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Brighter skies for US offshore wind



US offshore wind is undergoing a ‘fundamental reset’ © Reuters

The industry is undergoing a painful reset but it's not all doom and gloom

By **Amanda Chu**

The skies are looking brighter for US offshore wind. Last week, New York awarded new contracts to two troubled offshore wind projects as part of an effort to rescue the nascent industry that has been pummeled by tough macroeconomic conditions. The state has one of the most ambitious targets in the country for offshore wind, making it central to the Biden administration’s goal to deploy 30GW of capacity by 2030.

“This is just psychologically very reassuring to the industry,” said Theodore Paradise, a partner at the K&L Gates law firm, adding that the contracts will go a “long way to encouraging the sector and sending good market signals to the supply chain”.

The two projects awarded were Equinor’s Empire Wind 1 project and Ørsted and Eversource’s Sunrise Wind facility, totalling 1.7GW of capacity. At least one supply chain reaction has already been seen — on Tuesday, Vestas announced it was preparing to meet turbine orders for Equinor’s project off the coast of Brooklyn. Whether the turbines will be US-made is still uncertain: the company last year said it was taking a “wait-and-see” approach for plans to build a US factory because of a lack of market certainty.

“States are signalling clearly that they value the local jobs, supply chain investments, and large-scale clean energy generation that offshore wind offers,” said Ørsted and Eversource in a statement.

US offshore wind is undergoing a “fundamental reset” as high interest rates, inflation, and supply chain constraints made projects contracted prior to the pandemic uneconomical. More than half of US offshore wind contracts were cancelled or at risk of cancellation last year, including Ørsted’s flagship scrapped projects in New Jersey. Partnerships between big developers including BP and Equinor and Ørsted and Eversource have also ended (Ørsted is purchasing Eversource’s stake in Sunrise Wind).

It hasn’t been all doom and gloom. The country’s first two utility-scale offshore wind projects have kicked off operation. Wind turbine makers reported improved profits last quarter. In addition to New York, a consortium of New England states are allowing developers to rebid contracts for more favourable terms.

“The market is going through a tremendous reset . . . I believe the better days are ahead,” Vic Abate, chief executive of the wind business at GE Vernova, told investors in New York yesterday. The firm expects its wind segment, which has suffered steep losses, to enter profitability in 2025.

Josh Irwin, senior vice-president at Vestas, said the recent state contracts were a “step in the right direction” but larger conclusions cannot be drawn. “Long-run certainty for the industry means a consistent level of project construction over many years while leveraging the investments being made in infrastructure today to support future US projects,” Irwin told Energy Source.



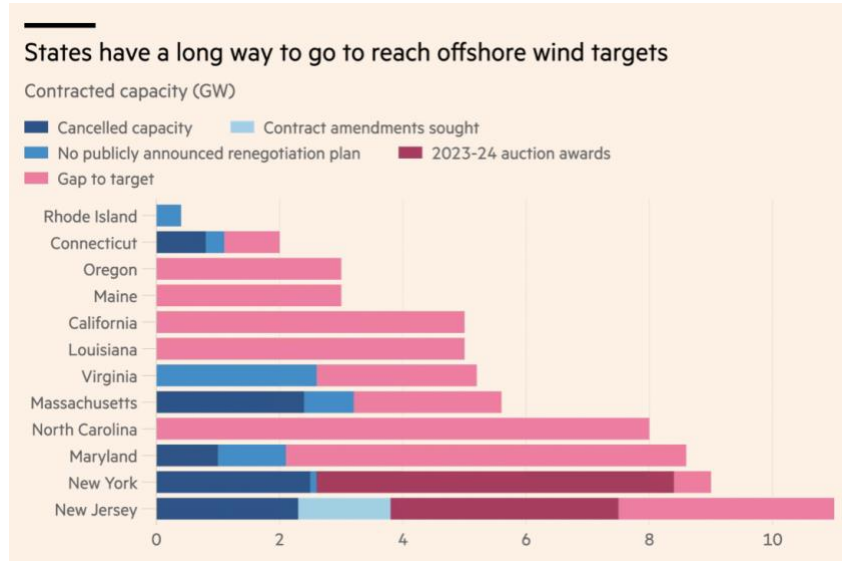
Source: BNEF @FT

Big questions include how much US offshore wind will cost and how quickly the industry will recover. Last week's awards show the bill impact for Empire Wind 1 and Sunrise Wind will now cost ratepayers more than double, from \$0.73 per month to about \$2. Analysts note the price tag reflects the wider increase in the cost of capital and excludes savings from commodity shocks and the benefit of emissions reductions.

"If you look at the fundamentals of the energy source, we are at higher prices, but in the end we will provide a different energy source with a different shape of energy production," said João Metelo, an offshore wind veteran and founder of investment firm Gateway Zero. "If you think about the east coast, there's just a lack of [land-based] resources there, so you need those resources to come in."

Source: BNEF @FT

The US is widely expected to miss its 30GW target, with consultancy BNEF expecting only 14.5GW to be deployed by the end of the decade. Atin Jain, BNEF's senior wind analyst, said "it cannot be ruled out that projects may face more challenges in the future".



"We're making good strides to find ourselves in a position we want to be in, but we also do so not with a lens of complete optimism," said Doreen Harris, president of New York State Energy Research and Development Authority, which awarded the new contracts and expects New York to reach its own 9GW offshore wind target by 2035. "We have to recognise that there will be bumps in the road."

Of course, there's also the uncertainty of the presidential election. Former Trump administration officials have told the FT that he will repeal the IRA, which includes lofty subsidies for offshore wind, if he returns to the White House. Another Trump administration could also slow reviews and lease sales or put Biden-approved projects in jeopardy if they are challenged in court, warns ClearView Energy Partners.

"While we believe the IRA survives, you can't discount the power of the executive branch. You can see scenarios where a new administration delays permitting of offshore wind," said Keith Derman, co-head of infrastructure opportunities at Ares Management.