

Hornsea Offshore Wind Farm

Project Two

Funding Statement Comparison

Appendix N to the Response submitted for Deadline V
Application Reference: EN010053

12 November 2015

smartwind.co.uk

**Hornsea Offshore Wind Farm
Project Two – Application for Development Consent**

Funding Statement

SMart Wind Limited

~~11th Floor~~

~~140 London Wall~~

At DONG Energy

5 Howick Place

London

~~EC2Y 5DN~~

SW1P 1WG

Tel [020777655000800 2851295](tel:0207776550008002851295)

Email info@smartwind.co.uk

Copyright © 2015

All pre-existing rights reserved.

Liability

This document has been prepared by Shepherd and Wedderburn LLP, with reasonable skill and care, within the terms of their contracts with SMart Wind Limited or by a sub-contractor of Shepherd and Wedderburn LLP instructed in accordance with Shepherd and Wedderburn LLP's contracts with SMart Wind Limited, as the case may be.

Document release and authorisation record

Report number	UK06-060700-DCO-0001
Date	January <u>November</u> 2015
Company name	SMart Wind Limited

Table of Contents

1. Introduction..... 3

2. Company Background..... 4

3. Capital Funding 8

4. Conclusion..... 11

SCHEDULE 1 – Glossary of Terms 12

SCHEDULE 2 – Shareholder Letter 13

SCHEDULE 3 – Letter from Fisher German Priestner Ltd..... 14

SCHEDULE 4 - DONG Energy A/S Annual Report 2014 15

1. Introduction

- 1.1 This Composite Updated Funding Statement (the 'Updated Statement') relates to an application (the 'Application') made by SMart Wind Limited ('SMart Wind') acting as agent on behalf of the applicants (i.e., the Project Companies explained at paragraph 2.5 below) to the Secretary of State under the Planning Act 2008 ('PA 2008') for the Hornsea Two Offshore Wind Farm Order (the 'Order'). This Updated Statement has been produced as a composite version of the Funding Statement submitted by the Applicant on 30 January 2015 and the Update to the Funding Statement submitted on 14 September 2015.
- 1.2 This Updated Statement forms part of the suite of Application documents for the Order which seeks development consent for Project Two within the Hornsea Round 3 Zone. Project Two is a Nationally Significant Infrastructure Project ('NSIP') which would authorise the construction and operation of up to 360 wind turbines, up to two offshore accommodation platforms, up to six offshore HVAC collector substations, up to two offshore HVDC converter substations, up to two offshore HVAC reactive compensation substations, subsea inter-array electrical circuits, a marine connection to shore, a foreshore connection and an onshore connection to an onshore substation (which could comprise up to two onshore electrical transmission stations), and the connection from there to National Grid's existing substation at North Killingholme. Project Two will have a total installed capacity of up to 1,800 megawatts ('MW').
- 1.3 This Updated Statement should be read in conjunction with the Application documents. There is also a Glossary to this Statement at Schedule 1 for ease of reference.
- 1.4 This Updated Statement has been prepared in accordance with the requirements of Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 ('APFP Regulations') and the Communities and Local Government Guidance '*Planning Act 2008: Guidance related to procedures for compulsory acquisition*'.
- 1.5 This Updated Statement has been submitted as it will be necessary to acquire land and rights over land in order to develop Project Two and therefore powers of compulsory acquisition have been sought in the Order. This Updated Statement explains how the shareholders of the Project Companies and their ultimate parent companies expect that the Order for Project Two containing authorisation of compulsory acquisition will be funded, more particularly the construction of Project Two as well as the

acquisition of such land and rights as may require to be acquired compulsorily.

2. Company Background

2.1 Summary

2.1.1 Details of the companies involved in Project Two, namely SMart Wind (the promoter of Project Two, as agent on behalf of the Project Companies) and the Project Companies (together the Applicant for the Order), and their shareholders and their ultimate parent companies, are set out below.

