Ørsted
Q2 2024 earnings call
Transcription

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Mads Nipper

Hello, everyone, and thank you very much for joining our earnings call. During the second quarter, we continued to execute on our business plan, and our Q2 earnings are supporting our guidance for the year. We continue to undertake the necessary prioritisation within our business and have seen progress on several risk mitigating initiatives. Furthermore, we see that our operations perform well. Despite continued industry challenges and an unsatisfactory project-specific issue at our legacy US offshore project, Revolution Wind, our long-term financial targets remain unchanged, and we have a fully funded business plan.

Looking at our financials for the second quarter, our underlying business continues to perform well, and our operational portfolio continues to deliver strong earnings. EBITDA, excluding new partnerships and cancellation fees, totalled 5.3 billion DKK in Q2, an increase of 59 % versus Q2 of 2023. The main driver for this increase was higher earnings from our offshore sites, driven by ramp-up from new wind farms and higher wind speeds. Earnings from offshore sites amounted to 4.4 billion, an increase of 40 %, compared to the same period last year. For the first half of the year, EBITDA, excluding new partnerships and cancellation fees, increased by 2.5 billion to 12.8 billion DKK.

Over the past quarter, we have commissioned around 2 GW of renewable capacity. The commissioning of Greater Changhua 1 and 2a, South Fork, Eleven Mile and Helena Energy Centre will be providing clean energy across two different continents. This is a significant contribution to our long- term targets for renewable capacity, where we aim to reach around 35 to 38 GW by 2030. In addition to our installed capacity of 17.6 GW, we are currently constructing 7.6 GW of renewable capacity across our offshore and onshore projects.

In the second quarter, we took the final investment decision of a 300 MW battery storage system, co-located with the onshore converter station for our Hornsea 3 offshore wind farm. We expect that the increase of renewable energy in the future will lead to increase intermittency and fluctuation of interplay power prices, which will support the value creation of the business case. Battery energy storage systems are often part of solar PV projects, but we see integrated solutions being increasingly interesting.

Last week we announced our first partnership agreement into standalone storage, as we teamed up with Mission Clean Energy. The partnership will advance four standalone battery energy storage systems across the US Midwest, with a potential capacity of 1 GW. We see this partnership as a way to complement our existing development efforts, while broadening and diversifying the portfolio of technologies that we can offer to utilities and other customers.

For Sunrise Wind we signed our OREC PPA with NYSERDA, and in addition, we received the Construction and Operations Plan approval. With this final federal approval, we have officially begun the construction of the 924 MW project on the US East Coast, which will generate enough renewable power to nearly 600,000 New York homes. With these milestones in place, we completed the acquisition of Eversource's 50 % share of Sunrise Wind in July, and now have full ownership of the project. Additionally, we have concluded the divestment of our onshore platform in France, and share in four US onshore projects, in line with what we announced earlier this year.

From a strategic portfolio point of view, we have taken the decision to cease execution of the liquid e-fuels project, FlagshipONE, and deprioritise our immediate efforts within the liquid e-fuel markets. The industrialisation, as well as commercial development of the offtake market of liquid e-fuels has progressed significantly slower than expected. As a result, we have not been able to make long-term offtake contracts at sustainable prices. Combined with higher project costs, this development, as well as our strategic focus on prioritising growth options with the highest potential for value creation, have led us to take the prudent decision to discontinue the project and reprioritise our efforts in Power-to-X.

We remain fully committed to our efforts within green hydrogen, which is closer to our strategic goal, and where we currently see a higher potential for value creation. The decision to cease the execution of FlagshipONE has led to a provision for cancellation fees of 0.3 billion DKK and impairments of 1.5 billion DKK. We finalised the negotiation of several contracts related to Ocean Wind 1 and settled a claim with the State of New Jersey at better than assumed terms. These settlements of cancellation fees lead to a positive EBITDA impact of 1.6 billion DKK. At the same time, valuation indications for Ocean Wind seabed have led to an impairment of 0.6 billion DKK in the quarter. The net impact of these effects amount to a net positive EBIT impact of 1.0 billion for the quarter.

We maintain our full-year EBITDA guidance of 23 to 26 billion DKK, excluding earnings from new partnerships and impact from cancellation fees. We have increased our expected earnings within offshore compared to beginning of the year, while lowered our expected earnings in bioenergy and other. At the same time, we have lowered our gross investment guidance by 4 billion to 44 from 48 billion DKK, driven by timing effects pushing Capex spend into 2025.

Let's turn to slide four, where I'll give a status on our construction projects. Despite our continued focus on project execution and our dedicated work to de-risk our construction portfolio, we have seen an unsatisfactory project-specific issue leading to a delay on the construction schedule of our legacy US offshore project, Revolution Wind. At Revolution Wind we have seen encouraging progress on several of the risk mitigations we have been addressing, including monopile fabrication, as well as securing availability and flexibility of installation vessels.

The offshore construction activities are on track, with 44 out of the project's 67 monopiles installed as of this week. However, one of the risks we had identified as part of the risk review has materialised during the quarter as the construction of the onshore substation, which is part of the onshore scope handled by our partner, Eversource, will be delayed. The cause of the delay is mitigating actions needed to address higher than anticipated level of soil contamination. While we were aware of contamination at this site, given its past use as a Naval disposal facility, the comprehensive analysis from Eversource as part of the early construction work, have shown that the level of contamination and its impacts to the project schedule are more substantial than anticipated.

