Ørsted Q3 2021 Earnings Call
Transcription

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PRESENTATION

Operator

Welcome to the Ørsted Investor Q3 2021 Earnings Call. For this part of this call, all the participants will be in a listen-only mode, and afterwards there will be a question-and-answer session. Today, I'm pleased to present Mr. Mads Nipper, CEO; and Marianne Wiinholt, CFO. Please go ahead.

Mads Nipper

Thank you very much, and good afternoon, everyone and welcome to this Q3 2021 earnings call. This third quarter was unprecedented, given the European energy crunch and global supply chain pressures. But despite these unusual market conditions, I'm pleased to say that we've continued to make progress with our construction programme, and we have maintained high availability rates. Also, our traders have done an excellent job in handling market volatility through an active approach to risk management and have limited impact on our financial position.

Moreover, we saw exceptional performance by our CHP plants and higher earnings from our gas business, which means, that we're still on track towards the full-year guidance despite the lower wind speeds. Our performance has demonstrated our company's robust business model, the strength in having a diversified portfolio like ours, and the invaluable talent of our dedicated and hardworking teams across all businesses.

We've also shown strength in our business development activities this quarter, and most notably, we have further advanced towards a final investment decision for our originally fully merchant German Borkum Riffgrund 3 project by executing on two strategic milestones.

First, we signed an agreement with Glennmont Partners to farm down 50% of the 900 MW project. This deal, which is the first of its kind to Ørsted, is part of an overall de-risking towards the final investment decision, and it is our first farm-down to be signed prior to taking FID. We're very proud of the transaction and believe it demonstrates both continued interest for direct investments into our assets and high confidence in offshore wind. It is a testament to our proven transaction model of providing contracts for full scope EPC, 20 years of O&M, and route to market.

Secondly, we've now signed 450 MW of long-term fixed price corporate PPAs for Borkum Riffgrund 3, when including the most recent 100 MW long-term PPA with REWE Group. We continue to work on an advanced pipeline of additional PPAs with the aim to further reduce the remaining merchant exposure in the first ten years, as well as the later years of the project.

I'll also mention that just this morning, we closed the agreement with CDPQ and Cathay PE to farm down 50% of our 600 MW Greater Changhua 1 in Taiwan. Just as when we announced the transaction last year, we were delighted by the transaction partners and milestone of having applied our farm-down model in Asia Pacific for the very first time.

Recently, New Jersey issued an offshore transmission solicitation which we see as a call to integrate upcoming offshore wind farms into the state energy grid as efficiently and cost effective as possible. Considering our commitment to support New Jersey's ambitious clean energy targets, we submitted several strategic proposals for offshore wind transmission in New Jersey together with our long-time partner PSEG. Our bids combine our expertise with offshore wind and transmission with PSEG's extensive experience in onshore transmission.

We've also launched several additional key strategic partnerships across our geographies and technologies. In Vietnam, we signed a Memorandum of Understanding (MoU) with the leading cross-industry company T&T to launch a strategic collaboration on offshore wind, underlining our aspiration to establish a meaningful position in what we believe will be an attractive market in Vietnam.

In the US, we signed an MoU with Williams, one of the largest pipeline operators in the States to explore large-scale onshore wind energy electrolysis and synthetic gas-via-methanation co-development in Western Wyoming.

In Germany, we signed an MoU with Uniper, one of Europe's largest electricity producers and a global gas trader. Together, we aim to install a 70 MW electrolyzer installed by 2025, with the potential to upgrade the facility to 410 megawatts by 2030 and the potential to source the needed electricity with Ørsted offshore wind farms. And in Poland, we've signed a Letter of Intent with ZE PAK, Poland's largest privately-owned energy producer with ambitious renewable energy targets to participate in the upcoming auction for seabed leases in the Polish part of the Baltic Sea.

Our onshore business also continued to show momentum during the third quarter. We commissioned our second large-scale solar PV facility, Muscle Shoals in Alabama. We continue to make progress in executing corporate PPAs and we have started construction of the 29 MW Lisheen 3 wind farm in Ireland.

All-in-all, these developments further demonstrate our commitment to be a leading global green energy major with a diverse set of complementary assets and offerings in the global renewables market.

Lastly, in September, we announced that Neil O'Donovan will take over the role as CEO of Onshore and a Member of the Ørsted Executive Committee. Neil joined Lincoln Clean Energy in 2011, and has been the COO of Onshore since LCE was acquired by us in 2018. With his extensive experience and unique knowledge of Ørsted's onshore asset base and development portfolio as well as his demonstrated leadership skills, we strongly believe Neil is the best person to take over as CEO of Ørsted Onshore and execute on our ambitious onshore growth strategy.

Before moving forward, I'll take a moment to reflect on my recent involvement in COP26. It is ever so clear that there is an urgent need for an accelerated build out of renewable energy and green fuels and mechanisms to support the transition and keep stakeholders accountable. We have been and continue to be very vocal on the need to accelerate global climate action and from time to time, we do receive recognition for our efforts.

And as a latest example, we are honoured that our net-zero target for 2040 was just approved last week by the Science Based Targets initiative (SBTi), which makes us the first and only energy company and one of only seven companies globally to have this net-zero target approval covering the full value chain.

We're very proud of this recognition as SBTI has now established Science Based criteria for long-term net-zero targets that are consistent with a 1.5 °C scenario. Companies must place a cap on 5% to 10% of the amount of residual emissions they offset through carbon removal projects, thus requiring companies to substantiate their net-zero plans with genuine long-term carbon reductions across Scope 1 to 3.

Turning to slide four, where I'll give you an update on our construction projects and pipeline. At Hornsea 2, we have now successfully installed all foundations as well as 142 of the array cables, and 116 of the 165 turbines. We expect to have first power later this year, when the offshore transmission asset gets connected to the grid, and to commission the wind farm during the first half of 2022.

At our Greater Changhua 1 and 2a project, we continue to progress on offshore construction work and have installed 11 out of 111 jacket foundations. We plan to commence installation of turbines and array cables in Q1 2022 and still expect to commission the project before the end of 2022. We continue to see Taiwan being affected by COVID-19 restrictions, which could still potentially impact the construction timeline.

Turning now to our three US onshore renewables projects under construction. At Haystack wind, we are progressing according to schedule and expect to finalise construction around the very end of this year. Meanwhile, we do expect minor delays on our US solar projects. The current 'forced labour' allegations towards a number of solar panel suppliers in China, as well as other issues related to potential increases in US tariffs on Chinese goods, have caused a slowdown of solar panel deliveries into the US. This is likely to delay the commissioning of Old 300 and the solar phase of Helena Energy Center from the previously expected first half of 2022 timeline to later in 2022.

