Balancing the interests of investors and consumers – an economist's perspective

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Root of the problem: using administrative prices in a market based world...the case of support for solar PV

Administrative prices in market world
- A nimble market may be able to respond to change very quickly
- If costs fall quickly, authorities do not necessarily keep up

When renewable support schemes were designed, there was very little experience with PV support

- PV received the highest support, reflecting its historically high costs
- Costs plummeted unexpectedly, tariffs did not keep up and investors piled in
- The financial consequences for consumers / tax-payers were potentially huge
PV was historically by far the most expensive RES technology…

Source: CEER, Status Review of Renewable and Energy Efficiency Support Schemes in Europe in 2012 and 2013, Table 7
There was a dramatic and unexpected fall in the cost of PV modules, starting in late 2008...

Even though costs were expected to fall, what happened over the years 2009 and 2010 was a much sharper decline than the trend line...

Source: Fraunhofer, Photovoltaics Report from 17 November 2015, p. 41
Decrease in costs meant a rapid response by investors due to the short lead time of PV…

Due to changes in legislation rather than a fall in PV cost, leading to unintended PV ‘booms’ in many European countries.

Source: IRENA database
The rush to invest meant a considerable impact on consumers and tax payers... Example Spain...

Evolution of regulated components of electricity price in Spain

Source: CNMC (Final 1999-2007 Settlement; 14/2008 Settlement; 14/2009 Settlement; 14/2010 Settlement; 14/2011 Settlement and 14/2012 Settlement. For 2013 and 2014, we applied the estimated closing costs in the proposed Order whereby 2014 tolls are reviewed. (P) Forecast
What is a reasonable response by Government?

Governments / regulators are entitled to balance the interests of consumers and investors

- Subject to the legal or contractual framework

Reasonably efficient investor would not have invested
Reasonable returns for a reasonably efficient investor

Mistakes happen… it’s what you do next that matters!
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  - The Czech Republic v. Wirtgen (and others)  
  - The Czech Republic v. Antaris (and others)  
  - The Czech Republic v. Natland (and others)  
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