Transcription

Ørsted Q3 report

28 October 2020

PRESENTATION

Operator

Hello, and welcome to this Q3 earnings call. 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, I'm pleased to present CEO, Henrik Poulsen. Please begin.

Henrik Poulsen

Good afternoon, everyone, and welcome to this earnings call. Ørsted continued its strong financial and operational performance in the third quarter of the year, despite the persistent Covid-19-related challenges. Our asset base remained fully operational, and we have seen good progress on our construction projects across the different regions.

EBITDA for the third quarter amounted to 3.4 billion DKK, a decrease of 18% compared to third quarter last year. But as you are aware, the third quarter last year was significantly impacted by partnership income from Hornsea One. Adjusting for partnership effects, EBITDA increased by 6%. EBITDA from offshore and onshore wind farms in operation increased by 13% to 3.4 billion DKK, driven by ramp-up of Hornsea One, Borssele 1 and 2, Sage Draw and Plum Creek.

As expected, we have continued to see some adverse Covid-19-related profit impacts in the UK to the tune of 100 million DKK in Q3. Based on the very solid year-to-date performance, we remain comfortable with our full-year EBITDA guidance of 16 to 17 billion DKK and gross investments of 28 to 30 billion DKK.

In August, we reached an important strategic milestone with the completion of the divestment of our Danish power distribution, residential customer and City Light businesses. The divestment essentially concludes our transformation into a global renewable energy company. On that same note, our green share of generation reached 90% in third quarter this year, up from 87% in Q3 last year.

In the beginning of September, we installed the last turbine at the 752 MW Borssele 1 and 2 offshore wind farm in the Netherlands. With the first turbine installed back in April, the entire turbine installation process took place during the pandemic, which is quite an impressive achievement that demonstrates the robustness of our EPC capabilities and our dedication to the high safety standards. When fully operational during fourth quarter, Borssele 1 and 2 will be the second largest offshore wind farm in the world and the largest in the Netherlands.

We have been exploring the interest among investors for a potential farm down of the Borssele 1 and 2 wind farm. We continue to see a strong demand to become partners in our offshore wind assets and have therefore initiated a structured farm down of Borssele 1 and 2, with signing expected during first half of next year. Farming down Borssele will crystallise value upfront and enable us to invest in additional green growth opportunities.

Our onshore business also continues its strong momentum. In September we commissioned the 103 MW Willow Creek onshore wind farm ahead of schedule and on budget, which just like Borssele 1 and 2, was successfully constructed during the pandemic. It is the third onshore wind farm we have commissioned since March. Willow Creek is our second project in the SPP area, and it further diversifies our operational portfolio.

In September, we also took the final investment decision on our largest onshore wind project to date, the 367 MW Western Trail project. The greenfield project will further strengthen our ERCOT West asset base. The wind farm is eligible for 100% PTC, and we expect it to be commissioned in third quarter 2021.

In October, we acquired and took the final investment decision on the 298 MW Haystack onshore wind development project in Nebraska. The late stage project is adjacent to our operational Plum Creek wind farm and further expands our portfolio in the SPP area. Haystack is expected to be commissioned during fourth quarter next year and is also eligible for 100% PTC. With the addition of Willow Creek, Western Trail, and Haystack, we now have three gigawatts of combined onshore wind and solar PV in operation or under construction, and we remain very happy about the expansion of Ørsted Onshore.

In mid-October, the Renescience plant in Northwich, UK was successfully commissioned after operations at the plant lived up to a set of predefined commissioning criteria. With the commissioning of Renescience, we reached an important milestone, and we will now continue to monitor the plant's performance, while we explore the broader commercial potential of this innovative waste treatment technology.

Moving on to hydrogen, we have established a foothold in a market that we believe will offer us significant growth opportunities over the coming decades. In October, we joined forces with the world's leading fertiliser company, Yara, to develop a 100 MW offshore wind power electrolyser for renewable hydrogen production. The aim of the plant is to replace fossil-based hydrogen with renewable hydrogen for ammonia production at Yara's Sluiskil plant in the Netherlands, and it would have the potential to abate more than 100,000 tonnes of CO2 per year. The renewable hydrogen would generate around 75,000 tonnes of green ammonia per year based on dedicated renewable energy supplied from Ørsted's nearby Borssele 1 and 2 offshore wind farm. Subject to a confirmed business case, a final investment decision could be taken late 2021 or early 2022.

Our business platform and project pipeline within renewable hydrogen continues to evolve, and the project at Sluiskil is our fifth renewable hydrogen development project, with the four others being the Greenfields for Denmark Partnership and the H2RES project, both in Copenhagen, the WESTKÜSTE 100 project in northern Germany and the Gigastack project in the UK. These pilot projects will provide valuable insights and experience. The aim should be to mature the renewable hydrogen industry and, within a decade, make it a competitive alternative source to fossil-based fuels. In our view, renewable hydrogen has the potential to become a cornerstone of the future energy supply. It will further stimulate the need for offshore wind and help decarbonise hard-to-abate sectors, like heavy transport and heavy industry.

Lastly, I would like to highlight that the board of directors appointed Mads Nipper as my successor as CEO of Ørsted. Mads, as you know, is a highly accomplished leader, and with his visionary thinking, strategic skills, and dedication to help build a sustainable future for our planet, Ørsted's continued global expansion is in very good hands. I'm very much looking forward to welcoming Mads on January 1st.

Let's turn to slide four, where I want to give an update on our US offshore wind portfolio. Since the Bureau of Ocean Energy Management published a supplement to their draft environmental impact statement for Vineyard Wind in June this year, we have been awaiting further clarity around the federal permitting process for our projects. At this stage, we had expected to receive notices of intent from BOEM for our advanced-stage development projects. An NOI signifies that BOEM received the construction and operations plan and determined the application as complete, thereby starting the two-year regulatory clock for BOEM's ultimate approval of the construction and operations plan.