As a result, an update to the site design was required, which has resulted in a delay to the onshore construction activities. Based on this development, we now expect the commissioning of Revolution Wind to be delayed to 2026. We will be working closely with Eversource to explore all mitigations to improve the schedule and minimise the financial impact. As a result of the delay and increased costs relating to extending the construction period, we are booking an impairment of 2.1 billion DKK, for which the majority is related to the delayed revenue profile. As we have previously indicated, the project did not satisfy our lifecycle spread to WACC requirement at the point of the FID. But despite these developments, we do see a positive value of the project on an absolute IRR level, as well as an attractive forward-looking return. And we remain committed to constructing Revolution Wind as part of our wider northeast portfolio of projects.

Turning to the remainder of the portfolio, which have progressed over the past quarter. For our German programme, we continue to progress towards commissioning of Gode Wind 3, where we have completed the construction of the project, reached first power of 21 out of 23 turbines, and are now undertaking the final testing to commission the wind farm within the next one to two months. As part of the installation of Gode Wind 3, we have successfully developed and used a first-of-its-kind noiseless monopile installation technique, which enables a further reduction of the potential impact from construction activities on the marine environment, as well as constructing in a more cost effective way once adopted at scale.

For Borkum Riffgrund 3, we have progressed well with the monopile installation and more than one third of the turbines are installed. While the majority of the monopiles have been installed already, the fabrication of the final ones remain on a tight schedule. Our key focus is to progress the timely ramp-up of the remaining monopiles and potential mitigations. The project continues to progress on a compressed schedule, and we expect to commission the project in 2025. We are progressing the construction of Greater Changhua 2b and 4, and expect to start the installation of foundations of turbines in the first half of 2025. In terms of vessel capacity, we're encouraged with regards to the vessel availability and continue to monitor the situation closely to ensure timely delivery.

Our Sunrise Wind project has entered the construction phase, with the onshore construction phase progressing according to schedule. This includes good progress on the onshore converter station, where the civil phase has been completed, and majority of concrete foundations and key buildings are well progressed. The offshore installation work is expected to commence in 2025, but we do see an increased risk of project commissioning slipping from the end of 2026 and into the first half of 2027. This risk relates to equipment installation and commissioning of the first-ever US offshore HVDC system and the export cable. This potential delay in commissioning does not have a material impact on the business case, as we can absorb the changes within the construction scope, and our team is working on mitigation strategies to address the risk.

The other key item on a critical path towards COD is the supply of monopiles. And I'm pleased to say that the production of monopiles for Sunrise has already started and progressing according to the updated schedule. This supply chain situation for foundations remains tight in the medium term, due to the many new facilities. And we are following the progress closely, working with our suppliers to mitigate delay risks.

In the UK, we continue to progress the 2.9 GW Hornsea 3 project according to plan, following the FID in December of last year. As a part of the FID, we have also submitted a portion of the project's capacity into the recent CfD allocation round in the UK, and are awaiting an outcome from the UK government in early September.

In onshore, the construction of our European portfolio is progressing well, with construction work ongoing in Germany and Ireland. In the US, we are currently constructing Mockingbird of 471 MW, as well as the last part of Old 300. The construction of the two solar PV projects shows good progress with commissioning expected in Q3 this year. And we have an attractive backlog of onshore development projects, which we expect to bring to FID towards the end of 2024 and early 2025 to support the continued growth in our onshore business.

And with that, let me hand over the financials to you, Trond.

Trond Westlie

Thank you, Mads, and good afternoon, everyone.

On the second quarter results, let me start with slide five and the EBITDA for the quarter. For the presentation, all numbers are quoted in Danish kroner.

For the group we realised a total of EBITDA of 5.3 billion, excluding new partnership and cancellation fee. This was 2 billion higher than the same quarter last year, with offshore sites being the key driver for the increase. Let me walk you through the main earnings developments for the quarter.

For our offshore sites, earning increased by 1.3 billion. This was driven by ramp-up generation, higher prices on our green certificates, improved earnings from our power trading activities, as well as strong wind speeds. At our Q1 update, we flagged an issue with the electrical infrastructure for the transmission cables at Hornsea 1 and 2. As expected, this has resulted in lower availability during the second quarter. The remedial work has been performed, and the issue is repaired in line with our expectations during Q2.

Earnings from our existing partnerships were limited and lower compared to the same quarter last year, where there was a benefit from adjustments of provisions towards partners. For onshore earnings increased to around 200 million due to ramp-up generation, as well as higher wind speeds. Within bioenergy and other, earnings from our CHP plants increased by around 300 million as a result of higher heat generation and compensation received from Energinet for keeping three of our Danish power stations operational until August.

Within our gas business earnings improved compared to last year. Last year we saw a temporary negative effect from revaluation at our gas storage, which was not repeated to the same extent this year. As we have announced, we have finalised negotiation with the State of New Jersey and several contracts at better than assumed terms, leading to a reduction in our provision and an equivalent positive EBITDA impact of 1.6 billion relating to the Ocean Wind contracts or the provisions.

In addition, as a consequence of our decision to cease the execution of the FlagshipONE project, we expect to incur a cancellation fee of 300 million, and as such, we have a total net provision reversal of 1.3 billion in the quarter. Including changes in our estimates for cancellation fees, the quarterly EBITDA is totalling 6.6 billion of profit. Let's turn to slide six.

