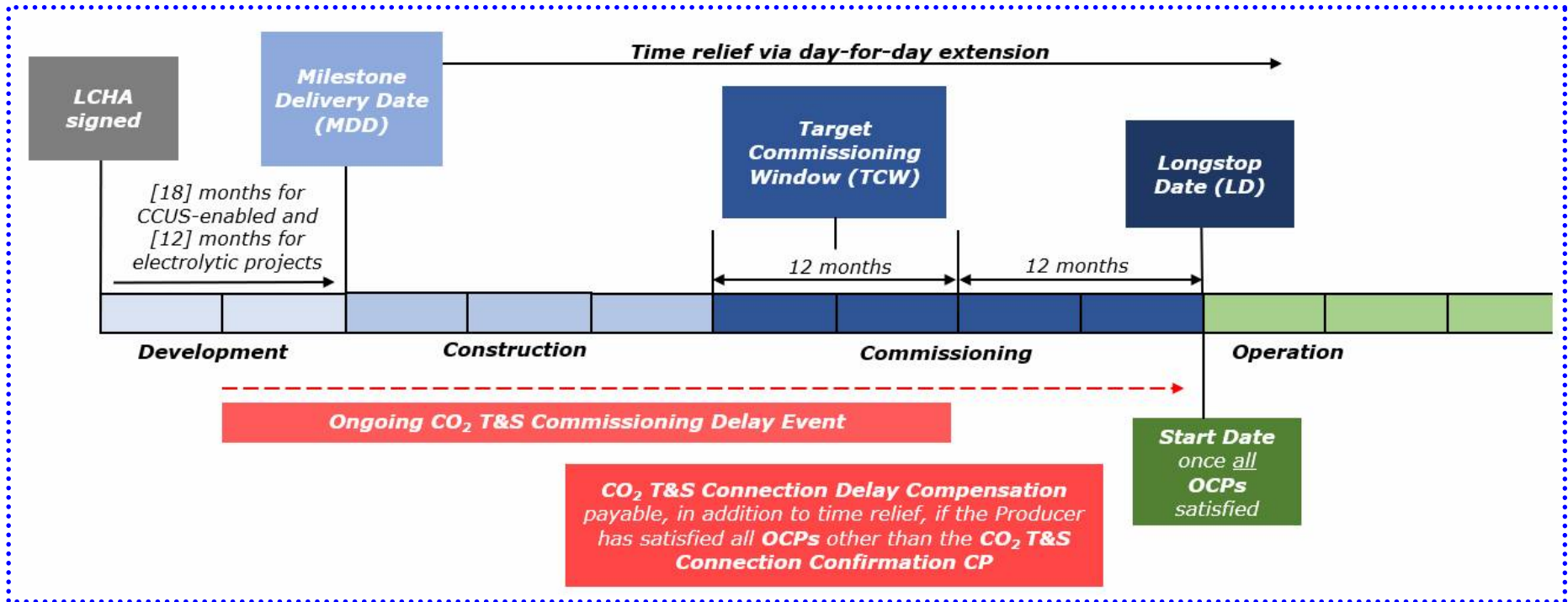


Figure 2: Indicative timeline of the application of Option A (Time Relief) in the event of a CO₂ T&S Commissioning Delay Event

Termination for CO₂ T&S Prolonged Unavailability (LCHA HoTs Item 3.9)

