Ørsted Q2 2023 Earnings Call
Transcription

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PRESENTATION

Operator

Welcome to this Ørsted earnings call for Q2 of 2023. 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. Today's speakers are Group President and CEO, Mads Nipper, and CFO Daniel Lerup. Speakers please begin.

Mads Nipper

Thank you very much and welcome to this call.

Before diving into the highlights of our second quarter, I would like touch upon the numerous extraordinary weather events relating to climate changes across the globe that we've seen over the past months, including 17 straight days with global temperatures hotter than any prior days on record. These events have once again illustrated the fact that urgent investments are needed into green transformation of the world's energy systems and that they are needed more than ever. Let me reiterate how vital it is that governments and decision-makers around the world address and reduce the industry risks facing the renewables sector. The offtake frameworks and contracted power prices must reflect the realities of the inflationary environment within the renewables sector. Otherwise, the necessary investments in renewable energy are at risk of either slowing down or simply not happening. At Ørsted, we continue to take an active role in our continued work and engagement with governments, stakeholders, and suppliers to ensure the viability and sustainability of our industry. But the clock is ticking and what we are seeing this summer is only the beginning.

All of this emphasized that Ørsted's vision of a world that runs entirely on green energy is more relevant than ever, which takes me back to where we left before summer, our Capital Markets Day, which we hosted in June in London. It was a great pleasure for me and the executive team to meet and engage with so many of our analysts and investors in person, and I'm pleased with the feedback that we have received from the financial market following our CMD.

At the CMD, we reiterated our ambition of approximately 50 GW of installed renewable capacity by 2030, which we will achieve through investments of 475 billion DKK into projects where we will continue to target an industry leading value creation target of 150 to 300 basis points spread to WACC. Furthermore, we extended both our EBITDA and ROCE targets towards 2030, both of which implies higher growth and returns compared to our previous targets. Finally, we extended our dividend commitment to 2030 on the back of our strong balance sheet with a fully self-funded plan to uphold and protect our credit rating. We will utilize our unique position and capabilities to become one of the largest electricity producers in the renewable space. And all of Ørsted's employees remain determined and dedicated to continuing our journey towards becoming the world's leading green energy major by 2030.

Having revisited this strategic direction towards 2030, let's turn to slide four and the highlights of our second quarter.

I'm pleased to note that we have had a strong financial performance in the first six months of 2023. We have realized an EBITDA of 10.2 billion DKK, excluding new partnerships, which keeps us fully on track to deliver our full year guidance. Compared to our initial expectations, we now expect higher earnings within our offshore business and have seen offshore sites earnings increase by 57% compared to the first half of last year. Our onshore earnings are fully in line with our expectations at the start of the year., while earnings expectations in bioenergy are lower driven by decreasing power prices. In 2021 and 2022, we saw exceptionally high earnings from our CHP plants due to the extraordinary market conditions and the 2023 earnings outlook remain at a higher level than what we have seen in the past, highlighting the continued attractiveness of this business.

Just a few weeks ago, we divested our remaining 25% minority interest in London Array. This transaction demonstrates the continued significant appetite for offshore wind as an asset class, and the divestment was secured with an attractive NPV retention of more than 100%. And with this divestment, we continue our unrivalled track record of efficiently recycling capital to help fund our ambitious investment program. The transaction is expected to close later in August.

On the strategic side, let me start with our portfolio of awarded projects in the US. We received the federal record of decision for New Jersey's first offshore wind farm, Ocean Wind 1. With this milestone, Ocean Wind 1 remains on track to begin offshore construction in 2024. We are also pleased that New Jersey has enacted a law that allows Ocean Wind 1 to access and retain all federal tax credits without any additional cost to the New Jersey ratepayers. And as communicated at our CMD, this an important and necessary step to ensure the project's viability and the continued progress towards a final investment decision.

In May, we broke ground on Europe's largest e-methanol project, FlagshipONE, in Sweden. The ground-breaking of FlagshipONE both marks the construction start of the project, as well as the first steps in a new green era of shipping, where large scale methanol production facilities will supply a constantly growing fleet of methanol powered vessels. Once FlagshipONE will start production in 2025, it will produce 50,000 tonnes of e-methanol yearly. Currently over 110 e-methanol vessels have been ordered or are in operation already, up from 80 vessels at the end of 2022. At the same time, new regulations such as Fuel EU Maritime is also increasing the demand for green maritime fuels.

And just a few days ago, we reached a major milestone for the German program as the first foundation for Gode Wind 3 was installed. Gode Wind 3 is being constructed in tandem with our Borkum Riffgrund 3 Offshore Wind Farm, and combined they will have a capacity of around 1.1 GW. The German projects are a clear example of Ørsted's continued leadership in offshore wind. Gode Wind 3 will pioneer Siemens Gamesa's 11 MW turbine and Borkum Riffgrund 3 is the world's first zero subsidy offshore wind farm that has been enabled by corporate PPAs with key corporate partners. We are progressing according to plan and expect commissioning in 2024 and 2025, respectively.

The Danish Energy Agency has awarded us a 20-year contract for the carbon capture and storage project Kalundborg Hub in Denmark. As part of the project, we will establish carbon capture technologies at our Asnæs power station and Avedøre power station. The CHP plants will begin to capture and store biogenic carbon during 2025 and will reach full capacity of approximately 430,000 tonnes of biogenic CO2 a year by 2026. In direct support to the project, Microsoft has agreed to purchase 2.76 million tonnes of high-quality durable carbon removal over 11 years from the capture and storage of biogenic carbon. This represents one of the world's largest carbon removal offtake agreements by volume to date. The project has a strong business case that will increase the value contribution of our CHP plants and bring learnings that can be leveraged within our Power-to-X development.

Additionally, the project will be a significant contribution to realizing the Danish state's climate targets for 2025 and 2030.

We've also continued our industry leading sustainability efforts with a number of important milestones. On World Ocean Day, we announced the first ever issuance of a blue bond by an energy company. The €100 million private placement will finance activities that protect and restore marine and coastal biodiversity, as well as develop green ocean fuels that can enable decarbonization of ocean vessels. We are pleased with the strong interest from investors who recognize the opportunity to align their investment strategies with sustainability objectives and support a positive impact to conserve marine resources.

Further, we have announced a pioneering sustainability partnership with Vestas towards net zero wind farms. Under the partnership, we will procure low carbon steel turbine towers and blades made from recycled materials in joint offshore wind projects. And by committing to integrate sustainable procurement in all future offshore projects between the two companies, Ørsted is creating ongoing demand for Vestas innovative low-carbon and circular solutions.

Finally, we announced a ban on landfill of solar panels with immediate effect. In addition to our existing ban on landfill of turbine blades. As the world's first energy developer committing to reuse or recycling all solar panels from our global portfolio of solar farms, we are addressing the most critical waste problem of the solar industry while mitigating social and environmental impacts of the supply chain.