We were expecting our NOIs to get back on track following the Vineyard Wind supplemental environmental impact statement, given the positive indications from the Department of Interior earlier this summer. Since then, we have not seen the anticipated progress and now have been guided to NOIs being put on hold until Vineyard Wind's final environmental impact statement is published. This will expectedly happen within the next few weeks. BOEM has set a deadline for itself

at November 13. As a consequence, we must foresee further permitting progress being pushed into early 2021, and this does constitute a significant delay.

In addition to uncertainty around the permitting process, we are also awaiting confirmation on whether BOEM will pursue the consensus developer turbine layout in the Northeast of one nautical mile by one nautical mile. While we hope for a sense of clarity sooner, it is increasingly likely we won't know the final decision on the project layout until November 13. Subsequently, BOEM is expected to issue its record of decision for the Vineyard Wind project on December 18.

Even assuming the permitting process starts moving within the first quarter of next year, it appears highly likely that Revolution Wind, Ocean Wind, Skipjack, and Sunrise Wind will be delayed beyond the previously expected 2023 and 2024 construction years. For all four projects, we have some flexibility in the timeline, and we have been able to make good progress on some other project milestones in the meantime, which I'll come back to. However, until there is a clear timeline from BOEM, we cannot re-baseline our construction schedules.

For South Fork, BOEM reinitiated the permitting process in August, and the project was given a permitting schedule that targets the record of decision in October 2021, making it the only project other than Vineyard Wind to formally advance in the federal permitting process ahead of the Vineyard Wind final environmental impact statement. With the updated permitting schedule, we now expect to commission South Fork by the end of 2023.

In the midst of the uncertainty around the permitting, we have taken advantage of the additional time and managed to progress our US offshore wind portfolio in a number of areas. Our state permits have been matured, including the decisive support from five New York State agencies to site the transmission cable in East Hampton to connect the South Fork wind project to the onshore grid. In Long Island, we have secured a good location for our O&M Centre in Port Jefferson.

We have further matured our supply chain and logistics solutions, including the announcement of the service and operations vessel contract that Ørsted and Eversource signed, with Edison Chouest Offshore being the first new build Jones Act qualified vessel of its kind in the US. Moreover, upgrades of certain components will help support project economics, which is quite critical as permitting delays inevitably have a negative impact on our project economics.

Despite the permitting delays, we have made good progress on many other critical parts of the portfolio, as I mentioned, and on that basis, we remain confident that we can deliver our US project portfolio with satisfactory value creation. And we continue to see solid long-term growth and value creation potential in US offshore wind.

Turning to slide five. Let me just give you an update on the offshore construction projects. At the Dutch Borssele 1 and 2 wind farm, as I mentioned, we have installed the last of the 94 turbines. They are now undergoing the final testing before we can commission the wind farm. Once fully operational during this quarter, the wind farm will supply renewable energy to 1 million Dutch households.

At the end of September, the 12 MW Virginia EPC demo project delivered first power, and in mid-October, the project was completed and handed over to Dominion Energy. The project is the first to be completed in federal waters, and the US team and contractors have worked extremely hard to ensure a safe and efficient construction of the project.

At both Hornsea 2 and Greater Changhua 1 and 2a, the construction work continues on schedule. At Hornsea 2, the installation of export cables and foundations has commenced. In total, 165 foundations will be installed at sea in preparation for the site’s 8.4 MW Siemens Gamesa turbines at what will be the world's largest offshore wind farm once

commissioned. Hornsea 2 still remains the construction project most affected by COVID-19. Due to the pandemic, the shipyard in Singapore, where the topside for the offshore substation is being constructed, was closed down. The shipyard is now up and running again, and we do not expect the delay to affect the commissioning date of the wind farm, nor harm overall project economics.

Turning to slide six for an update on the construction projects in onshore and bioenergy. We continue to see very good progress on our construction projects in onshore. At Permian Energy Centre we have completed more than half of the module installations, and at Muscle Shoals, half of the piles have been installed. At our two onshore wind projects, Western Trail and Haystack, the key contracts have been executed and notice to proceed has been issued.

As mentioned earlier, we have now commissioned our Renescience plant, after having successfully completed the last performance test. The commissioning of the plant has been significantly delayed primarily due to the mechanical sorting process, which has now been resolved with upgrades of the facility. During the modification and upgrades, the plant has been downsized. This means that the maximum capacity of the plant is now 80,000 tonnes of waste per year instead of 120,000 tonnes per year as originally planned.

Let's go to slide seven and an update on upcoming auctions and market developments in offshore. We continue to see very significant momentum in global offshore wind growth based on the development in Europe, the US, and Asia Pacific. After more than 10 GW being awarded for the first time ever in 2019, we have seen a step down in the number of auctions and awards in 2020. However, over the coming 15 months, we could see global awards of up to 30 GW, and 2021 will reach a new all-time high.

We expect three auctions to take place in the fourth quarter of 2020, all three of them in the US, with auctions in Maryland, New York and New Jersey. Earlier this year, New York State issued their second RFP. Bids were due on October 20th, and together with our partner, Eversource, we have submitted bids in the up to 2.5 GW auction. We are now looking forward to the outcome of the auction, expected in December 2020. Maryland's second procurement window is open, and bids must be submitted by year-end. Maryland is able to procure around 1.2 GW in this, and subsequent rounds, cumulatively. Results are known approximately one year after bid submission. New Jersey will also be hosting their second offshore wind auction during fourth quarter this year. The bid deadline for the up to 2.4 GW procurement has been scheduled for December 2020, with expected awards in the first half of 2021. In addition to these three US auctions this year, we expect auctions in Rhode Island, Massachusetts, Connecticut, and Maryland to take place during 2021.

Before moving on to the other regions, I want to address the recent criticism brought up in New Jersey regarding our investment in local jobs and the local supply chain. Let me stress that we remain fully committed to investing 695 million US dollars into New Jersey. However, a large project like Ocean Wind is a five-to-seven-year process following the award of the auction. Federal consenting delays, as previously mentioned, inevitably push off the investment. We have to get confirmation from BOEM on our NOIs as well as the turbine layout before we have the visibility needed to finalise our local supply chain investments.