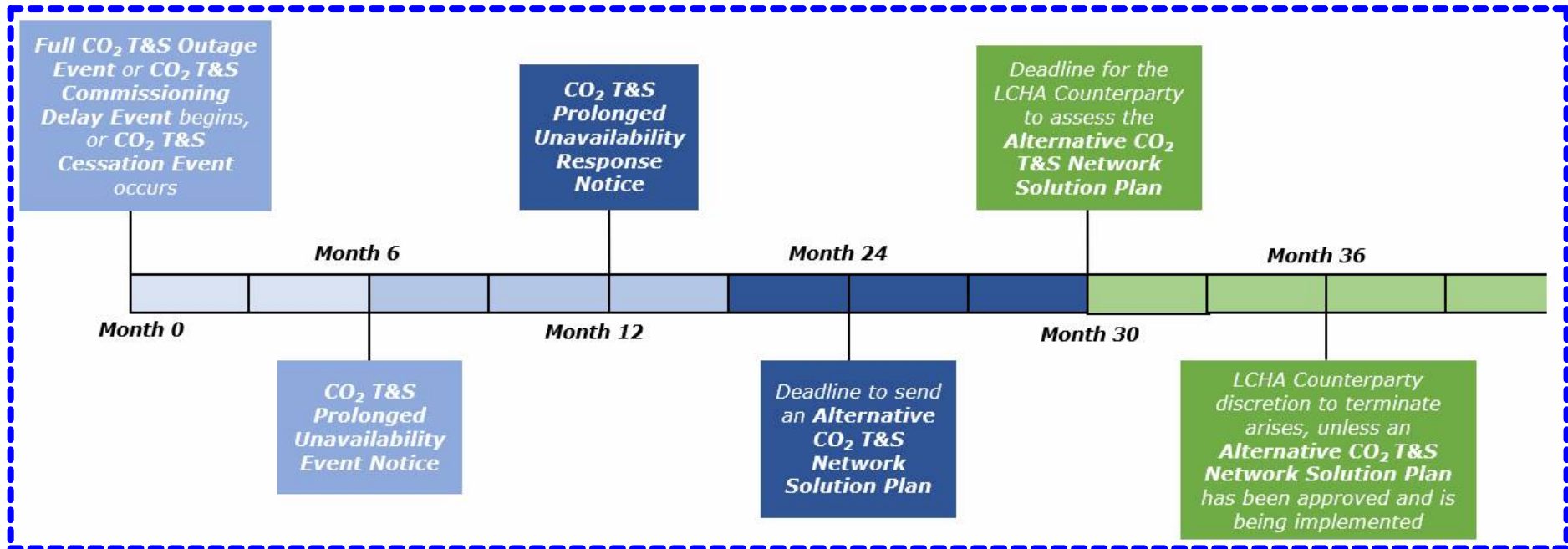


Figure 3: Indicative timeline of the application of the termination for CO₂ T&S Prolonged Unavailability provisions.

Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes (LCHA HoTs Item 4.2)