Let's turn to slide five, where I will walk you through the significant progress that we have achieved within our offshore wind pipeline.

During the quarter, we have added more than 3 GW of capacity to our substantiated pipeline through two separate achievements. In the US, we signed an agreement to acquire Eversource's 50% interest in the uncontracted federal offshore wind lease area on the US East Coast. Compared to the New York Bight lease auction, the lease area was acquired at a significantly lower price and has better wind conditions as well as shallower waters. And we are now in full control of the uncontracted seabed with a potential capacity for up to 4 GW.

In Denmark, we were pleased with the government resuming the processing of some of the open-door applications and that Vikinge Banke, our 1.1 GW partnership project with CIP, was one of them. While we hoped more projects would have been allowed to progress, we are pleased that we can mature a sizable project in Danish waters that will help Denmark achieve its ambitious renewable targets. These additions bring our total substantiated pipeline to 14.4 GW (corrected and aligned with number in presentation). This very sizable land bank allows us to remain financially disciplined, focus on the most value creating opportunities and ensure that we are not forced to pay record high prices for access to seabed.

During the quarter, we also received a number of important achieved a number of important milestones within our offshore wind portfolio. In the UK, we were delighted to confirm that Hornsea 4 offshore wind farm has been granted its development consent order. With a capacity of up to 2.6 GW, the project will by itself be one of the world's largest offshore wind farms and be part of our Hornsea zone with a total capacity of more than 7 GW.

In Ireland, we have signed an agreement to jointly develop an Irish offshore wind portfolio in a landmark deal with Ireland's leading utility, ESB. With this agreement, Ørsted becomes partner in a pipeline of offshore wind development projects with a potential to deliver up to 5 GW of renewable energy and complementary renewable hydrogen projects. With a maritime area more than ten times the size of its land mass, Ireland is ideally positioned to grow an attractive offshore sector.

In Poland, we recently won another 210 MW of awarded capacity together with our partner, PGE. We are exploring whether we can construct the additional capacity together with our Baltica 3 project and thereby get a larger project which would benefit the business case.

With our industry leading offshore wind pipeline, which also includes a very significant opportunity pipeline of more than 60 GW, we are able to pursue multiple avenues for growth towards our 2030 ambition of 28 GW of installed offshore wind capacity. We have the unique capabilities to participate in full scope development auctions, centralized tenders as well as greenfield development and open-door opportunities. And with this total opportunity set, we will continue our financial discipline to ensure we find the best way to the most value creating green electrons for Ørsted.

Let us turn to slide six and focus on the recent auction and tender developments.

In Germany, we witnessed record high concession payments for the recent offshore wind tender. With our focus on capital discipline and significant pipeline of opportunities, we very deliberately chose to step out of the auction in due time. And with this outcome in mind, we urge European governments not to tender out offshore wind capacity through uncapped concession payments in order to avoid unsustainable price levels for offshore wind. Despite the outcome, we continue to view Germany as a key strategic market with our portfolio of more than 2.5 GW offshore capacity in operation and under construction. In the coming years, we will see more offshore wind being tendered out across core European markets than ever before. And we will continue to pursue the right opportunities for us while adhering to our strict focus on value creation.

Moving to the US where were disappointed that Rhode Island Energy did not select our Revolution Wind 2 project which would have put Rhode Island's 100% clean energy future in reach while delivering renewable energy to hundreds of thousands of homes and contributing with more than $2 billion in direct economic benefit to the state. We continue to assess our options in Rhode Island and elsewhere to determine a potential path forward for the Revolution Wind 2 project.

In New York, NYSERDA recently announced an additional repricing round for New York 3 submissions and indicated an award would be made in Q4 of 2023, with contracts executed in Q1 of 2024. We very much appreciate the clarification the latest timeline and are glad to hear NYSERDA is making good progress towards this award. We believe our proposal for Sunrise Wind would offer substantial economic benefits, job and workforce development, supply investment and environmental justice outcomes to the state of New York.

We remain confident in our ability to secure projects that can fulfil our ambition of approximately 28 GW of installed offshore capacity by 2030. And just looking 18 months ahead, we see up to 50 GW offshore capacity to be tendered, which illustrates the huge growth potential of the offshore wind industry. Ørsted has an industry leading renewables pipeline of more than 100 GW and we will stay disciplined in our bidding approach for new tenders and select the most value creating opportunities.

Let's now turn to slide seven, where I'll update you on our projects under construction, as well as our awarded project portfolio.

At Greater Changhua 1 & 2a, we have successfully installed all export cables, array cables and jacket foundations. 14 wind turbines remain to be installed and currently 82 turbines are producing green energy for Taiwan. The construction work is progressing and depending on weather conditions, we aim to commission the project in the second half of this year.

At New York's first offshore wind farm, South Fork, the team has reached a huge milestone by successfully installing the first ever American built offshore wind substation, as well as oil foundations for the project. These fantastic achievements mean that the 130 MW project is on track to become the first completed utility scale offshore wind farm in the US, with expected commissioning by the end of 2023.

In our onshore business, we are constructing the 201 MW sunflower wind along with projects in Germany, France, Ireland the UK. Additionally, we are constructing the combined solar PV and storage plant Eleven Mile as well as a solar PV Farm, Mockingbird. At the Helena Energy Center, the delivery of modules has resumed, and we expect to commission the project no later than first half of 2024.

Within our awarded and contracted portfolio, we continue project development optimization across our portfolio of 10.6 GW. In Q2, we were awarded an additional 210 MW of seabed together with our partner PGE in Poland. The capacity will be developed together with Baltica 3 and brings our total capacity in Poland to 2.8 GW. And in the UK, we continue to progress our Hornsea 3 project towards FID before year end. And with this, let me hand over the financials to you, Daniel.

Daniel Lerup

Thank you, Mads, and good afternoon, everyone. Let me start with slide eight and the EBITDA for the second quarter of 2023.

For the group, we realized a total EBITDA of 3.3 billion DKK. Despite significantly lower power prices as well as lower wind speeds across our portfolio, we have continued the positive earnings performance within our offshore business, where our earnings have increased 56% compared to last year. Let me talk you through the key developments in our EBITDA for the quarter.

For our offshore sites, earnings increased by 1.1 billion DKK, mainly driven by a total positive impact from ramp up generation at greater Changhua 1 & 2a, as well as higher power 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. On wind speeds, we saw a negative earnings impact of around 0.5 billion DKK compared to last year, as they were both below the norm as well as last year's level. Finally, last year had a negative impact from being overhedging primarily related to Hornsea 2.

Within our existing partnerships, we had a positive result from adjustment of provisions towards partners, partly offset by a reduction in earnings from our construction agreement on Greater Changhua 1 due to higher costs and later commissioning of turbines.