We expect the current industry challenge related to Chinese panels to be temporary in nature, and we take the issue of 'forced labour' very seriously. We have signed up for the Solar Industry Forced Labour Prevention Pledge, which is an industry initiative that will develop a solar supply chain traceability protocol to identify the source of primary raw materials and track their incorporation into the solar modules.

Based on third-party evaluations, we are confident that the panels procured for our Old 300 and Helena Energy Center are free of polysilicon from the Xinjiang region and for future projects we have decided to only use polysilicon-free panels until the traceability issues have been fully resolved.

In Europe, the construction of the two onshore wind farms, the 62 MW Kennoxhead 1 project in Scotland and the 29 MW Lisheen 3 project in Ireland are progressing according to schedule and the projects are expected to reach COD in 2022. We also continue to advance our first renewable hydrogen project under construction H2RES. The 2 MW electrolyzer project will use our two Avedøre Holme offshore wind turbines as a source and is expected to commission in first half of 2022.

All of these projects together equate a 16.5 GW of installed and under construction renewable capacity. And while on the topic of renewable hydrogen, I would like to add that we continue to see strong momentum worldwide and progress on our early-stage projects as well. Our Green Fuels for Denmark project achieved a significant milestone in being named an Important Project of Common European Interest – or IPCEI, in short – in the EU programme, which opens the project up to additional funding pools.

In addition, two of our other projects, Lingen Green Hydrogen and HySCALE100 are also shortlisted for IPCEI status.

The development of our awarded projects continues to progress as planned. In the US, we are executing on our bid commitments to bring local jobs and build out the supply chain. In New York, for example, we together with

Governor Hochul and our partner Eversource recently announced the largest single New York State offshore wind supply chain investment of $86 million, bringing construction and steel manufacturing business to the Capital Region and Western New York.

We also continue to see the expected progress when it comes to permitting, such as in August when the Bureau of Ocean Energy Management – or BOEM – issued Sunrise Wind's Notice of Intent in line with expectations. Moreover, it is encouraging to see that last month, the US Interior Department started the process of identifying potential further seabed lease offerings in 2022 through 2024 across seven areas. Seabed availability and robust permitting processes are essential for offshore wind developers globally and we applaud the focus on resolving such challenges in the US.

As I mentioned previously, we have achieved a number of milestones for the development of our German portfolio, and we expect to take a final investment decision towards the end of this year. Finally, our later-dated awarded pipeline of projects in Taiwan, Poland and New Jersey are all progressing as planned.

Let's move on to slide five and an update on upcoming offshore wind auctions and tenders.

We continue to see numerous opportunities in the coming 15 months. With our recent awards in Poland and New Jersey, the next results we expect to see are in Maryland and Japan around the end of this year or very early next year.

In Maryland, we submitted a bid for 760 MW through our Skipjack 2 wind project in response to the Public Service Commission's call for up to 1.2 GW of offshore wind.

In Japan, we submitted three bids with our joint venture partners, one with TEPCO and Choshi, and two with JWD and EURUS in Noshiro and Yurihonjo. The auction comprises a total capacity of 1.5 GW split between four zones.

As you may have noticed, we decided to not take part in the recent auctions in Germany, France and Massachusetts. This demonstrates our willingness to prioritise our efforts and stay financially disciplined by focusing on the opportunities that play to our strengths. And our oversized 50-plus GW substantiated, and opportunity pipeline provides us with the ability to be selective in terms of which auctions and tenders we participate in, seeking to optimise the development, sizing and timing of our buildout in each region. Moreover, we are very satisfied with our 2021 auction success rate, securing 3.6 GW so far this year.

All-in-all, I remain satisfied with our progress in 2021, where we, despite the challenges related to extreme energy market volatility, COVID-19, and global supply chain pressures, have been able to circumvent the challenges and shield the Group from severe negative impacts. All this is thanks to our talented and ambitious teams that, through active risk management, preventive and forward-looking measures, and relentless focus on execution, have made this possible.

And with that, I'll now hand over the word to Marianne.

Marianne Wiinholt

Thank you, Mads, and good afternoon, everyone. Let's start with slide six, where I will go through the EBITDA for Q3 2021. We realised a Group EBITDA of DKK 3 billion, a decrease on last year driven by lower earnings from our operating wind sites, whilst our CHP plants and gas business contributed positively to the results.

In Q3 2021, we had a positive effect of DKK 168 million from ceasing to report according to the business performance principle, while Q3 2020 included earnings of the same magnitude from a Distribution, B2C and City Light businesses which we have divested.

Earnings from offshore sites were negatively impacted by wind speeds below the norm. In Q3 2021, the wind speed came in at 7.6 meters per second compared to the normal wind of 8.3 meters per second. The difference in wind speed compared to the normal wind quarter translate into a negative EBITDA impact of around DKK 600 million.

I will briefly mention here that when we look at our historical production levels, we see no indication of structurally lower wind speeds. And although Q3 ended 8% below the norm, we have seen wind speeds above the norm in October.

As we announced at the start of the year, and as we also reported in the previous quarters of 2021, we have had a negative impact from higher transmission tariffs, following the divestment of the offshore transmission assets at Hornsea 1 in Q1 2021, as well as lower earnings from Hornsea 2 due to the subsidy period ending in October 2020.

In addition, we saw lower earnings from our power portfolio due to higher balancing costs and lower volumes. These negative effects were partly offset by the addition of the last 400 MW of Hornsea 1 receiving CfD from April 2021.

We had no significant EBITDA from our offshore partnerships in Q3 2021, while last year's partnership earnings related to the construction of Virginia coastal wind and construction gain on Hornsea 1 due to lower CapEx.

Earnings in our onshore business increased by 34%, driven by the ramp up of generation from the wind farms, Willow Creek, Plum Creek, and Western Trail, as well as the solar PV farms Permian Energy Center and Muscle Shoals. The significant ramp up in generation capacity was partly offset by lower wind speeds, as the wind speed across the portfolio came in at 6.2 meters per second compared to normal wind of 6.8 meters per second. In addition, we reported higher fixed costs, M&A costs, and project development expenses related to the continued expansion of our onshore business.

In 'Bioenergy & others', earnings significantly increased, driven by exceptional performance by our CHP plants, due to higher power prices and spreads leading to higher power generation, as well as higher sale of ancillary services. Our 'Gas Markets & Infrastructure' activities also contributed to the significant outperformance in Q3 '21, due to the renegotiation of gas purchase contracts, together with strong underlying performance in a very volatile and bullish gas market, where we were able to optimise purchase from our long-term gas contracts.