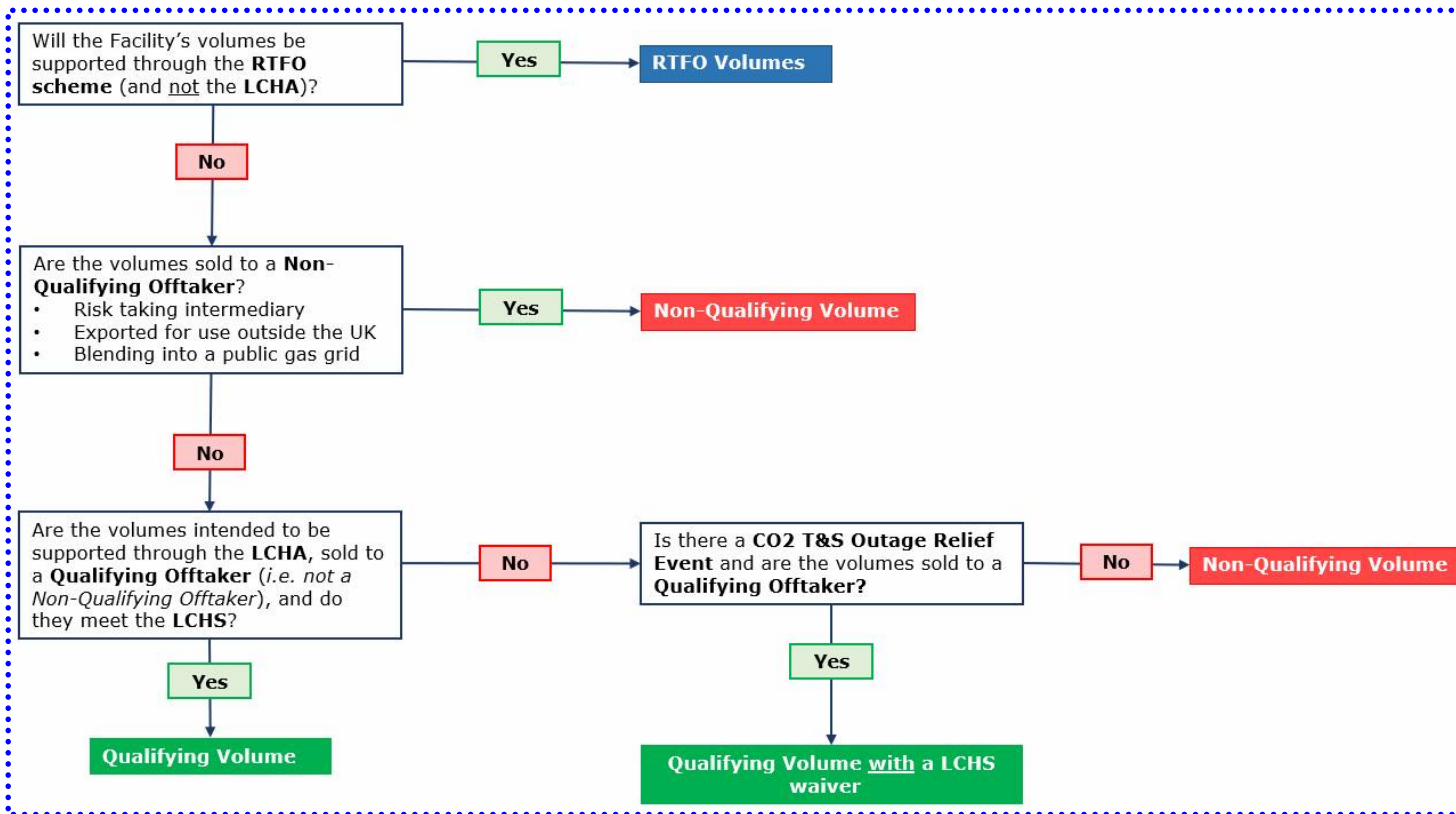


Figure 4: An overview of the determination of volumes under the LCHA

LCHA Production Cap and Annual Volume Cap (LCHA HoTs Item 4.13)

Example 1: A Producer with only Qualifying Volumes of LCHA Production Cap (without RTFO volumes)

- The table (Figure 5 breaks down on a per annum basis how the LCHA Production Cap will operate under the LCHA in the event a Producer only produces Qualifying Volumes, and the graph (Figure 6) illustrates this break down and operation in diagram form. Both are based on the same fact pattern, as detailed below.
- The Producer agrees a **LCHA Production Cap** (i.e. the contract volume cap in respect of all volumes produced at the plant, including Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes during the LCHA term) of **1500MWh** with the LCHA Counterparty at the Agreement Date. Therefore, the Producer has an **Annual Volume Cap** of 100MWh.³²
- The Producer is permitted to alter its Qualifying Volumes (in **blue**) and is allowed to borrow (in **yellow**) volumes up to the **Permitted Annual Volume Cap** (i.e. 125%) and carry forward (in **orange**) volumes down to the **Annual Volume Floor** (i.e. 75%), with any volumes below the Annual Volume Floor not carried forward and therefore forfeited (see **Year 8** in the Figure 5 and 6).
- The Producer is prohibited from producing above the **Permitted Annual Volume Cap** with any **Excess Volumes** (in **red**) multiplied by 150% for the purposes of calculating the **Total Aggregate Volume** (see **Year 3** in Figure 5 and 6).

