Q2 2020 Earnings Call

Company Participants

- David Povall, Executive Vice President, Development
- Mike Crawley, President & Chief Executive Officer
- Pauline Alimchandani, Chief Financial Officer

Other Participants

- Benjamin Pham
- David Quezada
- Mark Jarvi
- Naji Baydoun
- Nelson Ng
- Rupert M. Merer
- Sean Steuart

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to this Northland Power Conference Call to discuss the 2020 Second Quarter Results. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded Thursday, August 13, 2020, at 10 a.m. Eastern time.

Conducting this call for Northland Power are Mike Crawley, President and Chief Executive Officer; Pauline Alimchandani, Chief Financial Officer; and Wassem Khalil, Senior Director of Investor Relations and Strategy.

Before we begin, Northland's management has asked me to remind listeners that all figures presented are in Canadian dollars and to caution that certain information presented and responses to questions may contain forward-looking statements that include assumptions and are subject to various risks. Actual results may differ materially from management's expected or forecasted results. Please read all forward-looking statement section in yesterday's news release announcing Northland Power's results and be guided by its contents in making investment decisions or recommendations. The release is available at www.northlandpower.com.

I will now turn the call over to Mike Crawley. Please go ahead.

Mike Crawley {BIO 19260915 <GO>}

Thank you, Thien [ph], and good morning, everyone. Thanks for joining us today. This morning we will review our second quarter 2020 financial and operating results and provide an update on the business. Following our remarks, we look forward to taking your questions and comments. Pauline and I also have David Povall, Executive Vice President, Development joining us today on the call as well.

We continue to show resilience in our business considering the challenges we faced from COVID-19 and its implications. Our teams have risen to these challenges ensuring that our operations continue unabated and that we continue to execute on our strategic objectives. We successfully completed a number of initiatives during the quarter with -- that enhance our financial position and advance our growth pipeline. We'll have more to say on these shortly.

First, turning to the quarter. I will provide a high-level overview of our second quarter results and Pauline will provide a more detailed look into the financial numbers later in the call. We achieved healthy growth in adjusted EBITDA reporting a 17% increase in the quarter compared to a year ago. Adjusted EBITDA in the quarter was approximately CAD227 million compared to CAD194 million in the same period in 2019.

Our free cash flow per share in the second quarter was CAD0.09 per share compared to CAD0.20 per share in 2019, representing a decrease of 55% year-over-year. Pauline will take a deeper dive into the quarterly numbers, but I'd like to point out the decrease in free cash flow is primarily attributable to higher gross spending relative to 2019 and the timing of a scheduled debt repayment for Deutsche Bucht, following the declaration of commercial operations at the end of March.

However, year-to-date, when we include the excess pre-completion revenues recorded in the first quarter with respect to Deutsche Bucht, our free cash flow per share was CAD1.17 up from CAD0.98 in the prior year. This keeps us firmly on track to meet our full year guidance. Strategically, we executed on a number of initiatives during the quarter intended to strengthen our competitive position and enhance our growth objectives.

We strengthened our internal capabilities with the addition of Wendy Franks to our Senior Management Team. As Executive Vice President of Strategy and Investment Management, Wendy will be responsible for providing leadership in business strategy, investment management and making strategic investments in growth opportunities across new technologies for the business.

We also bolstered our capabilities with respect to our sustainability initiatives, with the addition of a new Director of Sustainability, and we added leadership to drive the origination of commercial and industrial power purchase agreements.

Subsequent to the end of the quarter, we successfully closed a CAD465 million permanent financing for our EBSA utility, allowing us to repay the balance on the 12-month bridge loan facility that was used to acquire the asset as well as credit facilities at the utility. We also repaid a portion of the balance on our corporate credit facility to provide us with additional liquidity and financial flexibility.

We finalized the Power Purchase Agreement for the acquisition of EBSA upon receiving final regulatory approval of EBSA's proposed tariff by local regulators. The final price was COP2.5 trillion or approximately CAD1 billion, which was adjusted from the COP2.4 trillion or CAD960 million price we reported on January 14, 2020, upon closing of the acquisition.

As communicated previously, pursuant to the share purchase agreement, the final purchase price was subject to post-closing adjustments following a review of the final tariff resolution in the event of a deviation from the proposed tariff.

At La Lucha, our construction activities continue and the project remains on track for completion in the second half of 2020. While COVID-19 associated restrictions did affect the completion timing somewhat, activities continue and we are still confident that the project will be completed later this year.

As our first project to be underpinned by commercial and industrial customer offtake agreements, we are progressing to secure these offtake agreements for La Lucha. We expect to secure them to our qualified supplier, NP Energia, closer to project completion later this year.

At our Hai long offshore wind project in Taiwan, the team continues to make progress, work continues on securing power purchase agreements for the remaining 744 megawatt allocation secured under an auction process. Recent events in regards to agreements with commercial and corporate offtakers have certainly highlighted the very favorable market in Taiwan for corporate PPAs. This was a positive signal to the market of the growing demand for renewable energy by the leading global corporations and for Taiwan to now have one of the world's largest commercial PPAs signed is a great step.

Hai Long through our auction projects has the option -- also has the option to pursue commercial PPAs. And this is of course part of our strategic options. To be clear, the 744 megawatt auction projects have met all the requirements for the utility PPAs tied to those auction bids.