In previous quarters, our earnings in the gas business have been positively impacted by increasing gas prices, leading to higher revaluation of gas storages. Despite the significant increase in gas prices during the quarter, we haven't realised a similar positive effect as the forward curve has increased more than the spot price. We have a negative impact from our mark-to-market hedges (MtM), which offset the positive revaluation effect.

If we then continue to slide seven, covering net profit, net debt and credit metrics.

Net profit for the period totalled DKK 0.5 billion, which was significantly below last year, as Q3 2020 included the gain from divestments of our power distribution, residential customer and City Light businesses. Our net debt at the end of Q3 amounted to DKK 21.2 billion, an increase of DKK 9.1 billion during the quarter.

Our 'cash flow from operating activities' reflects the EBITDA as well as tax equity contributions from our partners at Western Trail and Muscle Shoals in the US, offset by margin payments on hedges of DKK 2.4 billion, and a higher spend to fill the gas storages due to significant increase in gas prices during the quarter.Our gross investments totalled DKK 8.8 billion, driven by our continued investments into offshore and onshore, and solar PV farms.

Our key credit metric, 'FFO to adjusted net debt', stood at 42% for the 12-month period ending in September 2021, which is well ahead of our credit metric target.

Before moving forward, I wanted to take a moment to recognise the continued ingenuity of our finance and sustainability teams, who together created and recently signed our very first sustainability-linked revolving credit facility. The revolver has an interest margin tied directly to our ability to reduce carbon emissions and succeed with our ambitious green investment programme.

Let's turn to slide eight, and our financial and non-financial ratios.

Our 'Return on Capital Employed' came in at 12.9% with the increase compared to last year being attributable to higher EBIT over the 12-month period.

In the first nine months of 2021, our taxonomy-eligible share of revenue was above 65%, while our share of EBITDA was above 90% and the share of gross investments was above 99%. We expect the share of taxonomy-eligible revenue to increase in the coming years as we plan to phase out coal completely in 2023.

Our greenhouse gas emission intensity decreased, despite an unchanged share of renewable generation. This was due to a higher relative share of biomass fuelled heat and power generation due to colder weather, and as biomass was the most cost-efficient fuel for power generation in a large part of the quarter.

Turning to safety, we have seen a 13 % reduction in the number of injuries, and as a result as the total recordable injury rate has decreased to 3.0 in the first nine months of 2021.

And then, finally, let's turn to slide nine and the outlook for 2021.

We again reiterate our original full year 2021 EBITDA guidance of DKK 15 billion-16 billion, excluding the effect from new partnerships. And just as in Q2, we still expect an outcome in the low end of this range. This guidance is based on an assumption of normal wind speeds in the remainder of the year.

We have changed the directional guidance for our Bioenergy & other' to 'significantly higher' from 'higher', following the continued strong performance and higher earnings from the CHP plants and the gas business. We expect gross investments in 2021 to amount to DKK 39-41 billion, which is unchanged relative to the guidance in the H1 2021 report.

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

Q&A

Operator

This concludes our presentation, and we are now happy to answer your questions. Please respect only one question per participant and then you can go back to the queue for a second question. If you would like to ask a question, it's 01 on your telephone keypad. If you would like to withdraw your question, press 02 on your telephone keypad.

So our first question is from Mr Rob Pulleyn from Morgan Stanley. Sir, please go ahead.

Rob Pulleyn

Hi, good afternoon and thank you. Yeah, just one question. Could we explore please the year-over-year delta in offshore wind sites EBITDA? The bridge components, including the lower wind speed, seem to explain only around about half of the change year-over-year. And therefore should we consider that the remaining DKK 700 million is the impact of hedging losses or balancing costs from buying back volume in the market? Thank you very much.

Marianne Wiinholt

Thanks for the question, I'll elaborate on that one. If you look at the wind impact, as I said, it was DKK 600 million impact in the quarter compared to a normal year. But as we had strong wind in Q3 last year, the year-over-year impact is DKK 800 million. Then we have a quite limited ramp-up effect from Hornsea 1 and Borssele, because Borssele was in a way basically producing up to full last year and then we have farmed down half of Borssele meanwhile.

Then we have had an impact of over hedging of around DKK 100 million negative. And as we have reported earlier, we have these higher TNUoS costs – nothing new there. But what is new, is that we have had around DKK 200 million on additional balancing costs due to this high balancing cost driven by the very volatile markets.

And then also you also need to take into account Hornsea 2 costs and also Changhua costs – operating costs – that we also guided in the beginning of the year. And then, Horns Rev 2 going off subsidy. So, with that in a way is my bridge, which doesn't leave anything unexplained, and I cannot get to this DKK 700 million unexplained that you mentioned.

Rob Pulleyn

Okay, that's very clear. I think the explanation on Hornsea, Borssele and then the two elements on hedging and balancing solves the equation. So, thank you. I'll turn it over.

Marianne Wiinholt

Thanks.

Mads Nipper

Thank you.

Operator

Thank you, sir. The next question is from Mr Kristian Johansen from ABG. Sir, please go ahead.

Kristian Tornøe Johansen

Yeah, thank you. My question is regarding your farm-down. I'll admit your farm-down of Borkum Riffgrund 3 was a slight surprise to me at this point in time. So in light of that, could you update us on your farm-down process for the wind farms – whether you have anything ongoing and when do you plan to start the next ones?

Mads Nipper

Kristian, I can certainly comment on that. As you know, we have farmed down Borssele 1 and 2, that's been completed. Also now announced is the Borkum Riffgrund 3. And as announced just this morning, we have closed the Changhua 1 farm-down as well. And on top of that, we are in a farm-down process with Hornsea 2 and those are the active farm-down processes that we're engaged in.

But we were super happy to make the farm-down of Borkum Riffgrund 3, partly because it's the first time that we have made a pre-FID farm-down of a project that used to be fully merchant, but also because in a period where there's a lot of uncertainty and volatility, it was just a very nice confirmation to have that the investor interest continues to be as strong in our assets as they have been.

Kristian Tornøe Johansen

Okay. And in terms of some of your US projects, where you own more than 50%, when do you expect to start a farm-down process on those?

Marianne Wiinholt

There's no current plans for farming down the last 25% of Ocean Wind 1. But it might be we do it one day, but there's no ongoing process there.

Kristian Tornøe Johansen

Great. Thank you.

Operator

Thank you, sir. Next question is from Mr Sam Arie from UBS. Sir, please go ahead.

Sam Arie

Hi, good afternoon, everybody, and thanks for the presentation today as always. I just want to ask one question, which is coming back to the wind speeds topic. And I know we've obviously had an abnormal quarter. But in the context of everything that's happening with weather, I think the temptation is to ask whether we still know what normal is? And I know you talked to your experts about this all the time. And I'm sure at some level, nobody knows the answer about what future wind speeds are going to be.