Figure 5: A breakdown on how the LCHA Production Cap will operate under the LCHA in the event a Producer produces only Qualifying Volumes.

Year	Qualifying Volume (MWh)	Annual banking (+) or carried forward, (-) borrowed from later years (MWh)	Total Aggregate Volume (MWh)	Remaining LCHA Production Cap (MWh)
Y0	0	0	0	1500
Y1	80	20	80	1420
Y2	125	-25	205	1295
Y3	150	-62.5	367.5	1132.5
Y4	90	10	457.5	1042.5
Y5	125	-25	582.5	917.5
Y6	95	5	677.5	822.5
Y7	95	5	772.5	727.5
Y8	50	25	847.5	652.5
Y9	115	-15	962.5	537.5
Y10	100	0	1062.5	437.5
Y11	125	-25	1187.5	312.5
Y12	85	15	1272.5	227.5
Y13	90	10	1362.5	137.5
Y14	102.5	-2.5	1465	35
Y15	35	0	1500	0
Total produced and sold (MWh)	1462.5			

³² Note to Reader: The volume restriction is administered on an annual basis, so a Producer has flexibility on a monthly basis.

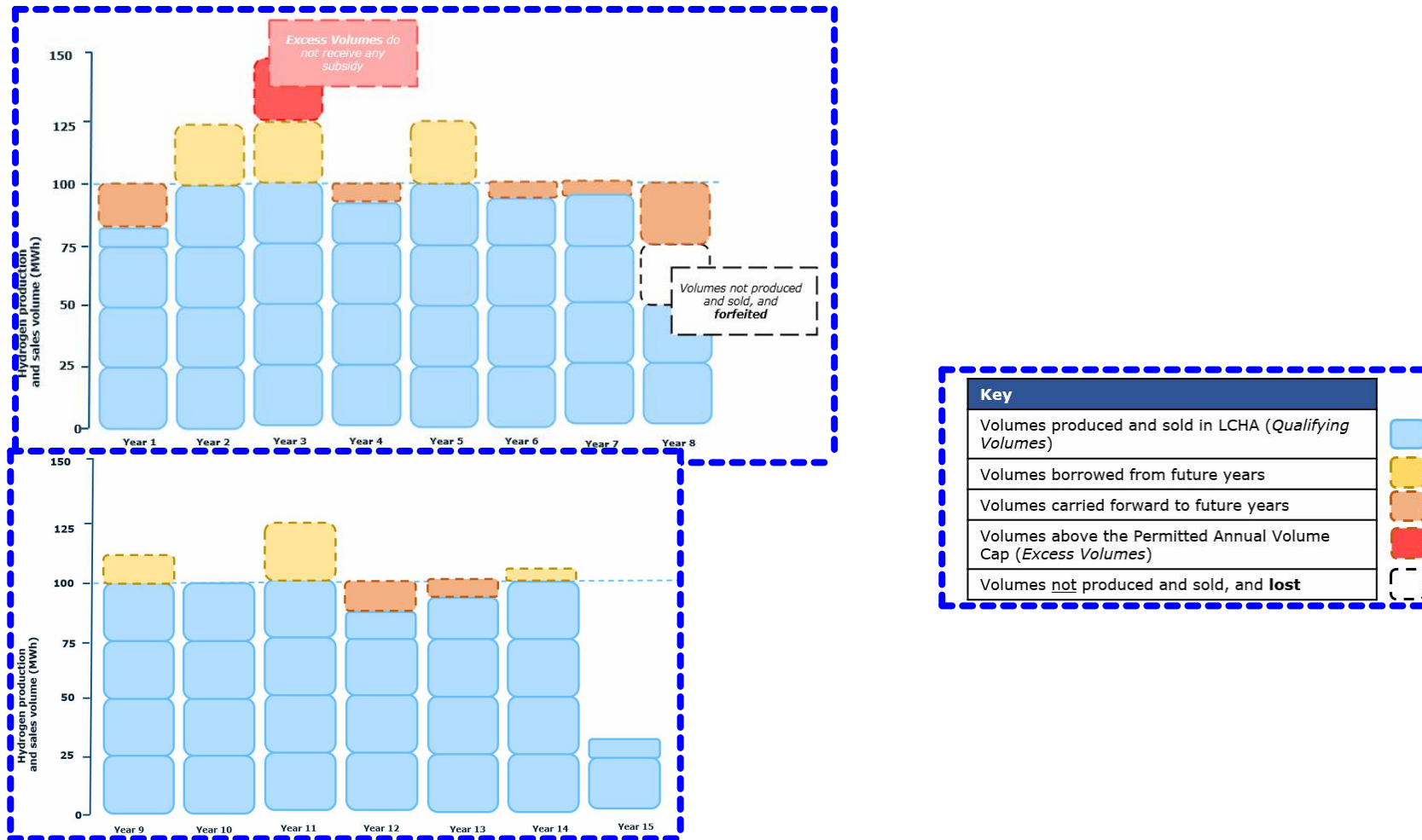


Figure 6: An illustration of Example 1 (A Producer with only Qualifying Volumes under the LCHA)

Example 2: A Producer with Qualifying Volumes under the LCHA and with RTFO volumes

- The table (Figure 7) breaks down on a per annum basis how the LCHA Production Cap will operate under the LCHA in the event a Producer produces Qualifying Volumes and RTFO Volumes, and the graph (Figure 8) illustrates this break down and operation in diagram form. Both are based on the same fact pattern, as detailed below.
- The Producer agrees a **LCHA Production Cap** (i.e. the contract volume cap in respect of all volumes produced at the plant, including Qualifying Volumes, Non-Qualifying Volumes and RTFO Volumes during the LCHA Term) of **1500MWh** with the LCHA Counterparty at the Agreement Date. Therefore, the Producer has an **Annual Volume Cap** of 100MWh.
