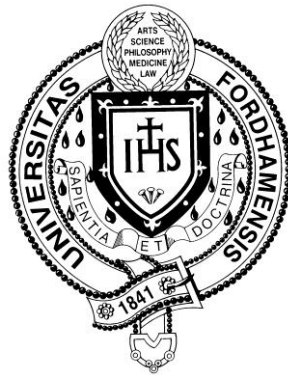


FORDHAM ENVIRONMENTAL LAW REVIEW



LESSONS FROM RENEWABLE ENERGY DIFFUSION
FOR CARBON DIOXIDE REMOVAL DEVELOPMENT

Anthony E. Chavez

**FORDHAM UNIVERSITY SCHOOL OF LAW
FORDHAM ENVIRONMENTAL LAW REVIEW**

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LESSONS FROM RENEWABLE ENERGY DIFFUSION FOR CARBON
DIOXIDE REMOVAL DEVELOPMENT

Anthony E. Chavez^{a1}

ABSTRACT

To avoid the disastrous affects of climate change, society will need to deploy carbon dioxide removal technologies (“CDR”), quite probably in large quantities. However, CDR technologies are undeveloped and deployed at only fractions of the amount necessary. Thus, we need to establish a set of policies that will accelerate the development and deployment of CDR. Patterns of technology diffusion provide important insight into the development of effective policies to promote the innovation and installation of new technologies. The dissemination of new technologies tends to follow a recurring pattern called the S curve. This pattern includes a slow initial adoption, a take-off phase, and then slow dissemination to the remaining population. Recently, experience with the development of renewable energy followed this pattern. Renewable energy’s growth not only demonstrates this diffusion pattern, it reveals the effectiveness of certain policies that promoted diffusion. It also illustrates the difficulties that can arise when policies do not match a technology’s location on the S curve.

^{a1} Professor of Law, Chase College of Law, Northern Kentucky University. Thanks to the participants at the 2018 International Conference on Negative CO₂ Emissions and at the 2019 Achieving Net Zero Conference for their comments on this topic. Special thanks to Julie Allen, Jarrod Bentley, Courtney Gerrein, and Charles Stone for their research assistance. I am also grateful to Deans Judith Daar and Michael Whiteman and the Chase College of Law for supporting this effort. Special thanks to the editors of the Fordham Environmental Law Review for their dedication and contributions.

INTRODUCTION

This paper will consider the possible effectiveness of these policies in developing carbon dioxide removal technologies. In an earlier paper, I looked at renewable portfolio standards (“RPSs”), which mandate quantities of renewables, as a means to incentivize deployment. Accordingly, this paper will focus on price regulations, typically in the form of price subsidies (“FITs”) or tenders (competitive auctions). It also considers secondary policies – primarily tax credits and cash grants – that enhance the effectiveness of the primary policy.

This review of renewable energy diffusion and the policies that supported it helps to construct a set of principles and policies that can accelerate the diffusion of CDR technologies. These policies will need to reflect the differentiation of technologies and geographic resources, provide a stable policy environment to encourage investment, and incorporate mechanisms to respond to changing technological and market conditions.

Many aspects of renewable energy policies should be able to facilitate CDR development. RPSs can provide an overall structure that will assure installations continue at a steady pace. They also incentivize acquisition of the lowest-cost technologies, that help contain overall expenditures and encourage continued innovation. FITs provide long-term subsidies that assure profitability, thereby encouraging investment into new technologies. Secondary policies, such as tax credits and cash grants, should be included because of their recognized effectiveness in enhancing the effectiveness of primary policies. As the CDR technologies mature, their costs will decline, thus causing a rush to install reduced-cost technologies at price-supported rates. Not only must the supporting policies be adjusted to contain their overall costs, governments should also transition to different policies that better reflect the new market realities. Thus, as technologies mature, FITs should be phased out in favor of policies, such as auctions, that can reduce installation prices.