But I think my question is, are you changing your assumptions at all at this stage about long-term wind speeds? Or do you see any risk to your assumptions on wind load factors on the kind of existing wind farms? I was really interested if you can share any insight with us about whether this recent very low wind in the North Sea is just really a random anomaly or whether we should be worried about that becoming a more regular occurrence?

Mads Nipper

Yeah, thanks a lot. The short answer to that is, we don't think any of us should be worried. Of course, like you say, we are constantly doing both sort of working with experts in the area, deploying our own experts, we are making all kinds of analysis. And on top of what the very helpful Bernstein report that both make this temperature, wind speed correlation, but also dug out the different scientific research that have been made.

And as a matter of fact, there is a Princeton University team that has actually demonstrated that over a 40-year period, we've actually seen the wind speeds increase slightly. And we've also made simulations that if we had all of our constructed assets back from 1999, what would have actually been sort of the one-year, five-year or ten-year rolling averages, and that would actually have been a slightly increasing curve.

So the short answer is unless something completely abnormal has started this year – which we have absolutely no reason to believe that should be the case based on any other indicators – we do believe it is an anomaly. And we were also happy to see that we actually, as Marianne briefly mentioned, we saw October, which is a pretty big wind month, actually being slightly above average. So finishing the longer version of the answer, we continue to be quite convinced that this is something that will over time fully normalise to the trend we've seen for the past 20 plus years.

Sam Arie

Okay, well that's super helpful and a very useful answer in the context of today. So, thank you.

Operator

Thank you, sir. Next question is from Mr Alberto Gandolfi from Goldman Sachs. Sir, please go ahead.

Alberto Gandolfi

Thank you and good afternoon. Thanks for taking my question. It is a question of returns, particularly on your backlog on awarded project. And I just wanted to check on the basis of two aspects here. So, you are targeting 150 - 300 basis points project IRR over WACC. Now, in light of the supply chain disruptions you are seeing right now and considering the current level of raw material prices, I was wondering if you can give us an update on the 150 - 300 if we really were to take a snapshot to the situation we see today.

Or if you maybe tell us now if the situation, we're seeing today is temporarily transitory and we should completely disregard it. Maybe can you help us navigate a little bit on roadmap or returns of your awarded projects, particularly those that are due to come '23, '24, '25 in the earlier part of the backlog. Thank you so much.

Mads Nipper

Yes, thanks a lot, Alberto. I can kick it off and Marianne can supplement. The short answer is we have not seen any changes to the picture we saw back after Q2. And that is still what we call a moderate impact on the mid-term pipelines. That's just repeating the full context. The two under construction projects – Hornsea 2 and Greater Changhua 1 and 2a – they are fully locked with very, very limited if any impact of the recent price surges on commodities. And for those who are longer term, we don't need to take an FID anytime soon and therefore have the flexibility to lock when that is right to do.

But like you asked more specifically, the mid-term here, we are well developed in, for example, the German development programme and also on the Northeast programme in the US and on Ocean Wind 1, we are pretty progressed: We have locked in and made contracts on relatively big shares already. And as we mentioned before, we have already locked in 70% of the steel exposure in our US projects already. So, saying that, the total exposure to CapEx on those mid-term projects we estimate to be mid-single digits, which we don't expect to change anything on the guidance to stay within the range of spreads to WACC that we have announced.

Alberto Gandolfi

Thank you very much.

Operator

Thank you, sir. Next question is from Mr Mark Freshney from Credit Suisse. Sir, please go ahead.

Mark Freshney

Hello, thank you very much for taking my question. Regarding the gas in storage and the contract renegotiations, can you clarify that, because it would appear that some quarters you make a positive or negative mark-to-market on the gas in storage. Other quarters, such as this one, we've seen the impact of forward hedging move against the spot market valuations. And also, you've spoken about a renegotiation of a gas contract.

And my understanding was, the legacy gas contracts were renegotiated, I think, three, four years ago and you had the positive gains. So, can you talk around that piece and give us some clarity. And if I may be cheeky to ask a follow-on or a question 1B, what is the long-term outlook for that business, because evidently housing fossil fuels should not be consistent with net-zero. So, if you could talk through those bits, that would be fabulous. Thank you.

Marianne Wiinholt

Yeah. As you have seen, Mark, we have had quite significant volatility in our gas business due to these storage impacts. And that is despite the fact that it is actually a margin business, where we lock in margins immediately when we have the exposures. We are now working on changing some of the accounting principles around the storages and probably for next quarter, I think we'll have gone through with that. And then you will see less volatility.

In this quarter, in particular, we have had some good optimisation gains from the gas business because we have been able to lock in, in a way, solid profits. And then we have these renegotiation gains, which we, according to the contracts, are not allowed to elaborate on. I don't think you can expect any more renegotiation gains going forward, because in a way these are in a way legacy contracts that in a way will disappear over time. So, therefore, I think this is the last time you will see this kind of one-off gain from renegotiation.

And on your question on Scope 3 and having fossil fuels in our mix. Yes, you are right, and Mads talked about this net-zero Scope 1 to 3 confirmation that we got from Science Based Target. In a way that, of course means that we need to go out of gas, and we will go out of gas and these contracts are in a way declining and expiring over time. So it will naturally happen.

Mark Freshney

Okay, thank you very much.

Operator

Thank you, sir. Next question is from Mr Peter Bisztyga from BofA Securities. Please go ahead.

Peter Bisztyga

Yeah, good afternoon. This is Peter Bisztyga here from Bank of America. So we saw a big profit warning from Vestas this morning on supply chain bottlenecks and cost inflation. And at the same time, we're hearing from you guys, kind of everything is fine. And you're managing everything very well. So I'm sort of intrigued just to why Vestas seem to be operating on different planets, different universes.

Can we expect that at some point, there's going to be some blowback on you from the problems that Vestas is having or indeed, any of your other suppliers, could at some point somebody trigger force majeure, because somebody is trying to renegotiate a framework agreement or a contract. So, if you could just help us sort of reconcile those two different worlds that would be very interesting.

Mads Nipper

I think, we refrain from talking about something that is more specifically into Vestas or the other supply chain partners that we work with. But obviously, I think that the nature of our business is, we will typically be locked in for a longer period of time. And then only in case of sort of significantly longer periods of sustained high inflation will it start to hit us to anywhere near the same extent.

I think it's simply the nature of the business short-term versus slightly longer or mid to longer-term. I think that's what explains the difference between the two companies. But fundamentally, we, as a developer, and somebody who is a manufacturer, the entire business model is one that we don't think can be directly explained.

