

Hornsea Project Three
Offshore Wind Farm



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Funding Statement
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Hornsea 3 
Offshore Wind Farm

 Orsted

Compulsory Acquisition

Funding Statement

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This report is also downloadable from the Hornsea Project Three offshore wind farm website at:
www.hornseaproject3.co.uk

Ørsted

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Front cover picture: Kite surfer near a UK offshore wind farm © Orsted Hornsea Project Three (UK) Ltd., 2018

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Glossary

Term	Definition
Blight	Where the value of a property has been reduced by inclusion within the boundaries of a development proposal
Injurious Affectation	The depreciation in value of the retained land as a result of the proposed construction on, and use of, the land acquired by the acquiring authority for a development scheme
Option for Lease	A commercial agreement with a landowner giving Hornsea Three the right to exercise a lease over, or freehold purchase of, a specified area of land for the purposes of developing and constructing the onshore transmission asset
Part 1 Claim	In circumstances where no land is taken on the exercise of statutory powers granted under a DCO, compensation may be payable when there is a reduction in the value of land caused by the execution or the use of such powers. The right to compensation is set out under Part 1 of the Land Compensation Act 1973 and as such is known as a 'Part 1 claim'
Severance	Severance occurs when the land or land over which rights are to be acquired contributes to the value of the land which is retained, so that when severed from it the retained land loses value
The Project Company	Orsted Hornsea Project Three (UK) Limited

Acronyms

Acronym	Description
APFP	The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009
DCO	Development Consent Order
DM	Dalcour Maclaren
FID	Final Investment Decision
GW	Gigawatt
HVAC	High Voltage Alternating Current
HVDC	High Voltage Direct Current
MW	Megawatt
NSIP	Nationally Significant Infrastructure Project

Funding Statement

1.1 Introduction

- 1.1.1.1 This Funding Statement forms part of the suite of Application documents for the Development Consent Order (“DCO”) which seeks development consent for the Hornsea Project Three Offshore Wind Farm (“Hornsea Three”). Hornsea Three is a Nationally Significant Infrastructure Project (“NSIP”) which would authorise the construction, operation and maintenance of up to 300 wind turbines; up to three offshore accommodation platforms; up to twelve offshore transformer substations; up to four offshore High Voltage Direct Current (“HVDC”) converter substations; up to six subsea offshore High Voltage Alternating Current (“HVAC”) booster stations; up to four surface HVAC booster stations; subsea inter-array electrical circuits; a marine connection to shore; a foreshore connection and an onshore connection to an onshore substation (which could include an onshore HVAC booster station); and the connection from there to National Grid’s existing Norwich Main substation. Hornsea Three will have a total installed capacity in excess of 100 megawatts (“MW”) and anticipated to be approximately 2,400 MW.
- 1.1.1.2 This Funding Statement should be read in conjunction with the Application documents.
- 1.1.1.3 This Funding 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’.
- 1.1.1.4 This Funding Statement has been submitted as it will be necessary to acquire land and rights over land in order to develop Hornsea Three and therefore powers of compulsory acquisition have been sought in the DCO. This Funding Statement explains how Orsted Hornsea Project Three (UK) Limited (Company Registration Number 08584210 and previously named DONG Energy Hornsea Project Three (UK) Limited) (“the Project Company”) and its ultimate parent company expect that Hornsea Three will be funded, including the construction of Hornsea Three as well as the compulsory acquisition of land and rights.

1.2 Corporate Structure and Assets

- 1.2.1.1 The Project Company is the Applicant for the DCO. The Project Company is registered in England and is a wholly owned subsidiary of Orsted Power (UK) Limited, (a company incorporated in England and Wales with Company Registration No. 04984787). Orsted Power UK Limited is a wholly owned subsidiary of Ørsted A/S, a company incorporated in Denmark (Company Number 36213728). There are a number of one hundred percent owned subsidiary companies in the chain of companies between Orsted Power UK Limited and Ørsted A/S as shown in Figure 1.1. These companies are hereinafter referred to collectively as “Ørsted”.