2.2 SMart Wind

2.2.1 SMart Wind ~~is was~~ a joint venture between International Mainstream Renewable Power (Offshore) Limited (~~'IMRPOL'~~) and Siemens Project Ventures GmbH (~~'SPV'~~). ~~IMRPOL is. It is now~~ a wholly owned subsidiary of ~~Mainstream Renewable~~DONG Energy Power (UK) Limited (~~'MRP'~~) while ~~SPV is a wholly owned subsidiary of Siemens Financial Services GmbH ('SFS') which in turn is wholly owned by Siemens AG, ('Siemens') a company listed in Germany.~~

~~Mainstream Renewable Power Limited~~

~~2.2.2 Since its inception in February 2008, MRP has grown to become a global company with 177 employees across eight countries and four continents. MRP's aim is to work together with partners and communities to deliver a successful business that accelerates global progress towards a sustainable future.~~

~~2.2.3 MRP is a leading developer of international large scale renewable energy projects with many years of experience in the renewable energy industry. MRP is established in eight countries and is Europe's leading offshore developer, with a portfolio of 5.65GW across Scotland, England and Germany. MRP is also developing over 6.6GW of onshore wind projects and 2.8GW of solar projects across Canada, Chile, South Africa and the US.~~

~~2.2.4 MRP has experience in taking projects through all the stages of development including securing land, wind analysis, environmental studies, consenting, procurement and financing.~~

~~2.2.5 2.2.2 MRP has secured development rights for the 450 megawatts ('MW') Neart na Gaoithe offshore wind farm in Scotland and is developing the 1.2GW Horizont Project in German waters.~~

~~2.3 Siemens AG~~

~~2.3.1 Siemens is a global powerhouse in electronics and electrical engineering. For over 160 years, Siemens has stood for technological excellence, innovation, quality, reliability and internationality. The company is the world's largest provider of environmental technologies. More than one-third of its total revenue stems from green products and solutions. At the end of September 2013, Siemens had around 362,000 employees worldwide on the basis of continuing operations.~~

~~2.3.2 SFS, jointly with its partners, invests in promising infrastructure projects worldwide, with investments in power plants, transportation infrastructure projects (including airports and railroad projects) and healthcare projects.~~

~~2.3.3.2.3 SFS focuses on projects in which Siemens plays a key technological role in construction, operation and maintenance — usually as a general contractor or supplier of core components. Support is provided to projects that promise an appropriate return in terms of the project's risk profile i.e., considering country and market risks and project specifics such as construction and operating risks.~~

2.4.2.3 The Project Companies

~~2.4.2.3.1~~ Two project companies were incorporated pursuant to the Zone Development Agreement to construct and operate the offshore wind farms comprising Project Two identified by SMart Wind and The Crown Estate for development within the Hornsea ~~Round 3~~ Zone. They are Optimus Wind Limited ('OW') and Breesea Limited ('BL'). OW and BL have each signed Agreements for Lease with The Crown Estate in relation to separate, but adjacent, seabed areas, which together comprise the ~~windfarm~~wind farm array components of Project Two.

~~2.4.2~~ The powers of compulsory acquisition sought within the Order are to be conferred on OW and BL ~~(together referred to as 'the undertaker')~~.

~~2.3.2~~ The ownership of OW and BL is split equally between IMRPOL and SPV.

~~2.3.3~~ OW and BL are now wholly owned subsidiaries of DONG Energy Power (UK) Limited.

2.4 DONG Energy

~~2.4.1~~ DONG Energy Power (UK) Limited, a company incorporated in England and Wales (Company Registration No. 04984787) is a wholly owned subsidiary of DONG VIND A/S, a company incorporated in Denmark (Company Number 27256821). DONG VIND A/S is a wholly owned subsidiary of DONG VE A/S, a company incorporated in Denmark (Company Number 26510244). DONG VE A/S is a wholly owned subsidiary of DONG Energy Wind Power A/S, a company incorporated in Denmark (Company Number 31849292). DONG Energy Wind Power A/S is wholly owned by DONG Energy Wind Power Holding A/S, a company incorporated in Denmark (Company Number 18936674). DONG Energy Wind

Power Holding A/S is wholly owned by DONG Energy A/S, a company incorporated in Denmark (Company Number 36213728). The above companies are hereinafter referred to collectively as 'DONG Energy'.

