



Inside Energy

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RE: DNREC Offshore Wind Procurement Plan Will Break the Bank

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DNREC is drafting legislation to require procurement of up to 800 megawatts (MW) of offshore wind subsidized by Delaware electric customers. Most likely the plan will require electric utilities to buy offshore wind renewable energy credits (ORECs) as is done in New York, New Jersey, and Maryland. This at a time when nine of eighteen east coast projects developers have exited agreements in other states after failing to obtain state approval for about an average 50% increase in OREC prices. DNREC also is ignoring an Offshore Wind Working Group recommendation any such bidding process include competitive bids from much lower cost onshore wind and solar. The plan could add up to \$680 a year to residential electric bills.

ORECs represent the premium cost of offshore wind to electric customers with utility commissions approving bids to set guaranteed prices for developers. ORECs do not include providing actual electricity, or capacity, and these added revenue streams come from bids into the regional electric grid market. For example, Maryland agreed utilities would buy ORECs from Ørsted from its 846 MW Skipjack 2 project for \$105 each starting in 2026 rising 3% a year to \$184 in 2045 with an average price of \$146 over a twenty year contract. Ørsted, like other federal lease owners, just walked away from the contract as the subsidy was not large enough to obtain financing to build the project. They now plan to continue the federal approval process, and potentially rebid the project to Maryland or Delaware at a higher price.

Recent publically known requests for higher OREC prices from other projects, and new bids inform how high OREC prices need to go. The New York 1260 MW Empire 2 project requested a price rise from \$106 to \$178, a 68% increase. New Jersey accepted bids for the 2400 MW Leading Light project of up to \$167, and the 1342 MW Attentive Energy 2 project for up to \$206.

According to the US Energy Information Agency “Electric Power Monthly” report Delaware electricity use was 11,061,000 megawatt-hours (MWh) of electricity over the last 12 months valued at \$1.428 billion. An 800MW project with 44% capacity factor would generate 3,083,520 MWhs a year. Each MWh of generation creates one OREC. The yearly ORECs would cost an average of \$515 million at \$167 each, or \$635 million at \$206 each. Total Delaware electric cost could rise up to 44%.

The average cost of electricity in Delaware could rise \$57.50/MWh adding up to \$650 a year to residential electricity cost (at 11.3 MW/year), and thousands to commercial and industrial customers. Our Public Service Commission and Public Advocate fought hard to stop a \$54 a year increase to pay for a transmission line from the Salem nuclear plant planned to come ashore in New Castle County. Our Renewable Portfolio Standard Act provides a \$25 Renewable Energy Credit price cap to protect consumer’s electric bills. Why would we allow ORECs at nine times that cap?

We have much lower cost alternatives to reduce carbon dioxide emissions such as onshore wind and solar. Even developing technologies of carbon capture at coal and natural gas fired power plants, and advanced small modular nuclear plants are about half the cost of offshore wind and don’t threaten our \$2.7 billion a year beach economy with industrialization. DNREC’s offshore wind legislation should be opposed.