Feed in tariff, quota and auction mechanisms to support wind power development

L. Butler and K. Neuhoff

Discussion

Alberto Cavaliere

Università di Pavia

Regulation vs. markets?

- **Empirical Results**: As far as wind power is concerned regulation through feed in tariffs results in more capacity installed without significant differences in the price of energy delivered
- At odds with **theoretical results** about high power of market incentives with respect to regulation ?
- Fixed tariffs worked as a price-cap mechanism (advocated by authors)→ incentive to reduce costs to increase profits
- Fixed tariffs more effective than auctions (which is the scarce resource?)

Competition, where? Market for outputs or inputs

- Look at the market for inputs → **Germany** :more competition and less profit margins in the production of turbines (less opportunities of cost reduction coupled with uncertainty concerning the pool price and balancing costs in the UK?)
- Rents of wind energy producers are partially dissipated in land lease or purchase
- Wind sites and permissions are more scarce than subsidies → PRICE OF LAND RISES → Scarcity rents are appropriated by landowners?
- Similar mechanism concern subsidies to agriculture → to get more subsidies farmers wants to extend production but the price of land rises (Competition for land is competition for subsidies?)

New energy sources and dynamic efficiency

- Less concern for productive and market efficiency when new technologies are concerned→ dynamic efficiency and **innovation diffusion** are at stake?
- The lesson of **Schumpeter**: 1) tolerate market power to get innovations from entrepreneurs 2) finance constraints may hamper innovations
- Credit market: project selection issues → market uncertainties (pool price) in the UK (-) cheap credit provided in Germany (+)