Adjusted for cancellation fee and impairments, our net profit total 800 million, which is 1.3 billion higher than last year, primarily driven by higher underlying earnings. While the reported tax rates for the quarter is impacted by impairments and not being tax deductible, the underlying tax rate for our business activities was 22 %, and thus in line with previous quarters. Our reported net profit was a negative 1.7 billion, adversely impacted by the impairments.

As Mads mentioned on Revolution Wind, the project's delayed onshore installation schedule has resulted in an impairment. As you are aware, we have had to recognise the impairments of our US offshore projects in the past. That means that the projects do not carry any headroom in the impairment analysis of our legacy US projects. Because of this, any changes to the business case, such as delayed project schedules, increased on cost construction and interest rate movements, are likely to lead to adjustments in impairments, as long as changes are not included in the remaining contingencies in each project.

Adjusted for impairments and cancellation fees, our return on capital employed came in at 13.1 %, which is in line with the number for second quarter 2023. The reported return on capital employed landed at a negative 12.4 %, and was primarily attributable to the lower EBIT as a result of the impairments and cancellation fees the last 12 months. Going to slide seven and our net interest bearing debt and credit metrics.

At the end of the second quarter our net debt amounted to 49.4 billion and a slight decrease of 0.5 billion during the quarter. Our cash flow from operating activities was supported by our operating income and release of collateral, partially offset by cancellation fee payments related to Ocean Wind 1. So far in 2024, we have had a cash outflow of 4.1 billion relating to cancellation fees from Ocean Wind 1, of which 1.7 billion was in the second quarter.

For the quarter our gross investments totalled 8.3 billion, driven by our investments into the construction of our renewable project portfolio. Divestment proceeds totalled 3 billion in the quarter, coming from the sale of our French onshore portfolio, as well as the partial divestments of four operational US onshore assets.

On a related note, we continue to see good progress within our divestment programme, as we have several transactions in process. This includes the Changhua 4 transaction, which we continue to expect to sign and close during this calendar year. Our key metric FFO to adjusted net debt stood at 23 % at the end of the second quarter. Compared to last year, the increase is driven by higher funds from operations in the 12 months rolling period, which more than offset the increase in our adjusted net debt position, including the provision payments for Ocean Wind. As we highlighted in our first quarter results, the ratio is expected to be lower for the full year of 2024 before starting to recover towards the targeted level, above 30 % by the end of 2026, due to the likely payments of the Ocean Wind provision. Going on to slide eight and our non-financial metrics.

For the second quarter of 2024 our taxonomy aligned metrics were in line with our expectations. Renewable share of energy came in at 97 %, compared to 92 % for the same period last year. The development was driven by ramp-up generation in offshore, higher wind speed, as well as lower coal-based generation. Our plan to phase out coal based generation during 2024 remains on track. By the end of August the order from 2022 to keep three of our Danish coal and oil fuelled power station units operational expires. And following this, we will initiate the phase out towards the end of the year. Closing our coal based generation means that from 2025, our entire energy generation will essentially be fossil free, which is a huge milestone.

On safety, we are encouraged to see a reduction in the number of recordable injuries, for both our own and our contractor's employees. Throughout the second quarter, we have started carry out safety days across Ørsted locations globally, and we will ensure continued focus on improving safety leadership at all levels of the organisation.

And then finally, on my part, let's turn to slide nine and the outlook for 2024. With the financial development for the first half of the year, we reiterate our full-year guidance of 23 to 26 billion for 2024. Compared to our expectation for earnings mix at the beginning of the year, we now expect higher earnings from our Offshore business, driven by the high wind speeds and the higher earnings from our power trading activities has delivered in the first six months of this year. At the same time, our earnings expectation for the Bioenergy & Other business has been lowered.

Our level of gross investments for 2024 is now expected in the range of 44 to 48 billion, which is a reduction compared to our expectations last quarter. This is due to timing effects across our project portfolio, with costs moving into 2025. And with that, I will pass the word back to Mads for some final comments.

Mads Nipper

Thanks a lot, Trond. Turning to slide ten, and a very quick summary of the first half of 2024. We have progressed with the execution of our updated business plan that we presented in February. I'm pleased that our operations are performing well, and in particular, that the earnings from our offshore wind farms, and thus our core business, have increased.

In the first half of the year, we have commissioned around 2 GW of renewable energy capacity, which is supporting our long-term growth ambition. At the same time, we have taken a strategic decision to deprioritise our efforts within the green fuels market due to the development of market conditions, and therefore cease the execution of the green fuels project, FlagshipONE. While we generally see solid construction progress, it is unsatisfactory to have seen the project-specific issue that led to the delay of Revolution Wind. As we highlighted in our capital markets update in February, our construction portfolio contained risks and challenges that our entire team are working diligently to manage and further de-risk. While it is unsatisfactory to incur these impairments, none of the events are changing where we plan to be by 2030, nor does it change our comfort in our path towards our credit metric improvement towards 2026, as we continue to have a fully financed business plan.

On the basis of a strong operational quarter, we remain focussed on execution and risk mitigation, and we will continue being disciplined in our capital allocation and maintain a strong focus on value creation in support of our renewable portfolio growth, as well as our business plan.

And with that, we will now open for questions. Operator, please.

Operator

Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to use only handsets while asking your question. Anyone who has a question may press star, followed by one at this time. One moment for the first question, please.

And the first question comes from Kristian Tornøe from SEB. Please go ahead.

