



# Hornsea Project Four: Compulsory Acquisition

## Volume E1, Chapter 1: Funding Statement

**Deadline: 2, 29 March 2022**

**Document Reference: E1.1**

**Revision: 2**

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E1.1  
Version B

## Revision Summary

<i>Rev</i>	<i>Date</i>	<i>Prepared by</i>	<i>Checked by</i>	<i>Approved by</i>
01	30/09/2021	Gareth Taylor, Orsted	Claire Brodrick, Pinsent Masons	Jamie Baldwin, Orsted
02	29/03/2022	Gareth Taylor, Orsted	Claire Brodrick, Pinsent Masons	Jamie Baldwin, Orsted

## Revision Change Log

<i>Rev</i>	<i>Page</i>	<i>Section</i>	<i>Description</i>
01	n/a	n/a	Submitted as part of DCO Application
02	8/9	n/a	Removal of erroneous table on page 8/9.
02	Whole document	n/a	Page numbers updated
02	3, 4 & 7	1.2 & 1.4	Update to reflect Ørsted 2021 annual accounts

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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.
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 Four Limited.

## Acronyms

Acronym	Definition
APFP	The Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009
DCO	Development Consent Order
DM	Dalcour Maclaren
FID	Final Investment Decision
GW	Gigawatt

## 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 Four Offshore Wind Farm ("Hornsea Four"). Hornsea Four is a Nationally Significant Infrastructure Project ("NSIP") which would authorise the construction, operation and maintenance of up to 180 wind turbines; up to one offshore accommodation platforms; up to six offshore transformer substations; up to three High Voltage Direct Current ("HVDC") converter substations; up to three offshore High Voltage Alternating Current ("HVAC") booster stations; subsea inter-array electrical circuits; a marine connection to shore; a foreshore connection; an onshore connection to an onshore substation; energy balancing infrastructure; and the connection to National Grid's existing Creyke Beck substation.
- 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 Four and therefore powers of compulsory acquisition have been sought in the DCO. This Funding Statement explains how Orsted Hornsea Project Four Limited (Company Registration Number 08584182 and previously known as Smart Wind SPC6 Limited) ("the Project Company") and its ultimate parent company expect that Hornsea Four will be funded, including the construction of Hornsea Four 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):
- Andel A.M.B.A, Denmark

- 1.2.1.3 Ørsted is one of the leading energy businesses in Northern Europe and has its headquarters in Denmark. Its employees averaged 6,836 over 2021 and in that year it generated DKK 77.7 billion (£9.0 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 have 50 GW of installed capacity globally by 2030.
- 1.2.1.4 The consolidated accounts for Ørsted A/S for the year ending 31<sup>st</sup> December 2021 set out total assets of DKK 162.9 billion (£18.8 billion) and can be found in Annex 1 (Document Application Reference E1.1.3).



Figure 1.1: Orsted Corporate Structure

## 1.3 Project cost

- 1.3.1.1 The current cost estimate for Hornsea Four is approximately £5-8 billion<sup>1</sup>. 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 846 km<sup>2</sup> seabed area. Within this seabed area, Hornsea Four can execute up to four separate leases with The Crown Estate.
- 1.3.1.3 The Applicant has sought advice from expert chartered surveyors, Dalcour Maclaren Limited ("DM") in relation to possible heads of liability for: compulsory acquisition of land and rights in land and imposition of restrictions; blight; severance; injurious affectation; Part 1 Claims and all other potential claims. This advice along with further calculations on how these figures were reached is contained in Annex 2 (Document Application Reference E1.1.1) of the Funding Statement.
- 1.3.1.4 Overall DM's professional opinion is that the total contingent liability associated with the acquisition of land or rights in land amounts to a maximum precautionary figure of approximately £76.859 million. This includes 10% as contingency and further allowance for compound interest which amounts to an additional 21.5%. The contingency is to allow for unknown interests and other factors that may arise throughout the course of Hornsea Four, that cannot reasonably be foreseen at such an early stage. A contingency of 10% has been utilised based on experience of other large scale linear underground cable projects and is considered to be a worst-case scenario for the various heads of liability. The compound interest is to allow any increase in land value and associated liabilities from the date of the assessment to the latest possible valuation date should the compulsory acquisition powers be exercised (approximately nine years). The compound interest is based on the upper estimate of the forecasted Consumer Price Index published by Office of National Statistics and is also applied to the contingency.
- 1.3.1.5 Based on negotiations to date, DM do not expect any claims for blight. The risk of receiving a valid blight notice has been assessed by the Applicant as being relatively low as the qualifying criteria are unlikely to be met. To date, no blight notices have been served in respect of Hornsea Four. Should any claims for blight arise as a consequence of the threat of compulsory acquisition of land or rights over land related to Hornsea Four, the costs of meeting any valid blight notice claim will be met by the Applicant.

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<sup>1</sup> Estimate based on CAPEX and OPEX assumptions in the "BEIS Electricity Generation Costs (2020) using a potential project capacity of 2.6GW for calculation

## 1.4 Capital funding

- 1.4.1.1 The Project Company has assessed the commercial viability of Hornsea Four in light of this information and is confident that Hornsea Four 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 currently 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 Four 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, such as the Race Bank project (573 MW, 50% of the project divested for £1.6 billion), Walney Extension project (659 MW, 50% of the project divested for £2 billion) and Hornsea One project (1,218 MW, 50% of the project divested for £3.5 billion). Ørsted has also indicated that 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 Four to be financed without the need for any external financing initiatives.
- 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 Four 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 45 in the DCO which provides that compulsory acquisition 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 A typical alternative form of security would be a bond or a letter of credit from a bank or other financial institution. The amount of the security and the bank or financial institution would be approved by the Secretary of State. Another option would be to set up an escrow account. An escrow account is an independently held account into which the Applicant would pay a sum of money approved by the Secretary of State to meet the anticipated compensation requirements. The Applicant would then draw on the account to finance any compensation claims. .



- 1.4.1.7 Article 45(3) of the DCO ensures that the guaranteed funding will be held by a means that is directly accessible to persons entitled to compensation. The ability for funding to be directly accessible to persons entitled to compensation will be included as a term of the guarantee or alternative form of security. A copy of the approved guarantee (or alternative form of security) will be made available to persons entitled to compensation by placing it on deposit with the documents certified in accordance with Article 38 of the DCO.
- 1.4.1.8 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 Four 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.
- 1.4.1.9 Article 45 of the DCO therefore ensures that adequate funding is in place before any compulsory acquisition compensation liability arises.

## 1.5 Conclusion

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 Four will be secured.