Turning to onshore, the installed capacity increased with 15%. However, earnings from the ramp up of these new assets were offset by significantly lower power prices as well as lower wind speeds. The financial development follows our expectations at the beginning of the year.

For our combined heat and power plant, we saw lower earnings driven by lower spreads for power condensing generation, primarily due to significantly lower power prices and higher fuel costs compared to last year. During 2022, we signed a number of fuel sourcing agreements as a precautionary measure in a very tight market. Due to the very high demand, these agreements had higher fuel costs than what we have seen historically. And as we apply the 'first in, first out' accounting principle to our fuel inventory, we saw significantly higher input costs. This in line with our expectations at the start of the year. However, lower power prices have led to a decline in earnings. Within our gas business, we saw lower earnings compared to last year, which was mainly driven by a temporary negative effect from revaluation of our gas at storage during the quarter.

Let's turn to slide nine. For Q2 2023, net profit totalled a -0.5 billion DKK. Compared to last year, the decrease was driven by lower EBITDA and higher financial expenses, driven by a negative impact from exchange rate adjustments. These FX adjustments primarily relate to internal loans and receivables between the parent company and our subsidiaries. When the exchange rate moves, the difference in the DKK amounts of these intercompany loans is recognized in the P&L, but do not impact the cash flow on net interest-bearing debt at the group level. To give an example, our UK subsidiaries currently have a cash position through our internal bank. As we have seen the GBP appreciate during H1 2023, the value of the cash position of the subsidiaries has increased when it is translated and consolidated into DKK. The parent company's debt has to match the increase in the cash position of the subsidiary. The net interest bearing assets and liabilities thereby increase by the same amount and do not affect the group's net interest-bearing debt.

Our return on capital employed came in at 13.2%, which is a slight decrease compared to last year, driven by a lower EBIT over the 12-month period and higher capital employed. The current ROCE level is in line with our long-term financial guidance presented at our Capital Markets Day as we expect to achieve an average ROCE of around 14% towards 2030.

Our equity was 103.5 billion DKK in line with the level at the end of Q1. Throughout the second quarter of 2023, we saw a further reduction in our negative hedge reserves driven by lower power prices and hedge run offs.

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

At the end of Q2 2023, our net debt amounted to 43.9 billion DKK, an increase of 8.6 billion DKK during the quarter. Our cash flow from operating activities was positively impacted by EBITDA and a net cash inflow from collateral postings amounted to 3 billion DKK, which was driven by the reduction in forward power and gas prices. By the end of the quarter, we had posted a total of 6.8 billion DKK in collateral payments related to our energy hedges. Based on the current forward curves, we expect around 3 billion DKK of additional collateral to unwind by the end of 2023.

For the quarter, our gross investments totalled 7.5 billion DKK, primarily driven by our investments into construction of renewable projects. Additionally, we had a 2 billion DKK cash outflow relating to our acquisition of PSEG's 25% minority interest in Ocean Wind 1. As the transaction was a non-controlling shareholder, it is part of the divestment cash flow in our accounts.

Our key credit metric, FFO to adjusted net debt, stood at 18% at the end of second quarter. The metric has decreased since the end of the first quarter, mainly driven by a lower FFO for the 12-month period impacted by large negative effects from reversal of unrealized market trading results and ineffective hedges, especially in Q4 2022. Towards year end, we expect to end above our threshold of 25% as we expect higher operational earnings in the second half of 2023 compared to second half of 2022, partly driven by exclusion of the negative hedge effects from Q4 2022. Likewise, our credit metrics will improve as a result of the divestment of London Array, as well as the sale of the transmission asset related to Hornsea 2.

Turning to slide 11 and our non-financial ratios. For the second quarter of 2023. Our taxonomy eligible metrics are in line with expectations.

Green share of energy came in at 92%, which is the same level compared to last year. The decrease in the use of sustainable biomass generation was due to the increased use of coal-based generation at Studstrup Power Plant following a fire in the wood pellet silo in the fall of last year. However, this has been fully offset by increased offshore wind and solar based power, as well as heat generation from heat boilers at the combined heat and power plants driven by sourced certified green power.

On safety, we have seen a positive development as the number of recordable injuries have decreased compared to last year, both for our own and contractors' employees. We constantly monitor our safety performance and implement relevant and effective actions where and when needed.

Finally, let's turn to slide 12 and our outlook for 2023.

We reiterate our full year 2023 EBITDA guidance of 20 to 23 billion DKK. Compared to the guidance provided at the beginning of the year, we now expect even higher earnings from offshore, whereas we expect earnings for our combined heat and power plants to decrease by approximately 4.5 billion DKK compared to 2022 rather than our previous expectation of approximately 3 billion DKK.

We have lowered our gross investment guidance for 2023 by 6 billion DKK to the range of 44 to 48 billion DKK, primarily due to timing of investments. In addition to our gross investments, we expect to spend approximately 6 billion DKK on acquiring both PSEG's minority interest in Ocean Wind 1 and Eversource ownership share in Lease Area 500. As such, the full year cash outflow for investments in 2023 remains the same as expected at the beginning of the year.

With that, we will now open for questions. Operator, please.

Q&A

Operator

Thank you. This concludes the presentation. I will now open up for questions. This call will have to end no later than 4:30. Please respect only one question per participant and then you can re-enter the queue for another question. If you do wish to ask a question, please press five star on your telephone keypad. To withdraw it, you may do so by pressing five star again. We will have a brief pause while questions are being registered. The first question will be from the line of Kristian Johansen from SEB. Please go ahead. Your line will be unmuted.

Kristian Johansen, SEB

Yes, thank you. So, my question is regarding the outlook for offshore wind. So, you mentioned Rhode Island's decision not to award the Revolution Wind project a contract. We saw Vattenfall cancel their UK project, and we've seen Iberdrola cancel project in Massachusetts. So, just curious to hear your thoughts on the risk of sort of massive delays to the global offshore wind buildout and also what your dialogue is with policymakers. Do they understand that they actually need to pay more if they are to meet their targets in offshore wind?

Mads Nipper, CEO

Yes. Thank you very much, Kristian. And indeed right. It has been an eventful summer with Vattenfall's decision and Rhode Island. We remain very confident of the scalability of the offshore market. But we also have communicated at our Capital Markets Day a very realistic view that there are challenges that need to be overcome and they are not small both in the industry and in dialog with the regulators. We think it is good that the industry is showing financial discipline, like for example pulling a project, because that is a very stark reminder to for authorities, in this case the UK, that prices need to be different, and the auction frameworks need to change. But we are generally confident that there will be a move that will advance offshore. But it is a setback, no doubt. But both the regulator dialogs, but also everything we can do as Ørsted and as an industry to move us forward is something that will take significant work to happen, but which we are confident we can do.

