Ørsted Q3 2023 Earnings Call

Transcription

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PRESENTATION

Operator

Welcome to this Ørsted Q3 2023 Earnings Call. This call is being recorded. For the first part of this call, all participants will be in a listen only mode, and afterwards there will be a question and answer session. If you do wish to ask a question, please press five star on your telephone keypad. Today's speakers are Group President & CEO Mads Nipper, and CFO Daniel Lerup. Speakers, please begin.

Mads Nipper

Thank you very much and welcome to this earnings call for our third quarter of 2023.

Since our announcement on August 29th, where we anticipate an impairment of up to 16 billion DKK, several developments of both positive but regrettably most negative have materialized in our US offshore projects. These include developments on expected ITC qualification, unsuccessful OREC petition in New York, continued increase of long dated interest rates and additional supply chain costs. And based on this development, we have decided to cease the development of Ocean Wind 1 and Ocean Wind 2. The sum of these developments is a highly unsatisfactory situation, where the net result of impairments at Q3 are materially higher than estimated end of August. The totality of the adverse impacts lead to an impairment of 28.4 billion DKK booked in Q3 of 2023. In addition to the impairment losses, a provision related to ceasing the development of Ocean Wind 1 of approximately 8 to 11 billion DKK with EBITDA impact will be recognized in Q4 of 2023. The provision relates to cancellation fees not already covered by the impairment and is subject to dialog with individual suppliers. We will look for ways to deploy the contracted equipment to other projects in our portfolio. However, the impairment as well as associated cancellation fees take into account all potential costs related to ceasing the development of the project, and thereby such deployment would be an upside to what we are reflecting in our accounts. Based on the magnitude of these severe developments, we have initiated a portfolio review of our US offshore projects and have taken a number of specific initiatives to de-risk the portfolio.

Since August, we have seen a very significant deterioration of the Ocean Wind 1 business case and have therefore decided to cease the development of Ocean Wind 1 and Ocean Wind 2. The key drivers are additional supplier delays further impacting our project schedule, as well as an updated view on certain assumptions around likelihood and time and timing of final permits and quality of tax credit monetization. As part of this process to cease the development of Ocean Wind 1. The key focus going forward is how to secure the highest reuse value of the contracted equipment.

Turning to Revolution Wind, where an extensive risk review and a positive, forward looking business case have led us to take the final investment decision. Despite increasing interest rates, the additional cost of a full installation via a backup vessel, and even in a scenario with no assumed synergies from the construction of Sunrise Wind, the 704 megawatt project holds an attractive forward looking return above our guided range. We expect to start offshore construction work in 2024 and commission the project towards the end of 2025.

Sunrise Wind has been adversely hit by the negative outcome of the OREC petition and higher interest rates. Through our continued development of the project, we assess that the project can be determined as brownfield under the IRA guidance, and therefore is very likely to qualify for a 40% ITC level. Given the recently announced request for information regarding an accelerated solicitation in New York, we currently see a rebid as the most attractive path forward for Sunrise Wind. And based on the fact that our price from the dismissed OREC petition was lower and thereby more competitive than the average OREC price for the New York 3 auction winners of 145 $/MWh, we attribute 50% likelihood of success for a higher OREC.

We continue the reconfiguration of Skipjack, where all development work is paused to ensure minimum spend and no additional capital commitments. And if no significant OREC adjustments are made in the near future, we will either cease the development of the project or pursue alternative commercial solutions. We expect to take a decision around the projects before Q4 2023 financial announcement.

It is obviously some very tough decisions that we have already made and will have to make in the coming months. In the situation we are in, we have taken measures to de-risk the exposure of the portfolio by reducing the number of projects that will be realized and focus on how we preserve the value of the remaining contracted projects, as well as our uncontracted seabed. I want to be absolutely clear that we are implementing all the learnings from this in terms of future project development and timing of capital commitments.

At the Capital Markets Day, we presented an ambitious growth strategy backed by a fully self-funded investment program. Our key focus throughout the execution of the plan is to safeguard a healthy capital structure and securing the best possible value creation from our investment decisions. However, the significant adverse developments necessitate that we, over the coming months, conclude our review of the US offshore portfolio and determine the best path forward. At the same time, we remain confident that the value creation of our portfolio of European and APAC construction and development projects and as such, see a meaningful impairment headroom.

We expect that ceasing the development of Ocean Wind 1 and Ocean Wind 2 will result in outcomes that will have a material negative impact on our short-term financials and capital structure. Based on this review, we will assess the implications for our long-term strategic ambition and financial targets, and we expect to be able to bring this forward to the market no later than Q4 2023 announcement. Although the overall growth outlook for renewables, including offshore wind, is stronger than ever. The continued industry challenges and adverse macroeconomic development means that we need to be extremely diligent and disciplined in our growth going forward. Despite the serious setback in the US, Ørsted is committed to drive the transition to a world that runs entirely on green energy.

Let's turn to slide four and the description of the impairments we have booked.

Since we announced the anticipated impairment at the end of August, the adverse developments have resulted in an impairment of 28.4 billion DKK. Let me walk you through each of the components of the impairment. Compared to the anticipated impairment end of August. The adverse developments within the supply chain and permitting related events have led to a materially higher level of impairment, amounting to 16.9 billion DKK. As described before, the further supply delays and certain project assumptions impacting Ocean Wind 1 project schedule and leads to an additional significant delay of the project. Furthermore, the impact reflects the new installation approach with a longer timeline for Revolution Wind and Sunrise Wind.

For the anticipated impairments related to the ITC level for Ocean Wind 1 and Sunrise Wind, we have seen a number of developments. For Sunrise Wind, we have seen a positive development, given the fact that we expect to qualify for a 10% tax credit bonus due to qualification under the Energy Community guidance. For Ocean Wind 1, we assumed a tax credit level of 30% and as such do not assume any tax credit bonus qualifications. The totality of these developments leads to an impairment of 4.7 billion DKK. Furthermore, the unsuccessful outcome of the OREC petition in New York leads to a negative impact of the business case. However, we still assess scenarios of obtaining a higher OREC price through a repeat of Sunrise into an accelerated RFP. We now assume a 50% probability of achieving a higher OREC strike price compared to our previous probability assumption of 75%. At the current stage of project development, our assessment of cancellation fees for Sunrise is around 3 billion DKK.

Finally, on the interest rates, we continue to see increasing rates for the long dated US yields. This has resulted in impairment of 6.2 billion DKK related to our offshore development portfolio, and 1.4 billion DKK related to a certain number of operational onshore projects, reflecting the interest rate level end of Q3. It is important to highlight that our business cases benefit materially from interest rate hedges that we have entered when we were looking into a significant build out of US capacity. Given the significant increase in long dated US yields, these interest rate hedges amount to a total value of 4.5 billion. However, customary IFRS accounting standards do not allow us to apply the significant positive value of the interest rate hedges as part of our impairment testing, but that does not change the fact that these interest rate swaps materially improve the underlying value of the business cases of our US offshore projects.

Let's turn to slide five, where I will address the implications of recent developments to our capital structure.