And only in case of long-term, really long-term sustained inflation levels would this be something that impacts overall. But in that case, it will impact all developers and that will also mean that the bid prices that we will all come out with will change. So, we remain confident that, except sort of the mid-term projects that I already spoke about that we have a moderate impact on, we think that our exposure going forward also on upcoming bids that we'll submit is limited.

Peter Bisztyga

Okay. And so you haven't had anybody try and renegotiate contracts or framework agreements? Those are all robust as far as you're concerned.

Mads Nipper

Yes.

Marianne Wiinholt

No, we haven't had—

Mads Nipper

They are all robust. No, we've not had anybody call us. Those are locked in.

Peter Bisztyga

Got it. Thank you.

Marianne Wiinholt

And also remember that the OEMs, they don't take on the commodity risk on steel for example, that's our risk. So in a way we actively go out now and have hedged some of that risk. So in that respect, in a way the OEMs are in a way, not fully exposed.

Peter Bisztyga

Okay, thanks very much.

Operator

Thank you, sir. Next question is from Deepa Venkateswaran from Bernstein. Madam, please go ahead.

Deepa Venkateswaran

Thank you. That's Deepa Venkateswaran from Bernstein. Thanks for calling out our report earlier. The question that I had was on your farm-down to Glennmont Partners. So obviously, Mads you mentioned that you've done it earlier because it de-risks. I also see that you've guaranteed them a certain price.

So just wanted to understand what's the thinking behind that and do you generally – you'll have back-to-back PPAs and therefore, once you complete the full 900 megawatts of PPA effectively, it is back-to-back either PPA you give Glennmont versus what you've got from the corporate. If you can just highlight what's the residual risk on this project that will sit with you post-FID, that would be helpful.

Marianne Wiinholt

Yeah. Good question, Deepa. It is only a portion that is secured with fixed prices towards Glennmont. And you're right, the idea is that we will make back-to-back PPAs. And I think we are, in a way, succeeding with that. So that the remaining risk will basically not be any, when we are done.

Mads Nipper

I can even supplement that. Some of those negotiations are very advanced. So, we feel very confident that what Marianne describes is going to happen.

Deepa Venkateswaran

Okay, thank you.

Operator

Thank you, Madam. Next question is from Mr Dominic Nash from Barclays. Sir, please go ahead.

Dominic Nash

Thank you for taking my question. My question, please, is on your Bioenergy and Other division. Obviously, you're guiding it to be significantly higher in 2021 versus previous expectations. Could you give us a breakdown of the sort of big delta that we're currently seeing. How much of that is still trading? How much of that is underlying performance that we could see sustained into future years? So how much of this gain that we see in Bioenergy is really sustainable going forward? Thank you.

Marianne Wiinholt

Yes, not a lot of it is sustainable to be honest, because there's two impacts. It is these renegotiations, which are one-off, then you have the solid performance in the underlying gas business; that in a way will vary from year-to-year, we could have some good years, but it's not a big deal. Where we see a significant overperformance is at the CHPs – the biomass-fired CHPs.

And you can say that we see it actually as a very efficient hedge versus low wind, because in a way, low wind has been a contributor to high energy prices. And with high electricity prices, in a way, you will have significant earnings and high production in our CHPs. So if we continue to see elevated energy prices, we will continue to earn a lot of money from the CHP, but if, as we expect, after winter 2022, we will see prices decline again, and in a way then you will see normalised earnings from our CHPs.

Dominic Nash

Thank you.

Operator

Thank you, sir. Next question is from Mr David Paz from Wolfe Research. Sir, please go ahead.

David Paz

Hello, thank you for taking my question. Can you hear me?

Mads Nipper

Yes, we hear you.

David Paz

Okay, great. Thank you. Just based on the clean energy tax credits language proposed in the US Congress last month, how would passage of that legislation as written impact your business in the US?

Mads Nipper

Sorry, I simply couldn't pick up your question. Could you repeat that, please?

David Paz

Sorry about that. Can you hear me?

Mads Nipper

Yes, that's great.

David Paz

Great. Based on the clean energy tax credits language proposed in the US Congress last month, how would passage of that legislation as written impact your business in the US?

Marianne Wiinholt

Do you want me to answer? Yes. So, you basically mean direct award, if that goes through. And also the extension of the PTC and ITC, just to clarify.

David Paz

Correct.

Marianne Wiinholt

Yes. So if I first talk about the offshore business and then about the onshore business afterwards. In the offshore business, we will have a benefit from having direct award, because we don't get in a way the discount by having to sell the tax credits. And in a way for our business cases in a way we really hope so. In some of the contracts like in New Jersey, we will have to pass some of that on to the ratepayers, but in some of the other projects, we can keep it for ourselves.

And when you then talk about our onshore business, the extension of the tax credits is, of course, an advantage to us. And absolutely something in a way that benefits our business. So all-in-all, the whole package in a way is something that we absolutely fully support, and hope goes through the whole way.

David Paz

Okay, great. Thank you. I'll get back in the queue.

Operator

Thank you, sir. Our next question is from Mr. Klaus Kehl from Nykredit. Sir, please go ahead.

Klaus Kehl

Yes, hello. My question is about these very high power prices that we see in Europe right now. And my question is, how does that affect the PPA prices? And generally speaking, how does it affect the interest in making a new wave of PPA contracts. Any thoughts on that would be helpful.

Mads Nipper

Yes, thanks a lot. I'm sure it's reminding some that we cannot take power price development for granted. But honestly, we still see and hear clearly that the underlying driver for making these large-scale corporate PPAs is the need to decarbonise the businesses of the corporates. So, this may be a reminder, it may be something that makes themselves speed up. But we don't see that this is something that amps up the prices significantly, because on a sort of a ten plus-year PPA, this is not something that anybody I think expects will be anywhere near a normal situation. So we remain convinced that it's underlying decarbonisation drive, that is the main reason for it. And that there's no structural price, no change to the price level we can get based on the current prices.

Klaus Kehl

Okay, great. Thank you.

Operator

Thank you, sir. Next question is from Mr John Musk from Royal Bank of Canada. Sir, please go ahead.

John Musk

Yes. Good afternoon. It's John Musk. Can I just ask on the other line project development in your offshore business, which seems to be trending lower than last year? I think the guidance was for it to be above last year. What is driving that to be perhaps a little better than expectations? And where do you expect that to outturn for the year? And then linked to that, it's kind of the opposite in the onshore business where overhead costs are a bit higher. So, what is driving those numbers higher?