Kristian Tornøe

Thank you. My question goes to your long-term gross investment target of 270 billion Danish kroner. Originally, you said 5 % of this goes to Bioenergy and Power-to-X, that's 14 billion. With the change to the FlagshipONE and your comments on investment in e-fuels, how should we think about the investment needs for this segment going forward?

Mads Nipper

Thank you, Kristian. We will obviously stay flexible to this. We are constructing the Carbon Capture and Storage facility, as you know, in Denmark, which is also a part of that. And then we are still, as we have mentioned, committing to our green hydrogen portfolio while we are deprioritising our green fuels. There is no reason to change that, but we will uphold that flexibility to where that Capex goes.

Kristian Tornøe

Understood. And then just my second question. I understand the sealed bid window in the CfD auction has closed. Can you confirm whether you have also placed a bid for Hornsea 4?

Mads Nipper

That that is an ongoing solicitation. And our way of commenting on that, we refrained from commenting whether we have submitted a bid.

Kristian Tornøe

Thank you.

Operator

And the next question comes from Harry Wyburd from BNP Paribas Exane. Please go ahead.

Harry Wyburd

Hi. Thanks very much for taking my questions. Focusing on Revolution, can you remind us what annualised EBITDA you're expecting from Revolution? And can you comment on what change you might make to your 2026 EBITDA guidance, which I think is 30 to 34 billion? Because I presume this would have quite a significant impact on that.

And then on the impairments, clearly rates have fallen quite a lot since the reporting date. Can you give us an idea of what adjustments, if any, you would make to the impairments to reflect lower rates, if you based it on mark-to-market as of today? Many thanks.

Trond Westlie

In relation to guiding on separate projects, on the EBITDA impacts on the later years, we're of course not going to do that. Having said that, we do not see any reason for changing as Mads said on our targets for 2026 and 2030. There's no reason for changing our views on that as of now. We are, of course, going to update you on the long-term targets. The guidance we're giving today is on our short-term targets for 2024.

Going then to the impairment level relative to what happened since June 30 until now. As a result of the accounting rules, of course, we have to abide by the things that we have updated information until yesterday to actually get into that view. It's as updated as we can give you right now.

Harry Wyburd

Okay. Many thanks.

Operator

And the next question comes from Alberto Gandolfi from Goldman Sachs. Please go ahead.

Alberto Gandolfi

Thank you. I have one question, and, if possible, I'll ask a second one. The first question is that the 4 billion impairment was, to a degree, a surprise today. Can you tell us, please, how much of this is non-cash? And have you carried out maybe a probability weighted, worst-case scenario? What if the math is low, everything that can go wrong does go wrong, what else is left to impair, reasonably speaking, that's in a bear case? Or do you believe that as of today, on a reasonable basis, the probability of something else going wrong is very low? I'm trying to gauge here what else is left to have a proper, clean slate, besides execution risk on future projects. I'm really trying to gauge how much cash and what is the risk of going forward and other announcements, like the ones we saw today.

And maybe if you allow me the second one, please don't reply if you only stick to one question. You talked about Changhua 4. Can you please tell us what other assets are in an advanced stage of negotiations besides Changhua 4? Advanced, I mean something that you could sell between tonight and maybe the end of the first quarter of next year. Thank you so much.

Trond Westlie

On the impairment element, relative to what amount of cash. This is, of course, as a result of the accounting rules. This is a discounted element of a future cash flow relative to how we actually view the impairments. It's not the direct impact, what comes out of cash effects and what comes out of delayed cash flow as a result of the scheduling. Having said that, the part of the impairment number, the majority of that number is the delay. The biggest number in that impairment number, the reason for that is the delay schedule. That's what I can give you on that.

Before I turn it over to Mads, on the proceeds side on Changhua 4, we still believe that we're going to sign and close that during the year. It's dependent on a government approval that needs to be given to our investors in Taiwan. We believe now, of course, that it's highly likely that that will be given, and we're getting comfort of that, but it still hasn't been given by the public authority that needs to give it. On the practical side, in our negotiations we have come significantly far along on the negotiations, and it's literally almost clear to signing as soon as we get the clearance.

On the other parts, we have several other projects going on that we expect to actually close and sign before Christmas. And that is our ambition. But, of course, we're not going to give you any views on the size of the amounts or the effects or the actual timing of that.

Mads Nipper

Thanks Trond. And let me give a few perspectives on your very wide question, saying what's a worst case or bear case. Let me start by saying that in especially the offshore business, no project is without challenges and risk, as we have said many times. But let me just give you a little bit more details about what we have actually seen of encouraging progress, despite the unsatisfactory impairment driven by the onshore substation. But the offshore construction mitigating actions are actually, up until now, working well. We have been able to get firmer ground under the progress of the monopile manufacturing, which is one of the big bottlenecks. We have seen the coating facilities be operational and therefore have greater visibility of that. We've successfully secured extension and flexibility of vessels. And we have also, obviously, as you would expect us to, have scrutinised other onshore substation constructions, including for Sunrise, where Eversource is also the lead, and we have found no similar issues.

We see the progress with monopile installation and turbine installation in our ongoing project going to the plan. And even though it is still tight, there is no reason with the current knowledge to believe that what we have now is not realistic. And it would be speculation to say, what else could go wrong, because what we present to you now is a plan that we believe in.

Alberto Gandolfi

Mads, if you allow me, forgive me. You said the sentence in offshore no project is without risks. Can you please tell us what contingency normally do you have in a project? There usually are contingencies, right? When you're building a shopping mall, offshore wind. Just trying to understand, after what percentage of cost overrun or delayed revenues you actually need to impair? Do you put a 5, 10, 15, 20 % contingency in there? And thank you for your patience and apologies.