I. DEVELOPMENT OF CDR IS CRUCIAL BUT OCCURRING TOO SLOWLY

Because we have failed to rein in greenhouse gas emissions, planetary warming is likely to exceed either the 1.5°C target required to avoid significant climate changes or even the 2°C target of the Paris Agreement. Most analyses conclude that to stay below these levels, we will need to deploy carbon dioxide (“CDR”) removal technologies. Unfortunately, these technologies are largely underdeveloped and few have been installed. Consequently, the number of installations must increase dramatically to sequester carbon at the rate required.

A. *Surpassing Carbon Emissions Targets*

Despite recent efforts to reduce carbon dioxide emissions, scientists still project that we will not avoid dangerous climate change. Models that demonstrate that this result is still avoidable almost exclusively rely upon carbon dioxide removal options to stay below this level of warming. Although a number of CDR technologies are theoretically possible, they all have limitations. More germane here, they all remain far from the level of development and installation required.

The parties to the 2015 Paris Agreement agreed to aim to hold the rise in warming to “well below 2.0°C.”¹ They further agreed to pursue efforts to hold warming to 1.5°C.² Recent analyses indicate that even warming to the 1.5°C level will cause serious regional consequences, such as extreme temperature warming, heavy precipitation, and droughts.³ The Paris Agreements and earlier global pacts targeted a rise of 2.0°C as the level to avoid because at that level “dangerous anthropogenic interference with the climate system” will be unavoidable.⁴ Failure to hold warming to 1.5°C could result in additional global damages costing between \$8 to \$38 trillion by midcentury.⁵

¹ Adoption of the Paris Agreement, UNFCCC Conference of the Parties, 21st Sess., U.N. Doc. FCCC/CP/2015/10/Add.1 (Dec. 12, 2015), art. 2(1)(a) (Paris Agreement) http://unfccc.int/files/home/application/pdf/paris_agreement.pdf.

² *Id.*

³ Valérie Masson-Delmotte et al., *Global Warming of 1.5°C*, INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE 8 (2018).

⁴ Lena R. Boysen et al., *The Limits to Global-Warming Mitigation by Terrestrial Carbon Removal*, 5 EARTH’S FUTURE 463, 463 (2017).

⁵ Masson-Delmotte et al., *supra* note 3 at 256.

Unfortunately, temperature rises of this magnitude are becoming increasingly likely. The Intergovernmental Panel on Climate Change (“IPCC”) concluded that we can emit only an additional 1,000 Gt of CO₂ between 2011 and 2100 while retaining a 66% chance of keeping warming under 2°C.⁶ With annual emissions approximating 37.5 Gt of CO₂,⁷ society already emitted one-fifth of this amount in just five years.⁸ Thus, scientists have estimated that our emissions will ensure a 1.5°C temperature rise in no more than 20 years, and possibly much sooner.⁹

Consequently, integrated assessment models developed by the IPCC in its Fifth Assessment Report revealed that deployment of CDR technologies are likely a critical component for avoiding the 2°C level at the end of the century. The IPCC noted that 166 of 900 integrated assessment models yielded a 66% chance of warming not exceeding the 2°C level in 2100. 101 of these models required CDR to achieve this result.¹⁰ In fact, they rely upon CDR ramping up rapidly before midcentury to meet this target.¹¹

Although 2100 is still many decades away, efforts to develop, test, and deploy CDR – at scale – must commence shortly. The IPCC models indicate that keeping warming below 1.5°C will require large-scale deployment of CDR within 10 to 20 years.¹² Even some projections to hold warming to 2.0°C will necessitate CDR deployment to begin as soon as the current decade.¹³

⁶ EUROPEAN ACADEMIES SCIENCE ADVISORY COUNCIL COMMITTEE [EASAC], *Negative Emission Technologies: What Role in Meeting Paris Agreement Targets?*, 35 EASAC POL’Y REP. 1, 4 (2018).