The recent events have put our capital structure under pressure, also illustrated by Moody's decision to put Ørsted on negative outlook. As highlighted, the ceased development of Ocean Wind 1 will expectedly have a material negative impact on our short term capital structure. On the basis of the situation, we are taking immediate measures to support our capital structure as our top priority in terms of capital priorities, remaining a long term commitment to our BBB+/Baa1 investment grade credit rating. The macroeconomic developments continue to provide industry challenges through higher cost of capital. Through our industry leading track record in terms of farm downs, we have continued to sign deals with an attractive NPV retention, but at the same time, the continued increase in interest rates is all else equal, expected to lead to a lower level of transaction proceeds in the future farm downs. We've also seen that forward power price curves have come down, which leads to lower expected revenue. And finally, the constraints within the supply chain are expected to persist given the lack of necessary investments into expansion of capacities. Without such investments, we risk seeing elevated costs in the years to come.

As a direct consequence of these adverse developments, we are taking several measures to support our capital structure. Let me be clear that we have no active plans to issue equity. We are progressing well on these initiatives, illustrated by our lower development activities that are already reflected in our Q3 accounts. In addition, we have initiated several work streams, including a number of cost saving activities, both operational as well as shared costs. And once the cost impact is fully quantified and substantiated, we will no later than the Q4 financial announcement be able to share the outcome with the market. Further, it is important to note that the ceased development of Ocean Wind 1 and Ocean Wind 2 will be overall supportive of our long term capital structure. Given the reduced investment level. Another lever is our working capital and the improvement thereof, such as supply chain financing. Finally, we are undertaking a rationalization of our portfolio where we, amongst other things, will assess joint venture partnerships as well as utilize our farm down model. Going forward we maintain our capital allocation priorities and remain committed to our long term investment grade rating of BBB+/Baa1. And with that, let me hand over the financials to you, Daniel.

Daniel Lerup, CFO

Thank you Mads, and good afternoon, everyone. Let me start with slide six and the EBITDA for the third quarter of 2023. For the Group, we realized a total EBITDA of 5.2 billion DKK, excluding new partnerships. A significant earnings increase of more than 70% compared to the same period last year. Let me walk you through the key developments in our EBITDA for the quarter.

For our offshore sites., earnings increased by 3.6 billion DKK. This is driven by wind speeds being significantly above last year, a positive impact from ramp up generation at Greater Changhua 1 and 2a, as well as higher prices on our inflation indexed CfD and ROC wind farms. Likewise, we benefited from both lower balancing costs and BSUoS charges compared to last year. Finally, the negative hedging impact from Q3 2022 was not repeated this year. Earnings from our existing partnerships were in line with Q3 2022.

Turning to onshore, the increased earnings from the ramp up of new assets in operation were offset by a significantly lower power prices, leading to earnings on par with the same quarter last year. Within Bioenergy and other, our combined heat and power plants saw significantly lower earnings driven by the lower power prices as well as the higher fuel costs compared to last year, driven by the 'first in, first out' accounting principle to our fuel inventory.

Within our gas business, we saw earnings increase compared to last year, which was mainly driven by a temporary positive effect from revaluation of our gas at storage during the quarter. During Q3 2023, we realized a 4 billion DKK gain on the farm down of London Array wind farm. With the gain, our Group EBITDA, including new partnerships, totalled 9.2 billion DKK.

Let's turn to slide seven and our net interest bearing debt and credit metric.

At the end of Q3 2023, our net debt amounted to 42.9 billion DKK, a decrease of 1 billion during the quarter. Our cash flow from operating activities was positively impacted by EBITDA and the cash inflow from the divestment of the Hornsea 2 transmission asset. For the third quarter, our gross investments totalled 9.2 billion DKK, driven by our investments into the construction of our renewable project portfolio. During the quarter, we received proceeds from the divestment of London Array and acquired Eversource's share in Lease Area 500. By the end of the third quarter, we had posted a total of 6.6 billion DKK in collateral payments related to our energy hedges. Our key credit metrics FFO to adjusted net debt stood at 21% at the end of the third quarter. As Mads described in his remarks, we have initiated a number of measures to support our long-term credit rating metric.

Finally, let's turn to slide eight and our outlook for 2023.

Our 2023 EBITDA, excluding new partnerships and excluding the provision related to Ocean Wind 1, is unchanged and still expected to be 20 to 23 billion DKK. Due to a later timing across our project portfolio and the termination of investments on Ocean Wind 1. Our gross investments for 2023 is now expected to amount to 40 to 44 billion DKK, a reduction of 4 billion DKK. With that, we will now open for questions. Operator, please.

Q&A

Operator

Thank you. Please respect only one question per participant, and then you can go back to the queue for a second question. If you do wish to ask a question, please press five * on your telephone keypad to withdraw it. You may do so by pressing five * again. The first question will be from the line of Harry Wyburd from Exane. Please go ahead. Your line will now be unmuted.

Harry Wyburd, Exane

Hi. Thanks very much. It's Harry from Exane. And can I ask about the 8 to 11 billion of potential contract cancellation fees that you've mentioned for Q4? Could you give us a bit of detail on the composition of those, and specifically, how much of those are break fees that you'd have to pay and how much are related to the supply chain? And then also, what is the timing of the cash out on those? Will it be this year, next year and be useful to know when that's going to come out on the on the cash flow statement. And then how locked are they? So, you've given a range. Are you fully confident that 11 billion is the highest they could possibly be? And then maybe just an addendum to that question, what would the break fees be for current OREC's for Sunrise and Skipjack? Given that you've suggested that you're going to exit the current ones and rebid them? Thank you.

Mads Nipper, CEO

Yes, thank you very much, Harry. So, the 8 to 11 billion that is the, the backbone of the breakaway fees that we expect to the supply chain. And bear in mind that to that will be added the difference between the current net book value of an approximately 13 billion and the 20 billion. So, the gross termination fees here would be rather in the sort of the area of 15 to 18 billion DKK., just to make that clear. This is an approach that of course includes some contingency, but it is by far the majority of this is to the supply chain partners, but it is net of any potential reuse value. So, as we mentioned in the script, there is an upside to that as well. We have different contracts with different suppliers, so we have made an assessment based on individual contract walk through of the 30 top contracts and therefore, our level of confidence with the range that we are giving is quite high. Daniel on the cash impacts, could you comment on that?

Daniel Lerup, CFO

We would expect that the lion's share of it would be in 2024. But that is of course a probability that some will be landing in '23, and some could also land as late as 2025. Again, these are dialogs that we need to start taking with our suppliers. And that will be defining for how the profile will look like. But I would expect most of it in '24.

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And you had a question also on the break fees for Sunrise and Skipjack. On Sunrise, the current expected cancellation fee is roughly 3 billion DKK. If we were to walk away from that project. But as said that is not the expectation, we are pursuing this or looking into pursuing this rebid opportunity. When it comes to Skipjack, the cancellation fees are insignificant.

Harry Wyburd, Exane

Okay, thank you. Sorry, but just a couple of follow ups on that. So, the 15 to 18 billion of gross termination fees have understood that you've provisioned for part of that already. So, the residual provision of take could be 8 to 11. Is that correct?

Daniel Lerup, CFO

So, it's understood in the way that when we had to make our impairment on Ocean Wind 1, we had to do it based on how did the continue case look at the end of Q3. And at that point in time, the business case and also the business case we were looking at when taking the decision was worse than what we had on our books. So, you can say that we are basically making an overimpairment on Ocean Wind 1 due to the negative forward looking value of that project. And that is roughly an overimpairment of 7 billion DKK. So, if you add that together with the 8 to 11 billion EBITDA provision that we will potentially take in Q4, you then get the roughly total cancellation fee amount before we take into consideration the potential reuse value.