- The Producer is permitted to alter its Qualifying Volumes (in **blue**) and its RTFO volumes in **green**). The Producer is allowed to borrow (in **yellow**) volumes up to the **Permitted Annual Volume Cap** (i.e. 125%) and carry forward (in **orange**) volumes down to the **Annual Volume Floor** (i.e. 75%), with any volumes below the Annual Volume Floor not carried forward and therefore forfeited (see **Year 8** in the Figure 7 and 8).
- The Producer is prohibited from producing above the **Permitted Annual Volume Cap** with any **Excess Volumes** (in **red**) multiplied by 150% for the purposes of calculating the **Total Aggregate Volume** (see **Year 3** in Figure 7 and 8).

Figure 7: A breakdown on how the LCHA Production Cap will operate under the LCHA in the event a Producer produces Qualifying Volumes and RTFO Volumes.

Year	Qualifying Volume (MWh)	RTFO Volume (MWh)	Total annual production and sales volume (MWh)	Annual banking (+) carried forward, (-) borrowed from later years (MWh)	Total Aggregate Volume (MWh)	Remaining LCHA Production Cap (MWh)
Y0	0			0	0	1500
Y1	40	40	80	20	80	1420
Y2	80	45	125	-25	205	1295
Y3	100	50	150	-62.5	367.5	1132.5
Y4	45	45	90	10	457.5	1042.5
Y5	85	40	125	-25	582.5	917.5
Y6	50	45	95	5	677.5	822.5
Y7	45	50	95	5	772.5	727.5
Y8	20	30	50	25	847.5	652.5
Y9	70	45	115	-15	962.5	537.5
Y10	60	40	100	0	1062.5	437.5
Y11	75	50	125	-25	1187.5	312.5
Y12	40	45	85	15	1272.5	227.5
Y13	50	40	90	10	1362.5	137.5
Y14	52.5	50	102.5	-2.5	1465	35
Y15	22.5	12.5	35	0	1500	0
Total produced and sold (MWh)	837.5	627.5	1462.5			