As the world continues to transition to green energy, we see considerable opportunities ahead of us in the coming years for our business to grow. We have established a local presence in multiple global regions through our regional development offices and have bolstered our capabilities to compete. Leveraging our global presence and capabilities, we continue to source development and M&A opportunities to position ourselves to grow our portfolio and deliver returns for our shareholders.

To put this in perspective, our offshore wind projects [ph] in Asia, the projects we have identified present nearly 2.6 gigawatts of growth potential for us and could double the amount of current generation capacity for the company. We also look to leverage our existing platforms that we've established now in the Latin America to source further growth opportunities in Colombia and Mexico. And our teams continue to look for additional opportunities in other key markets that we have identified where Northland will look to establish a presence.

I will now turn the call over to Pauline for a more detailed review of our financial results.

Pauline Alimchandani {BIO 16319027 <GO>}

Thank you, Mike, and good morning, everyone.

Last night, Northland Power released operating and financial results for the second quarter of 2020. We generated adjusted EBITDA of CAD227 million in the second quarter, which was an increase of CAD32 million or a 17% increase from a year ago. The primary drivers behind the increase in adjusted EBITDA year-over-year included the additional contribution from our Deutsche Bucht project which achieved commercial operations at the end of March and EBSA, which was consolidated from the closing of acquisition on January 14th of this year. These two projects contributed approximately CAD54 million in incremental adjusted EBITDA in the quarter. These results were slightly offset by a CAD12 million decrease in operating results at our Gemini and Nordsee One facilities in the North Sea, primarily stabling from lower wind resources during the quarter combined with continued weakness in the wholesale market prices at Gemini and unpaid curtailments at Nordsee One due to unscheduled grid repairs.

Thus far in 2020, we have seen weakness in wholesale market prices and a higher level of negative pricing and unpaid curtailment. Year-to-date as disclosed in our MD&A, we have experienced approximately CAD46 million of losses from unpaid curtailment due negative pricing and grid repairs at our German wind farms and lower market pricing at Gemini.

While the majority of these experienced losses are due to market related conditions and grid repairs, some of which have been reflected in our annual guidance. There are a multitude of factors that impact our performance and we will be able to provide additional color next quarter on a narrowed guidance range.

Also included within our second quarter results our for development expenditures of approximately CAD13 million primarily relating to our Hai Long offshore wind projects, up from CAD5 million in the prior year.

With respect to free cash flow, Northland generated a total of CAD17 million or CAD0.09 per share in the second quarter. This represents a 55% decrease on a per share basis from the second quarter of 2019. The primary driver behind the year-over-year decrease in free cash flow was a CAD41 million or CAD0.18 per share scheduled increase in principal payments primarily attributable to Deutsche Bucht.

Following the declaration of commercial operations at the end of March, the project's first scheduled principal repayment occurred in June. The payment was infinitely amortized between Q1 and Q2 in the amounts of CAD0.18 per share for quarter. Also contributing to the lower free cash flow year-over-year was a higher level of project development activities mainly attributable to Hai Long as previously discussed.

As we outlined in February, when we provided our 2020 financial guidance, Northland allocated a higher level of spending on its development expenditures, primarily at Hai Long. For 2020, development expenses are expected to total CAD0.45 to CAD0.50 of 2020 free cash flow per share, including development costs and overhead, which represents an increase from a total of CAD0.24 per share in 2019. Thus far in 2020, development expenditures have amounted to CAD0.17 per share.

We expect to commence capitalization at Hai Long in the second half of 2020 as the project is continuing to advance. By Q3, we will provide more of an update with respect to our development expenses for 2020, however, at this time they remain unchanged from guidance.

Our rolling four quarter free cash flow payout ratio calculated on a cash dividend basis for the period ended June 30, 2020 was 62%, up from 58% last year. With respect to our financing activities, we successfully completed a number of transactions in the quarter that were intended to increase our corporate liquidity and enhance our financial position.

On May 11th, we completed the early redemption of our Series C convertible debentures, which were due June 30, 2020. Of the CAD149 million of principal outstanding, a CAD147 million worth of debentures were converted into approximately 6.8 million shares with the remaining nominal amount redeemed in cash.

Also in the quarter, we announced the signing of an agreement for the permanent financing for EBSA for an aggregate amount of approximately CAD465 million. The permanent financing included a Canadian dollar tranche and a Colombian peso tranche for an initial two-year term, which Northland expects to renew annually.

The two facilities carry a blended interest rate of approximately 5.3% and provide Northland with the ability to right-size EBSA's capital structure annually by increasing leverage commensurate with expected increases in EBSA's adjusted EBITDA. The financing closed in early July.

On June 30th, we further enhanced our corporate liquidity with the completion of the upsizing of the debt on our North Battleford facility, which resulted in gross proceeds of CAD52 million at an effective interest rate of 2.1%. These net proceeds were regenerated opportunistically and will be used for general corporate purposes and to help fund growth.

As outlined in our news release yesterday, Northland announced a change to the discount rate applicable to its dividend reinvestment plan, whereby common shareholders and Class A shareholders may elect to reinvest their dividends in common shares of Northland at a 3% discount from the previous discount as nil. This changes effective with the dividend currently scheduled to be paid on September 15, 2020, to shareholders on -- of record on August 31, 2020. Northland remains in a very stronger liquidity position and the dividend reinvestment program is intended to supplement the funding of select growth initiatives that are continuing to progress.