Marianne Wiinholt

Yes, when you look at offshore first, you are right, we are spending less, very much driven by the fact that last year we spent a lot in the US both Ocean Wind and for Northeast this year. And it is especially in the US that these costs are very high. So, this year, we don't spend the same amounts and we don't expect to. So, we expect to have in a way an over-performance or spend less costs on that.

In onshore as you say, it's completely the opposite. It's very much driven by the lifted ambitions that we announced at the CMD. So, we are spending more for example, we have spent money on the M&A activity, Brookfield. And we are also in a way ramping up on the project development to meet the higher ambitions.

John Musk

Okay, thank you.

Operator

Thank you, sir. Next question is from Mr Brian Finkelstein from Key Group. Sir, please go ahead.

Brian Finkelstein

Thanks for taking my question. I just had a quick one on, you discussed wind speeds as the impact to offshore, but the load factor of 27% versus the prior year of 35% appears to have a larger impact to power generation. And do you know why the load factor is down? And I guess looking on a TTM basis, it remains well below the guidance of like 48% to 50% of load factor?

Mads Nipper

Yes. The short answer to that question is that there's actually not a direct correlation between the energy production or the load factor and then the wind speeds. So, if the wind speeds are lower, we actually take an over-proportional hit on the production and especially for example, in Q2, which has relatively low wind month, actually, the production is proportionately lower than how much the wind is lower than normal wind speeds.

Whereas, if we're already at sort of at a higher production or higher wind levels, it actually doesn't hit quite as hard. So, the explanation is that when the wind is low, and especially when it's low in some of the lower generally seasonally lower wind months, there's an over-proportional hit to the load factor. That's sort of as untechnical as I can make it.

Marianne Wiinholt

Yeah, but it is driven by the shape of the power curve. If it's a little bit more technical.

Mads Nipper

Yes.

Marianne Wiinholt

Yeah.

Brian Finkelstein

Okay, got you. You guys, you have targeted over time the 48% to 50%?

Marianne Wiinholt

Yes, you're right.

Mads Nipper

Yes.

Brian Finkelstein

But, I guess how do you just look at that over time, because that plays a big part of just?

Marianne Wiinholt

This was a target that we set at the last CMD, not this year's CMD but the last CMD. As we grow our portfolio, we will see very different load factors in different regions. In general, you see that – except from Taiwan, where you have a very high load factors, you see low wind speeds in, for example, Korea and Japan. And that will, of course, reduce the load factor.

And also, in some other countries where we are entering in a way we are seeing lower wind speeds. So we have not updated the guidance, because we actually – it's a bit difficult for us to foresee where we will win the next project. And just in the US, just to take it as an example, it's significantly higher wind speeds up in the north and the further south you move in a way the lower the wind speed. So, just to give a reason for why we haven't updated that.

Brian Finkelstein

Okay, that's fine. And if you just take a long-term view, there's going to be a large build out of offshore wind. How can you balance the volatility from year-over-year basis, just because it can't be just so large?

Marianne Wiinholt

One thing in a way, we will benefit from having a larger and more diversified portfolio. For example, if we had had Changhua up and running this year, we have seen that actually, the wind speeds in Asia has been significantly stronger than a normal year. And we have made a lot of analysis showing in a way the more diversified our portfolio gets, the less the deviation in the wind speeds from a portfolio point of view, gets. So that's something we are looking forward to.

Brian Finkelstein

No, I understand from a portfolio, but from like a regional basis, it just seems like it could have such a large impact if a bunch of wind farms are all impacted at the same time, whether it's positive or negative.

Marianne Wiinholt

But that's what we are seeing this year, basically we are seeing that most of our wind farms are in the North Sea. And therefore, in a way we are hit by the low wind speeds in the North Sea. And as in a way this is a timing impact because we basically believe that the long-term wind speeds are very constant. This is a volatility in a way that we have to live with in this industry.

Brian Finkelstein

Okay.

Marianne Wiinholt

But that said, in a way this year has been extreme.

Brian Finkelstein

Okay, thanks a lot.

Operator

Thank you, sir. Next question is from Mr Mark Freshney from Credit Suisse. Sir, please go ahead.

Mark Freshney

Hi, hello. I have a question on floating. I know that in the past a lot of your internal R&D has been focused on fixed bottom. And we know that you've teamed up with some players to look at the Scottish leasing which looks like it's going to be very much floating. But can you update us on the work that you've been doing internally on floating? And when you think that floating will need to become mainstream given things like seabed rights, et cetera and shortages of seabed? What is your thinking around the area? Thank you.

Mads Nipper

Yes, thanks a lot, Mark. Yeah, I can give you a sort of a quick update. You're right, we did team up with BlueFloat and Falck Renewables for the floating bids in ScotWind. And likewise, we also sort of announced our interest in the Utsira, the northern part of the Norwegian seabed made available. And we are actually seeing that this year was sort of the first year where we saw at scale floating seabed starting to be made available.

So probably 2021 when we looked back and that's a year where our floating really started to kick in which is also one of the reasons why this year was where we changed that our CMD; we actually changed ourselves and now we will engage.

We are discussing with different partners, so not just partnering on projects like we do with BlueFloat, but also different technology potential partners. We are engaging with the people who have most experience, we are technically investigating different floating platforms. We are mobilising our own internal teams and saying, what would make sense for us to accelerate a proprietary capability and where does it make most sense to work with partners.

And that has all been accelerated during this year. And we feel confident that we will be sort of once hopefully, that there would be opportunities materialising more specifically either from Scotland, Norway, it could be California or some of the Asian markets that we are confident we will be ready.

In terms of when it will be mainstream: Well, by the end of the decade, it will still be a relatively small part. And we expect that it is unlikely that floating will be cost competitive before earliest 2035. But, there will probably or very likely also be special subsidy programmes that could still make those projects interesting, which is why we're also bidding in for seabed as we speak.

Mark Freshney

Thank you very much. Very interesting, thank you.

Operator

Thank you, sir. Next question is from Jenny Ping from Citi. Madam, please go ahead.

Jenny Ping

Hi, good afternoon. Thanks very much. Just I was going back to Borkum 3, given also that has historically been very good in terms of providing visibility and transparency around contracts, given that we're now looking at PPAs and back-to-back hedging, how is Ørsted going to provide the same degree of transparency for some of these corporate PPA types of assets going forward to give us a better sense of what is the risk taken on by Ørsted?

And then as we're going around the second time already, I'll just squeeze a second question in. Just going back to what you said Marianne earlier, in terms of the risks around taking on steel risks, and the OEMs don't take the risk, Ørsted does. Can you just elaborate a little bit around that, because at the Capital Markets Day, I remember, there were some discussions around using derivatives, but I understand derivatives aren't liquid enough to handle the risks around steel. And I was under the impression that the OEM took some of these risks. So, any further clarity around that would be great. Thank you.