Kristian Johansen, SEB

Great. Thank you.

Operator

Thank you, Kristian. The next question will be from the line of Harry Wyburd from Exane. Please go ahead. Your line will be unmuted.

Harry Wyburd, Exane

Hi. Thank you very much for taking my question. I just wanted to dig a little bit into the offshore results in Q2 and just understand the moving parts behind the improved outlook for the full year. So, how much of this improvement is being driven by just bringing things forward? So, for instance, the ramp up of Greater Changhua, so things that wouldn't lead us to adjust our 2024 estimates and how much is coming from factors that are sort of genuinely new since Q1 that might be more recurring. So, if you could break it down a little bit, the upgrade to the full year guidance for offshore. Thank you.

Daniel Lerup, CFO

Thank you for the question, Harry. So, you can say basically what has a nature for being a more changing element in the earnings or non-recurring element is of course the effect we have from the partnership gains in the quarter. But other than that, the lion's share of the earnings increase that we are seeing on the sides is basically due to the fact that we are now seeing a much more normalized level of the different components that had a very volatile development back in 2022, for example transmission charges, balancing costs, hedge levels and so on. So, to a large extent, we are quite close to a normalized level. And the key developments going forward will be the continued ramp up on Changhua and later the German projects to give an example of a couple of construction projects. The further upwards adjustment to inflation our inflation index contracts, and then of course we also seeing a fairly negative wind impact this quarter in the Q2 results. And we know that will normalize over the years.

Harry Wyburd, Exane

Okay. Thank you. Maybe just to follow up slightly. So, on the volatile components you mentioned like the balancing services and so on, is this a case that they're coming down quicker than you expected those costs or are they coming down to a level that is better than you expected? Because that's sort of important as we look to next year. We just sort of bringing forward earnings that you're expecting next year anyway, or is this something that's sort of genuinely better than what you kind of had in your budget for the next couple of years?

Daniel Lerup, CFO

No, it's very much in line with what we also had expected at the beginning of the year. So, the key drivers for seeing a better offshore earnings than expected is our continued focus on cost discipline and prioritization of the project development activities as we also talked about at the Capital Markets Day. So, we will see the lower spend there. And then also due to these divestment gains where it's also trending a little bit better than what we expected at the beginning of the year.

Harry Wyburd, Exane

Very clear. Thank you. I'm sorry for taking so much time there.

Operator

Thank you, Harry. The next question will be from the line of Jenny Ping from Citi. Please go ahead. Your line will be unmuted.

Jenny Ping, Citi

Hi. Thanks very much. Just following on from Harry's question, I can see in your Q2 numbers you've booked a provision release, it looks like, of 1.2 billion DKK within the construction and disposal gains category within offshore wind. Obviously, that's offset partially by what it looks like to be continued construction losses that's coming from Taiwan. Can you just confirm that I'm reading this correctly and then talk to us about the expectation for the rest of the year on those moving parts. Are we expecting more provisional releases coming and more construction losses coming? Thank you.

Daniel Lerup, CFO

So thank you, Jenny. We are not expecting that you should see big swings on provision adjustments in the second half of the year. As you know, we have divested the offshore transmission asset on Hornsea 2. So, here you will have an effect on the construction or the divestment gains in the second half of the year. And you will also see an impact from the divestment of London Array. The 1.2 billion for Q2 is correctly understood driven by adjustments of provisions and also a settlement of some provisions relating to previous farm downs that we have done, where we have now gotten more certainty that it won't have a negative impact on our earnings. And then we've been able to settle some wake loss compensations that are at a better level than what we had expected.

Jenny Ping, Citi
Thank you.

Operator
Thank you, Jenny. The next question will be from the line of Alberto Gandolfi from Goldman Sachs. Please go ahead. Your line will be unmuted.

Alberto Gandolfi, Goldman Sachs
Thank you and good afternoon. I apologize in advance because a bit convoluted, but there's really a lot going on in this quarter. Just a couple of months after the CMD. So, one thing, again, starting from the point of view that some of your competitors are showing discipline in walking away from projects that are not profitable and considering your FFO to net debt right now is below your 25% threshold, it's below 20%. My question is, is this leading you to rethink some of the FID on some of the US projects? I understand the idea of not walking away as long as everything is moved, but we're beginning to see Rhode Island potentially not happening. Some unrest in New Jersey. The New York authorities almost inviting to lower the bids. So, is there almost like a breach of unwritten contract here between you and the authorities there that could lead you to perhaps focus on new bids with better returns and swap some of the existing backlog? If I'm not mistaken, you need only to win 6GW and deliver 6GW that are not already secured between now and 2030. Why don't you give up on some of your projects and try to win maybe a little bit more than 6 or maybe downgrade a bit the long-term guidance, but just deliver more value creation and relax a bit the pressure on the balance sheet. I know we just had the CMD, but just as Mads, as you said, very eventful summer. So, can you help us understand the way you're thinking on an ongoing basis about these issues?

Mads Nipper, CEO
Yes. Thanks a lot, Alberto. Certainly, a nice, convoluted question, but I will address it. So, our clear focus because as Daniel said, with the outlook we have right now, including the planned investment program, we are trending that we will get back above the 25% FFO to net debt. So, it is not the credit that is driving our investment decisions. It's the value creation of the projects as we communicated at the CMD and that we are holding to exactly the same standards as we talked about in June, meaning that it is our targeted range that we are clearly shooting for with the exception of the near term US projects where due to the level of sunk cost, we take the liberty of looking at the forward looking business case. And like you said, it has been a super eventful summer. But we've also seen some good things. I mean, we have gotten the record of decision for Ocean Wind 1, so the permitting is moving along. We have gotten the law of pass-back, which was one of three critical assumptions behind what we said about our US portfolio. That is now done, and we continue to have good dialogues about the OREC adjustment in New York for our Sunrise Wind 1 project as well. So, we actually think things are moving ahead and there's nothing, for example, in the Vattenfall decision about the Norfolk Boreas project that has changed anything about our view on Hornsea 3 either. So, I will say that we remain in a situation where what we said we wanted to do, is still on plan.

We are achieving some milestones. We are still working towards the FID, as mentioned on Hornsea 3. So, given where we are, especially on the US projects and the rest of our portfolio, we see no positive value creation impact by walking away from projects and pursuing new.

Alberto Gandolfi, Goldman Sachs
Thank you.

Operator
Thank you, Alberto. The next question will be from the line of Casper Blom from Danske Bank. Please go ahead. Your line will be unmuted.

Casper Blom, Danske Bank
Thanks a lot. I'd like to come back to the offshore division and the update on your guidance. So, as I understand it, you are seeing 1.5 billion lower earnings within the CHP plants and then say that is more or less made up for by the offshore division. There's a positive on the farm down related income. And then there is also an effect from lower development costs. Could you give us any kind of guidance as to where we should expect development costs to end up for the full year and also for the following years? And maybe also a little bit of an update on how do you actually prioritize? I understand that there's a lot of projects out in the world, but why is it that you've now come to that decision that we will actually cut back on costs into development? Thank you.