Turning to our 2020 outlook. I want to make a couple of comments and provide some details on our adjusted EBITDA and free cash flow per share guidance. As we have noted earlier, our business strategy remains focused on enabling us to meet our commitment to our shareholders despite the implications of COVID-19. The strength of our balance sheet and stability of our cash flows, which are underpinned by long-term revenue contracts combined with ample liquidity, positions well both from a defensive perspective and to pursue growth opportunities. Our 2020 guidance remains unchanged at this time. We continue to expect adjusted EBITDA to be in the range of CAD1.1 billion to CAD1.2 billion and expect free cash flow per share to be in the range of CAD1.70 and CAD2.05 per share.

I want to take a moment to highlight our DBU, debt assumptions, that are included within our guidance. As I noted earlier with the achievement of commercial operations at the end of March, we are working to restructure the project's EUR1.5 billion senior debt. Although we paid the first EUR46 million principal debt amount in June, our 2020 guidance assumes we are successful in re-sculpting our amortization schedule such that the December payment of approximately EUR38 million as deferred.

We are continuing to evaluate if this is the most optimal decision for us and will provide an update during our Q3 results. We typically set funds aside for scheduled debt, principal repayments. For reporting purpose, we allocate semi-annual repayments evenly across two quarters for purposes of calculating free cash flow. For 2020, Northland share of Gemini and Nordsee One annual principal repayments are expected to total EUR82 million and EUR80 million respectively. We have included this disclosure in our MD&A for better transparency in forecasting free cash flow.

Before I turn the call back over to Mike, I wanted to quickly touch based on our balance sheet and available liquidity. We have a strong balance sheet and ample excess liquidity available which was further enhanced with two facility level financings completed in the quarter. At the end of the quarter, we had access to CAD561 million of cash and liquidity comprising CAD106 million of corporate cash on hand and CAD455 million of liquidity available on our revolving facility to help us pursue growth initiatives. This was an increase from CAD423 million available at the end of the first quarter.

With that, I will now turn the call back over to Mike for his concluding remarks.

Mike Crawley {BIO 19260915 <GO>}

Thank you, Pauline.

In closing, I wanted to highlight that while our primary focus during these times is the health and safety of our employees and all stakeholders. We also feel a great sense of responsibility to continue delivering electricity under our long-term offtake agreement and concessions. Our efforts continue to focus on ensuring our facility to operate at the highest levels of availability delivering the essential power that our offtake counterparties rely on and need. We've taken measures to enhance our financial flexibility and liquidity as Pauline is outlined to whether the current environment and to ensure that our business remains resilient.

Lastly, by leveraging our financial flexibility, extensive development expertise and knowledge, we will continue to identify and develop future opportunities to further expand our global development footprint and enhance Northland's growth.

That concludes our prepared remarks. We'd now be happy to take your questions. Thien, please open the line for any questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Your first question will come from Sean Steuart with TD Securities. Please go ahead.

Q - Sean Steuart {BIO 3363023 <GO>}

Thank you. Good morning. A couple of questions to start with. First on the unpaid curtailment in Germany. I think the MD&A referenced 28 days for each facility potentially. Can you give us an idea of where we are in relative to that that maximum for each facility and what we might expect to see in the third quarter with respect to the grid repairs I suppose specifically?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. So, we'll get you these exact numbers in just one second, Sean. But with respect to Deutsche Bucht which had significant unscheduled outage in the second quarter, most of the unscheduled days have now been used up. So, we don't anticipate any significant outage or unscheduled outage that would be uncompensated for the rest of the year.

On Nordsee One, there are still almost a full allotment of unscheduled days available for the rest of the year. I would say one thing on both of those projects, is that what we've seen in both respects, is that early on, with some of the new infrastructure from the transmitter, there have been some what we kind of characterized as teething [ph] issues that have been worked out and we saw that with Nordsee One earlier, not long after that project was commissioned, and we've obviously seen a lengthy outage this quarter with Deutsche Bucht.

So me -- no guarantee Sean, but I think it is in our view certainly a non-recurring event, and the nature of new infrastructure that once it begins operating, the transmitter sees what's wrong. We don't always get a ton of transparency or disclosure of exactly what went wrong from the transmitter. But certainly our experience with Nordsee One is that early on, there's some issues, but then it tends to normalize.

Q - Sean Steuart {BIO 3363023 <GO>}

Thanks Mike for that. You mentioned Hai Long 2B and 3 that going down the path of securing commercial agreements to augment the capacity awards already. Can you just give us an idea of how that might look how you merry those two together? So to come up with a full contract structure for those projects?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. So both of those projects totaled 744 megawatts, had to complete their permitting in order to execute their PPA with Taipower, the utility, right. And so that's the process under the auction that we've been into and the PPAs would be at the price that we bid into that auction. We have -- both those projects now have met all the permitting requirements to sign the PPA. It was disclosed in our earlier call that we have held off on signing PPA because we've been told by Taipower that they're bringing out a new PPA, which will have some advantageous terms or some preferable terms in it.

Including, we believe the ability to kind of step in and step out of that PPA and enter into commercial offtake agreements, but still use the Taipower PPA as a floor if you will right, or as a backstop. We haven't seen the draft yet, and then we're told that it's still coming. It's not the biggest priority given the projects don't come online until 2025. So -- and they don't go to FID until 2022, but we're told that it's coming, so we're waiting for it. We expect it to come this year.

