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# What's the true cost of Britain's biggest offshore wind farm?

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(Credit: Getty images)



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**T**he world's largest offshore wind farm is coming to Britain but there will be only one winner from the scheme – and it isn't electricity consumers. Wind energy giant Ørsted had raised doubts about the Hornsea 3 offshore project earlier this year. But after securing more generous subsidy arrangements from the government, the Danish firm is pressing ahead with the project. Soon, another 230 turbines will fill the North Sea due east of Hull.



The news this week is being hailed as a boost for Britain's net zero strategy but don't be deceived: the true cost of this scheme will be enormous. Last year, Ørsted won a contract for difference – which is designed to give a guaranteed price for energy – for the project with an inflation proof price of £37.55 per Megawatt hour (MWh) in 2012 money (£50.06 in today's terms). But even generous inflation-proofing would not be enough to guarantee a profit. As a result, Ørsted was wary about giving the wind farm the green light.

Now, following further talks with the government, Ørsted says the company has been handed 'flexibility' to reduce the amount of generating capacity covered under the previous agreement by 25 per cent. So far, ministers have been mum about what this means for the price of electricity Ørsted expects to receive. One thing that seems likely is that it will not be the price Ørsted bid.

*The costs of net zero are going to be far higher than the government believes*

After the £37.55 strike price was announced last year, it was greeted like the Second Coming. 'Offshore wind is now the cheapest form of electricity in this country,' Boris Johnson **gushed** in one of his last public appearances as prime minister in September 2022. 'Offshore wind is nine times cheaper than gas,' Johnson claimed. He wasn't the only one. In May, Rishi Sunak **told** the House of Commons that the cost of offshore wind had fallen from £140 per MWh to £40 per MWh. Both Sunak and Johnson were deluded.

Contracts for difference, which the government uses to subsidise renewable energy, are valuable options that the government uses to entice wind developers. Because of the way these contracts are allocated by the government, wind investors are incentivised to low ball the strike prices they offer. Thus moral hazard is hard wired into the allocation mechanism. For this reason, falling strike prices in successive allocation rounds reveal nothing about the cost trajectory of offshore wind.

Yet ministers and civil servants, lubricated by highly effective wind lobbying and wall-to-wall pro-wind media coverage, chose to interpret falling strike price bids for offshore wind projects as evidence that wind was getting ridiculously cheap. Ministers' jingoistic triumphalism about the miracles of British offshore wind is a wind lobby-fed fantasy that has little basis in reality.



In 2017, the government under Theresa May commissioned Sir Dieter Helm, one of Britain's best known energy economists, to undertake a cost of energy review. Helm's conclusions were damning. 'The status quo is not going to be a good place to be in the medium and longer term,' Helm **concluded**. 'It is not sustainable, and therefore it will not be sustained.'

Helm specifically warned against the danger of energy policy being captured by vested interests. 'Energy policy has been partly captured,' he wrote, 'with the result that our decarbonisation is slower and more costly than it need be; our security of supply is weaker than it should be; and households and industry pay too much for their energy.'

The only thing Helm got wrong was his suggestion that policy capture was partial. Energy policy is as close to being 100 per cent captured as it's possible to get.

It's not just the government that's been captured. Shadow net zero secretary Ed Miliband has ensured that Labour is also full of hot air when it comes to talking about the wind industry. After no offshore wind projects qualified for the fifth allocation round in September, Big Wind **blamed** the government's budget



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meant to be the crown jewels of the British energy system,' he said. Only in the upside-down world of renewable energy does pushing up wind energy prices cut them.

The systematic deception over the high costs of wind energy has grave implications for Britain's future prosperity. The economic justification for writing net zero into law was that the costs of renewable energy had fallen much faster than anticipated. As a result, Britain's net zero experiment is based on a falsehood. The costs of net zero are going to be far higher than the government believes. It will inflict great and unnecessary hardship on British families; it will make British firms less competitive and weaken the economy, in turn leading to prolonged public sector austerity and higher taxes for longer.

To reach net zero, the government has placed a huge bet on offshore wind. Big Wind knows that the government has left itself with no other options. The grid is to be decarbonised by 2035 – or by 2030 under Labour. New gas-fired power stations are uninvestable, as they have been for some time. What's more, **analysis** of offshore



wind accounts by Professor Gordon Hughes shows that for projects initiated from 2017, per MWh maintenance costs could exceed guaranteed prices from their twelfth year of operation. To keep their turbines turning, Big Wind will tell ministers they need more money. Lots of it. This week's bail out is set to be the first of many. It's Rishi Sunak's Christmas present to the British people, as we witness the unravelling of the biggest public policy disaster in a generation.

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