Ørsted Q2 2022 Earnings Call
Transcription

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PRESENTATION

Operator
Welcome to the Ørsted Q2 2022 earnings call. For the first part of the call, all participants will be in listen-only mode, and afterwards there'll be a question-and-answer session. Today's speakers are CEO, Mads Nipper; and CFO, Daniel Lerup. Speakers, please begin.

Mads Nipper
Thank you very much, and good afternoon, everyone. I hope you have enjoyed a nice time off, and for those of you who are still on vacation, thanks a lot for your time today.

We've had a strong operational and financial first half of 2022, with our EBITDA, excluding new partnerships, amounting to DKK 11.4 billion, an increase of 48% on last year. Earnings from ramp-up generation from offshore and onshore assets, as well as higher wind speeds than last year, have offset the negative impact from ineffective hedges related to the delayed commissioning of Hornsea 2. Our combined heat and power plants have benefited from the higher power prices, and our gas business has been able to optimise the offtake flexibility that we have at our north-western European gas activities.

The market conditions continue to be very volatile, and the strong performance of our business in the first half of the year have once again highlighted the strengths and benefits of our diversified portfolio. Furthermore, the strong performance has led us to increase our full-year 2022 EBITDA guidance by 1 billion to the range of DKK 20 billion to DKK 22 billion, with the expected outperformance driven by higher earnings in Bioenergy and Other as well as Onshore. Daniel will elaborate further on our guidance towards the end of this presentation.

On that note, I will take you through the strategic highlights for the second quarter, which have been very eventful and extremely important for Ørsted and our ambition of a world that runs entirely on green energy.

On the very day where I went to spend some time with my family, it was announced that Ørsted has been awarded a contract for difference for our 2.9 GW Hornsea 3 project in the UK. The award is another important win and a significant step towards our 2030 ambition of 30 GW installed capacity in offshore, and the project is going to be the world's single biggest offshore wind farm. Hornsea 3 will provide power to more than 3.2 million households in the UK, and is expected to be operational by 2027. I will go into details with the award on the next slide.

In the Netherlands, we partnered up with TotalEnergies to jointly submit bids for the 1.5 GW Dutch offshore wind tenders, ‘Holland Coast West’. Together with TotalEnergies, we will leverage our strengths as a world-class leader in renewable energy and offshore wind to support the Netherlands in its acceleration of offshore wind build-out towards 2030 and beyond in a state-of-the-art, ecologically-friendly manner, and as part of an integrated energy system.

Our ecological innovation tender proposal would change how wind farms relate to ecology, and with its measures, unprecedented monitoring programme, and strong co-operation with companies, institutes, universities and NGOs, our proposal focuses on working with all parties, both international and local, to build the knowledge needed to have wind farms strengthen nature by default.
Our system integration proposal would leverage our growing green-hydrogen experience to deliver 600 MW of electrolysis capacity. This will be the largest green-hydrogen cluster in the world by 2027, powered solely by Holland Coast West to decarbonise industrial activities in Zeeland, supplementing this with batteries, electric transport and direct electrification to optimise the integration of offshore wind power into the energy system. The winners of the tenders are expected to be announced by the Dutch government during the second half of 2022.

In 2021, we entered the European onshore market by acquiring Brookfield Renewable, Ireland's onshore wind platform, from which Ørsted is developing high-potential projects that will contribute to the Group’s growth ambitions towards 17.5 GW onshore renewable capacity by 2030. Building on our well-performing onshore platform, and in line with our strategy to further expand our European footprint, we have entered the Spanish onshore renewables market with several strong solar and wind partnerships and signed an agreement to acquire the German and French onshore developer, Ostwind. I will cover Ostwind acquisition in greater details in a few minutes.

Our onshore entry into Spain is formed by four partnerships: with Glide Energy, Rolwind, ARBA Energías Renovables, and EREDA who will support the project development. All partners have extensive experience in greenfield development, and together form a complementary geographic footprint. The short-term aim of the partnership is to develop onshore wind and solar PV projects in Spain that allow Ørsted to participate in the upcoming Spanish grid auctions expected in 2022 and put in bids for the right to develop a multi-gigawatt pipeline of solar and wind energy.

The long-term goal is to develop large-scale onshore wind, solar PV, and storage projects that can be commercialised through either government auctions or the growing market for corporate power purchase agreements. Spain is one of Europe's largest renewables markets, and the Spanish government has set out to reach 70% renewable generation by 2030, followed by 100% renewable generation by 2050, making Spain an absolute front-runner in the green energy transition.

The onshore partnerships complement our efforts to explore floating offshore wind opportunities in Spain, together with Repsol, as announced earlier this year. The presence across technologies will enable us to provide a full suite of solutions to help our corporate and government partners decarbonise and complement the ambition of Ørsted's offshore business in a key market. Together with all our partners, we sit on strong development expertise and local knowledge of the Spanish market, and hence we can provide green energy solutions at scale to support the green transformation in the country, while creating value for our stakeholders.

In our US onshore business, we have commissioned the 268 MW wind part of the combined solar PV and wind project, Helena Energy Centre, and in Europe our 62 MW onshore wind farm, Kennoxhead 1 in Scotland was successfully commissioned in June. Furthermore, we acquired Ford County Wind in Illinois, US. This 121 MW onshore wind farm strengthens our presence in the MISO region, where we acquired Lincoln Land last year.

I'm very excited to announce that our Danish flagship Power-to-X project, Green Fuels for Denmark, has been granted IPCEI status by the European Commission. IPCEI is short for Important Project of Common European Interest, and characterises the project that contributes to sustainable economic growth, job creation, and the competitiveness of the EU economy. The IPCEI status is important as the Danish government shortlisted Green Fuels for Denmark as one of only two Danish Power-to-X projects eligible for public funding, provided that the
European Commission identified it as being of common European interest. The Danish government has earmarked a total of DKK 850 million for funding for the two shortlisted projects. IPCEI is a key enabler for creating green and energy-independent Europe as it will unlock substantial amounts of funding to mature Power-to-X to become a cornerstone technology in the fight against climate change in the hard-to-abate sectors, and as a clear home-grown European industrial strength.

We have set the ambition to become a global leader in renewable hydrogen and green fuels, and we are building a strong and diverse portfolio of Power-to-X projects across industries and geographies. The European Commission’s decision to award IPCEI status to the flagship project, Green Fuels for Denmark, is a testimony to the strength and maturity of our Power-to-X pipeline, which is based on concrete, feasible and scalable projects in partnership with key off-takers.

Green Fuels for Denmark is being developed in partnership with leading off-takers in heavy road transport, shipping and aviation. And when fully developed, it aims to reach a total electrolysis capacity of 1,300 MW, able to produce 275,000 tonnes of renewable fuels per year. And in addition to Green Fuels for Denmark, three other Ørsted projects have been shortlisted in the IPCEI process, and the EU Commission is expected to finalise its IPCEI notification process by the end of this year.

As you’re probably all aware by now, back in May, Gazprom export demanded Ørsted to pay for gas supplies in roubles, which we refused, as Ørsted is under no obligation to do so under the contract. As a consequence, Gazprom export halted the supply of gas to Ørsted on June 1st. We were prepared for that scenario, and therefore we did not have any financial exposure related to the Gazprom export contract as per June 1st, 2022. We are in ongoing dialogue with the authorities, and we trust that the authorities who have the overall overview of the supply situation in Denmark are prepared for the situation.