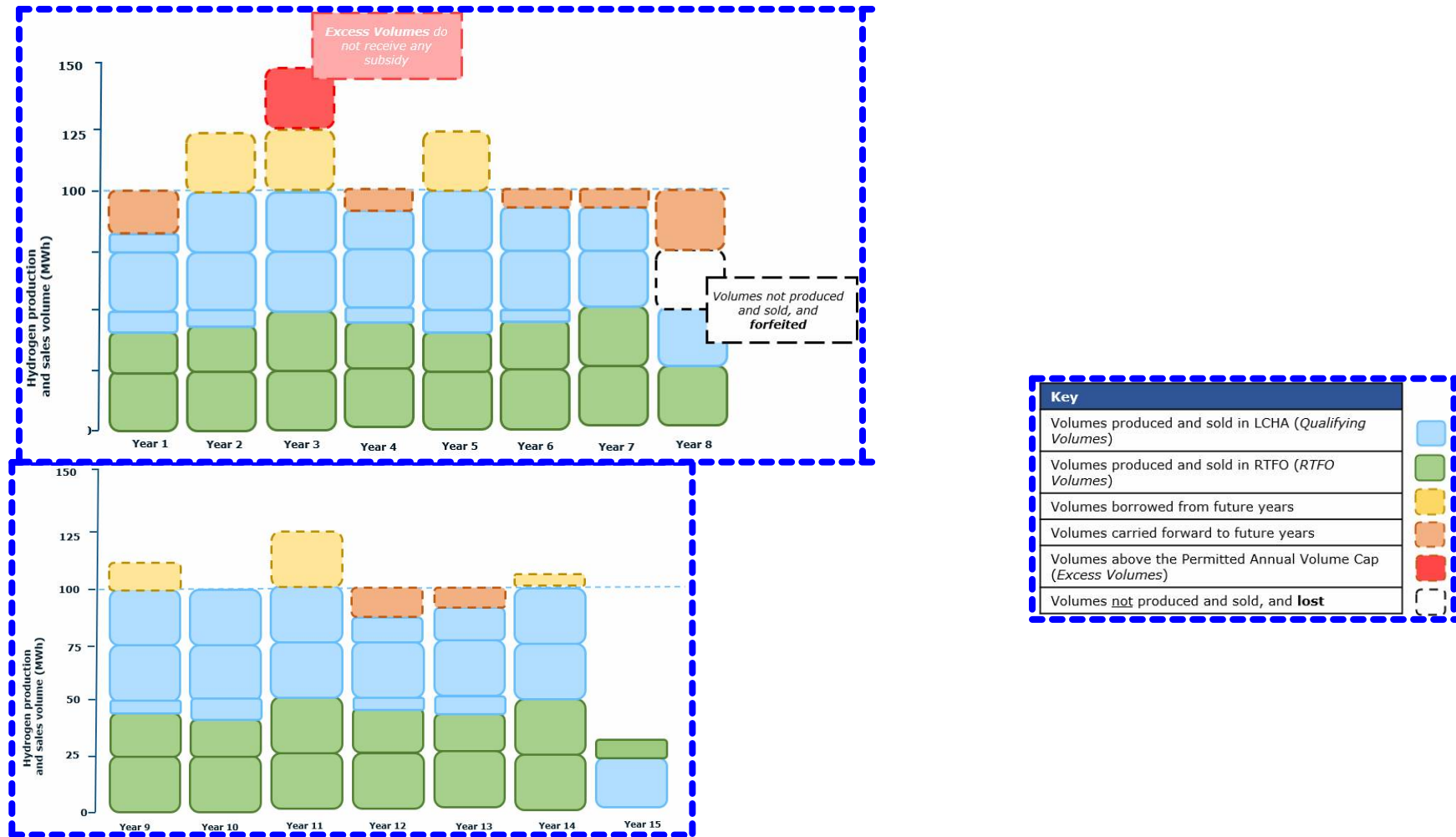


Figure 8: An illustration of Example 2 (A Producer with Qualifying Volumes under the LCHA and with RTFO volumes).

