



## Briefing on Ireland's first offshore wind energy auction

### What is the Renewable Electricity Support Scheme (RESS)?

The [Renewable Electricity Support Scheme](#) (RESS) is a key Government programme to deliver the Climate Action Plan.

It is an auction-based process which invites renewable energy projects to compete against each other to win contracts to provide electricity at a guaranteed price. There have been two onshore auctions to date, RESS 1 in 2020 and RESS 2 in 2022, and a third is planned for this summer.

This week will see the publication of the provisional results of Ireland's first ever offshore auction.

### What is ORESS 1?

This is the first offshore auction that will take place under the Renewable Electricity Support Scheme. It is open to offshore wind energy projects which have received a Maritime Area Consent and have a grid connection assessment, setting out their connection method and associated costs.

The successful completion of this auction is a massive step forward for the delivery of renewable energy in Ireland and critical to achieving the targets set in the 2030 Climate Action Plan.

It is arguably the single most important landmark for the delivery of Irish offshore wind energy since the construction of Arklow Bank, the country's only existing offshore wind farm, in the early 2000s.

### When will the auction take place and how will it work?

The auction opened on **Thursday 27 April at 10am** and concluded on **Wednesday 3 May at 12 noon**. The provisional auction results will be published on the EirGrid website on **Thursday 11 May**.

Between 27 April and 3 May participants confidentially submitted a **bid price** to EirGrid. This is the price, per megawatt-hour (MWh), at which they are seeking a contract to provide electricity.<sup>1</sup>

The most expensive bidder, or bidders, will be unsuccessful and will not be awarded a RESS contract.

### Who is competing in the auction?

There are six offshore wind energy projects competing in the ORESS 1 auction. These are known as the Phase One projects. Five of these are on the east coast, listed on the next page running north to south, and one on the west coast.

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<sup>1</sup> A megawatt-hour is a unit of electricity demand or use. To put it in context an average Irish household will use approximately 4.5 MWh of electricity annually. An 800 MW offshore wind farm would expect to annually produce more than 3 million MWh.

Name	Owner	Estimated likely approximate capacity	Location
Oriel Wind Park	ESB and Parkwind	375 MW	Off the coast of Louth
North Irish Sea Array (NISA)	Statkraft	500 MW	Off the coast of north county Dublin
Dublin Array	RWE and Saorgus Energy	Up to 850 MW	Off the coast of Dun Laoghaire
Codling Wind Park	EDF and Fred. Olsen	Up to 1,450 MW	Off the coast of Wicklow
Arklow Bank	SSE Renewables	Up to 800 MW	Off the coast of Arklow
Sceirde Rocks	Corio Generation	450 MW	Off the coast of Galway

### How does a RESS contract work?

A RESS contract guarantees that the bid price submitted in the auction is the **guaranteed minimum** price that a project will get for its power for the 20-year duration of the contract. It is also, and this is a change from the system before the RESS, the **guaranteed maximum**.

It can most easily be explained by using a hypothetical example.

In the RESS auction Gráinne Offshore Wind Farm submits a **bid price of €100 per MWh** and is successful. It is awarded a RESS contract.

When the wind farm is built it will sell its electricity on the wholesale market like any other generator. If it receives a price for its power which is **under the bid price** in its contract, say €80, then it is entitled to a top-up, in this case of €20, to ensure it receives the amount set out in its contract. This top-up is paid for using the PSO levy.

However, if the wind farm **gets a higher price** on the wholesale market than the bid price in its contract, it must refund the difference to the electricity consumer. If, for example, Hollybank wind farm sold its power at €130 it would have to pay €30 back to the electricity consumer (€130 minus the bid price of €100) through the PSO fund.

The new approach has already delivered benefits for Irish electricity consumers who, over the course of 2022/23, will receive €89.10 from RESS supported onshore renewable energy projects, for domestic customers, and €311.51 for businesses.

### What happens next for a project successful in the auction?

We expect the successful projects will apply to An Bord Pleanála before the end of the year.

**This makes it critical that An Bord Pleanála has the resources and the expertise necessary to properly process these applications as quickly as possible.**

The planning process remains the flashing red light for every single offshore wind energy project.

Once the projects receive planning permission they would move to sign contracts with suppliers and then on to the construction phase.

### What happens next for a project unsuccessful in the auction?

A project which is unsuccessful in the auction is in a more challenging situation. They need to find a contract for their power and, to do this, they have broadly two options.

- The first is they could look to sign a Corporate Power Purchase Agreement (CPPA) with a large energy user or trader. Several onshore wind farms in Ireland have CPPAs with companies like Amazon and Microsoft. However, negotiating a CPPA for the volume of power which would be produced by an offshore wind farm is challenging and the CRU is currently considering how long a project should have to sign a CPPA before forfeiting its grid connection assessment.
- The other option is they could look to compete in a future ORESS auction. The Government has made clear in the Phase Two Policy Statement that the next ORESS auction will be on the south coast so for the projects competing in this auction they would have to wait some time before another auction opportunity arose. The Policy Statement also makes clear that any project looking to compete in a future auction must be within a Designated Marine Area and it is uncertain how this will affect the Phase One projects.