Harry Wyburd, Exane

Got it, thank you and sorry, very final one. The 3 billion for Sunrise, I presume that's cancelling the project outright. What would be the figure for just exiting the PPA and then rebid it in another auction?

Daniel Lerup, CFO

That's fairly small numbers and roughly in line with the numbers that you've also heard from competitors.

Harry Wyburd, Exane

Got it very clear. Thank you and sorry to keep coming back.

Operator

The next question is from the line of Jenny Peng from Citi. Please go ahead. Your line will now be unmuted.

Jenny Peng, Citi

Hi, thank you very much. So, just on your balance sheet, you obviously talk about the no need for equity or actively looking at the equity option, but just based on the status quo. I just wanted to know what extent have you considered the FFO, net debt rating agencies 25% threshold to be unmoved in that analysis? And also, how much headroom does that then give you in terms of future growth? Obviously, there's two parts of the story. One, to repair the current balance sheet for the current portfolio. And then the second part is having a little bit of a war chest for future growth. I just wondered if you can comment on those elements. Thank you.

Mads Nipper, CEO

Thank you Jenny, I'll kick it off. As we announced that what we want to do on the back of the conclusion of the portfolio review of the US projects, we do want to take a thorough assessment of our long term targets and ambitions. And then also as soon as we have that clarity, which would include, obviously, a review of the growth ambition, then come back to the market no later than at Q4 and at that time would be good to take stock at the total forward looking perspective of the company and our investment plans.

Daniel Lerup, CFO

And on your question regarding the rating metric. As a starting point, what we are analysing against is the roughly 25% FFO to net debt, but where of course the definition varies across the different agencies. But we are using the updated view on those metrics also when we do our analysis on it. And one example is that S&P increased their threshold requirement from 23 to 25%. And we of course take that into consideration when looking at these things.

Operator

The next question is from the line of Alberto Gandolfi from Goldman Sachs. Please go ahead. Your line will now be unmuted.

Alberto Gandolfi, Goldman Sachs

Hi, thank you for taking my question. There's a lot of moving pieces, so I'll try to keep it tidy, but I might fail. So, could you quantify what is the size of the restructuring of the balance sheet you're talking about? What is the funding gap? Because I understand that having an extra 8-11 billion cancellation fee and saving 20 billion of gross CapEx is a credit positive event over the next three years, but you have to pay the bulk of it between Q4 and next year. So, you might have a liquidity issue. So, I guess here the question is in two parts, just on Ocean Wind 1 and 2, what are the measures you're contemplating? Because I suspect that selling 1 gigawatt of onshore wind in the US would essentially plug this gap. Am I wrong? Would you contemplate a suspension, a dividend holiday, a scrip dividend, or a reduction dividend because you save 12 billion over two years? And why didn't you come up with a plan today already? And the second part of the question is while you are already, you know, you were very kind to disclose Sunrise and Skipjack. What happens if you were to walk away from Hornsea 3? Is there another cancellation fee to think about, and how would you deal with that ? Again talking asset disposal, dividend, equity raise. Thank you so much.

Mads Nipper, CEO

Yeah, a bit of a few points here Alberto, thank you. We have no active plans to raise equity. We have no plans to change or deviate from our dividend policy. Also, reason being that we want to go through both the portfolio review and also want to do the reassessment in the next couple of months to ensure that we have as firm a ground to assess what is it that we need to work with. And bear in mind the levers we already mentioned with cost saving program, with supply chain finance, with our DEVEX and priority prioritization. This is something that we are still in the midst of. So, we are crafting, and we will finish a plan to where we will give you a much greater overview, no later than Q4 announcement, to ensure that we can have that holistic picture before jumping to any conclusions. So, that is our perspective of what is the wisest way to ensure that we make a holistic plan, which we can also, to the largest possible extent, quantify towards the market.

On Hornsea 3. It is a project where we continue to work towards a final investment decision, and there are and will continue to be levers that we are working on. Right now, we are in dialog with the UK government. We are still quantifying and working on the possible levers that we have. So, we don't want to speculate on the future of the projects until we are in a situation where we can hopefully take an FID towards the end of this year.

Alberto Gandolfi, Goldman Sachs

So, if you allow me a quick follow up. Can I ask specifically on the language you've been using on equity because you're saying we have no active plan for an equity raise right now, which kind of opens the door for that equity raise at a later stage. So, I guess what would change your view versus the status quo? So, right now, no equity raise. What could actually open up the door for it, which is what the share price is telling us right now. And what would be the alternatives instead to an equity raise? Sorry for insisting.

Mads Nipper, CEO

Well, I have to repeat, Alberto. We are working on a whole number of levers, and we have no active plans of equity raise.

Alberto Gandolfi, Goldman Sachs

Got it, thank you and apologies.

Operator

The next question is from the line of Peter Bisztyga from Bank of America. Please go ahead. Your line will now be unmuted.

Peter Bisztyga, Bank of America

Yeah, thanks for taking my questions. So, can I just sort of follow up on Alberto's question. How much sort of breathing space do you actually have? Because I think we can all agree that things have deteriorated from an operational perspective much faster and more frequently than I think anybody had anticipated over the last six months. So, I think to talk about, you know, no active plans today are fairly meaningless. Because what we don't know is, you know, what else needs to go wrong or how big does something else have to be that goes wrong before it takes you over the edge into having to raise capital? So, could you just sort of clarify, are there any sort of known unknowns today that are sufficiently severe that could actually force you to raise equity? Or is it as simple as if you cancel near-term growth projects? If you manage a couple more farm downs, you're completely safe in all scenarios. So, please, can you just clarify that?

Mads Nipper, CEO

Thank you. Peter. Let me let me take an approach of saying the by far the biggest uncertainty, and in recent times, the uncertainty in our business has been the unpredictability and the very significant moves on our US offshore portfolio. With the decisions that we have announced today or rather, last night. We believe that despite the very painful implications on the impairments and also the disappointment in having to walk away from projects that we would have really liked to build, we are actually creating a much greater clarity on those that are the really big swing factors. So, we're going to say Ocean Wind 1 has been sort of 75% of the total impairment we've been looking at. That project is now stopping. At the same time, we've taken a final investment decision on Revolution

Wind. We have paused all spent on Skipjack, and we are also taking a cautionary approach toward a rebid in Sunrise. So, that essentially means that, again, as mentioned, and I will want to reiterate, we see these implications as particularly painful. But we are in a situation where we see that what can and could very unpredictably impact our situation is significantly de-risked going forward. And that should also limit the variability of the future impairments that could potentially deteriorate massively.

Peter Bisztyga, Bank of America

Okay, I think that makes sense. Maybe just to be clear, there's nothing, for example, on Hornsea 3 that we need to worry about from a financial headroom perspective.

Daniel Lerup, CFO

No. So, we as I said before, we are still confident that we'll be able to make a good project out of Hornsea 3 and we are progressing it towards FID later this year, and we also have it included in our capital planning.

Peter Bisztyga, Bank of America

Okay. Thank you very much.

Operator

The next question is from the line of Deepa Venkateswaran from Bernstein. Please go ahead. Your line will now be unmuted.

Deepa Venkateswaran, Bernstein

Thank you. So, I think my major question is, I was a bit surprised with the changes that you announced between the end of August and now on further impact from supply chain. I understand a bulk of it is from Ocean Wind 1, but the quantum is quite significant at 12 billion change in just two months. Given that what assurances can you give us that for Revolution Wind that you've taken FID on? And Sunrise which you're hopeful for the OREC revision? And Hornsea 3, you know, we won't come up with these surprises because I guess the market's also worried about that. And then the knock on effect on the equity raise as raised by the previous questions. So, can you tell us like why these numbers change so much. And why should we think that these might not happen with the other projects ?