Mads Nipper, CEO
Yes. Thanks a lot, Casper. So, I mean, on development costs, we actually think that's a natural consequence of the very strong prioritization that we communicated at our Capital Markets Day. So, in essence, we said that were stopping development activities in a country like Vietnam. And we are also being very selective on where we engage to really focus on the most value creating opportunities. So, you could say that we are actually being more focused, which also means that even though there's still a huge opportunity, bear in mind that many of the opportunities that we have are either somebody that we have already up to now spent quite a bit of resource on our historic devex [00:44:39], and at the same time, many of the opportunities we'll be following will be centralized tenders with very limited product development costs as well. So, we think the without being very specific on where it will end this year or next year, we think it's a natural consequence where what we are spending, which is lower than we had thought in the beginning of the year, is something that fully supports the pipeline that we need to deliver what we promised.

Casper Blom, Danske Bank
Understood. Could you give us any kind of help like, you know, are we sort of back at the '21, '22 levels of Devex?

Mads Nipper, CEO
No, we prefer not to be specific about that.

Casper Blom, Danske Bank
Fair enough. Thanks, Mads.

Operator
Thank you, Casper. The next question will be from the line of Vincent Ayral from JP Morgan. Please go ahead. Your line will be unmuted.

Vincent Ayral, JP Morgan
Yes, Good afternoon. Thank you for taking this question. I'd like to come on the hedging. I can see on the presentation that you keep talking about costs on overhedging. At the start of the year, we could see you had reduced the overhedging from 95 to 90%. So, I'll be interested in getting a bit more clarity on where we are now on that one. And the CHP accounting. The CHP accounting, when we look at it, there could be like two sort of understandings there. One is you sell at the dispatching price. So, basically you lock in spot price on power. But on the OpEx side, the fuel cost a year ago when you bought it. So, there would be a mismatch and that would not be reflecting a proper hedging, meaning when you have forward sale commitment at a specific power price, you match it with the few basically purchase you did at the same time. So, when you lock a margin. So, it would be interesting to understand exactly how this working. Is it just somehow a misrepresentation of classic hedging reporting in the sector? Or is it that you were just long fuel and basically you got hit as basically the power price went down and therefore the implied margins? Thank you.

Daniel Lerup, CFO
Thanks a lot for the question. So, we are progressing as planned with the hedge levels across both offshore and on group level. We are not completely where we would like to be, but we continue to see a reduction in hedge levels. And we're actually quite comfortable with the level that we are at right now. But we will see it go down further towards 2024. When it comes to our Bioenergy business and the Danish combined heat and power plants, we like from our group perspective having a fairly good open exposure on power prices given the fairly high hedge level that we have in offshore due to the considerations that the impacts we saw last year, we believe that's better from our group and our portfolio level. On your questions regarding the fuel inventory that we have. When we bid into the market, we have to make our capacity available and when we bid into the market, we do it based on an updated view on both fuel cost levels and, of course, the margin that we want to make at a given point in time when bidding in the capacity to both cover our cost, but also make an additional spread. As power prices have come down significantly and we have this very large inventory of wood pellets and coal last year, we are seeing that the spread that we are able to make from an accounting perspective, assuming the higher prices on the fuel acquired last year, that the spreads have come down quite significantly. But we expect that inventory will be used up over the year. And we had, as you might remember, in the beginning of the year, we had a fairly warm winter, meaning that we also burned less fuels due to that. So, it's taking a little bit longer than expected to use that inventory at an old price level so to say. But of course, over time this will even out, and we are still expecting quite healthy earnings from our Danish combined heat and power plants for the entire year and it's at levels that are on par or above what we also saw pre the more volatile energy markets and the war in Ukraine.

Vincent Ayral, JP Morgan
Thank you.

Operator
Thank you, Vincent. The next question will be from the line of Deepa Venkateswaran from Bernstein. Please go ahead. Your line will be unmuted.

Deepa Venkateswaran, Bernstein

Hi. Thank you for taking my question. So, my question is about key supplier, Siemens Gamesa reporting delays in their offshore ramp. And they talked about cancelling some preferred supplier agreements. Could you clarify on any of your advanced projects are impacted or whether something like a Hornsea 3, which might be preferred supplier, is impacted by the communication from Siemens Gamesa? Thank you.

Mads Nipper, CEO

Thanks a lot, Deepa. No, we can certainly say that is not something we neither have heard or are expecting to happen. So, we have good constructive dialogues. And also, over the recent past, we have signed final deals with Siemens, Gamesa, both on our Baltica 2 and on Greater Changhua 2b & 4 projects and also have good discussions about how to materialize the final agreements on the remaining projects. So, no, we are not amongst those that they might have referenced to.

Deepa Venkateswaran, Bernstein

Oh, thank you.

Operator

Thank you, Deepa. The next question will be from the line of Marc from Berenberg. Please go ahead. Your line will be unmuted.

Marc Ip Tat Kuen, Berenberg

Hi. Thanks for taking my question. Just on the gross investment guidance that was lowered, you said it was mainly due to timing. Are you able to say kind of which projects that might be related to and might it push back any kind of specific current timelines on any projects back?

Daniel Lerup, CFO

No. We don't expect this will have any impact on the timing, on the installation. It's basically spread across most of the projects that we are investing into in that time period. And it is of course very sensitive around payment schedules around the year, which can be sometimes a little bit difficult to predict. So, I'd say nothing out of the ordinary here.

Marc Ip Tat Kuen, Berenberg

Thank you.

Operator

Thank you, Marc. The next question will be from the line of Meike Becker from HSBC. Please go ahead. Your line will be unmuted.

Meike Becker, HSBC

Thank you for taking my question. It is with reference to your statement that you are confident that things will be done to change the outlook for Offshore. In my head, which would mean some things like, I don't know, government, let's say the UK or the various US states bringing back auction volumes or accelerate auction volumes or increase auction volumes in the near-term future. I mean, if you could sort of confirm that like a good way to think about it. And then what should we look out for? Or do you see anything in your discussions that would make you comfortable that the US or the UK could actually reach their 2030 targets for offshore wind?

