

UK OSW Leasing: Insights for Potential Forthcoming BOEM Lease Sales?

Last week, the UK Crown Estates concluded its fourth round of offshore wind (OSW) leasing. The results of this auction offer some potential insight into forthcoming BOEM OSW lease auctions. First of all, the option fees paid to secure leases were at record levels (e.g., up to \$214/kW). This is explained in part by the relatively modest amount of capacity covered by the lease areas offered (8 GW) relative to the UK's OSW ambitions (an incremental 60 GW by 2050). Another factor appears to be "enthusiasm" demonstrated by a new entrant to the UK OSW market, BP and another oil major, Total. (See figure summarizing auction results.) OSW appears to be an attractive hedge for the patient money offered by oil majors who are well able to manage the logistical challenges of working offshore.

Interestingly, incumbent OSW developers were shut out of the auction. They have OSW development portfolios and as such are likely to value additional leases less than a new entrant, particularly when these are only available at what might be considered premium prices. This market fundamental is likely to be different in the US given the more regional scope of markets that typically require adjacent lease areas to compete in state procurements.

It is worth noting that all of these OSW developers (other than BP who recently acquired an interest in Equinor's US OSW lease holdings) would be new entrants to the US OSW market.