Mads Nipper

No worries at all. I'm not going to give you a percentage, Alberto. But what I can say is that what we do for every single project is that we, based on the risk register and the probability weighted risk, we allocate those contingencies and typically also have an unallocated contingency. That would vary by risk profile of the project. Some of them are significantly de-risked, some of them are in other markets and with a greater risk profile, and we will vary our contingency to that level. I cannot and also will not give you a specific percentage.

Alberto Gandolfi

Understood. And thank you so much for the follow-up.

Operator

The next question comes from Jenny Ping from Citi. Please go ahead.

Jenny Ping

Hi. Thanks very much. Just going back to the P2X businesses, and I include the FlagshipONE, the hydrogen, and the CCUS. Can you just remind us, what is the total invested capital of these projects? Basically, all the projects outside of your core Onshore, Offshore, and the Bioenergy part of the business.

And then secondly, just on the headroom relating to the impairment. Obviously, rates have come down, and we are going to start to see some writebacks. Can you just help us to understand the extent of that headroom to get to a level where you no longer need to mark-to-market based on the rates? What are we looking at? Is it 2 billion, 3 billion? Just some sense of how much potential writebacks we are due to see. Thank you.

Trond Westlie

When it comes to the P2X and the remaining part that we have on the balance sheet, it is minor, almost negligible. FlagshipONE was really our big commitment, and that is where we have used the money for the last couple of years. There are a few other projects going on, but the amount there is tiny.

On the sensitivity part, in our notes, in note four on the impairments in our report, you actually find a sensitivity schedule, as well as recoverable amount relative to where we are. And that means that if you take the sensitivity of the 50 basis points, it's of course going to affect us with 1.86 billion. The small elements of the interest rate will, of course, go up and down. But as I said, when you have entered or have 0 % cushion to the impairment level, all these changes will impact impairments going forward.

Jenny Ping

Thank you very much.

Operator

And the next question comes from Casper Blom from Danske Bank. Please go ahead.

Casper Blom

Thank you, guys. A couple of questions from my side as well. First of all, a question relating to the impairment on the seabed related to the Ocean Wind projects. I suppose these impairments come now because you've tested the price in the market, but there are no impairments on other seabeds in your portfolio. Is that because you had sort of for some reason included a particularly high seabed value for Ocean Wind? And how should we get comfortable that there will not be impairments on other seabeds around the world? That's the first question, please.

Trond Westlie

When it comes to the seabed in Ocean Wind, this is a specific accounting method, we look at what the possible market value is relative to less cost. As a result of that, we are unwinding Ocean Wind, meaning that other leaseholds are actually looked at in a continuing business valuation mindset. And as a result of that, we actually not foresee, as of now, any reasons to look at the valuation on those. They are considering in an ongoing business, and as a result of that, evaluated accordingly. And as you say, in this unwinding mindset on Ocean Wind, we of course have to look at how the market value looked at this lease. And that's what we have been doing this for.

Casper Blom

Okay. Thank you. Then my second question goes to the recent Taiwanese offshore wind auction, where you participated with Greater Changhua 3, and it was unfortunate not to get any allocation, as I understand it, due to a site overlap with another project. How does that place the Greater Changhua 3 project going forward? I mean, if someone else has built there, can you use that for anything?

Mads Nipper

Thank you, Casper. The short answer is, no, we can't. This is one of the framework regulations in the Taiwanese market is that it is allowed to have site overlaps, which we see in multiple cases. And then the one who ranks highest will be the ones who get that award. Obviously in light of that, and the fact that we will not be able to use Changhua 3, we are now reviewing our development pipeline in Taiwan and plan to develop new sites for future auctions, so we still believe in Taiwan as an attractive market.

Casper Blom

Thank you.

Operator

The next question comes from Deepa Venkateswaran from Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. I had a question around the impairment as well. The first part really is compared to last year, when most of the delays is caused by the supply chain and so on, would you say that in comparison to that, the Revolution Wind is of a different quality in that sense? And just reflecting on your market caps fallen by almost 12 to 13 billion DKK, when I think the true issue is really that maybe the NPV of this project has changed by 2 billion, and I presume no one was really giving value to FlagshipONE, etc., in their valuation. I just wanted to get your qualitative view on how you see this versus last year this time, when we were in a similar position.

And on Sunrise Wind, can I check now that you bought out the other 50 % from Eversource, paying around 1 billion compared to your recoverable value of your 50 % north of 4 billion, would you again have some chance to write back any prior impairments? I think you've impaired 3 billion in that project historically. Again, when you combine the two stakes together, does that give an opportunity to write back anything in Q3? Thank you.

Mads Nipper

Thanks a lot, Deepa. Yes, you're right, we do look at the nature of this impairment as fundamentally different than last year. In a way, you can say that the root cause behind the impairment for Revolution Wind is really not supply chain related. As I said before, the supply chain and offshore construction related mitigating actions is progressing to plan. Therefore, with how that has progressed, we see execution, we see the construction schedule progressing. And we also see that the quality of the mitigating actions for the supply chain related parts, both in Revolution and in our other projects, progressing well.

What we have here, you could say that the onshore construction part, which is in the scope of our partner, is in many ways a more standard operation. This is infrastructure investment. What happened was that due to the soil conditions, Eversource needed to do more piling, needed to redesign. And therefore, I would really urge us not to make too many read-across from what happened here to the offshore construction mitigating actions. Even though, of course, it is something that has a significant adverse impact and therefore is unsatisfactory. But it is very true that we see the nature and root cause of this impairment as dramatically different from what happened last year.