And let me end this overview by highlighting our achievement to be named as one of the 100 most influential companies for the second year running by TIME. TIME commends Ørsted for expanding offshore wind energy in the United States, and moving from the Innovators category to the Leaders category this year, that is an acknowledgement of our ambitious efforts within renewable build-out and the many projects now planned along the East Coast.

Turning to slide four and our record-breaking win in the UK. On July 7th, the UK Department for Business, Energy and Industrial Strategy, or BEIS, awarded Ørsted a contract for difference for our 2,852 MW Hornsea 3 offshore wind farm at an inflation-indexed strike price of £37.35 per MWh in 2012 prices. The contract comes with a level of merchant flexibility as the CFD provides the flexibility to be able to reduce the contracted capacity by around 25%, meaning that we can potentially decide to keep around 700 MW outside the CFD framework. The CFD runs for up to 15 years, starting after commissioning of the wind farm, which is planned for 2027, and we expect to take final investment decision within the next one and a half years, and potentially as soon as year-end. This award is another testimony of offshore wind being a home-grown source of clean energy at large scale that will help the UK achieve its climate targets and increase energy independence while creating local jobs and industrial development.

Now more than ever, there is a need for the further development of renewable energy, not only to address the increasing threats of climate change, but also to increase the stability and resilience of energy supply. And we look forward to working with government and industry colleagues to accelerate the deployment of offshore wind, not
only in the UK, but globally as well. Towards the end of this decade, we expect to further invest around £14 billion in the UK, and the 2.9 GW Hornsea 3 project will play a key role in the ongoing development of a larger and sustainably-competitive UK supply chain to support the next phase of the UK’s offshore wind success story.

We have already secured capacity with key suppliers for around two thirds of Hornsea 3’s CAPEX, and have announced a multi-million-pound agreement for Hornsea 3 to be the first and leading customer at SeAH Wind’s monopile factory in Teesside. With the Hornsea 3 win, the awarded Hornsea Zone exceeds 5 GW. We can unlock significant synergies by taking a global portfolio view on procurement and by utilising Hornsea 3’s size and location adjacent to our existing UK East Coast wind farms, with close to 4 GW in operation. Hornsea 3 will contribute significantly to Ørsted’s ambitions of globally installing 30 GW offshore wind by 2030, and the project itself effectively satisfied our annual build-out ambition of around 3 GW. In addition to the already awarded Hornsea Zone, we are developing our Hornsea 4 project, which could have a capacity of approximately 2.6 GW. Hornsea 4 is currently going through the planning process with a decision expected in early 2023.

Moving to slide five and our acquisition of the German and French onshore renewable platform, Ostwind.

I am very excited to welcome the Ostwind team to the Ørsted family as the company has an impressive and proven track record of developing high-quality projects as well as a strong cultural alignment. The talented team has a significant local community presence, and we will get a strong, fully-integrated platform from which we can create value. Ostwind develops, constructs and operates onshore wind farm and solar PV projects. The company has been active in onshore wind development for over 20 years, with a track record of more than 1 GW of energy projects across the two countries. Today, Ostwind has an attractive portfolio of 152 MW in operation and under construction, approximately 526 MW in advanced development, and approximately a further 1 GW in its development pipeline. In addition to the 1.5 GW development pipeline, Ørsted has identified an additional targeted pipeline growth of approximately 900 MW towards the beginning of the 2030s.

Our successful experience with the Lincoln Clean Energy acquisition and subsequent portfolio execution gives us a comfort that we can execute on the additional capacity beyond the named pipeline. For reference, the 2022 pipeline of Lincoln Clean Energy at the acquisition was 2.5 GW, compared to our actual US operational portfolio of almost 4 GW. And not only did the onshore team significantly outperform in terms of capacity, we have also seen business cases with higher value creation than the original expectations.

Ostwind’s existing management team will continue to run the business, which will be integrated into Ørsted’s onshore business unit over time. We expect meaningful synergies between our onshore and offshore businesses in Germany, both regarding offtake solutions for our customers and combined renewable power capacity for future renewable hydrogen production. And I look forward to welcoming the Ostwind team to Ørsted.

Ørsted’s onshore renewables platform now covers four of the largest growth markets in Europe at scale. These key onshore markets have an expected build-out of around 300 GW renewable capacity between 2021 and 2030, corresponding to around 10% yearly growth rates in all markets. And the European portfolio will supplement our primary growth market in the US, where around 400 GW of onshore renewable capacity is forecasted in the same period.
Now turning to slide six, where I will give an update on our construction projects and pipeline, starting out with projects under construction.

The construction of Hornsea 2 and Greater Changhua 1 and 2a are both still underway. At Hornsea 2, we have seen good progress in the final construction phase, with commissioning work picking up after progressing slower than expected in the beginning of the quarter. All turbines are fully commissioned and commercially operational by now. Remaining reliability runs and associated paperwork are planned to be concluded shortly, and formal part-commissioning is expected in August.

At Greater Changhua 1 and 2a, we have successfully installed 95 jacket foundations and 48 wind turbines. We continue to make good progress in all areas of construction. We achieved first power in April, and will continue the installation in the coming months. As we have previously highlighted, the schedule was sensitive to impacts from COVID-19, and we have seen that COVID-19 restrictions and a spike of positive COVID cases have been a challenge in building up resources to allow the plant rate of production and installation work. And consequently, we now expect to commission the last turbines in 2023.

The 130 MW South Fork offshore wind farm in the US has entered the construction phase, and together with our partner Eversource, we are now progressing the onshore construction works, including the sub-station where the project will connect. The offshore part of South Fork is expected to be built in 2023. And our two German wind farms, Borkum Riffgrund 3 and Gode Wind 3, are both progressing according to plan.

Turning to our onshore renewable projects under construction, where we are currently constructing around 1 GW. In Europe, our two onshore wind construction projects, Lisheen 3 and Ballykeel are progressing as planned, and as I mentioned, we commissioned the wind part of Helena Energy Centre. Back in April, we took FID on the 201 MW Sunflower Wind project in Kansas, US and began the construction phase. The project is progressing according to plan, and we still expect commissioning during Q4 of 2023.

For the solar projects in the US, we are currently constructing Old 300 and our first combined onshore wind and solar PV project, Helena Energy Centre. We are working with our suppliers to ensure compliance with the Uyghur Forced Labour Prevention Act requirements and confirm deliveries to target commissioning in first half of 2023 and 2023, respectively.

For our awarded portfolio, we are progressing our US development projects. In June, our Ocean Wind 1 offshore wind farm reached a major milestone as BOEM released the draft environmental impact statement for the project one week ahead of schedule. The statement confirms there is not an alternative with materially less environmental impact than the project we have designed. Next step for the project is to obtain the final environmental impact statement, which is expected in 2023, and by the end of this process, a record of decision is issued. Commissioning of the wind farm is still expected before the end of 2025.

For our Ocean Wind 1 project we have contracted GE Haliade-X turbine. We are aware of the ongoing dispute between GE and Siemens Gamesa, and we understood that there are workable solutions for well-advanced projects such as Ocean Wind 1 to continue without impact. We are confident that both companies are committed to helping the United States achieve its offshore wind energy ambitions and unlock the climate and economic benefits the industry holds for the country and the world.
At our Sunrise Wind and Revolution Wind projects, we continue to develop the two projects together with our JV partner Eversource. We expect the projects to be fully-permitted in 2023 and to be commissioned by 2025. The strong development and execution effort means that we continue to be well on track to reach our strategic ambition of around 50 GW of renewable capacity installed by 2030.