So that's -- once we have that new draft, the PPA, we would then move to execute on the Taipower PPA. At the same time, we've been in discussions with commercial offtakers for a commercial PPA for those projects which you'd expect would have to be at enhanced economics, otherwise we wouldn't enter into that. So, that's what's going on right now.

David Povall is on the line, he's closer to it. But is there anything that I have left out, David?

A - David Povall {BIO 21174053 <GO>}

No. Thank you, Mike. No, you've covered it well. So, basically the key works team there continues to be a main focus of the business that you referenced in your introduction. Of course, we've boosted the team as well to bring more capacity in to help deliver that. So it remains on track, and hopefully more to report in the second half of the year.

Q - Sean Steuart {BIO 3363023 <GO>}

And on the commercial side, with the idea be similar to what Orsted did with the semiconductor company, find one big partner, or do you syndicate that across a number of different offtakers?

A - Mike Crawley {BIO 19260915 <GO>}

That's one option to find one offtaker. There's a simplicity to that. There may also be better economics around syndicating at across a number of different offtakers. So, those are the options that we're considering right now. But in our view at this point, both options are available and are being explored.

Q - Sean Steuart {BIO 3363023 <GO>}

Okay. I will get back in the queue. Thanks very much for the detail.

A - Mike Crawley {BIO 19260915 <GO>}

Thanks Sean.

Operator

The next question will come from Nelson Ng with RBC Capital. Please go ahead.

Q - Nelson Ng {BIO 16615616 <GO>}

Great. Thanks. Just a quick follow-up to Sean's question in terms of curtailment. How does the curtailment look in Q3? Obviously, there's less grid outages, but how does it look from a negative pricing perspective?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. So on negative pricing, what we've seen as the lockdown in Europe has kind of come to an end in May, roughly as probably about a month ahead of North America, certainly a month ahead of Canada, we've seen demand start to pick up. And it is probably tough to say during the summer, because summer isn't usually when you see a negative pricing. But certainly we're seeing kind of conditions return more back to normal which would lead us to believe that assuming there's not a subsequent lockdown or anything like that in Europe this fall that we would expect to kind of move back to what our budget assumptions were for uncompensated curtailment related to negative pricing.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. And then just to clarify the DBU grid outage repair. That was that was fully in Q2, and it didn't drag on into Q3.

A - Mike Crawley {BIO 19260915 <GO>}

A few days into Q3, mostly in Q2.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. All right. And then a quick question on the EBSA financing. How large was the Canadian dollar tranche of that? And then also, can you give a bit more color as to that the two-year term, but why two years versus the longer term?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Sure. The financing was about half and half split Canadian dollar and Colombian tranche. And so I think with the term, we are going to work with our lender group to increase term on that facility. And I think we have to remember the conditions that we were in, market conditions we were in, when we when we got this financing done. I think it's a testament to Northland and EBSA itself. And so the term was slightly shorter than what we would like, but hopefully going into to next year, we'd look to lengthen term on that facility. But we plan to renew it annually, and part of the strategy around that is because we have annual increases in EBITDA. So that it allows us to recapitalize the project on an annual basis.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. And then just one more question for you, Pauline, before I get back in the queue. You mentioned that you're looking to restructure the DBU debt. I think for the other offshore wind facilities, you also took or reduced the credit margin or the spread, like are you also looking to do the same for this as well?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes, subject to market conditions, which we're looking at and will form part of our evaluation in deciding to move forward with this refinancing.

Q - Nelson Ng {BIO 16615616 <GO>}

Okay. Great. Thanks. I'll get back in queue.

Operator

The next question will come from David Quezada with Raymond James. Please go ahead.

Q - David Quezada {BIO 18613628 <GO>}

Thanks. Good morning, everyone. My first question here is on La Lucha, and I guess renewables in Mexico more broadly. I know there have been some issues with the government there and their stance on certain foreign investment on renewable projects. Is La Lucha kind of outside of that? Because you'll be looking for commercial offtake agreements. I'm just wondering if you see any challenge there, and how it colors your thoughts on future developments in the country?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. I mean, I'd say, La Lucha has not been completely unaffected by some of the decisions and positions the government has taken. As you recall, when the new government came in and new the administration came in, they canceled the auctions for -- centralized auctions for renewable power, which by that point we decided we weren't pursuing anyway. So that had no impact on us, and in fact in our view, given our business plan that was probably preferable in a way, because it meant there was less -- low-cost renewables coming into those centralized auctions and supported our business plan to pursue corporate offtake for renewables, for our renewable assets.

Now, what they've done more recently, David, is a few things to -- during the economic lockdown or COVID-related lockdown they've done a couple of things to inhibit the interconnection of new renewable assets, during that lockdown period. There were injunctions filed by ourselves and by others, even though we were going to be connecting after the lockdown is over, but a number of generators including ourselves filed injunctions and with courts and the decision essentially was quashed or was stopped.

And there was another effort from the administration to frustrate private power companies that was similarly stopped by injunctions through the courts by private power companies. So, I mean what's going on is there's a couple of attempts to do things to frustrate private power companies, but more specifically to try and advantage and protect CFE, and to help Pemex find a customer for some of their fuel oil through the CFE, the utility. And so far by and large, the courts have prevented the governments from taking these actions, and will continue to kind of work in concert with other generators, if further attempts are made.