Despite the delays in our Ocean Wind project, we continue to progress on a state-of-the-art, monopile manufacturing facility in South Jersey, and recently signed our preliminary joint development agreement with our supply chain partner EEW. This sets the high-level terms and conditions for development of this factory. The start of construction will be dependent on certain condition precedents, which still need to be met. Together with our supply chain partner and key stakeholders in New Jersey, we are working hard to keep this on track to be the first offshore wind monopile facility in the US.

Looking towards Asia Pacific, the draft auction guidelines have been issued for the first Japanese round for the Choshi, Noshiro and Yurihonjo areas. The auction is expected to open in November this year, with the deadline for bid submission in first half next year and awards expected in fourth quarter next year. We expect the auction to comprise a capacity of around 1.5 gigawatts.

In South Korea, we are working on initial markets and pre-asset development, mainly through early-stage greenfield offshore wind development, process data measurement and permitting work.

Moving on to recent developments in Europe. The consent of our Hornsea 3 site was postponed to December 31st in order to study further information on bird impacts. Following the postponement, we have worked closely with key stakeholders to develop a robust, evidence-based Kittiwake Compensation Plan for Hornsea 3. The plan focuses on the implementation of onshore artificial nesting structures specifically designed for kittiwakes, which will increase breeding productivity.

Climate change remains the primary threat to biodiversity and habitats, and we are pleased that the Secretary of State recognises the significant contribution Hornsea 3 would make towards the national need for renewable energy. With a potential capacity of at least 2.4 GW, Hornsea 3 could provide clean power to over two million UK homes and offset over 128 million tonnes of CO2 over its lifetime. We do remain optimistic about receiving the consent.

In the beginning of the month, Prime Minister Boris Johnson announced new plans to build back greener by making the UK the world leader in clean wind energy. We welcome this announcement from the government, which underpins the huge opportunity for world-class UK supply chain companies, both domestically and overseas, to market the skills and innovative technologies that have been fostered in the UK offshore wind industry. Offshore wind is the most cost-effective way to achieve the UK's net zero ambitions, and we see delivering 40 GW of offshore wind by 2030 as an essential part of this road map. It is a challenging, but achievable target if the government and the industry continue to work together to accelerate deployment of the UK project pipeline. It will fuel growth and jobs in coastal communities and beyond, while expediting the progress to a more sustainable, low-carbon future.

The Polish offshore wind act is currently being finalised and is expected to be approved by the parliament in November and implemented into law in December this year. The draft legislation aims to award 10.9 gigawatts of offshore wind by 2027. Up to 5.9 gigawatts will be selected from the most advanced projects in the country’s pipeline by the Polish energy regulator. These advanced projects include the two projects totalling 2.5 gigawatts covered by our non-binding term sheet with PGE. Applications for the individual projects must be submitted by the end of March 2021 and the Polish government is expected to grant awards in June 2021.

We are still in the process of negotiating the binding agreements with PGE regarding the Baltica 2 and Baltica 3 offshore wind farms, and we expect to conclude the transaction by the end of this year. In addition to the fourth UK CfD round and the first Polish awards, we expect tenders in the Netherlands, Denmark, Germany and France during 2021.

With this, I will now hand over the word to Marianne. Please.

Marianne Wiinholt

Thank you, Henrik, and good afternoon from me, too. Let's start on slide eight, where I will go through the EBITDA for Q3 2020. We realised an EBITDA of 3.4 billion DKK, an increase of 0.8 billion compared to Q3 last year. The decrease was expected and mainly due to high construction activity at Hornsea 1 during Q3 last year. EBITDA, excluding the construction agreements, increased by 0.2 billion.

In offshore, the EBITDA for the quarter totalled 2.6 billion, a decrease of 0.6 billion. The earnings from operating wind farms was 15% above last year, driven by the ramp-up of Hornsea 1 and Borssele 1 and 2. This was partly offset by the adverse Covid-19-related impacts.

Offshore power generation in Q3 increased 14% due to the ramp-up I just described, and the availability was 94%, one percentage point above the availability in Q3 '19.

Wind speeds were slightly below Q3 last year and amounted to an average portfolio of 8.2 metres per second above normal wind speeds in the third quarter of 8.0 metres per second.

We have seen adverse Covid-19-related impacts of approximately 100 million on our operational earnings, especially related to the UK power market, due to the lower demand for electricity. This has led to higher balancing tariffs from National Grid, some hours with negative power prices and lower-than-expected ROC recycle prices.

Earnings from partnerships amounted to 0.2 billion, compared to 1.2 billion in Q3 '19. The construction agreements in Q3 '20 related to the construction of Virginia Coastal Wind and minor updates regarding finalised construction projects. In Q3 '19, earnings from construction agreements primarily related to Hornsea 1.

In Onshore, EBITDA amounted to 0.3 billion, which was in line with last year. Earnings from ramp-up of generation from Sage Draw, Plum Creek and Willow Creek were offset by the very high peak power prices in Texas in August 2019, which led to unusually high earnings at Willow Springs, Tahoka and Lockett in Q3 2019.

Wind speed for the portfolio in Q3 was 6.7 metres per second, which was slightly higher than the same period last year, and a normal Q3 of 6.6 metres per second. Availability across the portfolio came in at 97%, one percentage point below last year. EBITDA in markets and bioenergy was 0.4 billion, in line with Q3 '19. EBITDA from the CHP plants decreased by 0.3 billion to 0.1 billion, mainly due to the reversal of a provision following the acquittal in the Elsam case in Q3 1019.

The lower achieved power prices for our generation were offset by higher sales of auxiliary services and lower fixed costs mainly due to timing.

Gas markets and infrastructure increased 0.2 billion compared to Q3 last year, due to a less negative impact from revaluation of gas at storage, which was partly offset by lower gas margins due to the shutdown of the Tyra field.

