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BP and Equinor scrap New York offshore wind contract as costs rise

Plan to reset deal follows inflation, higher interest rates and supply chain problems

New York is among US states with ambitious plans to generate wind power along its coastline © AP

Myles McCormick in Houston YESTERDAY

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BP and Equinor reached a deal to scrap a contract to sell energy from a planned offshore wind power project to the state of New York, the latest such venture to be knocked off course by worsening industry economics.

The two Europe-based energy majors on Wednesday said authorities in the US state had allowed them to "reset" a 2022 arrangement to deliver power from their unbuilt 1.26-gigawatt Empire Wind 2 project "in anticipation of new offtake opportunities".

A combination of higher costs and interest rates and supply disruptions has thwarted the business models of many offshore wind power projects in the US, setting back ambitious visions for the clean energy technology from the Joe Biden administration and several coastal states.

New York's climate law calls for the state to get 70 per cent of its electricity from renewables by 2030, with a target to install 9GW of offshore wind capacity by 2035.

As part of its plan, the state awarded BP and Equinor contracts to develop the Empire Wind complex about 15 miles south of New York's Long Island, with 147 turbines set to be spread over 80,000 acres of open sea.

The deal terminated on Wednesday was signed in 2022. BP and Equinor had agreed to sell renewable energy credits from the 1,260MW Empire Wind 2 phase of the project at a strike price of $107.50 a megawatt-hour.

"Commercial viability is fundamental for ambitious projects of this size and scale," said Molly Morris, president of Equinor Renewables Americas. "The Empire Wind 2 decision provides the opportunity to reset and develop a stronger and more robust project going forward."

The companies had earlier petitioned the state utilities regulator to renegotiate the prices of the credits, saying "unforeseeable economic forces" — including inflation stemming from the war in Ukraine and Covid-19, supply chain bottlenecks and interest rate increases, along with permitting delays — had affected the "financial attractiveness" of the project.

The requested relief would have increased the Empire Wind 2 strike price by two-thirds to $177.84/MWh, according to a document filed with the New York State Public Service Commission. The regulator denied their request in October.

But a separate state energy agency in November announced a new solicitation process which it said would be open to "all project developers, including those that previously petitioned the New York State Public Service Commission for financial relief".

Bids under New York's new solicitation are due by January 25 with winners announced next month.

The agreement is the latest evidence of the malaise engulfing the fledgling offshore US wind industry but also illustrates the willingness of state authorities to provide flexibility to prevent projects from being abandoned.

Last year, Avangrid, the US subsidiary of Spanish utility Iberdrola, cancelled contracts to sell power generated by projects off Massachusetts and Connecticut after asserting they had become "unfinanceable".

In October, Ørsted ditched two projects off the coast of New Jersey outright blaming "macroeconomic factors [that] have changed dramatically over a short period of time".

The New York State Energy Research and Development Authority, the agency responsible for wind power contract solicitations, on Wednesday said it "remains committed to advancing clean energy at the best value for New Yorkers, and we are encouraged that Equinor and BP continue to be committed to developing the offshore wind industry and New York's green economy as they reset this project".

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