Mads Nipper, CEO

Yes, happy to Deepa. So, what has happened, especially in Ocean Wind 1, which also under supply chain changes have been by far the bulk of these. Is that we have seen with centered, unfortunately around the vessels again, further significant delays on vessel availability, which in a project that was without any further float, meant that the delay of the overall project due to lacking backup vessel availability in the entire market, has now meant that it would implicate a multi-year delay of the entire project. What that would mean is that due to this significant additional delay caused by these supply chain delays, we would be in a situation where we would need to go out and recontract all or very large scopes of the project at expectedly higher prices. That is why the swing, which essentially was tipped by these delays. But it meant massive impacts because of the uncertainty of needing to go out and recontract many of the scopes in Ocean Wind 1. That is why it is such a massive impact. And at the same time, we have done on all three projects as you would expect us to after the August 29th announcement, we have done an in depth and also externally assisted deep dive risk review of all the US projects, and that also led to us taking a more prudent approach of the remaining local construction permits on the Ocean Wind 1 project, which obviously now are no longer relevant. But at the time and in the continuous scenario that we had, as Daniel said, need to do by September 30th. Those two impacts were by far the biggest that we that we had on Ocean Wind 1 again. Which is by far the biggest of the total additional 12 billion impact. And then I will I'll comment on, what is the spill over risk on the Revolution, Sunrise and Hornsea 3. Let me start by Revolution. That has also gone up in the supply chain led impairments. And that is because we have now taken a prudent and conservative approach where we are now assuming 100% of the projects being installed by the backup vessel we already talked about. So, no longer being dependent on the tariffs construction schedule at all for Revolution. Which means that not only has it been an additional cost to de-risk that, but it is also an insurance policy against the fact that this project could potentially slip due to lacking vessel availability. And the Scylla vessel is not a new-build project, as a matter of fact, it's a project that is newly serviced at the time when we need it. So, it's not a new vessel that we are depending on construction schedules. So, we feel much more comfortable about the total vessel availability. We are seeing no indications of, for example, turbine delays. And we also have a backup plans and mitigation plans for some of the most critical parts around foundations. So, that risk review for Revolution meant that it came out at a very satisfactory level, and one we feel comfortable with to move it forward. And then for both Revolution and Sunrise, as Daniel was alluding to. Whereas the breakaway costs or cancellation costs to Harry's question was, it's obviously very big in terms of supply chain. Bear in mind that these are at a totally different magnitude. So, the current view on the breakaway cost from supply chain would be rather in the ballpark of 3 billion for each of these projects, which is obviously a far cry away from the 15 to 18 billion on Ocean Wind 1 so much less material impact even in the worst case scenario. And then on Hornsea 3, I'll just say that this is an area where we have a totally different level of experience, much more experienced supply base, known market. So, overall, the execution risk on that project should be significantly different than any US project. Sorry about the long answer.

Deepa Venkateswaran, Bernstein

Thank you. And can you use these turbines from the Ocean Wind into Hornsea 3? I know it's GE and maybe you were going with Siemens Gamesa, but is it possible to reuse this into Hornsea 3? I know it's a larger project now.

Mads Nipper, CEO

Deepa, I appreciate the question, because we will look at every single scope from the Ocean Wind 1 project. And I can say that there are certain scopes where it is technically very trivial to reuse it. Just to mention a few examples, cables, steel, crew transport vessel and so on can be reused 1 to 1 without any adaption. So, that's a very simple reuse. Whereas on the other scopes we will technically evaluate what is the reuse availability for that. For example, converting from a 60 to 50Hz solution on the turbines or alternatively some of the equipment could be sold or reused in other US based projects. So, we will look at all of that. But we are quite optimistic that a sizable share of this has a value which is not accounted for in the current estimate of the breakaway cost.

Deepa Venkateswaran, Bernstein

All right. Thank you.

Operator

The next question is from the line of Kristian Johansen from SEB. Please go ahead. Your line will now be unmuted.

Kristian Johansen, SEB

Yes. Thank you. Just a really a follow up on the supply chain risk here. So, just to clarify on Sunrise Wind, can you just state the vessel you're booked and how you are covered on the vessel part for that? And then also in terms of the vessel supplier which has caused these massive delays, is there any possibility to reclaim part of this 17 billion impairment you have done due to supply chain against the given supplier?

Mads Nipper, CEO

Happy to comment on that as well, Kristian. Also, for Sunrise, in case of a further delay, we have secured the backup vessel for the full scope of the project. So, we are not in a situation where any further delays on the Scylla vessel is in a place where it can delay the entire project. Out of prudence and hard earned experience from, for example, Ocean Wind 1. We have spent that money and effort to ensure that we have de-risked the installation scope of Sunrise exactly as we have done on Revolution. So, we see a significant and much, much smaller difference in the risk profile for the installation scopes. Then on the reclaim towards the Jones Act compliant vessel supplier. Yes, absolutely, we will pursue those avenues, but typically contracts like this are capped at the total contract value. So, the realism behind getting any sort of greater compensation, which would be the knock on implications, would be contractually not realistic, unfortunately.

Kristian Johansen, SEB

And can you quantify the contract value. So, what's the maximum potential return you can get?

Mads Nipper, CEO

I don't have that in mind. Sorry.

Operator

The next question is from the line of Rob Pulleyn from Morgan Stanley. Please go ahead. Your line will now be unmuted.

Rob Pulleyn, Morgan Stanley

Hi. Good afternoon, everyone. If I may ask, along the lines of as we try to assess the bear case from here, may we ask how much conceptually, of the Hornsea 3 supply chain you've committed to could be recycled for a Hornsea 4 bid in AR6 next year, or a Hornsea 3 rebid in AR7 in 2025, if the company pursues that course. And there's any negative cost associated with this? And as part of that, assessing the bear case and some of the other analysts have already fleshed out the US side. But could you confirm what the remaining carrying book value is for US offshore wind portfolio? Thank you very much.

Mads Nipper, CEO

Yes. No doubt, Rob, that the reusability of equipment from Europe in a bear case scenario, and I want to reiterate that is not one we believe in, but in a bear case scenario, then the reusability for other UK projects and especially a Hornsea 4 would be much higher. The difficult part of that would be on the vessel scopes, because that is typically for a time bound period. And having a non awarded project at least yet, despite it being consented in Hornsea 4, would make it difficult to make that direct transferability. But for the equipment scopes, technically there should be no reason not to reuse that or have any quite significant value that would be technically simpler to do than converting something from the US to European standards. Exactly what that quantification would be. I don't think we are capable of doing right now.

Daniel Lerup, CFO

The remaining value of the US offshore projects you have roughly 10 billion DKK.

Rob Pulleyn, Morgan Stanley:

Thank you, Daniel. Sorry, if I could just ask on something. Daniel, you mentioned earlier as it relates to Hornsea 3, is you mentioned discussions with the UK government. Is that the defining factor as to whether you go ahead with the current plan or not, i.e., some tax breaks?

Daniel Lerup, CFO

No, that is not necessarily the defining factor, since we have flexibility in the project when it comes to the merchant exposure and also how we deal with the CFD. So, there's a lot of things that needs to come together in that FID decision. But we are pursuing all the different options in order to make the best assessment.

Rob Pulleyn, Morgan Stanley

Thank you. I'll turn it over.