I would say that the real target of the government is to preserve some market share, level of market share for the CFE is much as we can tell, and the kind of target as well as probably some of the larger generators, private generators in Mexico. So given that we right now are building a 130 megawatts of solar and we've got relative to the total installed capacity of Mexico, fairly modest goals in terms of build out in the next few years. I think in the end, the situation will regulate itself.

Q - David Quezada {BIO 18613628 <GO>}

Okay. Great. That's good color. Thank you. And then maybe just one more for me. The -- substantially is the bigger turbines at Hai Long 2A. Just wondering how you see that potentially affecting, if at all, the return profile of the project, any ballpark on cost savings, and I guess how you look at the kind of risk reward of making that move?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. I mean, overall, it would be an enhancement to the project economics. But offshore wind, if you have fewer turbine locations by virtue of having larger turbines, it really does significantly reduce your installation costs, but also your operating costs as well and your balance of plant infrastructure, you don't need as many cables to interconnect the turbines and so on.

So, it is definitely a positive step. And we take some comfort that the turbine is an evolution on a current platform that SGRE, or Siemens Gamesa, has already been using for several years, and where there's a number of turbines already, a lot of turbines already operating on that platform. It just sailed it up a bit. So yeah, so it's overall a positive for the project.

Q - David Quezada {BIO 18613628 <GO>}

That's great. Thank you very much. I'll get back in the queue.

Operator

The next question will come from Rupert Merer with National Bank. Please go ahead.

Q - Rupert M. Merer {BIO 15394525 <GO>}

Good morning, everyone.

A - Mike Crawley {BIO 19260915 <GO>}

Good morning.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Good morning.

A - Mike Crawley {BIO 19260915 <GO>}

Hi, Rupert.

Q - Rupert M. Merer {BIO 15394525 <GO>}

To start with EBSA. So you saw a revision to the regulated tariff in the quarter. Can you give us more color on what that new tariff looks like? Are there any big changes since the first time we discussed this asset, number one to go? And maybe, you could give us the ROE and EBITDA forecast for this year.

A - Mike Crawley {BIO 19260915 <GO>}

I mean, yeah, I mean, the tariff change, so there's the original submission, there was what was originally approved back in December by the regulator, and then an appeal was submitted by the prior owner, right. And then we finally got the decision. So the decision ended up as these things often do. Some are between the two goal post of what was submitted by the prior owner of EBSA and what was originally proposed by the regulator or approved by the regulator in December.

So to some extent, kind of split the difference. So in terms of our economics on the project, the economics on the project I think from original FID have improved marginally from our standpoint. So, we're kind of by and large steady-state. It's just some movements around in terms of what was approved and what was not approved within the total filing.

Q - Rupert M. Merer {BIO 15394525 <GO>}

There's a follow-up to that. It sounds like you're looking at mid-single-digit growth in rate base over time. Is that correct? So should we be remodeling about CAD20 million to CAD40 million in growth CapEx per year there?

A - Mike Crawley {BIO 19260915 <GO>}

Go ahead, Pauline.

A - Pauline Alimchandani {BIO 16319027 <GO>}

We provided the sustaining CapEx component of approximately 3% to 4% of the ROB, which is about CAD20 million per year. So we provided that disclosure in the MD&A, and the growth in ROB is still holds, its correct.

Q - Rupert M. Merer {BIO 15394525 <GO>}

Okay. Great. And then secondly, going back to Taiwan. You talked a little about the potential for moving to larger turbines. Wondering if you can give us some more color on the overall supply chain development? What work is left to do there, and how is the supply chain meeting your expectations, and maybe how supportive it is of your hurdle rates?

A - Mike Crawley {BIO 19260915 <GO>}

Sure. I'll let David speak to that.

A - David Povall {BIO 21174053 <GO>}

Thanks Mike. Yeah. I got a little bit of color to that. The main focus for the supply chain at the moment is I think we've talked on previous calls is we have a number of other projects, the localization requirements for the first project, the smaller project. And that's key focus of the team at the moment to work through that. But that's really as you imagine, is getting as close to the local supply chain, and that we're making good progress, and we'll be able to close it out in the second half of this year which is positive.

To the broader supply chain, I mean, obviously Taiwan is maturing. There's a number of projects that have gone ahead of us. And so they've done some of the leg work in terms of bringing that supply chain up the learning curve. And so I'm not seeing any significant headwinds in terms of unlocking value, and as we touched on to the previous question, the 14 megawatt turbine, it's very rare, I've never worked on a project where bringing in a larger turbine hasn't resulted in improving growth economics. I don't see any difference here and obviously working with the strength of, it seems to the matter, continues to boost that level of confidence we have.

Q - Rupert M. Merer {BIO 15394525 <GO>}

That's great. I'll leave it here. Thanks for the color.

Operator

The next question will come from Mark Jarvi with be CIBC Capital. Please go ahead.

Q - Mark Jarvi {BIO 17314717 <GO>}

Thanks. Good morning, everyone. I want to turn to Europe here. At some point, I think there was mention a couple years ago about maybe monetizing the transmission assets at Gemini. Now, there's conversations around Energy Islands in the North Sea. So just maybe help us understand how you think that as a strategic asset and think about at some point monetizing any of that or other interest in the offshore wind facilities in Northern Europe?

A - Mike Crawley {BIO 19260915 <GO>}

Well, there's certainly is a great deal of an interest in investing in offshore wind, operating offshore wind assets in Northern Europe in general, and we certainly regularly get approached on that. For Northland obviously, we would have to have some specific use of proceeds, if we were to consider any kind of monetization or any kind of sell down of those assets going forward, but certainly is as a lot of investor interest, an increasing investor interest in offshore wind assets.