Mads Nipper, CEO

Thank you, Meike. If I understand your question correctly, so in the UK, we do see these auction rounds every year. We have an upcoming AR5 auction round five and to schedule in the next AR6. To us, it is really not so much about what is being tendered out because the UK system, as I'm sure you're aware, is really an open system where saying how much can be afforded within the total value that is set aside. That value was increased by sort of 10-15% very recently, and then based on an administrative strike price that is then set aside how much capacity can be gained. To us whether the UK will reach their offshore targets is therefore really about ensuring that we keep strong consenting speeds that seabed becomes available, but also not least that regulatory impact both to support projects like for example, the Vattenfall project that was dropped and other projects that might be having a difficult time, but maybe even more importantly as well, that the auction frameworks support a more realistic administrative strike price and therefore realistic prices in light of the new realities. If the UK government acts on that which we hope and believe for the future auction rounds beyond the auction round five, we remain confident that the UK can reach that. But likewise, if not, it will be difficult.

Meike Becker, HSBC

Thank you. Maybe the US? Is that the same for the US. Or do we also need more volumes in the more options? Obviously, realistic prices as well.

Mads Nipper, CEO

Was that US market? You asked. The line is a little bit difficult.

Meike Becker. HSBC

Apologies. Yes, the same question for the US.

Mads Nipper, CEO

Yeah, we actually see that with the constant ambition. So, both New Jersey but also most notably and most recently Maryland have significantly upped their ambitions further, which is something that clearly demonstrates the ongoing commitment to offshore. And also, like we saw the government in New Jersey passing the law of the pass back allowances going to develop to us as a developer and New York's openness to look at this that means that we think they are they are realistically supporting what needs to get built and what is currently challenged. But also, we continue to expect that auctions will be out there, like, for example, the New Jersey 3, where bids have just been handed in significant volume. We expect Connecticut and Massachusetts to tender out significant volume early next year. So, we actually do think that the current traction is one that if the auction frameworks and the necessary support comes through, as we hope and believe, then the 30 by 30 is also still in reach.

Meike Becker, HSBC

Thank you.

Operator

Thank you, Meike. The next question will be from the line of James Brand from Deutsche Bank. Please go ahead. Your line will be unmuted.

James Brand, Deutsche Bank

Hi. Thank you for taking my question. There's obviously been a lot of cost inflation over the last couple of years, and it's a big focus for investors. But there's also a very wide range of levels of cost inflation that different people seem to be indicating. And obviously it's hard to generalize, but we probably saw LCOEs in Europe kind of bottoming around maybe 65 to €70 a MW hour for a nominal contract, obviously less for countries that have inflation linked PPAs. I was wondering whether you could give us a bit of an indication for how much you thought LCOEs had gone up. And you mentioned it's important for policy makers to be aware the extent that costs have gone up. If you're talking to a policy maker, what kind of quantum would you be indicating to them that administrative strike prices or LCOEs need to rise? Thank you very much.

Mads Nipper, CEO

Thanks, James. It's difficult to be very specific across the board because it really does in many cases, depend on what jurisdiction are we talking about. To take the more extreme example, in the US, which is a totally new market where the costs are wider, I mean, we need to establish support infrastructure and entirely new supply chains, whereas in Europe it is more about how to cover the additional cost of capital and then also the freight rate, the sub supplier and the commodities driven inflation. But it is it a meaningful double digit percentage increase that we're looking at. This also something which we believe is very clear from the PPA levels we referenced that our Capital Markets Day, what we are seeing the PPAs that we are seeing stock also onshore, and they continue to be very strong. We also saw that the Irish offshore auction was in the in the 80s. I embarrassingly forgot the specific price per MW but the 80s euro per MW. So, we do believe that there is actually a clarity of what it ought to be. But the closest I'll get it here is a meaningful double digit percentage increase compared to where it has come from a couple of years back.

James Brand, Deutsche Bank

Great. Thank you very much.

Operator

Thank you, James. The next question will be from the line of Lars Heindorff from Nordea. Please go ahead. Your line will be unmuted.

Lars Heindorff, Nordea

Yeah. Thank you for taking my questions regarding the onshore business. I'm just curious if you could help us a little bit about the expected ramp up, if anything, here into the second half compared to the first half this year. Thanks.

Daniel Lerup, CFO

So we are as expected still sticking to the COD on Changhua 1 & 2a.

Operator

Thank you, Lars. The next question will be from the line of Ahmed Farman from Jefferies. Please go ahead. Your line now be unmuted.

Ahmed Farman, Jeffries
Yes. Hi. Thank you for taking my question. As you mentioned, there's been a lot of sort of developments over the summer. So, I was hoping if we can have a quick update on the Northeast cluster. So, what are the outstanding steps to get to FID for the Northeast cluster from here onwards? And if you could also give us some sort of reminder and update us on the timeline around the FID. That would be very helpful. Thank you.

Mads Nipper, CEO
Thank you very much, Ahmed. I just want to say, we will answer your question. We just needed to check the numbers for onshore because we had offshore on our minds. But Ahmed, to your question about NEP. The major milestones here are actually very much related to what we also talked about at the Capital Markets Day. We need to get the clarity on the on the ITC levels for the individual projects since the final guidance is still not out for local content and also still need to finalize for energy community. We really still don't have the final clarity on the support level for neither Revolution nor for Sunrise. And then very importantly, as Daniel referenced for the Sunrise project, we are in the ongoing dialog with the BPU and NYSERDA in New York for the OREC adjustment, which is a meaningful adjustment that will also be really important for the project to happen. And we expect that timeline in October. So, for the remaining two projects in the Northeast program sort of expect that it will be sort of with a timeline of Q4 or latest very early next year is what we're aiming for now.

Daniel Lerup, CFO
And on the onshore side, the key asset that is going online is the is the Sunflower US project. It's a 200 MW project. So, that's an additional roughly 5% uplift to the installed onshore capacity towards the end of the year. And what we've seen so far, is an increase of installed capacity of 15% compared to last year. And then of course also very dependent on how power prices develop.

Operator
Thank you, Ahmed. The next question will be from the line of Rob Pulleyn from Morgan Stanley. Please go ahead. Your line will be unmuted.

Rob Pulleyn, Morgan Stanley
Thank you very much. May I ask on the US just following up there, you talked about the FID, but we noticed that the installation vessel from Dominion had slipped a bit. Does that impact the COD? And as a related issue to earlier, just following up, is there rationale for not restructuring the US portfolio and rebidding because the new bids may be too high for offtakers to accept what ultimately might be peak electricity prices and locked in for many years ahead. And therefore, you know do the ongoing auctions in New York and New Jersey effectively get delayed 12 to 18 months until everything's calmed down? I'd love to hear some colour on this. Thank you.

Mads Nipper, CEO
Thank you very much, Rob. On Dominion, they recently announced that the expected delay, which is obviously not something that we've just become aware of. So, we have worked closely with Dominion already for some time now, both regarding the delivery and availability of that vessel, but also potentially mitigating solutions. And we can confirm that the Northeast program, so the two projects, Revolution and Sunrise, they remain on schedule, and

we commit to start operations by 2025, so still the planned COD. And on the reconfiguration. I mean as we talked about the sunk cost for these projects, they are significant. But we also believe that with the constructive dialogs we have they are still attractive projects to go forward with if we get the tax credit and the OREC adjustment we assume. And also, then by pausing and taking an unknown risk as to what will be the future power prices, we do currently not see as an attractive alternative compared to some of the very early-stage projects from Avangrid and other colleagues in the business that have chosen to rebid with a much earlier stage.