Let’s move on to slide seven and an update on our offshore wind outlook.

With the CFD Round 4, UK allocated the largest-ever offshore wind capacity in a single auction. We continue to see a significant number of auctions and tenders globally to take place in our core markets during 2022 and 2023. And we are awaiting the outcome of the New Jersey offshore wind transmission auction as well as the Holland Coast West tender during the second half of 2022. And in addition to the planned auctions and tenders in the near future, we continue to see increased political support for the build-out of renewables.

In March, the European Commission presented an initial communication on how to reduce imports of Russian gas and how to address the high energy prices in Europe. In May, the Commission presented a more concrete plan, which encompassed several supportive measures, including a proposal to increase EU’s renewable energy target for 2030 to 45%. This will oblige member states to designate areas to the development of renewable energy in line with the 2030 Renewable Energy Target, give all the renewable energy projects status of overriding principle, as well as a target of 75% of hydrogen used in industry to be green by 2030.

The world and Europe need to roll out renewable energy at a much faster pace than now to secure energy independence and to fight climate change, and working closer together among the North Sea countries is a great way to better materialise the immense offshore potential of this region. Back in May, I personally had the privilege to attend the North Sea summit in Esbjerg, where heads of governments from Denmark, Germany, Belgium, and the Netherlands took an enormous step toward reaching the EU’s climate-neutrality goal by co-signing a joint declaration that will make the North Sea a green powerhouse for Europe. Together, the four countries want to harvest at least 150 GW of offshore wind in 2050, enabling the declaration to provide 230 million European households with green electricity.

Finally, we are encouraged that the US Senate passed the Inflation Reduction Act, or IRA, and that the US House has scheduled to vote for tomorrow Friday. The IRA would be a historic investment in clean energy in the US. It will allocate hundreds of billions of dollars to help facilitate a clean-energy transition. And not only does it extend to improve existing tax credits for solar PV, onshore wind and offshore wind, but it introduces new ones for critical clean-energy technology, such as energy storage and green hydrogen. Moreover, it aligns tax credits with incentives for creating well-paying jobs and expanding the domestic supply chain of clean-energy technology.

Ørsted is positioned well to benefit from the legislation and to build on its existing commitment to labour and local supply chain. We are assessing the impact of the recently-passed IRA, and early indicators project a meaningful double-digit basis point IRR uplift on the cases. The next step in the process is the subsequent guidance provided by the Department of Treasury and Department of Labor, and we will be very close to that process.

As we mentioned at previous earnings calls, supportive clean-energy legislation was a key lever to counter the inflationary pressure we have seen, and the IRA will be essential to ensure the continuous momentum of the offshore-wind industry in the US. And with that, let me hand over to our CFO, Daniel.
Daniel Lerup
Thank you, Mads, and good afternoon, everyone. Let me start with slide eight and the EBITDA for the second quarter of 2022.

For the Group, we realised a total EBITDA of DKK 3.6 billion, an increase of 27% on last year’s EBITDA, excluding new partnerships. The earnings in our offshore business amounted to DKK 1.9 billion, which was slightly below last year when excluding the new partnership effects from 2021.

During Q2 2022, we had wind-speeds above last year, which had a positive impact of around DKK 800 million, although wind-speeds were slightly below normal wind for the quarter. The increased generation from ramp-up at Hornsea 2 was partly offset by lower generation capacity at Borssele 1 and 2, following the 50% farm down in May 2021. For the quarter, offshore power generation is up with 32%.

Due to the challenging market conditions, with high prices and significant volatility during the second quarter, we realised negative effects from higher balancing costs and price-ineffective hedges. In addition, we saw increased costs following expanding our operating portfolio, owing to higher OpEx, BSUoS and TNUoS costs. We had a negative impact of DKK 400 million from over-hedging, primarily related to Hornsea 2, as commissioning work was progressing slower than expected throughout the quarter, but has picked up significantly in July, combined with wind-speeds below norm resulting in lower than the expected and hedged production.

On the topic of Hornsey 2, I would like to highlight that the negative DKK 2 billion impact from over-hedging will be balanced out over the lifetime by the benefit from the inflation indexation of the CFD through the CFD period.

Within our existing partnerships, we reported earnings of DKK 600 million, which mainly came from the construction work for our partners at the Greater Changhua 1 project during Q2 2022.

Finally, within offshore, our project development costs increased by DKK 0.2 billion, driven by the continued expansion of our footprint.

Earnings in our onshore business increased sixfold and amounted to DKK 1.1 billion, driven by the significant increase in generation from newly-commissioned assets, as well as a benefit from higher power prices in US and Europe. In the US, we have benefited from the higher power prices during the ramp-up phase on our assets under construction, where PPAs did not start until commissioning. Furthermore, some of our more recent PPAs have upside share structures that allow for capture of additional revenue in periods of high pricing.

In Bioenergy and Others, earnings increased by 29%, driven by significantly higher earnings from our CHP plants due to higher power prices. The increase was partly offset by a negative effect from price-ineffective hedges during the quarter. Last year, we replaced the form of business performance principle with IFRS-9 as it had become easier to apply IFRS hedging accounting for our energy hedges. However, as we hedge on a five-year horizon and within markets with low liquidity, we use proxy hedges such as location, commodity and time-spreads in addition to hedges that currently matches our exposures. This is something that we have done for many years and is very normal.
Due to the very high energy prices and volatility in 2022, we have seen a larger part of our trades being deemed ineffective under IFRS-9, which happens when the value of the proxy hedge is greater than the change in the underlying exposure. Consequently, we have recognised a negative market value from these ineffective hedges in EBITDA within our Offshore and Bioenergy segments during Q2 2022.

The impact we have booked in our accounts is purely a timing effect as a negative EBITDA impact in this quarter would otherwise have been recognised in later periods. Our overall value from proxy hedging is positive, which is what we normally see, and with a fairly low volatility, given our conservative VaR limits. Within our gas markets and infrastructure business, we had lower earnings from our storage activities.

Let's continue to slide nine, covering our net profit, ROCE, and equity.

Net profit for the period totalled DKK 0.3 billion, which was in line with last year when adjusting for the farm down gain relating to Borssele 1 and 2. Recall that Q2 and Q3 are normally our weakest quarters of the year due to seasonality.

Our return on capital employed came in at 15%, with the increase compared to last year being driven by a higher EBIT over the 12-month period.

Our equity at the end of June 2022 was 61.3 billion, compared to 96.9 billion one year ago. The reduction was driven by unrealised losses on the hedge reserve for power hedges and, to some extent, gas hedges due to the significantly increasing prices. At the end of June 2022, the post-tax hedging and currency translation reserve amounted to DKK 49.2 billion. This reserve will be matched by higher future revenue from the underlying assets when the contract falls into delivery. Approximately 60% of the reserve will materialise before December 31, 2023, thus gradually increasing our equity again.

Let's turn to slide ten and our cash flow, net debt and credit metric.

Our net debt amounted to DKK 41.4 billion, an increase of DKK 11.4 billion during the quarter. Our cash flow from operating activities reflects the EBITDA being offset by a net cash outflow from work in progress and the temporary collateral posting of 4.8 billion due to the increase in power and gas prices. At the end of June, we had a total of DKK 12.9 billion posted in collateral payments, which are affecting our net debt, but will unwind over time.