Trond Westlie

Sunrise Wind, relating to the Eversource transaction and the impairments, this does not affect our view on the impairment, as such. We are in impairment territory, and that transaction in itself does not change that. We are just going to do our impairment evaluation when it comes to the end of the second quarter, since we are in that territory. And then it's the normal course of evaluation that goes in there.

Deepa Venkateswaran

Thank you.

Operator

The next question comes from Mark Freshney from UBS. Please go ahead.

Mark Freshney

Hello. Thank you for taking my questions. Trond, if I could come back to the 70 to 80 billion Danish krone disposal plan through to 2026. Across the end, I know that one of your partners exited the Race Bank, but the deal flow has been very low. Compared to your expectations in February, when you announced the target, how would you say your expectation of being able to do that 70 to 80 has changed? Do you think you're more certain you can do it because you've progressed or less certain? Because the climate for these types of deals is a lot tougher.

And secondly, a question for Mads, just on Chinese offshore wind equipment. Clearly, the turbine is almost half of the capex spend for many projects. A lot has been made by some of your competitors and counterparts about the suitability of these machines. But what is your view on the ability to bring these machines to Europe and to integrate them in some of your projects? Thank you.

Trond Westlie

Let's start on the farm-down processes. The way we actually see the market right now, as I said when we did the first quarter call, we saw a slight positive development, but also some slight positive development on the return requirements, specifically in in the US, even though not large. Having said that, in the second quarter until now, what we see is the same interest and flow or available money for these kind of investments. And what they also recognise is that Ørsted as partner, is a good partner for many of these investors in the environment we are talking. All in all, I would notch it up a slight more positive touch than I said in the first quarter. When it comes to the volume and the ability to find investors and also price them reasonably seems to be there, and we have a positive view. And as a result of that, we still maintain that we have that self-funded plan for this period, and we're moving along.

Having said that, of course, when this plan was presented in February, all the farm-downs, at least on the speed of the farm-downs that has been in process and are in process is, of course, picking up. And these transactions, of course, take some time. When it actually comes to the project or the transactions that's going to be signed and closed during the year, they are queuing up late Q3 coming into Christmas time. But our schedule is there. We still have several of them that we believe is actually going to be signed and closed. And also, when we actually look at our workload and also the projects that we have put in action, we also see that we're going to deliver on the 2026 level. All in all, we and I still don't think that we should adjust or say any other things.

Mads Nipper

I'll comment on the Chinese equipment, Mark. And just in the beginning you said that that turbines is approximately half the capex. That that is typically not the case. It is typically a smaller part, given also the relatively large share, especially transport and installation has gotten, but it is a significant size. Let me start by saying we have no current plans for Chinese turbines in our pipeline, and that has not changed. But that said, we do, and we will continue to consider all technologies and suppliers on an ongoing basis, and we will select the equipment based on the quality, technical maturity, performance, commercial terms, and so on. But we will also ensure that any regulatory risks will be taken into consideration before specifically taking, in this case, Chinese turbines.

Mark Freshney

Okay. Thank you.

Operator

And the next question comes from Helene Kvilhaug Brøndbo from DNB Markets. Please go ahead.

Helene Kvilhaug Brøndbo

Hi. Thank you. I just wanted to follow up on the farm-down questions. I just wanted to ask how you are planning to fund future capital requirements in the coming quarters if you fall short of your farm-down expectations?

Trond Westlie

As of now, I do not see any challenge in our liquidity position relative to timing of the farm-downs. The farm-downs are, of course, a part of our self-funded plan relative to our net interest bearing debt and our borrowing capabilities as a result of having the target of 30 % in 2026. But as of now, we don't see any liquidity challenges relative to the timing elements as we foresee it.

Helene Kvilhaug Brøndbo

Okay. Thank you.

Operator

And the next question comes from Lars Heindorff from Nordea. Please go ahead.

Lars Heindorff

Thank you. A couple of questions from me. The first one is on Revolution Wind and the postponement. How is that impacting project economics? Hopefully, you can maybe remind us a little bit about where we should think about 250-300 basis point spread in relation to Revolution Wind. And also the offtake agreements that you have there, will that be postponed a year in the end or will you then have to go commercial if it's delayed, and then the agreement runs out? Just to get a sense for how this actually affected the project economics. That's the first one.

And then the second one, still a follow-up on the disposals, the same situation until 2026. If I understand correctly then, Hornsea 3 and perhaps even Hornsea 4 is likely to be farmed down very early in the construction phase, which means probably a lower farm-down gain, but then less capex, on the other hand. The 70 to 80, is that a P&L impact, or is that total impacts which span both the P&L and cash flow on balance sheet? How should we think about the 70 to 80? Is that a number that will show up in terms of the gain that you will report on the P&L until 2026? Thank you.

Trond Westlie

On your first question, on Revolution, when it comes to the timing. When we actually ramp up these farms, some of the production goes into the grid as a result of having sort of the connectivity to the distribution. Here, since it is the onshore substation, actually, even though the farm can be up and running at some point, we have nowhere to actually send the electrons. And as a result of that, we're very dependent on that substation coming in place. And as a result of that, we're actually going to see the total effect of that schedule impact at 100 % of the ramp up. That's part of why the NPV is so heavy loaded on the schedule impacts.

