

# Stiff Headwinds: Offshore Wind's Cost Conundrum



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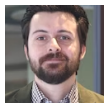
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Things should be smooth sailing for America's offshore wind industry, following the passage of historic funding for offshore wind in the Inflation Reduction Act (IRA) and the announcement of President Biden's ambitious goals for decarbonization (net-zero by 2050) & offshore wind deployment (30 gigawatts by 2030). And in some ways, conditions *are* good, with investments across the US offshore wind supply chain increasing by more than \$7 billion since President Biden took office, and 18 new offshore wind projects announced since the IRA became law. Just last week an offshore wind turbine delivered electricity to the grid for the first time in US history, marking an exciting new milestone.

But, despite robust institutional support, the nascent industry is in turmoil.

Last month, a large offshore wind developer canceled two major projects. The Danish wind energy developer Ørsted said it's calling off its Ocean Wind I and II projects off southern New Jersey. In October, renewable energy company Avangrid canceled their Park City Wind contract that was planned off the coast of Massachusetts. Earlier this year, Rhode Island Energy terminated its Revolution Wind II project, a planned 884-megawatt wind farm that could have powered 500,000 homes.

These setbacks raise the question: What is going on with offshore wind? And how do we fix it?

1. **High Stakes, High Costs:** Simply put, it is now considerably more expensive to build an offshore wind project than it was even a year ago. The combination of rising interest rates and supply chain disruptions has driven up the cost of essential materials and, thanks to higher borrowing costs, made it more expensive for developers looking for financing. Rising interest rates affect all industries, but clean energy projects are particularly sensitive to cost of financing challenges thanks to their high capital expenditures (CapEx). And unlike other more developed clean energy technologies like solar or onshore wind, the emerging offshore wind industry is still too new to benefit from a significant learning curve, leading to broader cost uncertainty and a higher susceptibility to fluctuating capital costs.

And it's important to note that this isn't just a US problem. The Swedish energy company Vattenfall said in July that it was canceling a planned wind project in the North Sea due to 40% cost increases.

2. **NIMBYs on the Prowl:** Across the United States, a small minority of anti-wind activists are banding together to block offshore wind deployment. While the average protest is small, these protesters have been able to cause some serious damage by slowing down or blocking projects, including the Cape Wind project near Martha's Vineyard and the Vineyard Wind Project

Far-right Republicans are adding fuel to the fire. During a September rally in South Carolina, Donald Trump claimed "windmills" are driving whales "crazy" and "a little batty".

Congressman Jeff Van Drew (R-NY) in a tweet labeled an offshore project in New Jersey as an "offshore wind scam."

3. **Help Wanted (and Wanting):** Offshore wind remains a nascent industry, requiring real technical expertise to operate plants and manufacture parts. The United States doesn't yet have the workforce needed to fill vacancies in marine and electrical engineering, construction, and maritime operations. While these gaps are expected to close, it's a pressing challenge for developers in the space— and one that also plays out on the supply chain side. The US does not have the domestic supply needed to supply our burgeoning offshore wind industry. Though the Biden Administration has pledged significant support for supply chain development, US wind developers must rely on foreign imports for key components, creating some instability and uncertainty in this critical supply chain.

**Our Take:** Offshore wind is, in many ways, facing the kind of problems expected of a nascent sector. Some issues, including the limitations of the US workforce, will hopefully work themselves out with time, thanks to the Biden administration's strategic investments in clean energy. But others, including NIMBYism, supply chain disruptions, and continually high costs, require creative and continued partnerships between policymakers and industry.

To overcome these obstacles, a concerted effort is required to amplify the Biden administration's messaging regarding the advantages of wind energy. This initiative should be aimed at preventing community leaders from obstructing deployment based on misconceptions. Simultaneously, there's a crucial necessity to cultivate the US supply chain while concurrently addressing the elevated costs associated with inflation and rising interest rates.

Despite its challenges, we remain confident that the industry will grow and, eventually, provide clean power to Americans across the country.

#### TOPICS