Our gross investments totalled DKK 6.4 billion, driven by our continued investments into offshore and onshore wind and solar PV farms. In addition, we distributed dividends to our shareholders in April and saw negative effect from exchange rate adjustments due to the increasing British pound.

Our key credit metric, FFO/Adjusted net debt, stood at 18% for the 12-month period ending in June 2022, significantly below the level from last year, driven by the significant temporary collateral posting that I just described.

We have taken several actions to improve our financial resources, including a €1 billion parent company guarantee issuance in Q2 2022 to reduce initial margin and, to some extent, variation margin payments.
Adjusted for these collateral postings over the last 12-month period, the FFO/Adjusted net debt credit metric would have been 46%. We remain fully committed to our target of an FFO/Adjusted net debt level of 25%, and expect to be around that level at the end of the year if no further collateral needs to be posted.

Turning to slide 11 and our financial ratios.

In Q2 2022, our taxonomy-eligible share of revenue was 68%, our share of OPEX was 80%, our EBITDA was 91%, and the share of gross investments was at 98%. The non-eligible part of our revenue primarily relates to our long-term gas legacy activities and non-eligible power sales.

Green share of energy came in at 92% by the end of Q2, compared to 89% same period last year. The development was primarily due to more wind and solar farms in operation, as well as higher wind-speeds, partly offset by lower biomass-based heat and power generation.

Turning to safety, we have had an encouraging start to the year, with an improvement in the total recordable injury rate to 2.8 in H1 2022 from 3.1 in H1 2021.

Let’s turn to slide 12, where I will describe the key expected full-year earnings drivers within our portfolio.

As Mads mentioned in his introduction, our strong financial performance has led us to increase our full-year guidance by 1 billion to the range of DKK 20 billion to 22 billion excluding new partnerships. As you will have seen over the first two quarters of the year, we have seen significant earnings impacts from the high prices and volatility in the market across our portfolio with contrasting effects.

In our offshore business, we have unfortunately incurred an approximate DKK 2.5 billion negative impact during H1 2022, mainly relating to the overheads of Hornsea 2, as well as the negative price-driven impacts in Q2. These negative impacts within Offshore will expectedly be more than offset by positive impacts from our onshore business, our combined heat and power plants, and our gas business throughout 2022.

As I mentioned, our onshore earnings in the first half of the year have benefited from the high power prices in Ireland, UK and the US. Within Bioenergy and Other, we expect higher earnings from our combined heat and power plants due to the higher power prices in Denmark. As we mainly hedge the power we co-generate with heat, we expect to continue to benefit from the higher power prices.

In addition, we now expect higher full-year earnings from our gas markets and infrastructure business. We’ve been able to optimise our north-western European gas activities and lock in gains from the offtake flexibility in some of our sourcing contracts and gas storages in a very volatile market, leading to higher-than-expected earnings in 2022. We do not currently expect further impact from the Gazprom export contract in the remainder of the year, in addition to the net loss we realised in the first half. Adding up these price and volatility impacts across the portfolio results in a net positive impact of around DKK 0.5 billion. The net positive effect reflects that we, through our merchant exposure, benefit from the higher energy prices which have balanced the adverse impacts from the over-hedging.

Throughout the first half of the year, we have seen excellent operational performance across our assets, and wind-speeds have been slightly above the norm. Had we not seen the over-hedging impact caused by the delay of
Hornsea 2, combined with very high-power prices, we would have seen our EBITDA from our operational, offshore and onshore assets increase with 28% compared to the first half of 2021.

In addition to these effects, we expect increased earnings from existing partnerships owing to the reversal of the cable protection system provision in Q1 2022, as well as higher earnings on construction work for partners. Within our offshore sites’ earnings, we do expect a negative impact from delayed ramp-up of Hornsea 2 and Greater Changhua 1 and 2a. Lastly, we expect the acquisition of Ostwind and Ford County Wind to contribute with higher earnings in the last half of the year.

Summing up all these effects leaves us with DKK 1 billion outperformance, compared to our initial full-year EBITDA guidance. Considering the unprecedented market volatility, the continued and prolonged COVID challenges for our construction projects, and the unexpected developments with our Gazprom contract, this is a guidance upgrade which reflects the continued strong operational performance and shows the robustness in our business model.

Finally, let’s turn to slide 13 and our outlook for 2022.

As explained, we increased our full-year 2022 EBITDA guidance to the range of 20 billion to 22 billion, based on the higher expected earnings and Bioenergy and Other, as well as onshore. We have changed the directional guidance for the Bioenergy and Other business to significantly higher from previously lower. The directional guidance for the offshore and onshore businesses remains unchanged.

We have increased our gross investment guidance by DKK 5 billion to the range of DKK 43 billion to DKK 47 billion, which reflects the purchase price relating to the Ostwind transaction. We remain comfortable with our long-term financial targets, including EBITDA growth, return on capital employed, and contracted share of profits.

**Mads Nipper**

Thank you very much, Daniel. And before we go to your questions, allow me, maybe, a little bit unusual, to add a couple of concluding remarks. Whilst we are not happy with the financial results of our core offshore business in the first two quarters of the year, we fundamentally see our offshore business as on a very positive track.

The operational performance of our assets remains strong and our energy production in offshore is up 30-plus per cent versus last year year’s Q2. Related to this, winds in the first half have returned to normal; we finished installations, and now have a fully-producing Hornsea 2, world’s biggest wind farm; ambitions for renewables build-out in our core offshore markets are higher than ever and growing; our Ørsted competitiveness continues to be strong by ensuring awarded capacity of 4.5 GW in 2021, and so far, almost 3 GW this year with potential for more; and our recent Hornsea 3 wind and regulatory developments like the IRA in the US make us confident that we, despite some inflationary and supply-chain headwinds, can continue to create value in offshore.

So, all in all, on top of record results and strong traction in our onshore and bioenergy businesses, we remain optimistic and bullish about our offshore momentum.

And with that, let us take your questions. Operator, please.
Q&A

Operator
Thank you. This concludes our presentation. We are now happy to answer your questions. This call will have to end no later than 16h30 CEST. Please respect only one question per participant, and then you can go back into the queue for a second question, if you wish.

If you wish to ask a question at this time, please dial 01 on your telephone keypad now to join the queue. If you find your question is answered before it’s your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Casper Blom at Danske Bank. Please go ahead. Your line is open.

Casper Blom
Thank you very much, and congrats with the guidance upgrade. My first question relates to the balancing costs or expenditures that you’ve been facing within the offshore business, and I apologise if this is too simple-minded, but as I understand it, you have to tell the regulator one day in advance how much production you expect to do, and then if there’s a variation, you have to buy that electricity in the market. Given that that is how the set-up is, why don’t you just tell the regulator that you expect to produce a little bit less than you actually do, and then avoid these additional balancing costs? Thank you.

Daniel Lerup
Thank you for the question, Casper. There is a skewness in this. It is correct that we, one day ahead, nominate price and volumes and then we, intraday, have to adjust depending on, for example, how the wind blows. And the dynamic is that if there is a lot of wind in the system and we have produced more wind, then there will be in general a lot of production in the system, and therefore prices will be low. If we fall short of the expected production, that will be a situation where there will be probably low wind and where you will have to call on back-up production, which can be very expensive, or we would have to go out in the market and buy it elsewhere at higher prices.

