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Offshore power generation poses a dilemma for developers

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The Veja Mate offshore wind farm off the German coast.

There's no surprise that developers are interested in the offshore wind opportunity off the coastline of Western Australia. With its high-quality wind resources, an appetite for big projects and the significant role of WA in the Australian economy, supplying renewable energy into the South West Interconnected System seems obvious.

Along with the need to reduce WA's emissions, meeting the energy requirements of new critical minerals mining alone will bring increased demand for renewable energy in the system, using every technology available – a case of "all hands on deck".

The Bunbury Offshore Wind Area, revised in response to stakeholder feedback, was announced recently. Its reach now covers 4000km sq – about half the size of what was originally proposed – and will be split in half by a shipping zone.

The new plan has also taken account of potential impacts on recreational fishing and wildlife breeding areas.

Developers now have greater certainty in working up their proposed investments. And every time the government offers offshore wind licence opportunities, the market steps up the maturity ladder. We learn more about how the industry might operate in Australia, and risk is reduced.

In the Gippsland Offshore Wind Area the fee paid to submit and hold a feasibility licence and work towards a commercial licence is significantly less than in mature markets such as Central Europe or the United Kingdom. Therefore a large number of proponents are exploring the opportunity; the situation in WA seems similar as noted recently in The Australian; there is indeed a plethora of interest. However, to borrow from management guru Peter Drucker, one should " … never celebrate good intentions"; it is wise to be cautious about the levels of interest.

A large number of initial proponents won't necessarily lead to a competitive market, in turn requiring less support. In fact, we should expect the opposite – a need for sustained investment certainty to get the industry settled.

This is because developers are continually faced with the "developer's dilemma" of deciding how far along the development process they are willing to keep spending money versus the certainty of getting a return on the investment.

As in all developing industries, the set-up costs in this new Australian market for offshore wind projects are significant: staff, project plans, new infrastructure, restricted supply chains, workforce shortfalls, market research, community engagement, legal issues.

Getting all of this to fall into line means that there will, as is usually the case with major projects, be a drop off in interest or appetite as costs accrue. Ultimately, a developer will make a final investment decision based on the certainty of recovering their investment with a profit sufficient to compensate for the risks taken, while satisfying their investors' return expectation.

If expectations are low, the project is paused or cancelled. With cheap licence fees, this is a tolerable sunk cost.

It is simply an "options game", at least for some.

By comparison, in mature European markets, substantial risk has already been absorbed by government and/or industry. Ports are there, the supply chains, albeit fully booked, have been established, there is certainty of product supply and factories are relatively close by.

But in Australia, none of the infrastructure is in place yet, the majority of supplies need to be imported, and that chain needs to be secured or built, adding to timelines and risks.

What happens when uncertainty suddenly increases? When the costs of supply chain and borrowing money in the United Kingdom changed, policy levers were adjusted for projects in the Allocation Round 6 (2024). The bidding returned with 3.3GW awarded. More important than the awards, investment certainty was maintained, for the long-term benefit of the industry and ultimately consumers.

So governments play a vital role in balancing how risk is distributed, and create an attractive enough opportunity to get the industry going, using policy certainty on targets and support.

To use a golfing term, giving it a "bump and let run" helps to keep things moving.

In the often-quoted example of the Danish offshore wind sector's development in the 2000s, the market price during the initial phase of generation was subsidised by the government. Gradually the subsidies were reduced and today – 10 years after the subsidies peaked – they have disappeared.

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Australia will benefit from the risks taken and knowledge gained by these early markets in getting the offshore wind global industry going, but Australia too should support the sector in the short term and allow it to stabilise in this time of huge structural change.

Any number of mechanisms are possible – feed-in tariffs, renewable energy certificates, feed-in premiums, contracts for difference. But what really matters is the level of support and policy certainty.

From an industry perspective, the opportunities offered by the emerging markets in Victoria and WA, when considered together, are attractive. There are operational differences – the nature of existing energy infrastructure, transmission systems and offtake patterns.

But there are strong similarities that can be leveraged and, together, would attract high-quality investments and create an industry. Developers will want to be sure that the governments, state and federal – and therefore the Australian community – understand the risks involved, and expect policies and support in place to provide sufficient investment certainty.

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https://www.theaustralian.com.au/business/renewable-energy-economy/offshore-power-generation-poses-a-dilemma-for-developers/news-story/57edcae72c16db28c525f3a065c9b2ec