Marianne Wiinholt

Yes. I'll answer the first one first on the corporate PPAs. We are, of course, very transparent on anything but the price for these PPAs. So, in a way the potential credit risk in a way, you know exactly who's the counterparty, you know the term of the PPAs, but in a way revealing the price is not something we will be able to do, because that is so commercially sensitive. But I think for example, we have shared the slide on the Borkum 3 farm-down with estimating the gain from the transaction, et cetera. So, I think we are as transparent as we can be, but unfortunately, we cannot be more transparent than that.

Then on your next question, on steel. I am talking now about offshore. So just to make that clear. At the CMD, we said that we had locked in quite a significant part of the steel exposure for our next projects. And we said in Northeast US cluster we had locked in around 70%, we also locked in a significant part of Borkum Riffgrund 3. And we did that before steel prices increased and to be honest, in a way, we didn't even foresee at that time that prices would increase. But we were in a way lucky to have done that.

On the hedging, yes, you are right. The way we have locked it in is not through hedging, it's through direct agreements with the supplier. But going forward in a way we are working on being able to hedge the steel and we will do that through proxy hedging, meaning, locking in the iron ore, the cooking coal, et cetera, so that we get what we consider a very efficient hedge. We are very, very close, in a way, to be ready to execute on that.

Jenny Ping

Thank you. Sorry, does that mean that you've got warehouses of steel somewhere?

Marianne Wiinholt

No, it is at the supplier. But we have made a purchase agreement at fixed prices, but we are not keeping the warehouse.

Jenny Ping

Perfect. Thank you very much.

Operator

Thank you, Madam. Next question is from Deepa Venkateswaran from Bernstein. Madam, please go ahead.

Deepa Venkateswaran

Thank you. My question was about the overall 2040 net-zero target. And I just wanted to ask a bit more about how you're planning to reduce the Scope 3. Most of your Scope 3 right now either comes from the gas supply division or it's the emissions in the supply chain for wind turbines and so on. So, could you talk about that and generally, the idea that once your gas contracts expire, you're just shutting that business? And it wouldn't exist in 2040? Or is it that you're going to move into hydrogen contracts or something else?

Mads Nipper

Yes, thanks a lot, Deepa. The answer is that, in order to live up to the SBTI requirements, we need to do both. So, it is both not having our gas business at the time. Yes, there will be a renewable hydrogen business, but that will be renewable. And therefore, that will be net-zero. But we expectedly will get, when these heritage contracts run out, that is when we will also overtime phase out, and by 2040 we'll not have any gas business.

We do have a very sort of ambitious plan for supply chain decarbonisation; that is absolutely necessary. We are taking short-term measures already now and engaging with our top partners and requiring them to use green power within the next relatively limited number of years. But more importantly, we're also engaging structurally for example, in the first-movers coalition, there are initiatives, such as steel zero, where we are a founding member where we are engaging in the steel industry. So, we can also structurally help not just overall, help the individual supplier or partner we have, but also structurally help decarbonise the hard to abate sectors that we buy a lot from.

So those are the plans that we are summing up; phasing out gas, but very importantly, we're also engaging deeply both with individual suppliers and at an industry level for those areas that would be hardest to engage with.

Deepa Venkateswaran

Okay, thank you.

Operator

Thank you, Madam. Next question is from Mr Ingo Becker from Kepler Cheuvreux. Sir, please go ahead.

Ingo Becker

Yes, good afternoon and thank you. I have two questions.

The first is on your slide 14, the offshore build out plan. It's been asked before. Please allow me, I try another way. I mean, this build out plan in particular the one after Hornsea 2 and Greater Changhua. You've been showing this for quite a while and apparently, the market, and we're kind of worrying what to do with all those pending FIDs. You keep emphasising that you're confident on supply chain issues, and that you can manage that overtime and you're not in a rush; that is understood. Still, it looks like that varies just by the share price just keep coming back. At the same time similarly, the demand for PPAs is rising and you're successfully continue to conclude those. And you say that the underlying trend is decarbonisation, which probably is understandable why people want to have a PPA, but the pricing of PPAs must have an offsetting impact on the whole process. So, given the rising uncertainties in the supply chain on pricing, there seems to be an offset on the sales price side. And I'm wondering if you could help us understand if we look at the pending FIDs on the right-hand part of the slide. How did that for you subjectively change taking all those factors into account like over the last year. Is the probability that you take FID subjectively speaking for you the same or has it changed in either direction, it being higher or lower. And I guess generally, the market would expect those projects to be FID'ed.

Secondly, my question would be, please, on your Bioenergy and Other segments, where I think we've been struggling to get the forecast right this year, given all those many changes, you have the scope change and now we have gains in the power market that we might not want to extrapolate if we renegotiated your gas procurement contracts. My understanding would be that some of those gains might be recurring, some are not. And I was wondering if you could help us a little beyond this year where we should be seeing EBITDA progressing for the segment. Thanks very much.

Marianne Wiinholt

Perhaps starting with your first question. If you look at this slide 14, the US projects is in a way upcoming for FID. US is very different from all the other markets since we take FID quite late due to the permits process that in a way takes a long time. While we are awaiting the permits, and now with the NOIs in place, we have much more predictability on the timeline. So, a lot of work to mature these projects have been going on for the last year. And we have a quite firm CAPEX budget on those. So, no doubt in a way we will take FID, but it is the permit process that keeps us back.

On the German project, I think that's actually a good example. I know exactly what you're referring to. We have seen marginal impacts from cost inflation. But we have also seen at the same time that we have been able to close these CPPAs at higher levels than what we just thought a year ago. So actually, when we look at our business case, now when we're very soon expect to take FID, and a year back in a way it is neutral to the NPV, because these two effects in a way is a wash. So, in a way for us, no challenges on this awarded pipeline in a way it's a matter of timing; the FIDs will come as the project in a way mature and get permits and progress.

And then on the other question on Bioenergy. As I say, you should look at 2021 as a very special year due to the elevated power prices. If you see power prices coming back again, you will go back to, in a way, an earnings picture like you saw in 2020. So, most of it is in a way one-offs or driven by the very, very high power prices.

Ingo Becker

Thank you. Can I just inquire, you're probably referring to the underlying 1.2 billion for 2020? Not the declared figure for that year, right? Which was a different scope.

Marianne Wiinholt

Yes, the underlying number for 2020, yes.

Ingo Becker

Which was 1.2 billion.

Marianne Wiinholt

Bioenergy and Other - Just a second, I'll just find it. Yes, 1.5 billion it is actually.

Ingo Becker

1.5 billion, excellent. Thank you very much.