- 1.2.1.2 Ørsted A/S is majority owned by the Danish Government (50.1%) in conjunction with the following shareholders (shareholders with less than 3% not listed):
- SEAS-NVE A.m.b.A;
 - Capital Research and Management Co. (World Investors); and
 - ATP Fondsmæglerelskab A/S
- 1.2.1.3 Ørsted is one of the leading energy businesses in Northern Europe and has its headquarters in Denmark. Its employees totalled 5638 at the end of 2017 and in that year it generated DKK 59.5 billion (£7 billion) in revenue. Ørsted's well established business is based on procuring, producing, distributing and trading in energy and related products in Northern Europe. It has focused its strategy on developing, constructing and maintaining offshore wind projects throughout Northern Europe and has recently expanded into new markets in both North America and Asia. Ørsted is committed to supplying clean and reliable energy and aims to produce 95% of its generated heat and power from renewable sources by 2023. Further investment in offshore wind energy will be crucial to delivering this ambition and Ørsted aims to have 11-12 GW of installed capacity by 2025.
- 1.2.1.4 The consolidated accounts for Ørsted A/S for the year ending 31st December 2017 set out total assets of DKK 146.5 billion (£17.4 billion) and can be found in Annex 1 (Document Application Reference A4.1.2).

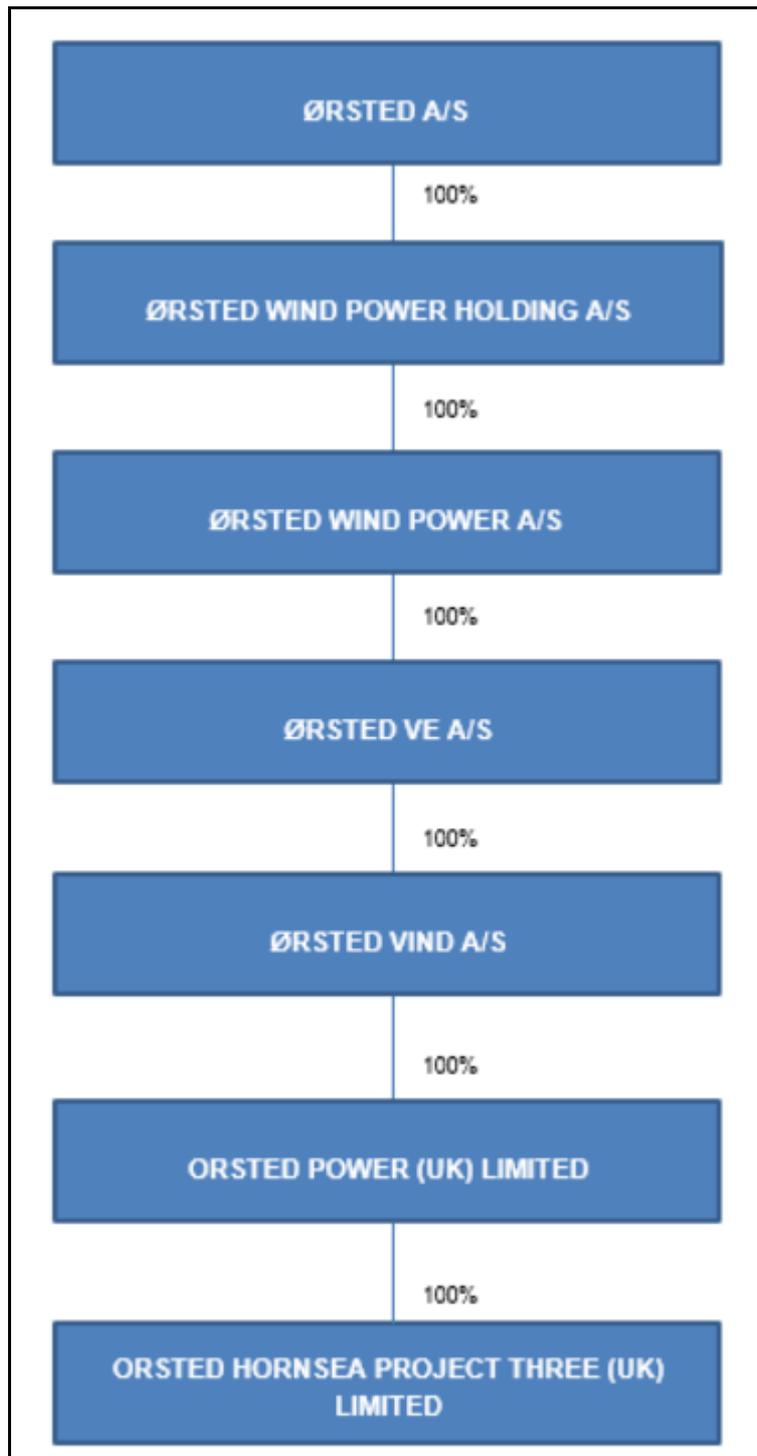


Figure 1.1: Orsted Corporate Structure

1.3 Project cost

- 1.3.1.1 The current cost estimate for Hornsea Three is approximately £5-8 billion¹. This cost estimate includes construction costs, operational costs, development costs, project management costs, financing costs and land acquisition costs.
- 1.3.1.2 The Project Company has a signed Agreement for Lease with The Crown Estate in relation to a 696 km² seabed area. Within this seabed area, Hornsea Three can execute up to four separate leases with The Crown Estate.
- 1.3.1.3 The Project Company has sought advice from expert chartered surveyors, Dalcour Maclaren (“DM”) in relation to possible heads of liability for: compulsory acquisition; blight; severance; injurious affectation; and Part 1 Claims. This advice along with further calculations on how these figures were reached is contained in Annex 2 (Document Application Reference A4.1.1) of the Funding Statement.
- 1.3.1.4 Overall Dalcour Maclaren’s professional opinion is that the total contingent liability associated with the acquisition of land or interests in land amounts to a maximum precautionary figure of approximately £28 million. Based on negotiations to date, Dalcour Maclaren do not expect any claims for blight.

1.4 Capital funding

- 1.4.1.1 The Project Company has assessed the commercial viability of Hornsea Three in light of this information and is confident that Hornsea Three will be commercially viable based on the reasonable assumption that it receives the key consents it requires, including the DCO, and a Final Investment Decision (“FID”) is taken, indicating the final unconditional decision of the shareholders to invest in the construction of the wind farm and associated infrastructure.