⁷ U.N. ENV’T PROGRAMME [UNEP], *The Emissions Gap Report 2019* 3 (2019) [hereinafter UNEP, *Emissions Gap Report 2019*].

⁸ EASAC, *supra* note 6, at 5.

⁹ David Kramer, *Negative Carbon Dioxide Emissions*, 73 PHYSICS TODAY 44, 45 (2020).

¹⁰ Christopher B. Field & Katharine J. Mach, *Rightsizing Carbon Dioxide Removal*, 356 SCIENCE 706, 707 (2017).

¹¹ NATIONAL ACADEMIES OF SCIENCES, ENGINEERING, AND MEDICINE [NAS], *NEGATIVE EMISSIONS TECH. AND RELIABLE SEQUESTRATION: A RES. AGENDA* 9 (2019).

¹² R. Stuart Haszeldine et al., *Negative Emissions Technologies and Carbon Capture and Storage to Achieve the Paris Agreement Commitments*, 376 PHIL. TRANSACTIONS ROYAL SOC’Y A 1, 19–20 (2018).

¹³ Matthew D. Eisaman, et al., *Indirect Ocean Capture of Atmospheric CO₂: Part II. Understanding the Cost of Negative Emissions*, 70 INT’L J. OF GREENHOUSE GAS CONTROL (2018),

B. *The State of CDR Technologies*

Carbon dioxide removal consists of a range of practices and technologies that can reduce the amount of carbon dioxide in the atmosphere. Costs and physical limitations, however, are likely to prevent any single technology from providing a “magic bullet” solution. Consequently, we will need to develop and deploy a portfolio of technologies.

CDR technologies remove CO₂ from the atmosphere and sequester it underground permanently.¹⁴ These technologies fall into two categories. The first involves methods that augment natural processes.¹⁵ The second utilizes technological means to capture and bury the carbon dioxide.¹⁶

Although research on carbon dioxide removal is ongoing, the most promising approaches fall within the following eight categories:¹⁷

- *Afforestation and reforestation* – Afforestation involves the planting of forests on grasslands or shrublands, and reforestation occurs when forests are planted on lands converted from forests to other purposes.¹⁸ The amount of CO₂

https://www.researchgate.net/publication/323636712_Indirect_ocean_capture_of_atmospheric_CO2_Part_II_Understanding_the_cost_of_negative_emissions.

¹⁴NATIONAL RESEARCH COUNCIL [NRC], OF THE NATIONAL ACADEMIES, CLIMATE INTERVENTION: CARBON DIOXIS REMOVAL AND RELIABLE SEQUESTRATION 33 (2015) (Carbon capture and utilization systems, on the other hand, apply the captured CO₂ to a number of processes, including enhanced oil recovery, mineral carbonation, food and beverage carbonation, polymer processing, microalgae production, and enhanced coal bed methane recovery.); Jennifer Wilcox et al., *Assessment of Reasonable Opportunities for Direct Air Capture*, 12 ENVTL. RES. LETTERS 1, 2 (2017).

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ NAS, *supra* note 11, at 45 (Another approach gaining attention recently is Coastal Blue Carbon. This consists of tidal wetlands and seagrasses, which capture and sequester carbon through plant growth and the subsequent burial of this plant organic carbon residue.); *Id.* at 46 (While these areas are among the most robust on earth at sequestering carbon, their current global sequestration totals only 0.84 GtCO₂ per year.); *Id.* at 47 (However, scientists have projected that this rate could more than double through the restoration and creation of coastal wetlands.).