2.4.2 DONG Energy A/S is owned by the following shareholders (Shareholders with less than 5% holdings may remain anonymous):

(i) the Danish State (58.8% shareholding);

(ii) New Energy Investment S.a.r.l, funds managed by Goldman Sachs (17.9% shareholding);

(iii) SEAS-NVE (10.8%); and

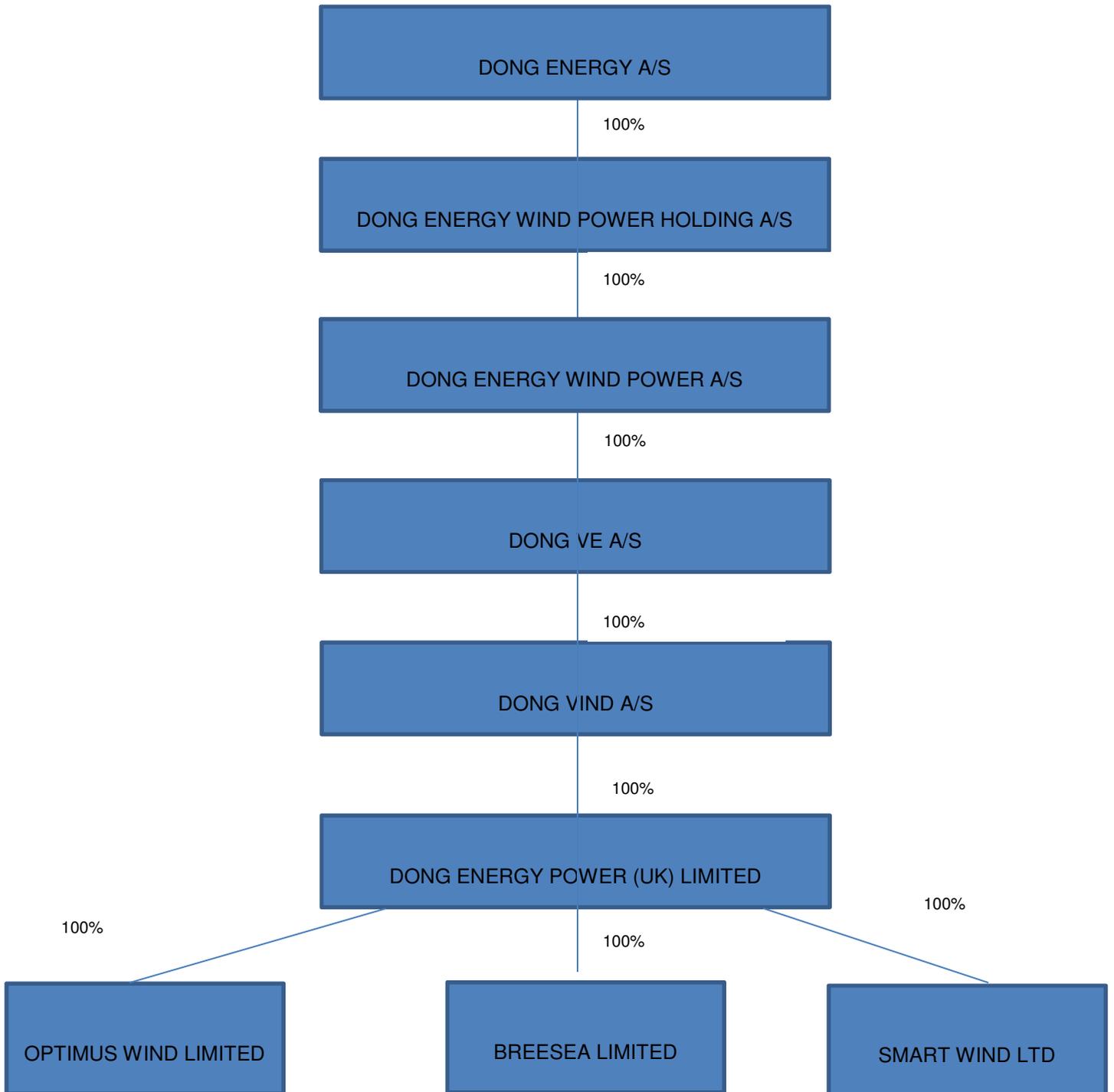
(iv) Others (12.5%).