If I then turn to slide nine and our financial performance and net interest-bearing debt. The net profit totalled 12 billion, which was 10.6 billion up versus last year. The increase was primarily driven by the 11.1 billion gain on divestment of our Danish power distribution, residential customer and City Light businesses to SEAS-NVE. This was partly offset by the lower EBITDA and the higher depreciations from more operational wind farms.

Free cash flow from continuing operations was 13.2 billion in the quarter. Cash flow from operating activities came in at 1.9 billion in the quarter, driven by EBITDA and tax equity contribution from our partners at Willow Creek.

Proceeds from the divestment of the Danish power distribution, residential customer and City Light businesses amounted to 20.5 billion. Our gross investments for the quarter totalled 9.3 billion, primarily related to our offshore projects, Borssele 1 and 2, Hornsea 2, Greater Changhua 1 and 2a, and Ocean Wind in the US, as well as our onshore projects, Permian Energy Centre, Muscle Shoals, Western Trail and Willow Creek.

Our net debt at the end of Q3 2020 amounted to 8.2 billion, and the decrease in the quarter primarily reflected the positive cash flow I just described. Additionally, we have received deferred proceeds of 150 million US dollars from INEOS regarding their O&G divestment back in 2017.

Let's turn to slide 10, which shows our financial and non-financial ratios. Our key credit metric, FFO to adjusted net debt, stood at 36% for the 12-month period ending in September. The metric was positively impacted by the proceeds from the divestment of the power distribution and customer business.

Our return on capital employed came in at 9%. The decrease compared to the same period last year was due to lower EBIT over the 12-month period, which in Q3 '19 was significantly impacted by the farm down gain from Hornsea 1 in Q4 '18.

Our greenhouse gas emission intensity continued to decline in the first nine months of 2020 due to our continued buildout of offshore and onshore wind, and we remain well on track to meet our scope one and two target of less than 10g CO2 equivalents per kWh in 2025. Our target is to be carbon neutral in 2025 by neutralising any remaining minor emissions with carbon offsets.

As always, safety is high on our agenda, and we do our utmost to prevent accidents and injuries. During the first nine months of 2020, the total recordable injury rate amounted to 3.8, which was a positive development compared to 2019. Our target is a rate of 4.2 or lower this year, and 2.9 in 2025.

Slide 11 recaps our 2020 EBITDA and gross investment guidance, as well as our long-term financial estimates and policies. We reiterate our full-year 2020 EBITDA and gross investment guidance. Gross investments are expected to amount to 28 to 30 billion in 2020 and totalled 18.3 billion for the first nine months. We expect the Q4 2020 to be a big investment quarter, driven not least by Borssele 1 and 2, Changhua 1 and 2a, Hornsea 2, and US offshore and onshore projects.

We remain comfortable with our long-term financial targets, including EBITDA growth, return on capital employed, and contracted share of profits.

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

Q&A

Operator

This concludes our presentation, and we're now happy to answer your questions. This call will have to end no later than 3:30. Please respect only one question per participant, and then you can go back to the queue for a second question. So, if you do wish to ask a question, please press 01 on your telephone keypad. And if you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Christian Johansen from Danske Bank. Please go ahead.

Christian Johansen

Yes. Thank you. My question is regarding the US projects and the potential mitigates of a delay here. What can you do if you run into a delay which essentially worsens the return to mitigate this, and particularly are there any options to switch on equipment? Specifically, for some of your projects where I remember you have chosen an 8 MW turbine, is it possible to do a substantial upgrade on these ones?

Henrik Poulsen

Thank you, Christian. We are obviously spending the extra time that we, so to speak, have been given here to optimise all parts of the supply chain packages and the total supply chain solution, including our logistic solutions, our harbour solutions, *et cetera*. So, we are spending the time and we are seeing some benefits from that.

Specifically, on the topic of turbines, we are also working to upgrade the turbines. You do know that we have already upgraded the turbine in the mid-Atlantic, going for the G-12 MW turbine, and we are working also to upgrade the turbine in the Northeast where we, up until now, have been working off the D8 turbine from Siemens Gamesa. We are working on a solution to upgrade that as well. So, that is a meaningful opportunity to offset the financial impact from the permitting delays.

Christian Johansen

And do you expect to be able to fully offset the impacts?

Henrik Poulsen

There are many, many moving parts of it in this, Christian. So, I'll be a little hesitant to say that we can offset all of it. Some of it comes back to when we ultimately get these permits. Right now, we're working off an assumption that we will start seeing these permits being issued towards the end of the first quarter next year. So, that's our current planning assumption. And based on that planning assumption, we still see economics being meaningful and the value spreads being acceptable to us.

Christian Johansen

OK. That's quite clear. Thank you.

Henrik Poulsen

Thank you.

Operator

And the next question comes from the line of Peter Bisztyga from B of A Securities. Please go ahead.

Peter Bisztyga

Yeah, hi. Thanks for taking my question. Just on the next series of auctions in the US and the New York one that you've already participated in, could you tell us which ones you think are going to be purely price-based in terms of decision-making, and which ones, if any, will still have the qualitative elements in the award process?

Henrik Poulsen

Peter, are you asking about the US projects in particular, or more broadly, the entire global portfolio?

Peter Bisztyga

I was asking about the US in particular, but if you could also maybe comment on Poland and Japan, specifically, in that context.

Henrik Poulsen

I would be happy to. In the US, the simplified way of saying it is that typically see the New England auctions being more skewed towards price, where we see New York, New Jersey, Maryland auctions taking a broader more holistic view, also emphasising more local content, local investment, job creation parameters, track record credibility, *et cetera*. So, that is the broad way of looking at a segmentation of the US markets. When it comes to Japan, they have now issued the auction guidelines, and it will be a 50/50. So, 50% price, 50% non-price. And they have also, at a high level, specified what the non-price parameters will be, and it would be what you'd normally expect in terms of experience and reliability, project feasibility, *et cetera*. Stakeholder management is also a criterion, and local economic impact.