¹⁸ UNEP, *The Emissions Gap Report 2017: A UN Environment Synthese Report* 60 (2017.) [hereinafter UNEP, *Emissions Gap Report 2017*]; NRC *supra*

removed from the atmosphere by forestation depends upon a number of factors, including the availability of sufficient land, nutrients,¹⁹ and water;²⁰ type and age of the trees;²¹ and precipitation and CO₂ levels.²² Possible sequestration from these activities could range from 1.5 to 14 GtCO₂ (billion tons of carbon dioxide) per year by 2030.²³

- *Biochar* – Pyrolysis stabilizes biomass in biochar, which is then buried in soil.²⁴ Biochar constitutes a negative emissions technology because it fixes atmospheric CO₂ in a stable form that can be easily sequestered.²⁵ Additionally, biochar can provide several co-benefits. These include increasing soil fertility and improving water and nutrient retention.²⁶ Scientists project that biochar can sequester as much as 1 GtCO₂ per year by 2030, and possibly up to 9.5 GtCO₂, by 2100.²⁷
- *Bioenergy carbon capture and sequestration (“BECCS”)* – Combining carbon capture and sequestration technology with the burning of biomass in the form of agricultural and forest residues, municipal wastes, and cultivated crops in power plants can have net negative CO₂ emissions.²⁸ Since biomass burning is in theory carbon neutral, and in practice low carbon, the capture and sequestration of the system’s

note 14, at 39 (These processes are necessitated by deforestation, which causes approximately 10% of anthropogenic greenhouse gas emissions.).

¹⁹ EASAC, *supra* note 6, at 17.

²⁰ Duncan McLaren, *Negatones—An Initial Assessment of the Potential For Negative Emission Techniques to Contribute Safely and Fairly to Meeting Carbon Budgets in the 21st Century*, 1 *FRIENDS OF THE EARTH* 1, 20 (2011), <http://www.homepages.ed.ac.uk/shs/Climatechange/Carbon%20sequestration/negatones.pdf>.

²¹ NRC, *supra* note 14, at 40 (In general, net CO₂ removal peaks within 30-40 years, and then it declines to zero as the forest matures.).

²² *Id.*

²³ *Id.*

²⁴ UNEP, *Emissions Gap Report 2017*, *supra* note 18, at 62.

²⁵ Niall McGlashan et al., *High-Level Techno-Economic Assessment of Negative Emissions Technologies*, 90 *PROCESS SAFETY & ENVTL. PROTECTION* 501, 503 (2012),

²⁶ UNEP, *Emissions Gap Report 2017*, *supra* note 18, at 62.

²⁷ McGlashan, *supra* note 25, at 503.

²⁸ Matthew C. Nisbet, *The Carbon Removal Debate*, *INST. FOR CARBON REMOVAL L. AND POL’Y* 1, 9 (Dec. 2019), <https://www.american.edu/sis/centers/carbon-removal/upload/carbon-removal-debate.pdf>.

emissions results in net negative emissions.²⁹ A critical advantage of BECCS as a carbon dioxide removal technology is that it also produces a salable product, electricity.³⁰ BECCS could sequester between 2 and 18 GtCO₂ per year.³¹

- *Direct air capture and carbon sequestration (“DACCS”)* – This involves directly capturing ambient air, separating the CO₂, and then sequestering it underground.³² DACCS technology is still at the developmental stage. While it may eventually provide up to half of the required CO₂ storage, it will necessitate significant energy and land resources to operate at this scale.³³ DACCS has the technical potential to sequester as much as 20 GtCO₂ annually, but actual sequestration is most likely to range from 2 to 5 GtCO₂ per year.³⁴
- *Enhanced weathering* – Atmospheric CO₂ naturally forms a chemical bond with reactive minerals.³⁵ The natural weathering process will remove atmospheric carbon, but it will require 100,000 years to return the climate to its preindustrial level.³⁶ Enhanced weathering augments the natural weathering process. It involves mining and grinding particular minerals to small grain sizes to increase their surface area exposed for weathering.³⁷ This method likely can sequester only 0.7 to 3.7 GtCO₂ per year.³⁸

²⁹ McLaren, *supra* note 20, at 17.

³⁰ McGlashan, *supra* note 25, at 504.