Rob Pulleyn, Morgan Stanley
Thank you.

Operator
Thank you. The next question will be from the line of Dominic Nash from Barclays. Please go ahead. Your line will be unmuted.

Dominic Nash, Barclays
Good afternoon. Thank you for taking my question. Back to the US on this one. Is it possible to give us some colour, please, on the timeline again on who your partner is going to be in the Eversource wind? And a couple of weeks ago they wrote down their asset value of their offshore wind assets. And I was just curious as to what your impairment test is when you're doing that and when you're going to go down? And just being a bit cheeky here, but follow up from an earlier question, I think on your FIFO biomass, could you just tell us how many months of inventory you actually have sort of knocking around typically so that we can work out the mismatch in costs and revenues? Thank you.

Mads Nipper, CEO
Thanks, Dominic. We will not comment specifically on the expected timeline for Eversource. That is a matter for Eversource to comment on specifically. But it is a process that seems to progress well. And to the impairment question. I mean, as I'm sure you're very aware, we did take an impairment on Sunrise where Eversource didn't because they were using different accounting rules. And therefore, we continue to conduct our quarterly impairment. We just did and there was no reason to make any further impairments.

Daniel Lerup, CFO
Yes. And on the on the inventory in Bioenergy, the expectation is that we will have used most of the fuel that we sourced last year at the higher prices towards the end of this year. But we are of course also very much aware of the fact that we are soon going into a winter where there is, of course, a lot of uncertainty on how that is going to develop, whether it's going to be a warm or cold winter. The gas situation we've seen this week, where the gas prices have spiked significantly due to potential strikes on some of the LNG projects in Australia. So, there's a lot of nervousness in the market still, of course calmed down significantly. But we of course also need to be prepared for that. And that's why it's important that we continue to have a good inventory. But for the volumes that were bought at the very high level last year, we expect that to be used towards the end of this year. And remember, we still expect to make a healthy earnings in the second half of the year on the Danish combined heat and power plants which is a little bit more than a doubling of the results that those plants have made in the first half of the year.

Dominic Nash, Barclays:
Thank you very much.

Operator
Thank you, Dominic. The next question will be from the line of Mark Freshney from Credit Suisse. Please go ahead. Your line will be unmuted.

Mark Freshney, Credit Suisse
Hello. Thank you for taking my question. Regarding asset sales, Daniel, I mean, you alluded to potential opportunistic sales below 50% at your CMD, and you've done that with London Array for a very attractive multiple. Can you talk through the process that you take when you decide to do some of these sales and whether there would be any more of these opportunistic sales? And given I was so far back in the queue, may I ask another question? Can you give us an update on the farm down for Gode 3 and 4 and Greater Changhua 4 and Hornsea 3? Thank you.

Daniel Lerup, CFO
Yeah. Thanks a lot, Mark. And yes, I very much agree. It was a good transaction that we made on London Array. And it's good to see that there is a lot of demand out there for offshore assets and also at very competitive prices. We are, as always, in the market with a number of transactions, and both in the US and APAC and Germany, we continue to see demand on the on the various assets that we are looking to farm down. When it comes to your question around the opportunistic farm-down below the 50%, London Array was a good example of that. We don't have at the moment more like that, but we can end up in situations where it might make sense due to partner considerations to go below 50%. We saw that in the in the partnership that we had in Japan. There are other countries where our partners would very much like a project financing, which we normally don't do, where it might make sense to do further farm down. So, it's very much a case-by-case assessment that we do. But the assets that we are focusing on right now is more of a classical down to 50% farm down.

Mark Freshney, Credit Suisse
Thank you.

Operator
Thank you, Mark. The next question will be from the line of Ingo Becker from Kepler Cheuvreux. Please go ahead. Your line will be unmuted.

Ingo Becker, Kepler Cheuvreux
Thank you. Good afternoon. On the guidance you're effectively saying a precisely versus your previous guidance that bioenergy will be down 1.5 billion and more or less, that is actually going to be offset within the offshore segment. I was just wondering on that incremental 1.5 positive in the offshore segment, how much is related to that timing delay and the lower Capex that you're doing, i.e., how much of that is project development and costs later and how much of that should be attributed to your sites EBITDA? Next to that, I would be interested in your comments on the German seabed auctions. Apparently, you talk about a realistic auction price, which in the end is what someone pays for it. And I think most observers would agree that what we've seen there is a very punchy price. Do you see renewed competition here from certain industries in your bidding process going forward?

Daniel Lerup, CFO

Yeah. Thanks a lot for the questions. And I'll start with the guidance part. And it is correct that we are expecting to see higher earnings in offshore than what we indicated at the beginning of the year. But we have on purpose not said that it's the exact same as the lower earnings that we expect to see in Bioenergy. So, there's still some uncertainty whether it will be a full netting of that. But we are expecting lower project development cost. We don't want to provide further details on that, but lower than what we expected at the beginning of the year. And then also on the partnership side, the earnings coming from that, we expect to be a bit higher than what we thought at the end of the year.

Mads Nipper, CEO

Yeah. I will comment on the German auctions and, and let me say, as we also said in the beginning, we believe that the price levels that were paid are unsustainable for value creation of the projects. It's fundamentally it's a good thing that the oil majors are active and ambitious in renewables. We need that. But in this case, the prices paid is something we don't believe is realistic for projects that least should live up to the value creation hurdles that we have. Rather than saying that some individual companies have done something wrong, the fundamental challenge here is that the auction framework where this auctioned away, purely based on uncapped concession payments, is one that really adds to a challenged situation. In this case, it increases the risk of whether these projects will be built on time. And potentially even worse. If they are, that would mean that the prices for the green energy would be so high that essentially, it would be a disadvantage for energy consumers and European industry. So, what we continue to do both publicly but also very much behind closed doors is to encourage governments to change that, because these negative subsidies will ultimately end up being paid by somebody because it cannot come from a supply chain that is already challenged in order to finance the scaling that it needs to have. So, this is a really important point dear to our hearts. We are less concerned as an individual company because we have so many ways to reach our committed capacity. But for the industry as such, it's a major issue, where right now many governments are working against what it takes to reach the very ambitious targets for offshore in Europe.

Ingo Becker, Kepler Cheuvreux

Thank you very much.

Operator

Thank you, Ingo. The next question will be from the line of David Paz from Wolfe Research. Please go ahead. Your line will be unmuted.