Operator

The next question is from Sam Arie from UBS. Please go ahead. Your line will now be unmuted.

Sam Arie, UBS

Hi. Good afternoon, everybody. So listen, let me start by just saying, I think we all appreciate the frankness in this presentation and your recognition of the difficulties. I think we're also all aware that many of the difficulties you're dealing with relate to bids that go back before you guys were running things. And so, in a sense, you're dealing with some big legacy issues. But I wanted to ask you a question. If you'd like a bit more about kind of what's happened this year and where we go next with your strategy update or the review that you've talked about. And I think my kind of opening comment is if we reflect on the various announcements this year. Since you've started really dealing with and communicating about these legacy issues, starting with the first impairment at the beginning of the year, the full year results for Q1 and Q2, the CMD, the August profit warning, and then the release we're talking about today. And it does seem clear that each time you've had an update, the situation has been kind of worse than you thought it was at the time before. And the numbers have got bigger, not smaller. And I guess that's what drives the kind of questions that we receive from your shareholders and investors. And what people constantly ask us is when do we think you can draw a line underneath all these problems and kind of move forward in a way that leaves the uncertainties behind? And I'm sure that you're asking the same question. I don't mean to be flippant about it. But just to kind of turn this into a question you can answer. I mean, when you set out this strategy update that you've talked about, is it your intention that update will then give us a new base plan. Like financial targets and financing equation, that only then relies on projects where you've taken FID. You've got contracts 100% locked. You have good status of project execution. Suppliers are delivering comfortably against what you're expecting and so on. So, is there anything else that you might be hoping for, like projects that could go ahead if they get a bump in the tax credit or get a bit more support or anything else, would all be an upside to the plan. Is that how you're thinking about it? And then if that's the case, how much of a reset does that imply? Going from the kind of best-case scenario plan that we currently have to a really de-risked plan that only includes projects where you can have 100% confidence. You won't have to come back and revise stuff downwards afterwards. Sorry, I know it's a tough question, but I think it'd be really helpful to hear any comments you can share against that heading.

Mads Nipper, CEO

Happy to comment on that, Sam. It is genuinely too early and too premature to comment on what will be the outlook. But we will obviously look at critical dimensions of how we can both ensure greater certainty, even in a volatile environment around value creation for investors, how we can de-risk what we do, learning from what we have seen in the US, but also to ensure that we generally have a strategically as well as possibly founded view on where in our portfolio, both geographically and technology wise, is the best place to deploy our capital. And those are very broad headlines. And as we said, that could lead also in light of the capital structure implications here, short term, that could also lead to a revision of both our capacity target and our long-term targets. But the focus will indeed be that we want to de-risk and further increase the likelihood to create value. And as I described on the question from Deepa, the first step of that that we are already announcing today is exactly to de-risk the most painful part of our portfolio, namely the US projects. And we actually think if you look at a total portfolio risk, we have already come a long way with the decisions we have taken now. And also, with what we shared at the Capital Markets Day, that the outlook for the value creation on the non-US projects right now still looks solid, as we mentioned, with also a good headroom. So, whilst not having all the answers to what that would look like, because then it wouldn't be a review in the next few months. But it will be with a focus on value creation and de-risking and indeed avoiding coming out with this stream of seemingly ever worsening news on the projects that we are struggling with, because they were awarded at a now unrealistic price level.

Sam Arie, UBS:

Thank you Mads. That's very helpful and it's helpful to understand how you guys are thinking about it. If you forgive me, maybe just not the second question, but just a very short comment before we move to the next person. But, I think all the analysts on this call probably get the same question I get every day, which is like, what's the valuation of the existing assets? And I'm sure you get similar questions, but it tells you something. It tells you that people do understand that you have a portfolio of assets that are valuable, but what people are not buying is the conditional stuff. We hope to build this if type thing, if we get the tax credit, if we get a bump in the tax credit, if we can negotiate better terms, etcetera. So, I feel like if you guys in your strategy update can come with a base plan that is really dependable and is as reliable as people think the existing constructed assets are, and I think you'll get credit for that. And what I hope you'll be able to do is, is take away any pieces of it where there's still an uncertainty or something that people have to buy into a belief. Because it seems to me that the share price at the moment is telling us that nobody wants to believe in any of those kind of uncertainties anymore. I don't know if that's helpful, but I hope you don't mind me adding a comment and I'll hand over to the next person now.

Mads Nipper, CEO

Much appreciated. Thank you, Sam.

Operator

The next question is from the line of Lars Heindorff from Nordea. Please go ahead. Your line will now be unmuted.

Lars Heindorff, Nordea

Yeah. Afternoon, everybody, thank you for taking my question. It's regarding the Ocean Wind project. Mads, I think you mentioned earlier on the call that besides, of course, lower CapEx, by ceasing those two projects, you also incur some net working capital benefits. Can you give any indication about sort of the magnitude of this? And also, it would be very helpful if you could give some kind of indication, how much have you spent on CapEx of those two projects by now? And what is the total CapEx? I know you probably can't give us an exact number, but maybe a ballpark or maybe even sort of a metric in terms of CapEx per megawatt. That would be very helpful. Thank you.

Daniel Lerup, CFO

Yeah. So, on the Ocean Wind 1 project, we had a book value of 13 billion DKK at the end of Q3. So, that's roughly what we've spent on that project. I'm a little bit uncertain what you mean when you talk about a net working capital. I don't know whether you are referring to one of the previous questions that of course, we are having a large cancellation fee from, from walking away from this project. But at the same time, we are also not having to spend the large CapEx on this project, which should give a relief on the on the capital structure in the shorter term. When it comes to CapEx multiples. I think there are already a set of numbers in the market on that already. Now remember it differs a lot depending on what region you are in, what project it is that you are looking into, what scope it is. So, there's a lot of different metrics here. But, I think if we talk the remaining larger US projects, I think the indications that we've been giving before is the roughly 6 million USD per megawatt.

Lars Heindorff, Nordea

All right. And the question regarding the net working capital. Maybe I misunderstood. I can't recall whether it was you or Mads. But in relation to the discussions about Ocean Wind projects. There were some comments about that the ceased development of those projects, besides of course lower CapEx, but also will give a net working capital release. If I understood it correctly.

Mads Nipper, CEO:

Well, I think I was the one who said it last, but it was capital. It was a much lower CapEx deployment. As Daniel said, that would mean a significantly lower total CapEx spend in the next, especially two years. Because, despite the big cancellation fees, we are spending several billion less than our capital plan so far, which will relieve the pressure on our capital structure, especially in '24 and '25. That was what I meant. Sorry if I said that wrong.

Lars Heindorff, Nordea

No, that's fine. Good for clarifying.

Operator

The next question is from the line of James Brand from Deutsche Bank. Please go ahead. Your line will now be unmuted.

James Brand, Deutsche Bank

Hi, thank you for taking my questions. I got two questions. The first is, you had a few questions earlier about capital raise, dividend. And can I just check my interpretation of your answers is the right one. My interpretation is that nothing is ruled out. Through this process of reassessing the business plan on the dividend or the capital raise. So, that's the first question. And secondly, on Sunrise Wind, I was wondering whether you could just kind of walk us through what the steps are from here. Obviously, you're expecting a new auction. As I understand it, you have to cancel the current contract before you were able to bid into the new auction. So, do you at some point cancel your current contract and attempt to bid into the new auction? Do you continue with construction while you're going through that process, or do you try and alter it and push back contracts? A bit more detail on the kind of steps you need to go through for Sunrise would be really interesting. Thank you very much.