So, there is a skewness towards the negative in the way that that set-up is running, and it’s a very big and liquid market. It’s something that we are used to dealing with, but, of course, when you are seeing very high prices, the absolute balancing cost becomes higher. But in many cases, the relative balancing cost is not going up.

Casper Blom
OK. But just to make sure that I understand: when you make that nomination a day in advance, wouldn’t you have then an incentive to get a little bit conservative, given the skewness that you talk about? Why say that you can produce 100, if you could just say 95, and then avoid the penalty?

Daniel Lerup
Because over time, the best economics will be us bidding in with what we expect.

Casper Blom
OK. Thank you, Daniel.
Deepa Venkateswaran
Hi. Sorry. Can you hear me now? OK. Sorry. I had a question on the proxy hedges and also just looking at how the market has reacted to your results today. So, one is: I just wanted to understand what you recognise. Is this an economic cash loss that you recognised early, or is this a mark-to-market loss that gets reversed when you deliver? The market doesn't seem to be believing your upgrade, given the reaction, or maybe the market is assuming that there's further cash losses. So, could you just clarify that? What exactly is this proxy hedge effect? And to what extent is it cash versus non-cash?

Daniel Lerup
I'll try to answer that, Deepa. And, of course, I can't comment on how the market is reading this, but the loss that we have taken into our P&L is a mark-to-market value; it's not a cash or realised cash value in that sense. And it's a timing effect that will come back later on. This is a bit of a special case where you have an asymmetry in the way that IFRS 9 treats these proxy hedges. So, in some cases, we will have to recognise the negative M2M loss, even though we also have a M2M gain on other proxy hedges. So, net, we are actually positive on our proxy hedges, which we usually are over the year, but due to the volatility that we have seen here, the negative part has a size that has become significant enough for us to mention it here.

Mads Nipper
I don't want to be doing Daniel's job, but it is very important that these proxy hedges, due to this asymmetry in the IFRS way of doing the hedge accounting, there is no net negative impact of this; it's actually a net positive of a few hundred million. So, in that sense, we are not concerned about the real economic impact of those proxy-hedging impacts driven by IFRS 9.

Deepa Venkateswaran
OK. Very clear. Thank you so much.

Alberto Gandolfi
Thank you. Good afternoon. I hope you'll allow me an unprompted comment before I ask the question. I'm just quite surprised to see the IFRS 9 accounting is coming at the EBITDA level. Most of your competitors do it in the financial expenses or present an adjusted EBITDA for it because I think it's adding quite a lot of volatility. So, it probably doesn't serve you enough justice. That's where I was going with it. But anyway, unsolicited feedback and I apologise for that.
But my question is the following: I see that with the current very high level of commodities and power prices, your liquidity needs for margin calls is growing. You seem to be winning at a much higher success rate versus your business plan: margins at 4.5 GW last year; you’ve already won 3 GW now, basically the only very big auction you have so far; more auctions to come; you’re trying to expand to get pipelines. So, I guess my question is, when do you think you may actually need incremental funding for it? And I’m thinking here, I don’t see anything wrong with issuing some equity if you keep punching above your weight and you’re winning more projects, but can we understand a little bit how you’re thinking about squaring all the circle of liquidity needs, better success rates, and funding needs? Thank you so much.

**Mads Nipper**
I can kick it off and, then Daniel can supplement, Alberto. Thank you, and also thanks for the comment initially. We cannot comment on the specifics of when an equity raise from the ABB comes in. But, obviously, we are following it closely. But right now, we are actually progressing pretty much to plan. Yes, Ostwind acquisition came on top, but that’s not enough to trigger. But, obviously, as we will go along, and if we continue the high win-rate and see these opportunities, then that can trigger it, but it is simply impossible for us at this time to say more specifically when are we actually going to pull that trigger. So it’s not something where we, unfortunately, can share any more details at this stage.

**Alberto Gandolfi**
Thank you so much.

**Operator**
Thank you. Our next question comes from the line of Kristian Johansson at SEB. Please go ahead. Your line is open.

**Kristian Johansson**
Thank you. I had a question on the implications of the IRA in the US. Firstly, just to clarify, Mads, I think you said that the implication would be a meaningful double-digit uplift in IRR. So, are you referring to your existing offshore projects? And I assume when you say double digit, that would be basis points. But also, could you comment on the implications on your onshore business and whether this, if signed into law, would speed up your build-out? And also, your US P2X project, the clarity in the IRA, what does that mean for the FID on that project?

**Mads Nipper**
Yes, absolutely. Thank you, Kristian. You’re correct. Sorry if I forgot to say that. It’s basis points adjusted double digit. Yes, that is for our existing awarded portfolio. We are saying that a meaningful double-digit uplift is what we estimate. There will be some variance, and it is still not very, very sharp on how big shares we will qualify for, given the local content and other criteria. But we believe we are extremely well-positioned and better-positioned than anybody else due to our already existing deep engagement to build a US supply chain. So, this will give a noticeable lift to those cases. But, of course, given the long-term nature of the IRA, this is also something we imagine can and will benefit future projects beyond that.

It is also a benefit for onshore. And I don’t know if we’ll say that it’ll speed us up further, but it surely gives us comfort that continuing to invest in the US as our key growth market in onshore, despite our European expansion, is something that is very attractive.
And finally, I'm sure you read the same analysis, but at least some are claiming that with the up to $3 tax credit for green hydrogen, if qualifying for that full amount, the US could actually be the cheapest place to produce green hydrogen, which we see as extremely encouraging, both for some of our existing plants like, for example, the letter of intent we have with Maersk on green methanol for their ships, but also for potential further Power-to-X expansion. We still need to get more clarity on the details of that hydrogen dimension of the IRA, but we see it as something that makes the US, comparatively, a very attractive potential market for that expansion.

Daniel Lerup
And maybe, just to add a little bit on the onshore side. At face value, the IRA looks really good, and the direct impacts of that could actually materialise in higher IRR bps uplift compared to offshore. However, since you will have to also go out and secure corporate PPAs, there is, of course, an offsetting element in there where we could get in a situation where the customers would want some of that back. But it looks really good for the onshore part also going to 100% PTC.

Kristian Johansen
If I just may follow up on your offshore portfolio, you have previously said that inflation has diluted the IRR a bit on the portfolio. Would it be fair to say that this uplift from the IRA fully compensates for that dilution?

Mads Nipper
We can't comment on that, Kristian. And I think we are generally not trying to make it a habit to comment on the specific projects or the near-term portfolios. But this is clearly something that helps.

Kristian Johansen
Fair enough. Thank you so much.

Operator
Thank you. Our next question comes from the line of Peter Bisztyga of Bank of America. Please go ahead. Your line is open.

Peter Bisztyga
Hi. Just a question on Hornsea 3, please. You said that you'd secured two thirds of the capacity for that. And I was just wondering whether you've secured equipment at fixed prices, or whether your suppliers, be it on the turbines or anything else, have included logistics and other cost pass-through clauses. So, some insights on that would be useful. Thank you.

Mads Nipper
We can say that, as we said, Peter, we have secured the capacity, and for some of them we have agreed the prices, and for some of them we have framework agreements that covers this. So, we know what, essentially, at least, very close to what it would cost. And then, for some of them, there will still need to be negotiations outstanding, but within limits. So, it's not something where it can fundamentally change. So, it's a mix of already-fixed prices with something where we still need to finalise the negotiations for the fixed prices.