David Paz, Wolfe Research

Hi. Thank you. Just going back to New York, what has the regulatory and intervenor feedback been to your request for Sunrise? Do you anticipate a settlement? Is there a settlement conference on the schedule or just any colour you can give us there? And just related to New York, what was the reason or the rationale behind NYSERDA's request to seek lower rebids? Thanks.

Mads Nipper, CEO

Yes. Thank you. As we said, there's a constructive dialog with the authorities in New York. And I'm sure, as you also noticed, our friends from BP and Equinor have filed a similar petition for the OREC adjustment. And this something that already before it was done was discussed very actively and openly with NYSERDA. So, there's a joint recognition that something needs to happen in order for these projects to be built, which is a really good sign. So, this not anything that's a surprise to the state of New York or the NYSERDA and all the BPU. We have encouraged that this is dealt with at the October BPU meeting, but obviously it's their decision. But this is where we do expect the outcome. And there is an ongoing dialogue to clarify what the petition is about and what it takes to qualify. So, we remain exactly as optimistic about a positive outcome of this as we did when we introduced it at our Capital Markets Day. And then briefly about NYSERDA's request for repricing. Without going into any kind of detail, we actually believe that the underlying reason is due to a quite complex auction framework. We actually believe that some of the bids from other players, not ourselves, might actually have turned out to be not fully compliant, which made this an opportunity to hand in compliant bids rather than somebody believing that there would actually be lower bids coming in. We know for a fact that the bids we submitted were what they needed to be for us to make value creating projects. But they are also the ones that contain realistic prices to deliver the benefits to New York and the following economic benefits as well.

David Paz, Wolfe Research
Okay. So, you didn't have to rebid at a lower price your bid, your initial bid stands, I guess is the question. Whatever it may be.

Mads Nipper, CEO
Our bid is one we believe is with realistic prices.

David Paz, Wolfe Research
Great. Thank you.

Operator
Thank you, David. The next question will be from the line of Martin Tessier from Stifel. Please go ahead. Your line will be unmuted.

Martin Tessier, Stifel
Yes, sir. Good afternoon and thank you for the presentation. One question on the 25% stake that you bought back from PSEG for 6 billion DKK. Could you just remind us of the selling price you achieved in 2021 when you sold the stake to PSEG? Thank you.

Mads Nipper, CEO
I'm sorry. I simply couldn't hear the question, Martin, sorry. Could you repeat that? I don't know if there's a better way to get a better connection.

Martin Tessier, Stifel
Okay. Can you hear me now?

Mads Nipper, CEO
Yes, that's much better.

Martin Tessier, Stifel
Okay. Sorry for that. One question on the 25% stake that you bought back from PSEG for a price of 6 billion DKK. Could you just remind us of the selling price you achieved in 2021 when you sold the stake to PSEG? Thank you.

Daniel Lerup, CFO
Uh, no, unfortunately, I can't remember that amount. But we can get back to you.

Martin Tessier, Stifel
Okay. Thank you very much.

Operator
Thank you, Martin. The next question will be from the line of Michael Dean, Investor. Please go ahead. Your line will be unmuted.

Michael Dean, Investor
Thank you. Thank you very much for the opportunity for the question. Much appreciated. Two short questions on offshore wind, US New Jersey specific. You've recently been named in a couple of lawsuits since your last call. I know you can probably not talk about specific litigation, but could you talk about the legal challenges in both the US and New Jersey sort of generally that you're facing and how you're viewing them going forward? You mentioned the law that was just changed to give you the tax credit from ratepayers. That's being challenged, for one and how you're looking at that. And then my second question is specifically on Ocean Wind 1 timing for final investment decision. I may have missed it. I apologize. But if you could give any colour around that and what's holding that up?

Mads Nipper, CEO
Yes. Thank you, Michael. You're absolutely right that we cannot comment on specific lawsuits. But despite the recent lawsuit around the pass-back that was passed by the state of New Jersey, we do continue to advance the project and make the commitments financially this year as well. So, that is our plan and intent to continue to do that. But generally, around that legal situation, we do see, and bear in mind that New Jersey is not the only place that this pass-back has been enacted. That actually happened before in the state of Maryland, where a similar law was passed, because it is a very clear recognition from these states that those pass-back clauses were the state of the industry and they need to end up where they were intended to from the federal government, namely to support the implementation of the projects and not by further lowering the prices for the ratepayers. So, we keep our plans and keep our commitment to the to move the projects ahead. And specifically on the FID motion when one we haven't been very specific but that is something which is sort of upcoming within the next few months.

Michael Dean, Investor
Okay. Thank you. I appreciate the colour.

Operator

Ørsted

Thank you, Michael. The next question will be a follow up from the line of Deepa from Bernstein. Please go ahead. Your line will be unmuted. The next question will also be a follow up, this time from the line of Mark Freshney from Credit Suisse. Please go ahead. Your line will be unmuted.

Mark Freshney, Credit Suisse

Hello. Thank you for taking my question. Can I ask on current supply chain. Now I know you won't recast entire projects. It's a very long process to cost a project up to a year. But I do understand speaking to some of your competitors in the UK, that supply chain has become available in the month before Vattenfall officially pulled out and that subcontractors were more willing to talk to them. And again, it's a very long process, but I was just wondering whether indicative near-term supply costs in some cases may be getting better and whether Hornsea 3, which I think it's almost a sure thing that you could FID by the end of the year, whether that would be in a position to benefit from lower costs as well as the, you know, 25% reduction in the CFD that you've previously spoken about?

Mads Nipper, CEO

Yes. Thank you, Mark. Your general observation is right that when projects are either pulled or cancelled, obviously it frees up capacity in a supply chain that is already quite tight. So, everything else equals this is something that opens up opportunity in an otherwise very constrained market. We're not very specific on what projects, but we have gone back also to suppliers. So, it's not just suppliers coming to developers and saying we need to have a commercial discussion. We do the same thing because for some of the projects, when we say we continue to work on Capex, that also includes going back to key suppliers to have commercial discussions that can improve this. So, there are ways in which to have these commercial discussions that can improve the Capex picture without doing an entire re-costing, which would be something we only would do in rare cases where like, for example, when we say on a project that we are reconfiguring that, for example, an Ocean Wind 2 or Baltica 3, that is essentially much more like a total re-costing, whereas on the other projects we are in a constant and ongoing and dialog to say what can be done in light of the at any given time supplier environment that we find ourselves in.

Mark Freshney, Credit Suisse

Okay, so that's encouraging. Thank you.

Operator

Thank you, Mark. As there are no more questions, I will hand it back to Mads for any closing remarks.

Mads Nipper, CEO

Yes. And all I want to do is thank you all very much for joining. We appreciate, as always, your great questions. And if you have any follow up questions, including the one we promised to get back on, don't hesitate to reach out to IR team. They're here for you. So, thank you very much and have a great and safe day.