In Poland, it's going to be a slightly different model, given that the government will award the initial up to 5.9 GW directly without a competitive allocation mechanism. So, it will be awarded more on, let's call it a beauty contest amongst the most mature Polish offshore wind projects. And we would count Baltica 2 and Baltica 3 to be among them.

Peter Bisztyga

Excellent. Thank you. That's very helpful.

Operator

And the next question comes from the line of Deepa Venkateswaran from Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. I had a couple of questions on the UK. Would you be able to clarify what kind of auction mechanism you expect for '21? There were some rumours earlier about going for a negative bid, and so on. So, maybe your latest expectation? And then, broadly, are you supportive of the integrated offshore transmission? Or do you prefer to stick with the current model, which is a single transmission line to every project? Thank you.

Henrik Poulsen

Thanks, Deepa. When it comes to the format of the CfD round four, we would expect it to follow the format of the last, of round three. It is, at least not to my knowledge, the expectation that we would be looking at what I take from your question, you were saying, could there even be a concession payment type of structure in the format? That is certainly not my expectation.

In terms of integrated offshore transmission, I can certainly see there being a rationale for optimising and thinking through the broader transmission buildout as the UK continues to accelerate the buildout of offshore wind. On the other hand, it is

important to make this transmission part of the assets exposed to competition, and we do see significant benefits from the offshore wind developers being in charge of building these transmission assets as an integral part of building out the generation assets. So, you don't start separating the two.

So, in some cases I still believe that single-line transmission will make sense, but in other cases, it will make sense to start thinking about integrating some of these transmission infrastructures, but still keeping them exposed to the competition that we know from the CfD routes.

Deepa Venkateswaran
Thank you.

Operator
And the next question comes from the line of Marcus Bellander from Nordea. Please go ahead.

Marcus Bellander
Yes. Thank you. A question regarding the US. You showed on that slide that seven of the upcoming auctions are in the US, and I'm just wondering how many of those you can realistically participate in, given that you only have two seabed leases left. And if you could also elaborate what you are doing to build your pipelines in the US. Thank you.

Henrik Poulsen
Thanks, Marcus. Yeah, you're absolutely right. It's going to come down to how much capacity we might win. Obviously, there is a scenario if we're very successful and we get our hands on a number of awards early on across these seven auctions that we, over time, can fill up the lease areas. But we still have meaningful amounts of these capacities left. So, we're talking several gigawatts of offshore wind awards before we would start filling up. So, I would expect us to join the vast majority of these auctions. Should we ultimately sell out? I would obviously consider that a positive challenge for us.

There will be lease rounds coming up in the US, as you know they have been delayed, but over time there will be more lease rounds. And of course, we are constantly keeping an eye on our inventory of these capacities. Today, in the US, we still have by a wide margin the most advantageous position when it comes to these capacities. We are the only player that basically can join all of these auctions over the next 15 to 18 months. So, we have a pretty strong position in the US as a starting point. But of course, we keep an eye on refilling our lease capacity over time, not only in the US, but more broadly.

Marcus Bellander
OK. Thank you.

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

Alberto Gandalfi
Afternoon, and thank you for taking my call. My call is going again to your very helpful slide seven. There are 25 to 30 gigawatts of auctions in the coming just over a year and a little bit. Can you please tell us how many gigawatts will you try to effectively bid for? Where do you have a seabed that allows you to bid out of this 25 to 30? And maybe can you remind us, if your strategy is to go and obtain as many as you can, given your return threshold, or if you're going to encounter, let's say, some balance sheet headroom constraints. So, I'm trying to understand if your logic is to try to maximise the

awards if the returns are good, and perhaps you'd be open even to rotate more or to issue equity. So, I'm trying to think about your mindset here in the bidding. Thank you.

Henrik Poulsen

Thanks a lot, Alberto. To the first question of where can we actually bid. We are in a position where we can bid for all of these US projects, unless back to the question asked by Marcus, unless we sell out, so to speak, but that doesn't seem to be the most likely scenario. So, we could join all of these US auctions from our current lease areas. Based on an expected consent for Hornsea 3, we would be bidding off Hornsea 3 in the UK Round 4. We have Changhua 3 to join in a potential what we call a transition auction in Taiwan towards the end of 2021, which hasn't been confirmed yet, but is our hope and expectation that that may take place by the end of 2021. The Polish award, of course, is back to the agreement with PGE on Baltica 2 and 3. So, we will be joining through those projects. And then, Japan. We would be joining in the JV with TEPCO for the Choshi, and so on. And then, you have the remainder being centralised tenders. So, Germany, the Netherlands and France, all being sites that are being offered by the local government. So, that's not really- there we don't really have to have a site, obviously.

So, in other ways, we can join all of these auctions. We would expect to join the vast majority of them. I'm not going to say that we will join every single one of them. We may sometimes decide to prioritise our efforts a bit here. But you should expect us to be covering a very good chunk of this list of auctions. And in terms of our capacity, we do have the balance sheet capacity to do this, and to go after them. So, it comes back to the return threshold. So, to answer your question, will we maximise our awards as long as we can get to a satisfactory value spread on top of cost of capital? Then, the answer is yes, we are going to go after this opportunity over the next 15 months.

Alberto Gandalfi

Thank you.

Operator

And the next question comes from the line of Casper Blom from ABG. Please go ahead.

Casper Blom

Thank you very much. A question concerning your guidance for 2020, or the last two months of 2020, so to say. 16 to 17 billion, you've done 13.1 year-to-date. So effectively you're guiding 2.9 to 3.9 in the last quarter of 2020. Last year in Q4 '19, you did 4.6. Then, you've divested the distribution business. But on the other hand, the negative LNG will not impact Q4 either. So, what is it that is to drive your earnings down to the guidance level? Thank you.