Q - Mark Jarvi {BIO 17314717 <GO>}

So obviously, you have sort of control on timing if you wanted to access that. But just wondering again on the transmission at Gemini, whether or not there's anything, you're seeing increased value around that line, given what you were trying to do in terms of expanding the network?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. I mean, we're currently not looking at monetizing or divesting the transmission line to Gemini.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay. And then you can just turn to other opportunities around offshore. Just maybe Japan starting to move forward, just minus again, whether or not you can participate in the initial auctions or whether or not you have to wait for the region that we guys are located with your partner in Chiba? And then whether or not, Poland is still a market that you're circling and interested in?

A - Mike Crawley {BIO 19260915 <GO>}

For sure. I mean, David, can speak to all of that well.

A - David Povall {BIO 21174053 <GO>}

Thank you, and happy to do that. Thanks Mike. Yeah. So, starting off with the Japan one. So, yes the project which we have a partnership -- partner in Chile, the project team in Chiba, that's one that is not designated by the government in the first two rounds. So, you're right in that, we won't be participating in those first two rounds with that project. But it's probably not a great surprise to you to say that with the skill sets and the experience that we have as the strong offshore wind developer, there is some interest from parties for us to participate in their earlier round projects, where they have projects that are able to participate in the early rounds. So nothing to reveal on this call, but obviously we will continue those discussions and hope to unlock earlier opportunities. If we can do that, and it works for us in terms of our participation. So yeah, that's how I see Japan playing out.

You mentioned Poland, I mean, I brought it how to -- we look to continue to expand our offshore portfolio. Poland yes, you're absolutely right. There are opportunities there which we hope to pursue. And I could probably identify a number of other markets where we also continue to look to see if we can add more offshore wind assets into the portfolio, which is very much the strategic direction at the moment.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay. That's great. Thanks David. And then my last question maybe just around something else, and something like PPE and some of the large oil majors getting more involved in clean energy. And obviously, you guys have sort of a competitive niche in advantage and some history around this. How do you see the new entrants coming in? Does it impact what you see as your opportunities serve the next five years? And then, is there an opportunity to partner with any of them? There have been dialogue around that.

A - Mike Crawley {BIO 19260915 <GO>}

Yes. It's interesting. So the oil and gas majors can either be fall under the bucket of shredder opportunity right, in terms of offshore wind, because where they come in, they can often be quite aggressive players. So our overall strategy, as you know, has been to gain control of offshore wind projects at an earlier stage, so that we can then be in a position to bring investors in including oil and gas majors as partners, as the later -- as the value of those projects increases as we move them through permitting and other milestones.

So where we kind of see us -- where we see a situation where we'd be competing head-to-head like in the Northeast or the U.S. with oil and gas majors for a lease, that is usually where we kind of tend to back away, because we see them bidding in very aggressive ways for leases. And so those types of constructs we try and avoid where we can get control over the projects early like I said and bring them in as a partner once more value has been created, then that is something that we would -- we'd see as an opportunity for Northland.

Q - Mark Jarvi {BIO 17314717 <GO>}

Well, safe to say Mike, that largely even with some of the new statements, really nothings really changed in terms of how you guys see yourself working amongst all the other competition.

A - Mike Crawley {BIO 19260915 <GO>}

Not at this point. I mean, we continue to obviously talk to various players in the market, including oil and gas majors. But no, I'd say there's no fundamental change from how I described what we're doing to pursue offshore wind investment opportunities.

Q - Mark Jarvi {BIO 17314717 <GO>}

Okay. Thanks for the answers. Appreciate it.

Operator

The next question will come from Ben Pham [ph] with BMO. Please go ahead.

Q - Benjamin Pham

Okay. Thanks. Good morning. I wanted to ask, not sure if someone asked this, your drip -- you reinstated one of the top processor or driver of that -- rig the samples around select growth initiatives, anymore context beyond that would be appreciated.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yeah. It's exactly that Ben, say, give us some additional flexibility to pursue growth, which is very much a part of our core strategy with respect to offshore wind.

Q - Benjamin Pham

Okay. But it sounds this isn't -- I mean, is this more Taiwan you thinking here, or is this more possibly signaling that there's a lot of activity -- a lot of business development going on and there could be some more to come?

A - Mike Crawley {BIO 19260915 <GO>}

We are -- as David mentioned earlier, we are looking at other offshore wind opportunities in markets around the world. Typically, well, as you've seen what we've done more recently is move into new emerging markets -- not emerging markets, new emerging markets for offshore wind, where we can get control of our projects early on. And then as it moves forward and as we create more value, bring partners in. So yeah, so I think you should expect that David is looking at a number of those opportunities around the world currently.

Q - Benjamin Pham

All right. So the pressure is on --

A - Mike Crawley {BIO 19260915 <GO>}

That's why I invited him on the call.

Q - Benjamin Pham

So if I'm -- can I ask you then either way to pick up allocation and you bringing in this --. And what's the near-term deliverable that you're anticipating merged you had that strategic cap allocation, your Investor Day -- is this is more to confirm that strategy or augment and enhance it, like what should we expect from the investor community?

A - Mike Crawley {BIO 19260915 <GO>}

Could you just repeat the question again? I think it might look at, I'm sorry, I didn't quite get it. Can you repeat it please, Ben?