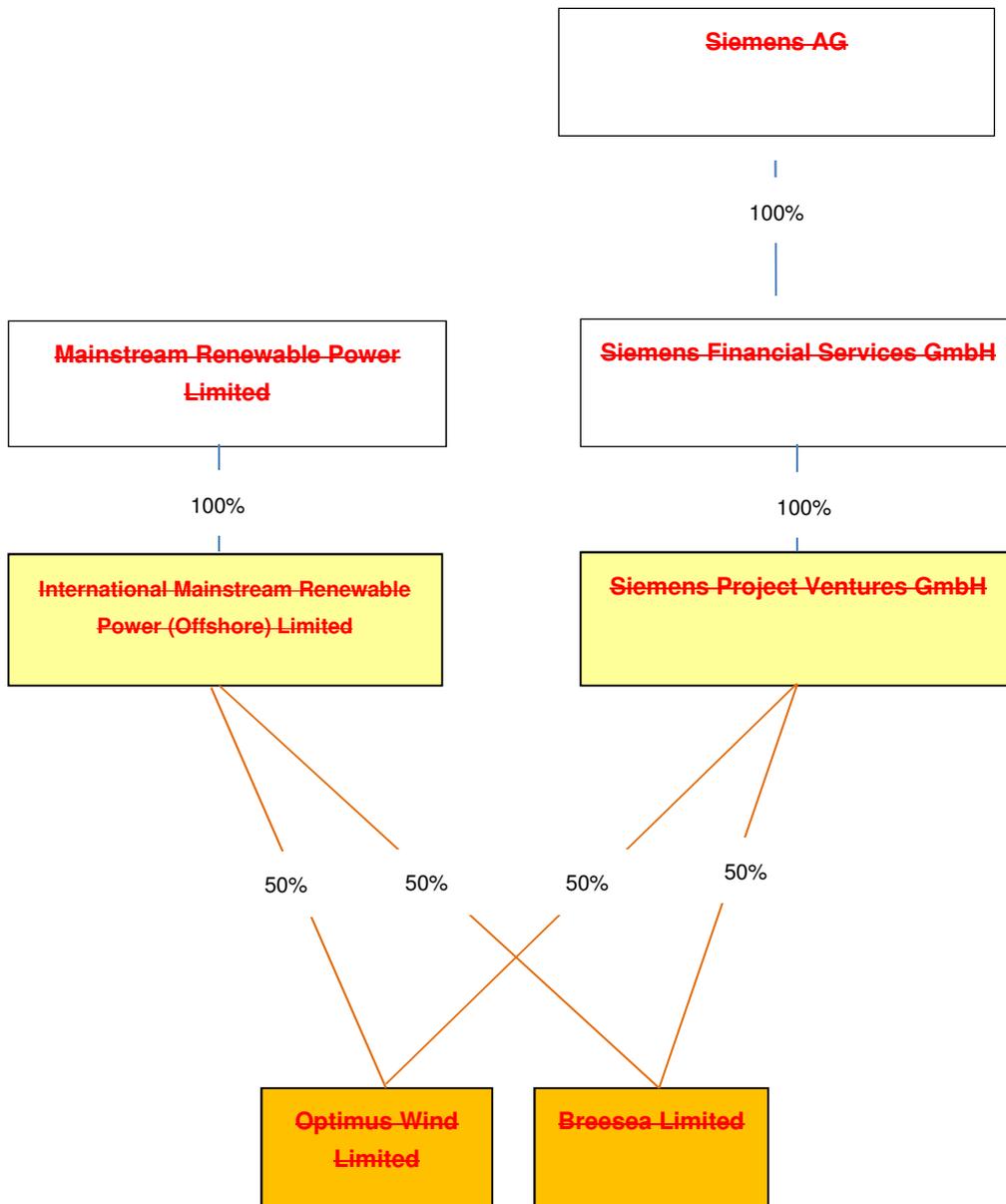
2.4.3 DONG Energy is one of the leading energy businesses in Northern Europe and has its headquarters in Denmark. Its average number of employees in 2014 was 6416 and in that year it generated DKK 67 billion (£7 billion) in revenue. DONG Energy's well established business is based on procuring, producing, distributing and trading in energy and related products in Northern Europe. DONG Energy aims to supply clean and reliable energy. It develops, builds and operates offshore wind farms across Northern Europe and has set a target of quadrupling its installed offshore wind capacity to 6.5GW by 2020.