Henrik Poulsen

Thank you, Casper. I think Marianne will take this one.

Marianne Wiinholt

Yes. Thanks for the question. Yes, there are several factors. You rightly point out the divestment of RBC. Then, we also have quite a lot of project development costs coming in Q4. We have activities in the US, but also in in the other markets. Then, we will not have construction gains in the fourth quarter because we don't have any construction projects for partners. We had quite significant construction gains last year. And then, we see the normal cushion, in a way, uncertainty on the production, and also these storage impacts that we have. So, it is a bottom up and solid estimate we are coming up with.

Casper Blom
But, sorry to be a pain here, there was very little construction agreement … it was 51 million…

Marianne Wiinholt
Yes. It was around 100 million. So, yes, but we have no…

Casper Blom
Are you basically then saying that you're going to spend more than a billion on developing new projects in Q4 in the offshore business?

Marianne Wiinholt
I will not give you the exact amount, but you're not far from. We will have quite a large spend on project development in Q4. Yes, you're right.

Casper Blom
OK. Thank you.

Operator
And the next question--

Henrik Poulsen
It's a fair question, Casper, but we do expect significant devex, as Marianne has said. You have to bear in mind we are working on a very broad set of opportunities around the world at the moment. So, our development efforts are quite extensive right now, not least looking into the market opportunity we just discussed.

Casper Blom
That's absolutely fair. It just means we need to leave the two billion level behind us, then.

Marianne Wiinholt
For this year, yes.

Casper Blom
Cool. Thank you a lot.

Operator
And the next question comes from the line of Sam Arie from UBS. Please go ahead.

Sam Arie
Hello, everybody, and thank you as always for the presentation. Henrik, I realise I'm not sure if you will be presenting again at full-year results next year. I rather guess you won't be. And if so, this might have been your last presentation. So, special thanks this time, and thanks for all the previous ones.

Henrik Poulsen
Thank you, Sam. That's right. This will be the last one. Thank you.

Sam Arie
We've learned a lot from your presentations over the years, and many thanks for them. Having said that, I then apologise. I'm going to ask a question that actually I think Alberto asked already, but I don't think we quite got the answer maybe some of us were looking for. So, can I try and ask this in a different way? Going back to your 25 to 30 GW market sizing for the next year and a bit. I suppose maybe what we're trying to figure out is, if you won everything you were able to win out of that 25 to 30, and adjusting for the fact that some of them might be 50-50 stakes, and in some cases, you may not have enough leases to do them all or enough pre-qualified leases at the right time, what would, in theory, be the maximum you could win in gigawatts in the next year and a bit out of that 25 to 30 total? Is that something you could give us a view of? Thank you.

Henrik Poulsen
Yeah, it's a good question, Sam. I'm not even sure that we have run those numbers ourselves. But if you wanted to look for the max number, you would assume that we max out on our current lease capacity in the US, which would add a few gigawatt in itself. And then, you can start adding something for Poland, Japan, maybe more in Taiwan, UK round four obviously could be sizeable. And then, you have the centralised tenders. So, I could create a number of which would be a very unrealistic scenario, but it would obviously become a very high number. So, that's not a likely outcome. But you have to bear in mind that when you look at that slide seven, we are probably the only developer in the world who actually could join every single one of these opportunities and have a pretty strong starting point for doing so. So, I think that, again, I just want to highlight it as a sign of the scalability and the breadth of our global business platform that we are in a unique position when it comes to pursuing this opportunity. And as I said to the question asked by Alberto, we're definitely going to go for it, but we'll stay disciplined. We're not going to do crazy things. So, whatever we get our hands on, it will be good value-creating capacity. I don't know if that answered the question, Sam. Maybe I didn't give you quite the answer you were looking for. Please follow up.

Sam Arie
No, no, no. That's fine. I recognise it's difficult to do it exactly. And maybe just a quick follow-up, then. I suppose, out of the 8 to 12 gigawatts in the UK, which is a big number, your total pre-qualified capacity that you can take to that '21 event, including the next third phase of Hornsea, can you remind us how many gigawatts that is?

Henrik Poulsen
Hornsea 3 would be 2.4 GW.

Sam Arie
So, out of the 8 to 12 in the UK, your best outcome in the UK is the 2.4 if you get Hornsea 3.

Marianne Wiinholt
Correct.

Sam Arie
Right. Exactly. OK. That's very helpful. I'll leave it there. Thank you very much.

Henrik Poulsen
Thank you.

Operator
And the next question comes from the line of Rob Pulleyn from Morgan Stanley. Please go ahead.

Rob Pulleyn
Hi. Thank you and good afternoon. If we can go back to the US project delays, and to your comment on the construction window '23 to '24. Could I just ask: a) does this potentially impact your 2025 guidance for 15 gigawatts of installed offshore capacity, and b) would this affect the scheduling as you as a company try to balance the construction of these projects you already have with maybe some other ones that you hope to win to the previous questions? Thank you.

Henrik Poulsen
Thanks, Rob. When we are looking at these potential delays from '23/'24 construction timeline, shifting it into '24/'25, there is, of course, always a risk that some of it could slip into early '26. It's not necessarily our expectation. On the other hand, I can't rule it out, given that we still don't have full visibility on the permitting. But it doesn't change our commitment to the 15 GW target. That still feels like absolutely the right target for us, and we're still well on track against that target. When it comes to scheduling, obviously, as we are now bidding into new options in the US, in these bids we have to indicate an expected timeline. And in there, we have to build in a little bit of flexibility, given that we don't have full visibility on the current project portfolio. So, we are, of course, making sure we have enough flexibility in the new bids that we submit to optimise the total schedule between the current portfolio and potential new wins over the next few quarters. I don't know if that answers the question, Rob, if that was what you were asking.

Rob Pulleyn
No, it does, actually. That's very interesting. Thank you very much, and reassuring on the target. If I may just try the follow-up, the obvious follow-up to what you just mentioned on the scheduling. Would that therefore put you at a disadvantage versus other bidders who don't have the same, shall we say, construction congestion in the US portfolio in your perspective? Thank you.