Mads Nipper, CEO

Thank you, James. The answer to your first question is simply that we have no plans to change or adjust our dividend. And we have no active plans to raise equity. Under the steps for Sunrise Wind, there is a request for information out into the market, which is not the same as a request for proposals. So, the RFP is what we bid on right now. In principle, it's a hearing round and in the preliminary proposal, it actually does indeed say that nobody can have an active agreement with the state before they bid in. This is something we are, together with our friends who are also having existing projects that did not get the OREC adjustment, pushing very hard to change. Because that's obviously a really, really important prerequisite for this to be an attractive bid. It is meant to be an accelerated bid where there would be a very short timeline, and there are currently two timelines where we are pushing for the first one, which means that there would already be an award in Q1. And given that we know that this project would hinge on the ability to get a new deal. Then the additional burden, there would be some cash commitment or some capital commitments, but they would be manageable and not sort of in something that would fundamentally change the decision in the few months that we in which we hope to have clarity. That's how we foresee it. So, that in Q1 or hopefully early Q2, we would have a clarification of a potential rebid. But if we find out even before that, which is expected end of this year, that the risks of standing with a fully merchant project in the US, which is obviously unattractive, then we would have to evaluate the future of the project at that time.

James Brand, Deutsche Bank

Okay, great. That sounds like a pretty critical provision. Thank you. Thank you very much for your answers.

Operator

The next question is from the line of Vincent Ayral from JP Morgan. Please go ahead. Your line will now be unmuted.

Vincent Ayral, JP Morgan

Yes, thank you for taking my question. I will come back very quickly. I know you've had the question a number of times already today, but you keep saying that you have no active plan to raise equity, and clearly the market doesn't like the wording on the active and is pricing in an equity raise anyway. So, as you're going along this line and you will update us at the full year, I just will want to ask again the same question as my colleagues. If you use this phrasing, that means that you must have made an assessment already, even before doing the detailed assessment that we will present at the full year. But you must have done a good back of the envelope telling you that basically you can go ahead without raising equity. So, what were the math that can give confidence to the market and help the share price today? I think that would be the question one. The question two is related to Ocean Wind 1. So, clearly Governor Phil Murphy did not really appreciate you walking away from the project. Now, on the other hand, you were told very clearly by the authorities that you can always walk away from a contract. That's what they say at the committee. So, fair enough. He said that today's decision to abandon his commitment to new Jersey is outrageous, blah, blah. I remember a few weeks back you did put about $100 million in escrow account in case you cancelled the project. So, I'd like to understand a bit the situation there. So, were you forced to do it on this timeline? Did you know you were going to exit the project? Were the authorities aware of it, and is it included in your impairment and provisions that you presented today, these extra $100 million just for us to better understand this specific point? Thank you very much.

Mads Nipper, CEO

Yes, thank you, Vincent. As I'm sure you expect a short answer to your first question. That with the no active plans, we have not made an assessment and it would not be right to make that to conclude on any of that before we have made the assessment towards Q4. So, no active plans are still the statement. On Ocean Wind 1. You are right. The reaction is understandabe from the Governor of New Jersey. And by the way, I want to reiterate that New Jersey have been great partners for these projects. They have put in force a law that will allow us as a developer to keep the full tax credits, which were highly appreciated and we know it came with hardships. So, it makes us feel even worse about the decision, but it is from an investor and from a capital discipline point of view, the right decision. We don't fear that it's a project we cannot walk away from. To the $100 million that was not forced. But it is an indication that indeed the events that lead us to the impairments here now the visibility of the impacts of those are indeed very recent. And the agreement with the $100 million in guarantee was something that we wanted to post and also because, until recently, we were confident that there was still good opportunities to move this project forward. And for the avoidance of doubt, both this and the 200 million in escrow for supply chain development, all of that is fully included in impairments for now. So, there is no further downside in terms of impairment on any of those amounts.

Vincent Ayral, JP Morgan

Okay. Thank you very much. And I'd like to just add a very quick one. You still have a few projects that are alive and have some remaining value. We understand you've still got 10 billion book value. And could we have an idea of the split basically on Sunrise Wind? More specifically, how much of that represent as we will be following all of that. And where it's complicated to fully understand what will be the rebidding auction? It seems that NYSERDA, I don't know how to spell that one to say it but may put on these new auction some limitations on who can go in bid. But it's difficult to understand what could be the odds of success. If you bid again, could you give us some colour on that specific point? Sunrise, if you bid again, why is it a competitive situation there? And that could help us attribute some probability of success somehow.

Mads Nipper, CEO

Let me comment on the last question. And Daniel can comment on the split of the book value. So, on New York, the fact that this is a very accelerated RFP, expectedly. That means that everything else equal, it should favour projects that are much more mature in their development. So, i.e. especially Sunrise, but also the projects from our friends at the at BP and Equinor. It is obviously an open and competitive auction. But if you bear in mind that the winning strike price from the recent New York three solicitation, which is less than two weeks old, there was $145 per megawatt hour. And the price that we at Sunrise were applying for in the OREC adjustment was less than $140 in total. So, even should we bid in with the level we were applying for, which would have gotten the full amount that we were applying for with a Public Service Commission, then we would still be meaningfully lower than the average of the winning price, which we believe gives us good reason to believe that we have a very competitive project compared to the winners. I want to reiterate, I'm thereby not revealing what our bid price would be in such a bid. It's to give you an indication of what we think is a reasonable likelihood to be successful in such a solicitation.

Daniel Lerup, CFO

And on the 10 billion book value of the US offshore projects. You can find it in the financial report, page 31. The impairment note. And in there you will see that that Sunrise is roughly half a billion DKK. We've applied this 50% probability on the rebid. And that will give you a potential upside or downside of roughly 1.4 billion on Sunrise.

Vincent Ayral, JP Morgan

Okay, thank you very much.

Operator

Before we take the next question, let me just remind you to please respect one question per participant and then you can go back into the queue. If you have a second question, then everybody gets a chance to ask their questions. Now with that said, the next question is from the line of Klaus Kehl from Nykredit. Please go ahead. Your line will now be unmuted.

Klaus Kehl, Nykredit

I have to say that I'm a little bit surprised to hear that you are that committed to paying dividends going forward. And the reason why I'm saying it, is that your equity is taking a serious beating here in Q3, and it will most likely take another hit in Q4. And one easy way to restore your equity would be to scrapping your dividend. So, my question is, are you in any way committed to the Danish government to pay some kind of a dividend? Or can you do whatever you want with your dividend policy. That would be my question.

Mads Nipper, CEO

Thank you Klaus. It is up to the company to decide the dividend policy, and we have no plans to change this at the moment.

Klaus Kehl, Nykredit

Okay. Thank you very much.

Operator

And the next question is from the line of Ahmad Farman from Jefferies. Please go ahead. Your line will now be unmuted.