Billing and Payment (LCHA HoTs Item 4.16)

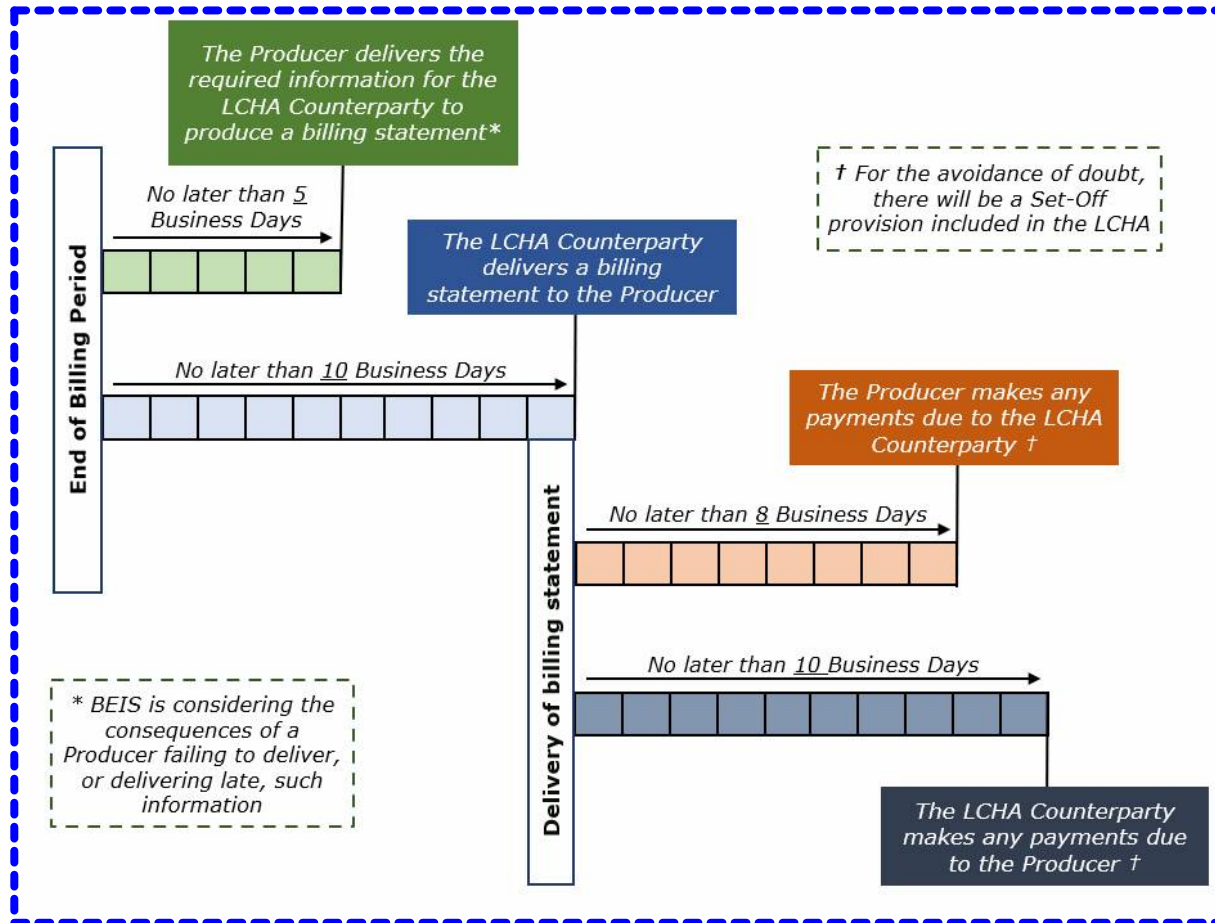


Figure 9: An indicative timeline of billing and payment under the LCHA

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