- 1.4.1.2 The Project Company is a special purpose vehicle, which does not have substantial assets. It is funded by its shareholder on the basis of a rolling budget looking ahead to anticipated expenditure. Although the precise funding mechanism for Hornsea Three has not been formally agreed, it has the potential to be via a mixture of funding from the Project Company’s parent company combined with project financing from external investors, secured against the revenue streams of the future wind farm. This model has been successfully deployed on Ørsted projects in the past, most recently on the Race Bank project (573 MW, 50% of the project divested for £1.6 billion) and Walney Extension project (659 MW, 50% of the project divested for £2 billion). Ørsted has also indicated that from 2019, it expects its business activities to generate sufficient cashflows in order to finance planned portfolio investments. As a result, it may be possible for Hornsea Three to be financed without the need for any external financing initiatives.

¹ Estimate based on CAPEX and OPEX assumptions in the “Review of Renewable Electricity Generation Cost and Technical Assumptions” (DECC, 2016) using a potential project capacity of 2.4GW for calculation

- 1.4.1.3 Given Ørsted's history of delivering similar projects and its proven track record of securing capital funding, it is expected that the funding mechanisms mentioned in 1.4.1.2 will meet the capital expenditure for Hornsea Three along with the cost of acquiring the required land and the necessary rights over land (whether compulsorily or by agreement) and any compensation otherwise payable as a result of the exercise of the powers in the DCO.
- 1.4.1.4 The Project Company has 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.
- 1.4.1.5 The Project Company has included Article 42 in the DCO which provides that compulsory powers contained in the DCO must not 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. The form and the amount of the guarantee or other form of security must be approved by the Secretary of State. It will be for the Secretary of State to satisfy himself in relation to the adequacy and amount of the guarantee or other form of security provided at the relevant time.
- 1.4.1.6 Article 42(3) of the DCO ensures that the guaranteed funding will be held by a means that is directly accessible to persons entitled to compensation.
- 1.4.1.7 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. Hornsea Three considers this to be unnecessarily burdensome for the local authorities concerned and for the Project Company when the same control mechanism could be achieved with greater certainty of delivery and consistency of content through Secretary of State approval.
- 1.4.1.8 Article 42 of the DCO therefore ensures that adequate funding is in place before any compulsory acquisition compensation liability arises.

1.5 Conclusion

- 1.5.1.1 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 DCO will be met, and that the necessary funding for the development of Hornsea Three will be secured.