Marianne Wiinholt

But then you need to deduct the divested business, the distribution.

Ingo Becker

Right.

Operator

Thank you, sir. Next question is from Mr Rob Pulleyn from Morgan Stanley. Sir, please go ahead.

Rob Pulleyn

As we try and understand your exposure to these power prices. For the part of the portfolio, where you financially hedge, would you be willing to provide how much of the book is filled for 2022 and 2023? And how much that perhaps has changed since half year? How much of this sort of extraordinary power market have you been able to get into the hedge book where you financially hedged some of your production? Thank you.

Marianne Wiinholt

Yes. The way you typically should look at it, is that, we are more or less fully hedged for the two first years. So, for 2021 in a way we have been fully hedged and we are also fully hedged for 2022. And then we were rolling quarters as we move forward. And 2023 is hedged I think is around 47%. So around 50%.

And the last part of that in a way we get some benefit from the higher prices. Sorry – 81%. Sorry, for that. So fully more or less in a way fully hedged for two years and then 80% in 2023. So, we don't benefit a lot from these high power prices in our offshore and onshore business.

Rob Pulleyn

Okay, thank you. I'll turn it over.

Operator

Thank you, sir. Next question is from Mr Alberto Gandolfi from Goldman Sachs. Sir, please go ahead.

Alberto Gandolfi

Thank you. I'll be super brief here. And the question is, can you maybe elaborate, please why you decided not to participate in Germany, France and Massachusetts auctions? And I understand the idea of staying clear from maybe what could be competitive tenders. But I wonder why isn't the strategy— Some of your competitors in other segments are basically trying to bid everywhere keeping disciplined? And if there is someone not disciplined, then they're losing the auction. So that's what I was expecting you to see. Is it because you need to ramp up further the organisation before you can bid everywhere? And therefore, you don't want to spread too thin. Or why would you say before seeing the outcome of the auction that those tenders will be particularly competitive?

And if I can ask you. Obviously, I'm overstepping here, so feel free please to say no. But when it comes to your hedges on iron ore and steel, given we're talking about hedging billions of exposure for years to come, what would be the cost in expressing basis points of hedging? And have you always done it? Or is this something new in reaction to the recent backdrop? Thank you so much.

Mads Nipper

Yeah, thanks, Alberto. I can take the first question. There are a number of answers to it. The first one is that with the sheer number of solicitations coming out, we do need to be prioritised, because it is hard work to prepare a qualified bid. And we want to ensure that whenever we do that, we do it where we can be both very well prepared - So we know that we have sort of firm ground on our feet when we do it. And we want to ensure that it's something that plays to our strengths, so we have a very good chance of actually being awarded.

If you take the two specific examples you mentioned of Germany and Massachusetts, there are actually two very distinctively different reasons why we chose not to. The one is that in Germany, there are these I think, well-known step-in rights, where it was highly unlikely that those who had the step-in rights would actually not do that. And therefore, we thought, and I believe rightly so, that it would simply be a risk of waste of time of bidding in and it turned out that these defaults were exercised.

And for Massachusetts, it was because of the price cap, which meant that even though we have the lease area of 500, we simply did not evaluate that this was a sufficiently financially attractive opportunity for us compared to the alternatives we have at hand. But it's a combination of staying focused on where we have the best chances, always ensuring that we remain financially disciplined and can make investable projects and where it plays to our strengths where we have the highest chances of winning; that's sort of the slightly longer answer.

Marianne Wiinholt

And on the last question on the cost of hedging. Actually, we don't look at in a way, hedging as a cost. And we have a business model, where we seek to be 90% covered on the merchant exposure over the long-term. We hedge a very significant portion in the first years also to have very stable earnings also in a way for rating purposes, this is an advantage to us. You can always argue there is a bid-ask spread when you hedge further out. As I said, we are hedging mostly within the next three years, and we are also using proxy hedges to eliminate or reduce the bid-ask spreads. So, for us in a way this is actually not something we see as a cost; you can always in a way, go back and said, should you have hedged at that time. We have from time to time made these kinds of analysis and we have actually shown that over time, it has been a good thing for us to use this hedging policy that we have.

Mads Nipper

And Alberto, if I may just very quickly swing back by the first question again. I actually think a side benefit of not participating is also that, for example in the case of Massachusetts, I don't know honestly, if it's finally confirmed that it seems to be very likely that the price cap will actually be removed, because it was a surprise that we did not bid in.

So we also think that there is some merit in us as a clear global market leader, when we choose not to that is also a signal to some in this case, the regulators to ensure that financial discipline is something that is actually not a benefit just to the individual company - It's an absolute prerequisite for developers to be able to build out on a sustainable basis over time. So we were actually very happy we didn't bid in, and we hope it will force some structural change that will mean...

Marianne Wiinholt

It has gone through.

Mads Nipper

It has been confirmed, which was sort of a side benefit of not participating which we were very happy about.

Alberto Gandolfi

Mads, that's very clear. Thank you. Marianne, forgive me, actually I meant hedges on raw materials, not on our power.

Marianne Wiinholt

You meant on the raw material. But I would actually take the same view in a way. For me locking in a price in a way, whether that's a good idea or a bad idea depends on how prices develop. And it's not any cost as such, it's more in a way, the timing on when you do your hedging.

Alberto Gandolfi

Thank you. And thank you for your patience. Thank you.

Operator

Thank you, sir. Next question is from Mr Dominic Nash from Barclays. Sir, please go ahead.

Dominic Nash

Thank you for taking my second question. Hopefully a very brief one. The sell down in the Borkum Riffgrund 3 pre-FID. What sort of delta are you seeing or do you think there is in the risk and associated sort of cost of capital for partners between selling down earlier, rather than settling down now FID or indeed at commissioning? Is there any delta at all and what's the spread? Thank you.

Marianne Wiinholt

We have actually seen that the delta, if there is any at all, it is at least very, very low. Because when we give this EPC wrap, there's so much in a way, trust in us as the EPC provider. So we actually see that in a way people pay the same even if it's pre-construction.

Dominic Nash

So, I presume – following-up from that – is this selling down earlier in the lifecycle of your offshore wind farm is likely to be an increasing trend if that delta between commissioning and early trends to zero, is that correct?

Marianne Wiinholt

Yes, that is correct. In some cases, there can be some tax consideration; that means, that we will do it otherwise. But in general, yes, you're right.

Dominic Nash

Thank you very much.

Operator

Thank you, sir. We have no other questions. Back to you for the conclusion.

Mads Nipper

Yes, and I will just say thank you very much for very good questions to an unusual quarter, but one that I'll just repeat we're very happy to have steered through in a good way. Thanks a lot for engaging. Thanks for your trust.