Ahmad Farman, Jefferies

Yes. Hi, thank you. My question is more around what else can be done outside of the equity raise to help secure the balance sheet? And you outlined these four bullet points on page five of your slide deck. Have you done any assessment? Can you give us a sense of the scope of these measures? What exactly do you think cost savings or efficiencies can be achieved through what you have outlined? And in particular, I would be interested in your comments on farm down proceeds. Because you're also, I think, one of the drivers of sort of let's say the adverse development is higher interest rates, right? So, you sort of say interest rates negatively affect the future divestments of perceived. But then also farm down seems to be a lever that you seem to sort of you would be deploying to, to shore up the balance sheet. So, some thoughts. That would be helpful. Thank you

Mads Nipper, CEO

Thank you Ahmad. It is too early for us to quantify each of the levers. So, with cost, development expenses, supply chain financing, further portfolio prioritisation and just pausing with portfolio prioritisation. Something like Ocean Wind 1 is a very material easening of the capital structure pressure near term. So, there are actually some big levers. Some of them are recurring and structural, such as costs. Some of them are very big potential reliefs such as post portfolio prioritisation. But what we are looking at is also on something like joint-venture partnerships on potential accelerated farm-downs and our lever like we also communicated at the Capital Markets Day. The filter that we use for assessing the attractiveness of farm downs continues to be the net present value retention, but we will obviously in light of the return requirements for the investors, also, in every single case, ensure that we evaluated against what is a normal return and therefore, the relief on our capital structure. But not possible at this stage to quantify the different levers, unfortunately.

Operator:

The next question is from the line of Casper Blom from Danske Bank. Please go ahead. Your line will now be unmuted.

Casper Blom, Danske Bank:

Thanks a lot. I have a question that is not about the US. And I was just wondering if you can give a little update on the Polish Baltica 2 and Baltica 3 projects. What is the status there for each of them? And when would we expect that you potentially take an FID on Baltica 2? As I recall it is sort of scheduled for completion at the same time as Hornsea 3. Thank you.

Mads Nipper, CEO

We don't have a specific timing, Casper, on the Baltica 2, but the project is moving ahead well. Baltica 3 is still under the reconfiguration. But we have actually seen some good developments recently, but it is still under reconfiguration and working towards to see if we can get it to a stage where it gets into the sufficient and acceptable return range. So, no timing on that yet. I'm just looking at my pages here. The COD is expected to be in 2027. And if we work our way backwards with that then a couple of years. So, later in '24 or '25.

Casper Blom, Danske Bank

Okay. That's fine. Thanks a lot.

Operator

The next question is from Dominic Nash from Barclays. Please go ahead. Your line will now be unmuted.

Dominic Nash, Barclays

Good afternoon. My single question, please, is going to be around the JV with Eversource. So, Sunrise, Ocean Wind 1 and Ocean Wind 2. You've clearly made a decision to drop out of Ocean Wind 1 and 2. I presume that have you done that unilaterally or have you done it in, or have you sort of negotiated this with your partner, who of course has the whole package up for sale at the moment? And does that mean that Sunrise might struggle to find your partner in time, if this were to put it back and just know I'm not allowed two questions, but it is Ocean Wind 1 and 2. You've permanently walked away. Do you still own the lease for those wind farms? Thank you.

Mads Nipper, CEO

If I heard your question right, Dominic, so, Ocean Wind 1 is 100% owned by Ørsted and therefore, it is a sole decision of us and our company. The 50/50 JV with Eversource is on South Fork, on Revolution, and on Sunrise. So therefore, it's our decision what we did earlier. We bought out our partner PSEG who is a Jersey based company at cost. And therefore, it's 100% owned. And to just to reiterate that you don't think we made a terrible decision. There was a contractual right that they had the right to step out at cost.

Dominic Nash, Barclays

And do you still lease for it, or do you have to hand that one back?

Mads Nipper, CEO

The lease for all these projects is something we have the right for and that also holds a value and not only the seabed, but also the fact that in the example of Ocean Wind 1, it is a fully consented site. So, that development expense also holds a value.

Dominic Nash, Barclays

Great, thank you.

Operator

The next question is from the line of Ingo Becker from Kepler Chevreux. Please go ahead. Your line will now be unmuted.

Ingo Becker, Kepler Chevreux

Yes. Good afternoon. Thank you. I have two questions. First, on page five in your presentation, you were quoting that you've updated forward power price curves that lead to lower revenue expectations. Can you give a little more detail here? What curves in what regions you're referring to? Because it seems like that the Nordic and also the northern continental curves did not change really so much over the last quarter, or even, particularly not since you made the first impairments. And my second question would be on that comparatively small impairment you took on the onshore assets of 1.4 billion. Can you elaborate on what you did there, why you took the impairments and what that is relating to? Thank you.

Daniel Lerup, CFO

Yeah. So, on the onshore impairment, which is mainly US onshore driven, it is basically the fact that we are increasing the WACC that we apply for impairment test. As the long dated US interest rates have gone up quite significantly. So, it's a bit technical adjustment of the discounting factor that we use on the US onshore projects. And then on your question regarding power prices, it is mainly the fact that we are starting to see a slight decrease in the forward prices, longer dated across some of the European countries where we have power price exposure. But you are right, it's not a significant shift. But we are seeing that it's a bit lower compared to when we last did the assessment in Q2 and in connection with the CMD.

Operator

The next question is from the line of Marc Ip Tat Kuen from Berenberg. Please go ahead. Your line will now be unmuted.

Marc Ip Tat Kuen, Berenberg

Hi guys. Thanks for taking my question. I've got a short one to ask about the Confirmation Political agreement. Can you remind us, please, what that means for us today and whether that might be extended given it only lasts to 2020? And if not, what does it mean essentially? Thank you.

Daniel Lerup, CFO

Could you repeat that? We didn't get that.

Marc Ip Tat Kuen, Berenberg

Yeah. The Confirmation Political agreement. Can you explain to us again? Remind us of what it means for today and whether or not that shod be extended? I think the last I saw is that it technically only lasted until 2020.

Mads Nipper, CEO

Political agreement?

Marc Ip Tat Kuen, Berenberg

So, this is the Danish state 50% ownership in Ørsted.

Mads Nipper, CEO

I don't think that's a political agreement. I mean, there's no time bound on that. Sorry if we're not understanding the question fully.

Mads Nipper, CEO

I just got clarification. So, the political agreement has run out, but that has nothing to do with the state's ownership of 50.1%, which has no time limit on it. So, that neither increases nor decreases the likelihood of any change from the state side.

Marc Ip Tat Kuen, Berenberg

Okay. Thank you.

Operator

The next question is from the line of Helene Brøndbo from DNB. Please go ahead. Your line will now be unmuted.

Helene Brøndbo, DNB

Yes, hello, I have two questions. The first related to Hornsea 3. I'm just wondering what is needed to get to sufficient project profitability to get to FID later this year. And I'm also wondering on Sunrise how much of the value chain do you need to recontract if the project gets a slightly later timeline?

Mads Nipper, CEO

Thank you. Helene. What is needed is simply improvement in the business case beyond the levels that we've had. And that we also saw back at the CMD time to make it close enough to an acceptable value creation. And that that is a combination of contracts, dialogs with suppliers. It is around revenue levers, and it is around the merchant flexibility. How we can do that? It's optimising the layout. It is inclusion and maximisation of value, and battery capacity, and so on that can increase the value. So, we continue to work with these levers along with what Daniel said, dialog with the states about any tax benefits that can further help it. But it is how close we can get it. It is to have a further improvement of the value creation towards an FID, which we still believe in, but keep all options open at this time. And on Sunrise. I mean there would be no recontracting expected based on this. So, this is not a material delay at all. It would be very close to the originally planned FID timing. So, no reason to fear that we would need to recontract anything in a rebid situation.

Helena Broendbo, DNB

Okay, thank you. Just a follow up on Hornsea 3. Do you expect to sort of get to an FID based on merchant flexibility and costs alone, or do you need some sort of improvement in your CFD?