Peter Bisztyga
And maybe just to clarify: you're not expecting to accept any cost pass-throughs on logistics, or anything like that?
Mads Nipper
I think it would be too specific. But normally, for example, in some practice we would cover the commodity risk of steel within some of our contracts. And that is probably something that would also be, or likely would be, something that we would look at here. But that is also why we are encouraged to see, and I'm sure you know that as well as we do, but we are starting to see that after some of the extreme peaks we have, for example, the heavy steel plates have started in recent weeks to come down significantly lower than the peak. So, we believe that this is a manageable exposure, even though, if there is a commodity risk that would still sit with us. And as we said before, sometimes we also choose to lock those in at opportunities, like we did with a significant part of the of the US nearer-term East Coast projects, with the pre-buying of steel we did there.

Peter Bisztyga
Got it. Thank you. That was helpful.

Operator
Our next question comes from the line of Rob Pulleyen at Morgan Stanley. Please go ahead. Your line is open.

Rob Pulleyen
Hello. Thank you. If I may continue on the funding question - and apologies if it's a bit multi-faceted. First of all, we noticed this collateral posting you mentioned, and it'd be interesting to know how much of that was an incremental move this year. And given where the credit metrics are, does this hasten the need for more debt, given you've got less cash because of those collateral postings? And because of the credit metrics, does that mean there is a higher cost of debt associated with this? And all wrapped together with the previous question is: does that accelerate the need for new equity capital to, frankly, accelerate the growth and lift the capacity targets? I'm wondering how all of these different dynamics on the funding fit together as to what the picture looks like now versus what it may have looked like six to 12 months ago. Thank you.

Daniel Lerup
Thank you. And we are in a situation where we have a good liquidity reserve. And for Q2, we did actually not see a net drag on the liquidity from the collateral posting because we also issued this PCG of €1 billion. However, on our credit metric, it is a drag due to the fact that we did see changes in the collateral, but where it was on the variation margin, where the PCG is only covering the initial margin, and the variation part goes into the FFO of the metric.

When it comes to funding need, this is not a driver for future funding needs. But, of course, if we continue to see that we deliver above-expected on the auctions that we are in, that could, of course, be a trigger for that.

Rob Pulleyen
OK. Thank you. If I may just ask something I think many folks are wondering: on the timing, and notwithstanding the respect I have for Mads’ answer earlier as to exactly when it is, would you at least rule out an equity raise this year? Thank you.

Mads Nipper
Honestly, Rob, we’d love to do it, but I don’t think we will rule anything out. That is not to say that there are imminent plans at all, but it would be wrong of us to rule anything out at this stage.
Rob Pullyen
Fair enough. I'll turn it over and maybe join the queue at the back. Thank you.

Operator
Our next question comes from the line of Mark Freshney at Credit Suisse. Please go ahead. Your line is open.

Mark Freshney
Hello. Thank you for taking my question. I was intrigued when you spoke about Hornsea 3. Clearly, you've won a CFD on part of it, but you mentioned the merchant component, so it would seem that you're still working on the business case there. Is it fair to say that 3.5 GW is the maximum size? And can you talk about the process you'd go through in determining whether you take up that additional merchant capacity, and whether you would need corporate PPAs ahead of FID, and how it might tie in to the rest of the project in terms of, potentially, synergies and lowering the CAPEX per unit. Thank you.

Mads Nipper
Thanks a lot, Mark. No, sorry if I was not being clear on that part. The total capacity of the project is 2.9 - 2.852 to be specific - but that is what we've been awarded a CFD for. What we do have is a merchant flexibility of up to 25%, meaning that if we choose to, when we get closer to the completion of the project, we can choose. Let's just play with the scenario where, if energy prices are still very high, we have the flexibility to have up to 25% - around 700 MW - as part of the 2.9 to be merchant. That is an option we have at the time, given what the opportunities look like in terms of the power market, in terms of PPA attractiveness, and so on.

But the starting point is that we are taking the full CFD for the full capacity. But we are mentioning this to you because, obviously, the energy markets are quite extreme, and I'll say all of us think that it is probably relatively uncertain. So, we actually think it's a great flexibility to have should we choose to do that. And we will, as we progress through the project, as we take FID, as we start construction and we follow the markets, we would evaluate and start, obviously, looking at what kind of alternatives to a CFD contract at offtake would be more value-creating and would be right to do. That's the process we would go through, but that would be something that starts closer to the COD in 2027.

Mark Freshney
So, your business case is built around the CFD at 38, 39, 2012 prices. You have a free option to actually enhance the IRR by taking 700 MW merchant, and you'll go to market looking at various options for that, and so forth. And is there anything that you can give us on the IRRs, or should we refer to our own private spreadsheets?

Mads Nipper
We can just say that this project, even though it was a price clearly competitive to join the winning bunch, is something that is within our guided range. So, we are comfortable with the project.

Mark Freshney
OK. Thank you very much.
Mads Nipper
And you're right - to the first part of your conclusion - that our business case is built on the CFD, which we know we can get. And if there’s an opportunity through the merchant flexibility to improve that, that’s an upside.

Operator
Our next question comes from the line of Vincent Ayral at JP Morgan. Please go ahead. Your line is open.

Vincent Ayral
Thank you for taking my question. Coming back on the comment that was made before, if the IFRS 9 here, just talking about non-cash, and not what we’ve seen with some other operators which have proxy hedging, costing them money - I’m thinking Engie, basically, selling forward in France; for Belgium, generation for Uniper; in Germany, for Nord Pool. If it’s really economic in value zero, I think, indeed, an adjusted number would clearly have helped the market today.

I’ll ask a question regarding only two. We have a delayed ramp-up, but now you will be up-and-running. I understand that you may have some flexibility regarding the start of the CFD, and you could potentially delay that. So, I would be keen to understand, if it is the case, how much potential upside could be there for the rest of the year, how long you could last, and is it included in the guidance, please? Thank you.

Daniel Lerup
Thank you. We have already pushed two of the phases, and we can choose next year to also push a phase. But remember, we are not getting any CFD income from Hornsea 2 this year; it is merchant. But as you know, we have fully hedged our offshore production, meaning that there are no upsides in this year or in the guidance from increasing prices.

Vincent Ayral
And for next year you would not be fully-hedged, it’s fair to assume?

Daniel Lerup
We are close to fully-hedged for next year as well - on the offshore part - but not in Onshore and Bioenergy.

Vincent Ayral
Thank you very much. Very clear.

Operator
Our next question comes from the line of Sam Arie at UBS. Please go ahead. Your line is open.

Sam Arie
Hi. Good afternoon, everyone. Thank you for the presentation and the explanation on the hedging issue, which I think we’ve all taken note of. I wanted to come back to a different question: the one of generally high-power prices in Europe and in the UK, and what policymakers can do to address it. And in that context, I want to ask you a question that I also put to RWE this morning, which is: if you take the UK as a focus, the question, I suppose, is what can a new prime minister do about high energy costs, including power prices? And assuming some kind of
intervention is going to happen, what would industry support voluntarily in order to avoid something less palatable being forced on the industry involuntarily?