Henrik Poulsen
I don't think it's going to be a disadvantage, as such. If you take the bids that we're submitting right now, they will be assessed on a broad range of criteria, and I don't think our competitors necessarily would offer a very different timeline from what we can do. If we had done constructing the current portfolio towards end of '25, we could relatively soon thereafter essentially launch the next train and start construction of subsequent projects. So, I think we are in good shape in this regard.

Rob Pulleyn
Excellent. That's great to hear. Thanks very much and I'll turn it over.

Operator
And the next question comes from the line of John Musk from RBC. Please go ahead.

John Musk
Yes. Hello, everyone. It's actually a similar question to the one we just had, in a way. Just wanted to clarify the permitting issues in the US that are ongoing. Are these very much in your view a [inaudible] beginning of the [inaudible] industry-

Henrik Poulsen
You're breaking up, John. I can barely hear you.

John Musk
Apologies. Is it any better now? If not, I'll try again.

Henrik Poulsen
It's better.

John Musk
Yeah, just checking whether the permitting issues in the US in your view are a one-off situation in that there is no risk of this happening again with the subsequent bids that are coming up in the next 12 to 15 months. And secondly, do you build any risk into these current bids, given the issues that we've seen over the last few months?

Henrik Poulsen
Yeah. Thanks, John. No, I do believe that it is a one-off in the sense that this is really all about that federal permitting processes being firmed up and carefully thought through and designed. And of course, BOEM felt what I believe is a legitimate need for understanding the broader, long-term impact of building out 25 plus gigawatts of offshore wind along the East Coast. So, this whole environmental impact statement process, I think, has been warranted. And obviously, once they have concluded on that, hopefully, relatively soon and they've made a number of key decisions in terms of wind farm layouts, *et cetera*, and the format of the permitting process, I would expect everything to start running much more smoothly for subsequent projects. So, it's not beyond the norm for a new market to go through this process of maturing the whole regulatory framework and the permitting process. We've seen that also happening in other markets in the early stages. So, our experience is that once you're past that, things start to run much more smoothly.

And yes, we do take this into account in the bids that we submitted. As to the answer I gave earlier, we have to make sure we have sufficient flexibility in the bids that we submit that we can deliver on the timelines that we commit to.

Operator
And the next question comes from the line of Klaus Kehl from Nykredit Markets. Please go ahead.

Klaus Kehl
Yes. Hello. Klaus Kehl from Nykredit here. Back at your Capital Markets Day in 2018, you introduced a vision of 30 gigawatts in 2030. And to be honest, I thought it was a bit crazy back then. But ever since, the market has expanded quite a lot. So, could you elaborate a bit on how you see this vision as of today?

Henrik Poulsen
It's a good question, Klaus. Since that Capital Markets Day almost exactly two years ago, we have seen the growth outlook for offshore wind double from what back then was 78 GW by 2030. We are now counting 150 to 160 GW by 2030. So, obviously, the market is expanding much more rapidly than we imagined back then. And at the same time, we're very pleased with the way our onshore business has developed over that two-year period. So, I think there is a good reason for taking another look at it, and that is something we will do. That's going to be in the very capable hands of Mads Nipper, working with the team to take a look at what is the right long-term ambition for Ørsted. I think it's probably a good time to take a look at that during early part of 2021, or first half of 2021. So, I think that's the timeline. But again, it's going to be a

process that Mads obviously need to run and own. But of course, it is very much on our agenda to take a look at whether our 2030 ambition is still the right one.

Klaus Kehl
OK. Thank you very much.

Operator
And our next question comes from the line of James Brand from Deutsche Bank. Please go ahead.

James Brand
Hello. Good afternoon. Thanks for the presentation. I have a question actually on green hydrogen. I know it's not necessarily your area of expertise, but given that you are starting to get involved in some green hydrogen projects, I was wondering whether you had any views on the different electrolyser technologies, alkaline versus PEM, which seems to be an increasing debate over which one of those is preferable, given the supposed extra flexibility of the PEM technology, but alkaline's a bit cheaper. Just curious if you've got any news on that. Thanks.

Henrik Poulsen
Too early for us to really comment on it, James. We are developing four projects as we speak. Actually, five now. And we will be making procurement decisions probably over the next year. So, we'll start looking at more specific procurement decisions. But until then, it would be too early for me to start commenting on our choice of technology between the two alternatives.

James Brand
OK. Thanks.

Operator
And the next question comes from the line of Elchin Mammadov from Bloomberg Intelligence. Please go ahead.

Elchin Mammadov
Hi there. I have a question on asset rotation, please. So, on one side, you finished Renescience project, finally. Would you consider selling it, given that [? 01:04:11] got decent multiples for their projects and waste-to-energy is not really your forte, not really your core business at the moment? And on the asset rotation side, have you considered buying renewable pipelines in new geographies or technologies? Especially in the onshore space? Thank you.

Henrik Poulsen
Thank you. When it comes to Renescience, we will spend the next couple of quarters just validating the commercial formula behind this waste technology and basically scope out the longer-term potential of it. And once we have concluded on that assessment, we'll start thinking about how to take it forward from there. So, I couldn't give you a good answer just yet. We need a few more, a month or probably more like a couple of quarters to really get our arms around the commercial potential of Renescience. I do recognise that waste-to-energy is not necessarily a core business for us. On the other hand, it's a potentially very interesting technology. So, of course, we want to make sure that we make the most of it.

When it comes to asset rotation, we are very pleased with the expansion of onshore in the US, and it's not a secret that, over time, strategically, it could be of interest for us to take the onshore business elsewhere, including Europe and/or Asia. We have no specific plans for doing so. On the other hand, I don't want to rule anything out. I think we want to keep our

options open here. If we could find a good way of entering these markets, we would certainly take a close look at it, but important to emphasise that we don't feel any urgency around it. We are in a very good place with our onshore business, and we still have a lot of growth opportunities in the US. But over time, if the right opportunity comes up, yes, we would take a look at it.