2.4.4 DONG Energy has over 20 years' experience in offshore wind farm development, and the company has built more offshore wind farms than any other company in the world to date. It currently operates seven offshore wind farms in the UK and has a strong pipeline of projects under construction and development. Across Europe, in the first quarter of 2013 DONG Energy's Wind Power division generated 1.5 TeraWatt hours of electricity. It has 2.5GW of offshore wind power in operation and almost 1.4GW under construction.

2.4.32.4.5 The consolidated accounts for DONG Energy A/S for the year ending 31st December 2014 set out total Non Current assets of DKK 91 Billion (£9.6 billion) based on the exchange rate in force at 31st December 2014.

2.4.42.4.6 Set out below is a diagram showing the interrelationship of the parties:





3. Capital Funding

3.1 As confirmed in the Composite Updated Statement of Reasons (~~Document 6.1 paragraph 5.2.1~~ submitted at Appendix H of the Applicant's response to Deadline IV), Deeds of Consent and Options for Lease have been exchanged with 4882% of landowners and 30 tenants at the date of submission of the Application covering 97% of occupiers equating to approximately 36 km of the

proposed onshore underground cable route and ~~the~~ an Option has also been exchanged for the freehold acquisition of land required for the onshore substation. The Project Companies therefore fully expect the majority of the land and rights required for Project Two to be acquired pursuant to these Deeds of Consent and Options for Lease.

- 3.2 The Composite Updated Statement of Reasons also confirms (at paragraph 5.2.1) that compulsory acquisition powers will not be exercised to the extent that acquisition of land and the rights required for Project Two are achieved by private treaty unless the landowner fails to adhere to the terms of any agreement reached or where it is necessary to acquire, override or extinguish a right or interest in the land which is vested in a person other than the landowner or occupier in question. Also, there are some landowners and occupiers with whom negotiations are continuing and it may be that agreement cannot be reached with these parties.
- 3.3 The Project Companies have considered the funding of compulsory purchase compensation costs in the light of the approach followed on other NSIP applications, including those which have been through examination.
- 3.4 The Project Companies have sought advice from ~~an~~ expert chartered surveyors, Fisher German Priestner Limited ('FGP') in relation to: possible heads of liability for "compulsory acquisition"; valuation of liability under these heads; and the earliest point at which that liability could crystallise. This advice is contained at Schedule 2-3.
- 3.5 Overall FGP's professional opinion is that the total contingent liability associated with the acquisition of land or interest in land amounts to a maximum precautionary figure of £30 million. FGP has advised that there is no potential for a blight claim to be successful in the context of the Project. Accordingly, this liability would only arise following the grant of the DCO and subsequent implementation of the compulsory acquisition powers in terms of Articles 18 to 28 of the DCO.
- 3.6 The Project Companies are special purpose vehicle companies which do not have substantial assets. They are funded by their shareholders on the basis of a rolling budget looking ahead to anticipated expenditure, which is reviewed bi-annually.
- 3.7 Article 4(1) of the Order provides that compulsory powers contained in Articles 18 to 28 of the Order must not begin to be exercised unless a guarantee in respect of the liabilities of the undertaker to pay compensation in respect of the exercise of the relevant powers or an alternative form of security for that purpose is in place which has been approved by the Secretary of State.