And the particular idea, which I’m picking up on in the industry discussions and so on, is this one about whether you could take existing constructed assets with merchant power price exposure and offer them a voluntary CFD, maybe cap to the level of the new asset CFD, in which case I suppose the idea is you would take a couple of gigawatts of assets you have in the UK on the ROC scheme, and you would bid them in for a CFD, knowing that, in the short run, you would get lower prices as the merchant element of the ROC assets, but in exchange, you’d get maybe another ten, 15 years of inflation-indexed, fixed-strike prices, which are higher-multiple, more transactionable, and carry more leverage, and so on. And in that case, it seems to me like a solution where industry might sign up to voluntarily. So, I just wondered, a further question is: do you think that’s a good idea? Do you think that could be part of the solution in the UK or other markets? Are you hearing anything from government that points concretely in that direction? And if there were CFD auctions for your existing assets, is that something you would consider bidding into? Thank you.

Mads Nipper
Thanks a lot, Sam. To be very transparent, that particular idea is not something we’ve discussed a whole lot. We are, obviously, in very close dialogue around what are the risks and options to contribute to this. And given that we have such a large contracted share also in the UK, then we actually see it in the way we are part of securing the stability of the prices, which is super-difficult, and not many are doing. I think, and it’s just an immediate reaction, rather than something which would not be thought through as a windfall tax, having something like this would certainly be an option. It would be something we would engage constructively in. But I think also that as long as any consideration is considering what is the real net upside that companies have so that neither CFD volume nor the hedged volumes end up being taxed in a way, as long as that is the case, we would be open to discussing different solutions because of course it is a challenging situation for the consumers.

Sam Arie
Thank you for your comment. If you will permit me just a short comment, as my friend Alberto made one earlier on an accounting subject, it seems to me in the UK, in particular, there’s a very short window in which some decisions are going to get made, and it feels to me there would be a huge benefit in having some solutions to bring down bills and power prices near term which industry could sign up to voluntarily. I think it’d be a very strong message to the market if there were some interventions that were agreed and industry could say, Yeah, we back that and we don’t have to go along with that, but we do because it’s good for us. And the existing assets CFD seems to me at least one of a few different candidates. So, I hope we can keep an eye on that and keep discussing on future calls.

Mads Nipper
Absolutely. Thanks for that. We will certainly pay attention to that and discuss that immediately with our UK colleagues.

Sam Arie
OK. Thank you.
Operator
Our next question comes from the line of John Musk at Royal Bank of Canada. Please go ahead. Your line is open.

John Musk
Good afternoon, everyone. Coming back again to the balance sheet and, in particular, to the question on collateral. Can you maybe update as to where the 12.9 billion has moved since the half year, and whilst doing so, maybe just give us an indication of what is driving that? Should we just be looking at headline levels or power prices? Or is it a bit more complicated around hedges that you may have in other commodities?

Daniel Lerup
It's very much driven by the headline power and gas prices. And throughout the year, or throughout the half year, the net collateral is roughly flat due to the fact that we've drawn it down the collateral with this €1 billion PCG. Had we not made that one, we would have had an additional drag of DKK 7.5 billion.

John Musk
And so, the 12.9 billion is still a similar number that hasn't moved much since 30th of June?

Daniel Lerup
Since 30th of June, there have, of course, in July, been increases in prices, which, of course, also is impacting the collateral. But I don't have that recent number.

John Musk
OK. Thank you.

Operator
Our next question is a follow up from Casper Blom of Danske Bank. Please go ahead. Your line is open.

Casper Blom
Thank you very much. A question regarding slide 12, which I found rather interesting. I just wanted to understand the dynamic if looking a little bit ahead. Let's assume that, in '23, we also see the same pricing and volatility across your portfolio as you've seen this year. And then, removing the over-hedging at Hornsea 2, would it then be fair to assume that the onshore and the Danish power plants would give you an upside of, let's say, 2 billion or 2.5 billion compared to a, let's call it, normalised situation. Would that be a fair assumption to have for next year?

Mads Nipper
I think I can kick it off. and again invite Daniel to comment, Casper. But you're actually right that, clearly, what has offset not all of the upside that we are seeing, hence the 1 billion upgrade in our full year guidance, that by far the majority of that is the over-hedging due to the delayed ramp-up of Hornsea 2. There are some other impacts, and also even though there are higher balancing costs with higher power, then this is a totally different level; it's a much, much smaller number, and that is what would probably stay. But you're right, there would be a significant share of that CHP and onshore upside, which would be a pure upside because we would only see a smaller part of the drag on our offshore unless we have other things like, for example, an unusually low wind year, or something else again, then it would be an upside like you describe.
Casper Blom
Great. Thank you.

Operator
Our next question comes from the line of Deepa Venkateswaran of Bernstein. Please go ahead. Your line is open.

Deepa Venkateswaran
Thank you so much for my second question. I just wanted to focus on the collateral posting and the FFO to net debt ratio. Some companies include the collateral margin also as receivable then netted off, and it seems like credit rating agencies are taking that into account. So, I was just wondering whether the credit rating agencies are actually assuming that you’ll never receive this collateral back, or have you had any such discussion? Because it seems, again, absurd that it would be something that unwinds over time and shouldn’t really contribute to your fundamental debt position. So, could you just clarify what the agency’s thoughts are on this, particularly if you don’t have any counter-party risk on that collateral? Thank you.

Daniel Lerup
I agree. We are in continuous dialogue with the rating agencies to keep them, of course, updated on this. And since this is a timing effect, we feel fairly comfortable that it’s not going to be something that will penalise us. And again, we also expect that the metric will come back to our targeted level. And we also have the Hornsea 2 divestment closing later in the year, which will also lead to a big capital inflow.

But you are right, there are some funny effects from these margins where they hit different places in the P&L and balance sheet. And we are, of course, in dialogue with the rating agencies to make sure that they understand the effects of this.

Deepa Venkateswaran
OK. Thank you so much.

Operator
Our next question comes from the line of Jenny Ping at Citi. Please go ahead. Your line is open.

Jenny Ping
Hi. Thanks very much. Just along the lines of the last question, in terms of the FFO net debt, I just wondered, your assumption is, obviously, there’s no further collateral for the rest of the year. What if things deteriorate from here? What levers do you have to pull? Can you issue more company guarantees? Clearly, the Hornsea capital inflow will help. But what are the options on the table, please? Thank you.

Daniel Lerup
There’s the PCG route. You can make bilateral agreements, like RCFs; you have more shorter-term debt; and we have a fairly robust liquidity reserve already now. So, I think we have a lot of possibilities to work with if we should see a bigger draw on the collateral.

Jenny Ping
Thank you. Sorry, just one follow-up, given we’re on the second round of questions: just in terms of your Taiwan assets, obviously, the political risk seems to be going up between China and Taiwan. As we come up to the next
round of auctions, as well as making FIDs for the contracts you've already won, I presume the risk premium
attached to this is now higher. So, can you just talk us through how you look at future investments in the Taiwan
projects, please?

Mads Nipper
I can kick it off. I actually happened to personally be in Taiwan last week. We are obviously intensifying, Jenny, our
dialogues with geopolitical advisors, following very closely the political landscape. And as late today, we’ve
heard that the vice president of the Taiwanese government is travelling for ten days to Beijing. And actually,
what we consistently hear is that the clear expectation is that that, even though this was a spike, we actually are
of the opinion that, structurally, this is not increasing the risk. We, obviously, have made a very fast-track
evaluation, both of the risk for our people, for our existing assets and so on, due to the military drills from Beijing,
but right now we are actually not seeing that the risk is structurally and on an ongoing basis substantially
increasing. So, it is not something that leads us to question whether we should support Taiwan’s continued build-
out of renewable energy, nor fundamentally, or at least to any significant extent, increasing the risk premium.