Elchin Mammadov
Thank you.

Operator
And we have a follow-up question from the line of Deepa Venkateswaran from Bernstein. Please go ahead.

Deepa Venkateswaran
Thank you for taking my follow-up. It's actually on the US. So, I just want to understand the mechanics of the delay and how they impact the project economics, given that you've not started investing any capex, so particularly does this impact the tax credits? Or are you liable to pay someone something as long as there's a delay? And I also wanted to check if there was any political pressure on BOEM from the current administration, and could this change if we have a different administration in power next year, and would that change anything from your perspective? Thank you.

Henrik Poulsen
Thanks, Deepa. We have been able to maintain an optimised tax credit qualification even during this upgrade of the turbines, both for the mid-Atlantic portfolio going for the GE turbine, and as I mentioned in the beginning of the call, we also will be able to maintain an optimised tax credit qualification for the Northeast even when we now have decided to upgrade the turbine. We haven't run into any liabilities as such from these delays towards our supply chain. Of course, it makes life more difficult when you don't have a firm permitting schedule. So, you can’t make exact commitments on the timeline, and our suppliers are obviously also eager to get confirmed timelines. But so far, we've been able to maintain flexibility together with our suppliers not to incur any penalties or liabilities. So, so far, we remain in a good position here.

When it comes to pressure from the administration, it's something everybody is being asked about at the moment, do you prefer this or that administration? And CEOs tend to be a little bit vague about what they expect and whether one is better than the other. And I'm going to be vague as well. I think offshore wind in the US has a great future ahead of it under any administration. It's a huge, huge opportunity for driving local economic growth in coastal communities that really need this economic boost, and they're going to need it more than ever coming out of the Covid-19 crisis. So, whether it's a Trump administration or it’s a Biden administration, there is no doubt that with the tremendous support and enthusiasm from the state and the governors, we will see a very meaningful buildout of offshore wind in either scenario.

Deepa Venkateswaran
OK. Henrik, may I just clarify? So, where exactly are your economics getting impacted because of your delay if it's not the tax credit and there are no liabilities? Is it just the NPV shifting a year out or a couple of years out? Is that the main impact, or is there something I'm missing?

Henrik Poulsen
There is an impact from NPV shifting, from the time shifting, and there is an impact from keeping the projects running. There is an underlying burn rate in keeping the projects running.

Deepa Venkateswaran
OK. The devex and the project teams, and so on. OK.

Henrik Poulsen
Exactly. Exactly.

Deepa Venkateswaran
All right. Thanks.

Henrik Poulsen
Thank you.

Operator
And the next question is also a follow-up question from the line of Marcus Bellander from Nordea. Please go ahead.

Marcus Bellander
Yes. Thank you. I just wanted to ask you if you have had any revelations regarding floating wind or any observations you've made lately regarding floating wind. Thank you.

Henrik Poulsen
Thanks, Marcus. I couldn't tell you that I've had a revelation, but I can tell you we are spending time on it, and we are spending more time on it than previously. Not that we're actually engaged in any project. We are not, but we want to make sure that we keep a close eye on all of the different foundation technologies that are being developed. We're keeping a close eye on the global pipeline of projects, and we continue to have an estimate as to how much of the 150 to 160 GW for 2030 that we currently project, excluding mainland China, how much of that would in fact be floating. It's still going to be a relatively small technology by 2030, but when you go beyond 2030, we do believe, clearly, there is a role for floating, and whenever the technology offers an attractive opportunity for us, we'll certainly pursue it.

Marcus Bellander
Understood. Thank you.

Operator
And the last question is also a follow-up question from the line of Sam Arie from UBS. Please go ahead.

Sam Arie
Thank you. Hi, again. Henrik, I remembered one other topic that I wanted to be able to ask you about while we still can, and that's this discussion about the political agreement in Denmark, under which the government agreed to maintain its majority stake in the company. My expectations being no change in that position from the government. But I remember that I think there was a written agreement that had quite a specific end date, maybe at the end of 2020, and I just wanted to check with you. What's the latest on that agreement? Is it now lapsing, or has it been extended? And would there be any constraints in the government changing its position now from 2021 onwards? Thank you.

Henrik Poulsen
Thanks, Sam. The political agreement was in fact set with 2020 as the timeline for a potential revisit of this agreement. It is likely the impression that the political parties behind the agreement, they stand by that agreement. I sense that there's

no political appetite for opening up a discussion about the state majority ownership. I think they feel quite good about the 50.1% stake. So, whether you hope for one or the other, my personal take on it, and I could certainly be wrong here, but my personal take right now is that you shouldn't expect any change to the state majority ownership anytime soon. I think it's going to stay for a number of years to come.

Marianne Wiinholt

And it wasn't an end date in 2020. It was just a year mentioned in the agreement, but then it just continues until another decision is taken.

Sam Arie

Right. Very clear. OK. Thank you, and thank you, again. And congratulations, Henrik, and I wish you the best of luck with whatever comes next.

Henrik Poulsen

Thank you so much, Sam. I'm just checking with your operator. Are we out of questions? So, we can wrap it up?

Operator

There are no further questions. So, I'll hand it back to you for closing remarks.

Henrik Poulsen

OK. Thank you. Thank you all very much for joining. Appreciate all of the great questions. And as always, should you have more questions, please don't hesitate, the IR team is here to answer them.

As this was indeed my last earnings call as CEO of Ørsted, I'll conclude by expressing my deepest gratitude to the board of directors, the management team, not least the Ørsted employees, and, of course, all of you analysts and shareholders. It has been a real privilege, and I really appreciate your confidence and support during my tenure, and also for you guys always keeping me and the rest of the team on our toes. It has been an exceptional privilege to be part of the Ørsted team over the past eight years. Thank you all very much. Stay safe. And have a continued great day.

Operator

This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.