³¹ UNEP, *Emissions Gap Report 2017*, *supra* note 18, at 62; see also Elmar Kriegler et al., *Is Atmospheric Carbon Dioxide Removal a Game Changer for Climate Change Mitigation?*, 118 CLIMATE CHANGE 45-57, 55 (May, 2013) (projecting BECCS deployment limited to a removal of 14-15 GtCO₂ per year).

³² NAS, *supra* note 11, at 39.

³³ Kramer, *supra* note 9, at 49.

³⁴ *Id.* at 64.

³⁵ NAS, *supra* note 11, at 39.

³⁶ Jeremy Deaton, *Earth’s “Weathering Thermostat” Keeps Climate in Check Over Very Long Periods of Time*, CLEANTECHNICA (Sept. 18, 2017), <https://cleantechnica.com/2017/09/18/earths-weathering-thermostat-keeps-climate-check-long-periods-time/>.

³⁷ Jessica Strefler et al., *Potential and Costs of Carbon Dioxide Removal by Enhanced Weathering of Rocks*, 13 ENVTL. RES. LETTERS 1, 1–2 (2018).

³⁸ UNEP, *Emissions Gap Report 2017*, *supra* note 18, at 64.

- *Land management* – Soils lose carbon through oxidation, such as when they are plowed.³⁹ In fact, agricultural practices are responsible for 10-12% of anthropogenic greenhouse gases.⁴⁰ Appropriate land management practices can increase soil carbon capture and reduce soil carbon losses.⁴¹ These practices include accelerating regeneration after disturbance and lengthening crop rotations.⁴² Possible sequestration from agricultural land management practices may be as high as 5.2 GtCO₂ per year.⁴³
- *Ocean alkalinity enhancement* – Adding alkaline materials to the ocean increases the amount of carbon the ocean absorbs.⁴⁴ Ocean alkalinity enhancement accelerates ocean carbon uptake and at the same time reverses ocean acidification.⁴⁵ If operated at the appropriate scale, this method could sequester sufficient carbon to return the atmosphere to its pre-industrial state.⁴⁶
- *Ocean fertilization* – Depositing nutrients, such as iron, nitrogen or phosphorous, into the ocean stimulates the growth of phytoplankton, which consume CO₂.⁴⁷ Scientists project that ocean fertilization could remove up to 3.7 GtCO₂ per year.⁴⁸

Several considerations regarding these technologies are important. First, we cannot rely upon developing a single technology; instead, will need to develop a portfolio of technologies.⁴⁹ Second,

³⁹ McLaren, *supra* note 20, at 21.

⁴⁰ Stefan Frank et al., *Reducing Greenhouse Gas Emissions in Agriculture Without Compromising Food Security?*, 12 ENV'T'L. RES. LETTERS 1, 2 (2017).

⁴¹ UNEP, *Emissions Gap Report 2017*, *supra* note 18, at 61.

⁴² NAS, *supra* note 11, at 39.

⁴³ NRC, *supra* note 14, at 44.

⁴⁴ *Id.*

⁴⁵ Andrew Lenton, et al., *Assessing Carbon Dioxide Removal through Global and Regional Ocean Alkalinization under High and Low Emission Pathways*, 9 EARTH SYS. DYNAMICS 339, 340 (2018).

⁴⁶ T. Kruger, *Increasing the Alkalinity of the Ocean to Enhance its Capacity to Act as a Carbon Sink and to Counteract the Effect of Ocean Acidification*, GEOCONVENTION 4 (2010), http://www.searchanddiscovery.com/abstracts/pdf/2014/90172cspg/abstracts/ndx_krug.pdf.

⁴⁷ EASAC, *supra* note 6, at 27.

⁴⁸ NRC, *supra* note 14, at 61.

