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Financing investments in renewable energy : the impacts of policy design

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Abstract

The costs of electric power projects utilizing renewable energy technologies (RETs) are highly sensitive to financing terms. Consequently, as the electricity industry is restructured and new renewables policies are created, it is important for policymakers to consider the impacts of renewables policy design on RET financing. This paper reviews the power plant financing process for renewable energy projects, estimates the impact of financing terms on levelized energy costs, and provides insights to policymakers on the important nexus between renewables policy design and financing. We review five case studies of renewable energy policies, and find that one of the key reasons that RET policies are not more effective is that project development and financing processes are frequently ignored or misunderstood when designing and implementing renewable energy policies. The case studies specifically show that policies that do not provide long-term stability or that have negative secondary impacts on investment decisions will

increase financing costs, sometimes dramatically reducing the effectiveness of the program. Within U.S. electricity restructuring proceedings, new renewable energy policies are being created, and restructuring itself is changing the way RETs are financed. As these new policies are created and implemented, it is essential that policymakers acknowledge the financing difficulties faced by renewables developers and pay special attention to the impacts of renewables policy design on financing. As shown in this paper, a renewables policy that is carefully designed can reduce renewable energy costs dramatically by providing revenue certainty that will, in turn, reduce financing risk premiums.



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