- 3.8 Article 4(2) of the Order provides that such guarantee or other form of security is to be treated as enforceable against the grantor by any person to whom such compensation is payable.
- 3.9 Article 4(3) of the Order provides that such guarantee or alternative form of security is to be in place for up to 20 years from the exercise of the powers.
- 3.10 Article 4 of the Order is deliberately structured to avoid the need for the Examining Authority to enquire into this matter. It will be for the Secretary of State acting reasonably, to satisfy himself in relation to the adequacy of the guarantee or other form of security provided at the relevant time when powers require to be exercised. Careful consideration has been given to providing for that approval to be delegated to the local authorities within whose areas the land and rights that may be acquired are located. However, for a long linear project this may necessitate multi-party discussions on potentially more than one occasion with more than one local authority being required to approve a single guarantee or alternative form of security. The Project Companies consider this to be unnecessarily burdensome for the local authorities concerned and for the Project when the same control mechanism could be achieved with greater certainty of delivery and consistency of content through Secretary of State approval.
- 3.11 The Order (Article 35) controls the transfer of compulsory acquisition powers. Under this Article, the transfer of any provisions and rights relating to Work Nos. 6A, 6B, 7A, 7B, 8A, 8B, 9A, 9B and 10 requires the consent of the Secretary of State, except where the transfer is to another body licensed under section 6 of the Electricity Act 1989.
- 3.12 In view of the clear and unequivocal terms of Articles 4 and 35 of the Order, it is the Project Companies' view that the Order alone provides an appropriate mechanism for security for compensation for the exercise of compulsory acquisition powers requested by the Order.
- 3.13 As noted above, in the professional view of FGP the only liability which it is predicted might flow from "compulsory acquisition" powers in the DCO can only crystallise after the exercise of the powers sought within the DCO. In that instance, Article 4 of the DCO would operate to prevent the exercise of compulsory acquisition powers under the DCO until a guarantee or other form of security for contingent liabilities has been put in place and approved by the Secretary of State (Article 4(1)). Article 4(2) further ensures that such security is available to any person to whom compensation is due. That Article therefore provides a robust mechanism to ensure that liability for compulsory acquisition will be linked to a secured source of funding.
- 3.14 As to the grantor of the guarantee or other form of security, the Project Companies would have the ability to procure the financial resources necessary to fund the works to be authorised by the Order. These funds will

meet the capital expenditure for the cost of Project Two, the costs of acquiring land and rights identified in the Order and the cost of compensation otherwise payable in accordance with the Order. The Project Companies will be provided with the funds necessary by their shareholders, such funding being subject to achieving the necessary key consents and a subsequent Final Investment Decision (the final unconditional decision of the shareholders in the companies to invest in the construction of the wind farm and associated infrastructure), which in turn depends upon the allocation of a Contract for Difference by the UK Government.

- 3.15 A letter from the shareholders of the Project Companies confirming this facility is annexed at Schedule ~~1~~2.
- 3.16 The ~~Financial Report for MRP for 2013 is annexed at Schedule 3 and the Financial Report for Siemens for 2013 is~~consolidated accounts for DONG Energy A/S for the year ending 31st December 2014 are annexed at Schedule 4.

4. Conclusion

- 4.1 The explanation set out in this Statement provides a robust basis for concluding that the compensation arising from the exercise of compulsory acquisition powers under the Order will be met, and that the necessary funding for the development of Project Two will be secured.

SCHEDULE 1 – GLOSSARY OF TERMS

BL	Breesea Limited
FGP	Fisher German Priestner Limited
GW	Gigawatts
IMRPOL	International Mainstream Renewable Power (Offshore) Limited
MRP	Mainstream Renewable Power Limited
MW	Megawatts
NSIP	Nationally Significant Infrastructure Project
OFTO	Offshore Transmission Owner
OW	Optimus Wind Limited
PA 2008	Planning Act 2008
SFS	Siemens Financial Services GmbH
Siemens	Siemens AG
SPV	Siemens Project Ventures GmbH
ZDA	Zone Development Agreement

SCHEDULE 2 – SHAREHOLDER LETTER

SCHEDULE 3 – LETTER FROM FISHER GERMAN PRIESTNER LTD

SCHEDULE 4 - ~~FINANCIAL REPORT FOR MAINSTREAM RENEWABLE POWER LIMITED 2013~~ DONG ENERGY A/S ANNUAL REPORT 2014

**SCHEDULE 5 – FINANCIAL REPORT FOR SIEMENS AG 2013 (WHICH INCLUDES
SIEMENS PROJECT VENTURES GMBH)**