Q - Benjamin Pham

Yeah. Sure. Absolutely. So you put out a strategy of where you want to invest globally and technology wise at your Investor Day. And now you've brought in Ms.Franks, I guess, to confirm to revisit that. But what is your near-term objectives, for you is it basically confirming that plan, or is there a possibility to even look beyond that, and really what should we expect from the next few months?

A - Mike Crawley {BIO 19260915 <GO>}

That's fair. That's fair. So, I mean, I think what you can expect is that, number one that, we are active as I said already, in some of the newer markets for offshore wind. And looking for where we can establish meaningful stakes in projects, probably at an earlier stage typically. So that's number one, right. And what we like about that as we've described is that typically in a new market for offshore wind, you can secure long-term PPA usually with the government or some agent of the government, as the offtaker on that PPA. So, that's number one.

Number two, is as we did believe as disclosed at the Investors Day, moving into Latin America where we like the growth characteristics of that market overall, obviously each individual market is different. And what we've -- what we're doing there is establishing what I call platforms, so mechanisms in specific countries where we can have an advantage over other competitors and where we can also secure superior returns. So whether it's in Colombia, leveraging the EBSA utility for generation or transmission opportunities, or in Mexico, establishing a qualified supplier, a power marketer, so that we can match generation from our own assets to load in Mexico. So, that's the thrust that you're seeing in Latin America, and we hope to have more to come in that regard.

And then what Wendy's remit most specifically is to look for new growth areas beyond what we would have described at the Investor Day, year-and-a-half or almost two years ago now. And so, which would include looking at renewable fuels, hydrogen storage, to see if there's a meaningful opportunity for Northland to invest capital in those areas going forward.

Q - Benjamin Pham

Okay. That's great. And then lastly, maybe wanted to see that the mono-bucket conclusion. Is it - -basically, you recovered your CapEx through the sale of the turbines. And then insurance, is it basically -- is it basic NPV neutral and the EBITDA you would have got permit of that, so how we should interpret the end result?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. I would take it. I would say that. I think the way we got to it with a combination of what you described along with completing the construction ahead of schedule and some cost savings on construction of the main project. So all told, the project ended up coming in slightly under budget and ahead of schedule.

Q - Benjamin Pham

Okay. All right. Thank you very much.

A - Mike Crawley {BIO 19260915 <GO>}

But as you described, the NPV neutral.

Q - Benjamin Pham

Okay. All right. Thanks.

Operator

The next question will come from Naji Baydoun with Industrial Alliance. Please go ahead.

Q - Naji Baydoun {BIO 21574695 <GO>}

Yeah. Hi, good morning. Just wondering if you can give us some high-level comments on any new developments in Korea? How that development coming in that you acquired the performing versus your expectation so far?

A - Mike Crawley {BIO 19260915 <GO>}

Yeah. I mean, David has been actively working with our team there on that project and other opportunities in Korea.

A - David Povall {BIO 21174053 <GO>}

Yeah. To give you a little bit of further detail on that. The project is progressing well. I guess, the first thing that when you enter into a new relationship and start working with a new partner in that case is accessing well and I'm pleased to say it. So the teams are working well. We've boosted our own team as well by adding more people into the Korean business to support that project.

And it's moving as per plan. Basically, at this stage, it's all about engaging further with local stakeholders and building those relationships which of course are essential to the success of this project, and also the wind measurement campaigns. So all tracking as expected towards the next key milestone comes early next year, where we will complete the 12 months of wind measurement and we can move forward with the next stage of the permitting. So, positive progress to report at the moment.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay. That's great. And maybe just an update on some of your -- maybe I'll call them non-offshore wind developments. Where are you looking today for some more onshore wind or solar opportunities?

A - Mike Crawley {BIO 19260915 <GO>}

Go ahead, David.

A - David Povall {BIO 21174053 <GO>}

Yeah. Yes, you're right. We talk a lot and a lot of these questions, of course, throughout the offshore part of the business, which is of course critical part of the business, but we are also looking for onshore projects. Clearly, as we had touched up before the Latin American opportunities might already to the suggested trying to leverage our opposition in Colombia through the EBSA opportunity. And so, we are seeing the first opportunities coming down on the development side of onshore renewable assets. So that's one positive area and where we're seeing more -- some growth coming, some new projects coming. Your -- so there's of course a number of opportunities, and let's call them more towards the eastern half of the European region, where there are markets that are still attractive and still opportunities that we think of values that work of, where we can unlock onshore opportunities.

And I guess also not forgetting one of the markets that are close to home, in the North American market. So again, we've been very selective in making sure we were comfortable with the parts of the U.S. that worked for us and we thought delivered value. And so we are -- we're hoping to add further assets to those we have already acquired in North America in the development stage to continue to build a larger platform there.

A - Mike Crawley {BIO 19260915 <GO>}

If you look at our Northland's cash flow right, the foundation is long-term contract, that ideally contracted with some government entity or agent of a government, so high-quality long-term cash flows is the foundation. So as you know, from talking to our our peers as well, that is less and less available with onshore renewables, that's why the company likes offshore, and why it's in our view, advantageous that we've been able to secure a leadership position globally in offshore wind, and why we're pursuing more approaches as we discussed earlier in offshore wind. So, that's number one.

