

Too Good to Be True? Time-Inconsistent Renewable Energy Policies *

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May 16, 2019

Abstract

The transition towards low-carbon economies requires massive investments into renewable energies, which are commonly supported through regulatory frameworks. Yet, governments can have incentives – and the ability – to deviate from previously announced support policies once those investments have been made, which can deter investments. We analyze a renewable energy dynamic regulation game, and derive under what conditions governments have incentives to deviate from their commitments. We consider the effects of various support policies and deployment targets on compliance. Our results explain why Spain conducted retrospective changes in the period 2010-2013 whereas Germany stuck to its commitments.

Key words: Time-Inconsistency; Regulation; Targets; Renewable Energy Policy; Investments

JEL classification: Q42, Q55, O38, C73

*We thank Sascha Drahs, Javier Lopez Prol, Karsten Neuhoff and Jörn Richstein for their helpful comments and suggestions. We also benefited from comments by participants at the 6th World Congress of Environmental and Resource Economists in Gothenburg, the 41st International Conference of the International Association of Energy Economists in Groningen, and the joint energy market research seminar by TU Berlin, the Ifo Institute for Economic Research, TU Munich, the University of Nuremberg, and DIW Berlin. We are grateful for financial support from the German Federal Ministry for Economic Affairs and Energy under grant number 03MAP316 (SEEE project). The views and opinions expressed in this publication do not necessarily reflect the views of the ministry.

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