Mads Nipper, CEO

We don't expect an improvement in CFD as part of that basis. So, it will be the other levers that we'll be working on.

Helena Broendbo, DNB

Okay. Thank you.

Operator

The next question is from Frederik from BNP Paribas. Please go ahead. Your line will now be unmuted.

Frederik, BNP Paribas

Hi, thank you for taking my question. I'm calling from the Credit side, and I appreciate the commitment to a high quality credit ratings. Could you give me some colour on why these are so important to our business and financial perspective? And what would be the implications of a possible credit rating downgrade? Thank you.

Daniel Lerup, CFO

Yeah. So, our perspective on this is that of course we want to create stability around our credit profile. And we believe that the BBB+ level is also a level that makes us competitive when we are bidding with the right level of funding costs compared to the capacity we have within the key credit metrics. On top of that, we also rely on, for example, a lot of counterparts for doing trading and also to deliver on our farm down model. We are also relying on being a credit worthy counterpart towards the investors. Those are some of the key drivers for us wanting to retain a BBB+ rating. But we are not targeting a lower credit rating. So, that is our target and that is what we will protect with our capital structure.

Operator

Thank you. The next question is from David Paz from Wolfe Research. Please go ahead. Your line will now be unmuted.

David Paz, Wolfe Research

Hi, thank you. On your US northeast portfolio, what has given you more confidence on Sunrise eligibility for the bonus ITC since your August update? And do you anticipate reaching any operational agreements with the potential buyer for Eversource stake before or after your business review update? Thank you.

Mads Nipper, CEO

Thank you, David. Yes, to your question about what gives us higher confidence in 40% ITC, and I dare to say it's the first time in my life that I have at least been pretty happy about soil contamination. But we are taking that soil test, and it is a situation where, due to what we have found in the testing for our landing point for our power, it now qualifies to be a brownfield under the energy community's credits which qualifies it even in the preliminary guidelines. Which is what gives us, along with Revolution Wind a very high reason to believe that this would qualify. On Eversource sales process. There's an ongoing dialog between Eversource and us and we have no reason to believe that there should be any complication on the existing deals. And if there is any, Eversource would be a partner for the Sunrise project, because that's our partner now and if there is not an agreement with a potential new buyer, then Eversource would be the partner for Sunrise.

David Paz, Wolfe Research

Thank you.

Operator

The next question is from the line of Martin Tessier from Stifel. Please go ahead. Your line will now be unmuted.

Martin Tessier, Stifel

Thank you for the presentation. My first question relates to your long-term target. Could you provide us with the combined EBITDA from Ocean Wind 1 and 2 that we have to strip out for 2027 and also maybe by 2030. One more question regarding your future farm down approach. So, you indicated at the last Capital Markets Day a global 50% ownership share by 2030. So, as we speak today, and given the current situation, do you think you could go below this 50% ownership threshold in the future and maybe lose control of the asset? Thank you.

Daniel Lerup, CFO

Yeah. Thank you. I don't have a number for you right now on the EBITDA, but we can come back to you on that one. On the farm down model. The starting point is that we're looking into the 50% farm down as you alluded to. But there can be circumstances where we will reconsider potentially having another ownership share if we see a value potential in it, or if we are in a JV structure where it is not possible to get a 50% share. We have seen that over the years. Also, having partners where they want to pursue project finance instead of topco balance sheet financing. And in such instances, there could be a benefit of going down to a lower ownership share in order to maximise the capital structure and the investment capacity. But no bigger plans on the offshore side.

Martin Tessier, Stifel

Very clear. Thank you.

Operator

The next question is from the line of Louis Boujard from Oddo. Please go ahead. Your line will now be unmuted.

Louis Boujard, Oddo

Yes, hi, good afternoon. Thank you for taking my question. We'd like to come back a little bit on the option of eventually reversing some of the impairments, particularly on Sunrise Wind 2.8 billion. I think that if you go to the RFP and I understand that it's going to be with a higher price, more likely close to the one that has been achieved by some of your peers two weeks ago. In that case, is it correct to consider that it would be a relatively nice likelihood that you could reverse your impairments? Because you would have enough returns in this project with these prices in order to avoid keeping it in your books. And with the same reasoning, considering that you took the FID on Revolution Wind at 3.3 billion impairments in the in the 28.4 billion impairments. Shall we consider that this one in the opposite are a bit written in stone at the moment? Contrary to the Sunrise Wind one going a bit further on this topic as well. I was wondering if you could eventually elaborate and discuss a little bit with regards to the bid of your peers two weeks ago with NYSERDA, where some of them got $145 on average. And was wondering if you bid something with Sunrise Wind and this one and if yes, why you were not successful in this one. Thank you very much.

Daniel Lerup, CFO

I'm not sure. Sorry I didnt get the question. Could you start out just with the Sunrise part where you talked about the 2.8 billion DKK? What was the question on that and the 3.3 on Revolution.

Louis Boujard, Oddo

Yes sure. On the 2.8 billion. The question is, if you go to RFP and get a better price, what would be the likelihood that you could reverse this impairment of 2.8 billion on Sunrise Wind? Because if you have a better price, maybe you have also a possibility to reverse this impairment.

Daniel Lerup, CFO

So, in the 2.8 on Sunrise, we are assuming this 50% probability on being able to rebid at a price similar to the petition price. And since we've used a 50% probability, that means that we have an equal upside and downside from that of 1.4 billion DKK. So, a reversal of 1.4, if we get it at that price, and if we don't get it, it will be a further impairment of 1.4. And you don't have that dynamic on Revolution because that's not a rebid. That's a project we've FID'd now with the existing OREC contract.

Louis Boujard, Oddo

Okay. And then on the follow up again to the NYSERDA decision. Did you bid something with Sunrise Wind 2 on this one two weeks ago? And if yes, what do you think about the pricing?

Daniel Lerup, CFO

So yes, we did bid with our Sunrise 2 project but was not successful in the third auction round. What we however find a lot of comfort in is that we've seen the PPA prices go up quite significantly compared to previous auction rounds, which is of course a very good indication that there's a willingness to pay from the states. And that competition is also becoming more, one could argue, rational in pursuit of value creation in the bids. That also helps us in getting comfort around the good probability of being able to bid in with a competitive price for Sunrise 1.

Louis Boujard, Oddo

Okay. Thank you.

Operator

The next question is from the line of Chris Liang from Federated Hermes Limited. Please go ahead. Your line will now be unmuted.

Chris Liang, Federated Hermes Limited

So, my question is from the credit side, it's on the hybrid bonds that you've got outstanding. So, just given the news of provisions and the cash impact that will have and that you're committed to paying dividends. I wanted to know kind of what your plans were with regards to the hybrid, most specifically, the one that has a call date in 2024. Are you committed to the hybrid market and are you planning to call that in 2024, or will you keep that outstanding given the recent news? Thank you.

Daniel Lerup, CFO

Committed to the hybrid capital market, and we see it as a key pillar in our funding mix. And we are still pursuing a refinancing in 2024.

Chris Liang, Federated Hermes Limited

Brilliant. Thank you very much.

Operator

Due to time constraints, we are not able to take any more questions at this time. So, I will hand it back to the speakers for any closing remarks.

Mads Nipper, CEO

Yes, thank you very much for joining and I appreciate all the questions. And as always, if you have any further questions, please don't hesitate, our IR team will be here to answer them. Thank you very much.