Jenny Ping
Thanks.

Operator
Our next question comes from the line of David Paz at Wolfe Research. Please go ahead. Your line is open.

David Paz
Hello. I have a question going back to the IRA: can you maybe elaborate on the double-digit basis point range?
It’s clearly a very wide range. Does that apply to all the projects with contracts: the Northeast Cluster, Ocean
Winds and Skipjack 1 and 2? And is the wide range of potential uplifts due to just how far along some of those
projects are, and therefore, some may just not get to that domestic content threshold?

Mads Nipper
Thank you, David. That is why we say a meaningful double-digit uplift. You’re right, there is a spread, but right
now with our current calculations, it’s not ten or 12 basis points. But there is variation depending on how
progressed it is, how our preliminary evaluation is, how much we would qualify for, for the existing projects. But,
obviously, with whatever we can do, we will do whatever we can to get that as high as possible. But I cannot
share, also because we will still need to qualify those numbers; we were in a hurry to try and calculate to at least
give you an indication of the impact, and this is as close as we can get it. But it is varying from project to project
based on how much we think we can qualify for, and then also based on whether there are any conditions in the
OREC to pass back some or all of that to the ratepayers, which is something which we would, obviously,
negotiate with the states.

David Paz
Right. OK. And if I could follow up related to that, can you maybe discuss how the transferability provision
impacts your existing contracts, but any potential further transactions, including farm-downs and so forth in the
US? Thank you.
Daniel Lerup
The wording on the transferability is not at a level where it’s completely clear yet exactly how we can use that; we will be seeking more guidance from the Treasury in order to understand that better. So, it’s probably not as good as the direct pay, but we think at least it can de-risk the way that you utilise the ITCs, and there might be some further upside in there. And in the numbers we are mentioning here, in the first calculations we’ve done, we’ve not added any value to the transferability yet, even though we think that there is a value there also.

David Paz
Great. Thank you so much.

Operator
Our next question comes from the line of Alberto Gandolfi of Goldman Sachs. Please go ahead. Your line is open.

Alberto Gandolfi
Hi. Thanks for taking my follow-up: a very straightforward one. Could you give us any specific guidance on the year-end net debt, talking about what you think would be maybe temporary margin costs that you would expect to recover versus what is the actual underlying net debt? Thank you so much.

Daniel Lerup
No, I can’t give you a number on the net debt. But as we also said earlier, we expect the FFO to net debt to be around 25% at year end if we don’t see any deterioration on the collateral side driven by higher power and gas prices.

Alberto Gandolfi
OK. Thank you.

Operator
Thank you. The next question comes from the line of Rob Pulley at Morgan Stanley. Please go ahead. Your line is open.

Rob Pulley
Hello. Thank you also for the follow-ups. Given the time, I have two quick ones. The first one: your partner Eversource has disclosed it’s considering disposing of its stake in the JV. A frequent question we get is whether Ørsted would be interested in acquiring that stake, and it’d be great to hear the company’s public view on that topic. And secondly, just as an order of procedure, may I ask what is included in the implied second-half guidance for balancing costs and charges related to proxy hedges, if anything, just to make sure expectations are in the right place versus what you have guided? Thank you very much.

Mads Nipper
Yes. Thanks a lot, Rob. I can say, in terms of Eversource, they are part of the projects and the sea bed we have. We are not ruling anything out. I can’t share any specifics about it, but we are in evaluation as to whether some of that would actually be meaningful for us to take over. But it is not something we can rule out that we would be interested in.
Daniel Lerup
And could you maybe repeat the other question?

Rob Pulleyn
Yeah, sure. Thanks, Mads, on the first one. The second one is: given the disconnect between expectations and quarterly reality, shall we say, for many quarters, could we just be crystal clear? Within 2022 guidance that you’ve given, in the second half of the year, what is included for balancing costs and any future charges on proxy hedges, if anything? Presumably this volatile market continues in commodities, and therefore there will be balancing costs and there could also be more charges to your proxy hedges. Just wondering what is included in that guidance, so that we’re all on the same page. Thank you.

Daniel Lerup
We have assumed a close-to-normal level for the remainder of the year, not really knowing exactly how this will impact our earnings going forward, because it depends on the development in volatility and correlations. So, it’s something that we expect to be able to capture within our guided range.

Mads Nipper
And just to supplement. Again, without being able to give you very exact numbers, even if the balancing costs stay at the current high levels, and potentially even slightly escalated levels compared to where we are now, this is not something that puts our guidance at risk. Just being specific about that, because balancing costs, it may sound quite dramatic, but it is still a relatively small part of that total deviation for the quarter. So, even if it sustains, it’s not something that makes us concerned about the validity of the updated guidance.

Rob Pulleyn
That’s great to hear. Very reassuring. Thank you. I’ll leave it there.

Operator
And we have one further question in the queue. That’s from the line of Mark Freshney at Credit Suisse. Please go ahead. Your line is open.

Mark Freshney
Thank you. I just wanted to follow up with the local partners in North America, because we’ve clearly seen the Eversource statements, and PSEG also make comments such as: ‘We are keeping returns under review.’ And I see that they paid you €30 million this quarter. But my question is, surely when you go to new areas such as the US or Taiwan, your previous management were clear that you need local partners, particularly in some territories, and the number one partner who you could wish for, dream for, PSEG, may want to sell. Eversource is taking their decision. How concerning is it for you that you can’t get local content, if you like, on the capital side? And what say would you have on the partners in those projects? Do you have pre-emption, and can you choose your own partner, or are you at the mercy of financial funds who may not have the political relationships that you really need in those states?

Mads Nipper
We are not concerned, Mark, for two main reasons. There are more, but two main reasons. One is that we are clearly not of the perception that PSEG wants to sell. PSEG is engaging very deeply. We are working with them
also on the big transmission bid we have in New Jersey. So, we do not have that fear. And at the same time, I'll say that it's very important for us when we say that partners are necessary. And always, we say, what is it the local partner can bring us? Is it political leverage? Is it local content? Is it market access? Is it access to projects? And therefore, for example, also with Eversource’s decision, Eversource has been a fantastic partner to get us into the market.

But we also believe that we are now in a position with by far the largest pipeline and already being a huge political voice, both in Washington and the states where we are active, we already have that leverage now ourselves. We would have loved to continue to work with Eversource, but this is not something that is at all detrimental to our path forward. And likewise, we are in Poland, where we are the market entry is with our partner PGE, but we already now know that we are not going to work with PGE for the second round. And this is fully natural because PGE help us gain market access, gain access to the right stakeholders, and so on. So, it’s not an unusual development that partners are not forever and ever. And that’s why that combination with both PSEG, we see them not on their way anywhere. And also, the fact that partners sometimes are there for a period of time, and then we divorce happily. And that’s fine.

Mark Freshney
Thank you very much. Very clear. Thank you.

Operator
As there are no further questions from the participants at this time, I’ll hand back to our speakers for the closing comments.

Mads Nipper
And I would just like to thank all of you. Great questions, as always. And should you have any further questions, Rasmus, Sabine, and the rest of the IR team are happy to answer them. So, thank you very much. Stay safe, and have a great day.