### What results can we expect from the auction?

The competition ratio for the auction, which determines the volume of renewable electricity to be procured, is set by the Commission for the Regulation of Utilities and was announced on Friday 5 May as **1.45**.

We expect between 4-4.5 GW of offshore wind capacity to compete in the auction so, applying that competition ratio, we would expect **at least two projects to be unsuccessful** and for ORESS 1 to award contracts to between 2.8 and 3.2 GW of capacity.

This represents a very substantial portion of the 5 GW of offshore wind targeted for connection to the grid by 2030 but it needs to be borne in mind that all of these projects still have to get planning permission.

In addition, with the ratio set so high, if we are to achieve the 5 GW target it now means there needs to be an acceleration of delivery for future auctions.

### What kind of price can we expect from the auction?

The Government has set a maximum bid price of €150 per megawatt-hour so bids cannot exceed this level. We expect, in line with onshore RESS auctions, that EirGrid will publish a single average price for the auction.

The price submitted by each project is confidential and so it is impossible to predict a likely outcome with a high degree of confidence. Based on feedback from market analysts, it is anticipated the average price could be between €95 and €115 per megawatt-hour.

While these prices would be higher than the current European average they compare very well with the prices in the first British auction, which took place in 2015, where prices came in at between £114-£120 (2012 prices) which works out at around €195-€200 today.

It is also worth noting that, in recent months, industry has been raising concerns that prices in recent British auctions may have fallen so low that, unless the budget for future auction rounds is raised, there may be a slowdown in development.<sup>2</sup>

In addition, Irish projects face a number of unique challenges related to port infrastructure and planning which are pushing up prices.

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<sup>2</sup> <https://www.offshorewind.biz/2023/03/17/too-low-and-too-tight-uk-industry-calls-on-government-to-revise-cfd-budget/>

## Has Government done anything to try to push down prices?

Yes, there have been three significant recent policy decisions by Government which have helped to provide reassurance to investors and projects. This has greatly assisted in pushing down bid prices which will, in turn, benefit Irish electricity consumers.

- i. First, the **duration of the contracts** has been extended from 15 years, for onshore RESS auctions, to 20 years, which significantly reduces risk, and therefore cost, for investors.
- ii. Second, in previous RESS auctions the price was not index-linked as it is in other markets, forcing projects to bid higher to cover what they would estimate as likely inflation over the 20-year contract duration. For ORESS, **indexation has been introduced** for operations & maintenance costs, which again reduces risk for the projects.
- iii. Finally, offshore wind farms **will be compensated** if they are forced to switch off, or limit their production, because the electricity grid is unable to accommodate the power they produce. Previously, projects would have estimated likely curtailment costs and pushed up bid prices to cover this. This approach is much more transparent and, particularly as the electricity grid is reinforced in the coming years, will increasingly benefit consumers.

**All three of these decisions will have helped to push down bid prices in ORESS 1.**

## Were there any factors driving up the price of renewable electricity in the ORESS auction?

- i. **Ports:** None of the projects competing in the auction know which port they will use to build the wind farm. While Belfast is the most popular choice it may not be available and there is currently no other port on the island of Ireland with the necessary infrastructure. Projects may need to build from ports in Britain or France which would be more expensive. Since there is no way to know which port they can use the projects will need to consider some of the more expensive options. This will have pushed bid prices up.
- ii. **Uncertainty over planning:** In onshore RESS auctions it is necessary to have planning permission to compete and this is normal practice for auctions across Europe. The Government is running the ORESS 1 auction without requiring projects to have received planning permission. While this helps to accelerate the delivery of renewable energy it means projects must consider they may be granted planning permission with restrictions – fewer turbines, different project layout, smaller (therefore less efficient) turbines – that would reduce the amount of power they can produce and then factor this into their bid price.
- iii. **Interest rates and inflation:** Put simply, it is costing projects more to borrow money to finance the construction of offshore wind farms and this is being passed on to consumers. Banks have raised interest rates faster than at any time in the last 20 years in order to contain record levels of inflation. Higher interest rates, increased bank lending margins and supply-chain pressures have all led to higher costs.

## When can we expect these wind farms to be built?

It depends entirely on the Irish planning system and how long it will take projects to achieve planning permission. We believe it is possible we could see some of these projects operational by 2028/2029 if they are not unduly delayed.

Under the Terms and Conditions of their ORESS contract any successful project must be producing power by 31 December 2031.

[Where can I get an analysis of the results when they are published?](#)

As mentioned above the provisional results will be on the EirGrid website on 11 May.

Wind Energy Ireland's Offshore Wind Energy Conference is taking place on 16 and 17 May and the implications of the results of the ORESS 1 auction will be a key topic of discussion over those two days.

If you would be interested in attending the conference or would like any additional information please contact our director of external affairs, Justin Moran, at [justin@windenergyireland.com](mailto:justin@windenergyireland.com).

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