Mads Nipper

We can get back via IR on the specifics of the type or the nature of the impact to the offtake agreement or the PPA. But obviously with the extension, which we would need to confirm, then it goes without saying that the values of those cash flows at the other end would be significantly less.

And on the farm-downs, you mentioned on Hornsea 3 or Hornsea 4, you are right, that is likely to be by far the majority of the contribution would be the share of the capex.

Lars Heindorff

Just a follow up, because if it's in the early parts of the construction phase, then I assume that the gain that you're going to report on your P&L will be relatively modest compared to the size of the project and some of the previous gains that you have reported. I can't see if those numbers are the magnitude that I think they will be, how you can reach then to the 70 or 80, unless you count differently than I do. Of course I might be wrong.

Trond Westlie

On the details of that, you're right in saying that it's a combination of details going forward. But I have to refer that question to IR, relative to the specifics because I'm too fresh in this.

Mads Nipper

But we can say, Lars, if the underlying question is, is 70 to 80, is that the total capital structure impact or is it the proceeds? It is the proceeds, respectively.

Lars Heindorff

All right. Thank you.

Operator

And the next question comes from Ahmed Farman from Jefferies. Please go ahead.

Ahmed Farman

Hi. Thank you for taking my question. Firstly, could you talk a little bit about the process on Sunrise Wind onwards, to get visibility on the potential risk that you have highlighted of the slippage? What work do you need to do and the associated timeline for that?

Then, can we also have some of your thoughts on the bioenergy business? Can you talk a little bit about the outlook for this business in the second half? And how should we think about this business medium term, given there's been a fair amount of volatility in this? Thank you.

Mads Nipper

Ahmed, thank you very much. Happy to comment on that. On Sunrise Wind, we can already now share some of it, namely that the production schedule with two suppliers for the main risk, which is the foundation deliveries, they are in place already. We will, of course, follow those very closely, and also ensure that that potential backup vessel gets finally confirmed, but that is available. What we plan to do is to give you an update, like we have done in the last few quarters, we will give you an update on our project progress, including Sunrise Wind, in the coming quarters as well. That is how we will give you visibility. But as of now, given also what I mentioned, that we have absolutely no similar concerns to the construction of the onshore substation, as it is already well progressed and out of the civil works. Then this will be a standard reporting on risks, as we go along in the coming quarters.

And on bio, we're not going to give you a specific financial outlook, but as you're well aware, it is very seasonal. The winter season is where we have the backbone of these fixed contracts and very protected contracts, in the sense that any fuel price variation is passed on to the customer. It really only depends on how cold is the weather, and that is what gives the backbone of this around between 1 billion and 1.5 billion annual earnings. And we have no reason to believe that that part of this will change. And the rest is the ancillary service, where we also have no reason to believe that we would be good. And really, what determines the variations here will be how attractive are the spreads between the fuel prices and the power prices. And if they stay low, then that will be lower earnings on the condensing power. If they get more attractive, it will be higher. That's probably as close as I can get.

Ahmed Farman

Thank you.

Operator

And the next question comes from Olly Jeffery from Deutsche Bank. Please go ahead.

Olly Jeffery

Thank you very much. Just continuing on with questions around Revolution Wind, I'm afraid. Could you answer a little bit, when you guys first became aware of the challenges around soil contamination and the need to change the design of the substation, and how much of that substation and the additional monopiles that you need there do you have currently installed? I'm just wondering, what is the risk that during the process install and further monopiles, is there a realistic chance that we could find further soil contamination issues, and therefore, an additional impairment and potential delay? Or are you satisfied with the investigative work you've done so far, that that's unlikely to transpire?

And then also, just on Sunrise Wind, if the project does slip into 2027, do you envisage there being an impairment that would potentially come with that? And if so, to what type of quantity do you think that might be? Thank you very much.

Mads Nipper

Thanks a lot. To your first question around the soil contamination and the further risk of that changing and incurring additional monopiles, we see that as very limited. Or not monopiles, sorry, piles. This is a standard piling, and we are already done. There's approximately 2,000 piles now completed, that was completed end of July. And therefore, we are in the concrete phase now. The risk of any additional changes to this layout, because now it is stable, we have a stable foundation, we have the concrete foundation, and we progress very fast, as fast as ever possible to complete. Then we see that as a very limited risk, and certainly no further risk on the stability, which was the root cause of the reason for the re-design here, so that is very limited.

On Sunrise, this potential delay into the first half 2027. As Trond said in his script, this is something that has already been captured in the latest updates. We have assumed that this will happen, and therefore, if it slips into first half, then it is not something that, in its own right, will trigger an impairment.

Olly Jeffery

Thank you.

Operator

That's the next question comes from Dominic Nash from Barclays. Please go ahead.

Dominic Nash

Hello. Thank you for taking my questions. Two for me, please. First one is, again, talking about these impairments. An observation I have is probably about a quart to a third of all questions in every quarterly results seems to be about some form of impairment or writeback or another impairment or another writeback. Is there anything you can actually do to stop this volatility going forward? I know some form of kitchen sinking or adopting some other accounting system, that basically means that we can get a period of stability, so that it doesn't undermine investor nervousness about it. That's the first question.

And the second one is on offshore wind as a whole. Can you give a general update on where you're seeing the LCOE going for offshore wind? And if it remains stubbornly high, is there another technology or other technologies that you would consider diversifying significantly into? If you think that offshore wind is not going to get down to the levels that's needed by society? Thank you.