Number two, on onshore renewables. There are still some markets where you can get long-term contracts. And so we are pursuing some markets like New York, where they've got a very aggressive program to procure renewables over the next decade. So, that's a market that certainly is of interest to us. Eastern Europe for the reasons David gave, you can still in certain areas, secure a long-term contract. Otherwise, with onshore renewables, it is typically more commercial offtake agreements that are underpinning, investments as from our peers as well.

So in that regard, we have increased as I mentioned at the beginning of the call, our capacity to originate such agreements, but they do need to come with a return that compensates for the different risk profile of the cash flows. And so that does again have us targeting certain markets for those, but that's overall strategy.

So high quality long-term cash flow from offshore wind and onshore renewables in select markets and otherwise, looking at commercial offtake agreements where we can get, and finding a way to where we can optimize the returns on those assets, such as what we're doing in with EPSA and with the qualified supplier in Mexico, as also described earlier.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay. It sounds like maybe some of your peers who are let's say becoming more comfortable with having more merchant exposure in their portfolios, wherever that is around the world, sounds like that's not really our strategy. You're not really looking at more merchants assets right now. Is that fair?

A - Mike Crawley {BIO 19260915 <GO>}

I think what I say is that, yeah, any IPP that's purely pursuing an onshore renewable strategy will inevitably have either shorter tenure commercial contracts underpinning their investments and/or more merchant exposure.

To the extent that we are still pursuing, which we are, incremental growth what we call tenant singles and doubles through double through onshore renewables. Yeah. We will see more of that type of cash flow at Northland, but the foundation and what we would look to see being the majority, we still expect to come from long-term government backed contracts, which we see offshore wind is providing still an opportunity for those.

Q - Naji Baydoun {BIO 21574695 <GO>}

Okay. Thanks for the details. That's great.

Operator

The next question is a follow-up from Sean Steuart with TD Securities. Please go ahead.

Q - Sean Steuart {BIO 3363023 <GO>}

Thanks. Just one follow-up. Mike, with reference to your comments on New York, there was a social media post regarding two hires you've made to further projects in New York, and I think there was a referenced to three onshore wind farms. One of which you have some context on your website of it High Bridge. Can you give us an idea of the other two projects and how you're planning to participate in the upcoming RFPs in New York?

A - Mike Crawley {BIO 19260915 <GO>}

Well, I think what I can disclose is what's public, is that there's been a filing with the -- a bit has made in New York with their regulating body to pursue the conversion of the existing REC contracts to the new IREC contracts, which is basically the prior contract was for the renewable attributes of a project. Whereas the new IREC covers both the renewable attributes and also the -- I guess the brown energy component. So it's the full revenue picture for a project is covered by the new IREC, which is designed to further encourage renewable power investments in New York state. So, that is something that we're watching closely. We are, as you know, developing projects in New York, and that certainly would be something that is of interest to us on those projects.

Q - Sean Steuart {BIO 3363023 <GO>}

Okay. That's all had. Thanks.

Operator

For final question is from Louis Baker, Private investor. Please go ahead.

Hi, guys. I have one last question regarding the impairment loss. Noted in your last annual financial statement of CAD98 million in connection with the demonstrator project. As -- (Technical Difficulty) -- you're not proceeding to recover that money?

A - Mike Crawley {BIO 19260915 <GO>}

So, I'll start off and then Pauline can add some color to that, Louis. Thanks to your continued interest and your investment in Northland. So through -- if you look at Deutsche Bucht as the overall project Deutsche Bucht which as you know commissioned at the end of or was COD, went into commercial operations at the end of March. If you look at the overall project, the two demonstration turbines were discontinued. We decided not to pursue them anymore. Through a combination of insurance, vending the -- selling the turbines back to the original turbine vendor, as well as improved economics on the project because it came in ahead of schedule and under budget. Overall, the project Deutsche Bucht comes in line with what the original economics were expected for it.

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes. And this quarter, we disclosed that we received other income of CAD32 million, with the proceeds from the insurance and from the sale of the turbine.

I didn't hear those numbers. You were breaking up -- (Technical Difficulty) -- Will you repeat it for me?

A - Pauline Alimchandani {BIO 16319027 <GO>}

Yes. So as disclosed in our press release and MD&A, we reported other income of CAD32 million, as a result of the proceeds from the sale of the turbines, in addition to the receipt of the insurance proceeds that Mike referred to.

So what was the impairment loss? Any, or was it all recovered?

A - Pauline Alimchandani {BIO 16319027 <GO>}

In totality of the whole project, there wasn't a material impact on the NPV. But if you're looking at the CAD98 million of the specific write off, we received CAD32 million this quarter.

You wrote off CAD32 million and that will take care of the subject.

A - Pauline Alimchandani {BIO 16319027 <GO>}

We can follow up with you offline, if that's helpful, in terms of reconciling what was written off and what was recorded in income this quarter, and I'd be happy to do that.

Well, I can give you a call at the office in probably during the week, if you don't mind.

A - Pauline Alimchandani {BIO 16319027 <GO>}

That sounds great.

Okay. Thank you.

Operator

At this time, I would like to turn the conference over to Mike Crawley for any closing comments.

A - Mike Crawley {BIO 19260915 <GO>}

Thank you very much for joining us today. We will hold our next call following the release of our third quarter 2020 results in November. In the meantime, we thank you for your continued confidence and support. Take care.

Operator

Ladies and gentlemen, thank you for participating in today's conference call. You may now disconnect.