Trond Westlie

When it comes to the impairment accounting rules, when you have entered the impairment level, you basically have to do your best effort on an NPV calculation, on the whole history or the whole future of the project. And therefore, the changes to it, and also the interest rate changes to it is going to impact up and down. And it's not really going to come out of that area unless it's going to be so good that you actually recover from everything from your starting point. That's why I mentioned it in the introduction, that it's likely that we're going to see ups and downs as a result of this, for the US specific projects, and we're going to continue that.

Having said that, I think I also should reiterate what Mads said in his initial statements, and that is that these projects are IRR positive. They are from cradle to grave, basically, as we see it, so fully loaded, not leveraged, we actually see positive returns coming out of this, so we're not throwing money out of the window. On Revolution Wind, when look at the forward-looking IRR, there's significant positives, so there's no question of doing anything else. Financially, I'm sad that we're having these impairment discussions, and the scheduling is the most important thing on this thing. But just coming out of that loop with impairments is going to be challenging.

Mads Nipper

And let me comment on the on the offshore LCOE. The development in the last six to 12 months, or six months, we have not seen deflation yet. We still see inflation, as we mentioned already, also at the Q1 earnings call. We are seeing the inflation being at a totally different level than the previous 12, 18 months, where it was very high. Now, we see it at a much more modest level, but there is still inflation. And in that sense, we still see LCOEs ticking up.

And to your broader strategic question, will there essentially be other technologies that will be able to replace this? Certainly, the relative competitiveness of offshore on some geographies that have a choice, that cannot be ruled out. But if you look at the entire northern Europe, if you look at the Northeast US, clearly there is a commitment to still see offshore wind playing an absolute key role.

And I think it is encouraging to see that even though this LCOE development is very well known, we do still see solicitations being brought online, most recently with the acceleration of New York 5, after the withdrawal of all New York 3 winners at that time. And that shows that the necessary commitment to keep building out, despite the LCOE increase, is still there. And obviously scale, experience, market building, higher robustness of the supply chain is exactly what it takes to start a downward curve again.

Dominic Nash

Thank you.

Operator

Ladies and gentlemen, as a reminder, anyone who wishes to ask a question may press star and one at this time. And the next question comes from Ide Kearney from Pictet. Please go ahead.

Ide Kearney

Thank you for taking the question. Most of my questions have been answered, but I just wanted to get a clarification from you on the liquidity situation. I'm worried that you're saying that you can sell assets, but your liquidity cushion has dropped by about 14 billion kroner year-to-date. Can you just remind me why that is? Because I can see that you're burning cash, but including disposal it's less than half that amount. Was it that bank lines rolled and didn't get renewed, or why was that?

And then kind of related to this question, in Q2 I think that you probably released a bit over a billion kroner from collateral release. Can you remind me how that works? Because now we're seeing probably TTF is higher and power prices going up a bit. Will that reverse in Q3 and become a drag on cash? Thanks.

Trond Westlie

As I said, the liquidity reserve at the end of June is a bit more than 75 billion Danish kroner. And as a result of that, when it actually comes to the timing of those elements, and also the timing of the funding elements, as of now, we do not see the liquidity situation as a challenge.

Ide Kearney

Sorry, what I was trying to say was, it's reduced by more than the cash burn. Did you elect to cancel bank lines or why is it lower? I understand that you're saying your plan is funded.

Trond Westlie

I am not sure I understand the detailed technicality of your question.

Ide Kearney

Basically, the question is, if the liquidity reduction is 14 billion, which is from 90.7 to 76.7, that's a 14 billion reduction, but the cash burn is lower. What changed in the reserve?

Trond Westlie

I have to refer you to IR on that detailed question.

Ide Kearney

That's fine, thank you.

Operator

And the next question comes from David Paz from Wolfe. Please go ahead.

David Paz

Hello. I had a question just on Skipjack. Is there any update on talks on moving those projects forward, particularly in light of the recent capacity price gains that we've seen in the Atlantic and specifically Maryland? And then, just realistically, is there a path to getting it going in this decade? Thank you.

Mads Nipper

Thank you very much. We have submitted, we continue to develop that seabed. As you know, we handed back the OREC, and we continue to develop and we submitted a revised COP earlier this summer, so that is where we are on that. We have taken no further decisions on the future of Skipjack, but ensuring that we have the full optionality in terms of where we create the greatest value is what we're focusing on, and that latest step is submitting a revised COP.

David Paz

Okay. Thank you.

Operator

And the next question comes from Mark Freshney from UBS. Please go ahead.

Mark Freshney

Hello. Another question from me, just on the Hornsea 4 cable. In the report you allude to starting work on the Hornsea 3 and Hornsea 4 offshore OFTOs. Can you talk about that and what the synergy is and what the amount of Hornsea 4 capex you would have done and what benefit that might bring you in terms of competitiveness? Thank you.

Mads Nipper

This is where there is a potential reuse of the Ocean Wind 1 export cable, which is why that is something we are already now planning and also progressing. I do not have the specific synergies that would be in Hornsea 3 and Hornsea 4 OFTO construction, but this is where the most likely reuse of that cable would be, in which case it is something that would be obviously financially beneficial.

Mark Freshney

Interesting. Thank you.

Operator

Ladies and gentlemen, this was the last question. I would now like to turn the conference back over to Mads Nipper for any closing remarks.

Mads Nipper

I just wanted to thank you very much for very good questions and wish you all a nice and safe day. Thank you very much.