⁴⁹ UNEP, *Emissions Gap Report 2019*, *supra* note 7, at 3 (This is apparent for several reasons. First, current global CO₂ emissions approximate 37.5 GtCO₂

physical constraints limit the actual amount of CO₂ that every method can sequester.⁵⁰ Third, “significant scientific gaps” exist for nearly all CDR technologies.⁵¹ Fourth, few CDR methods, if any, are ready to be deployed at the scale required.⁵²

Thus, while we can anticipate the need to utilize CDR technologies, they remain substantially underdeveloped. We need to institute policies that will encourage CDR’s development and deployment.

per year.); NAS, *supra* note 11, at 4 (As indicated above, no single technology, except possibly ocean alkalization, will be able to keep pace with these annual emissions, let alone actually reduce the amount of atmospheric CO₂. Furthermore, a broad portfolio of technologies will be less expensive and less disruptive; diversification will also help manage the risks of untested technologies.).

⁵⁰ UNEP, *Emissions Gap Report 2019*, *supra* note 7, at 10-11; EASAC, *supra* note 6, at 12-13 (For several such limitations. In addition, several CDR approaches may compete with one another. BECCS, afforestation, reforestation, DACCS, and enhanced weathering all may draw upon the same land and water resources.); McLaren, *supra* note 20, at 17 (Moreover, methods that rely upon reactions with minerals – such as weathering and alkalization – may confront limitations deriving from the quantity of minerals that must be extracted, processed, and transported.).

⁵¹ NAS, *supra* note 11, at 13; Haszeldine, et al., *supra* note 12, at 11 (Many CDR technologies are little more than concepts and operate only as pilot projects.); NAS, *supra* note 11, at 7 (Some have not yet even been tried in the field.).

⁵² Vassilis Stavrakas, Niki-Artemis Spyridaki & Alexandros Flamos, *Striving towards the Deployment of Bio-Energy with Carbon Capture and Storage (“BECCS”): A Review of Research Priorities and Assessment Needs*, SUSTAINABILITY MDPI 2 (2018) (BECCS, for example, is considered among the most promising of the CDR technologies.); Wil Burns & Simon Nicholson, *Bioenergy and Carbon Capture with Storage (“BECCS”): the Prospects and Challenges of an Emerging Climate Policy Response*, 7 J. Env’tl. Stud. & Sci. 527, 529 (2017) (Current BECCS operations, however, consist of only fifteen pilot plants and one commercial plant.); Nisbet, *supra* note 28, at 7 (Nevertheless, the IPCC scenarios that rely on BECCS to keep warming under 2.0°C require that BECCS plants be deployed in the tens of thousands over the next few decades.); Glen P. Peters et al., *Key Indicators to Track Current Progress and Future Ambition of the Paris Agreement*, 121 NATURE CLIMATE CHANGE 1, 4 (2017) (Similarly, these scenarios anticipate that several thousand DACCS plants will be operating by 2030; planned construction, however, only numbers in the tens.); Niall R. McGlashan et al., *Negative Emissions Technologies*, GRANTHAM INST. FOR CLIMATE CHANGE BRIEFING PAPER NO 8 LONDON IMPERIAL COLLEGE 1, 15 (Oct. 2012) (Finally, deploying biochar at the necessary scale would require an increase of over 63 times the current charcoal production capacity.).

II. DIFFUSION OF NEW TECHNOLOGIES

To best encourage the development and deployment of CDR technologies, we need to consider the historic patterns of technology diffusion. The distribution of new technologies typically follows a recurring pattern. These patterns proceed on a path reflecting the technologies' initial uncertainty, acceleration of their adoption as they become technologically mature, and then saturation of the market. Researchers have recognized a number of factors that drive these patterns. Examining these patterns informs expectations for future technology dissemination, the choice of policies to accelerate their distribution, the means to augment their diffusion, and inflection points where policies may need to change.

Technology “diffusion” identifies the process by which “an innovation is communicated through certain channels over time among members of a social system.”⁵³ Diffusion modeling informs the understanding of technology growth.⁵⁴ It illustrates that the market share of new technologies does not grow linearly; instead, it typically follows an “S” shape.⁵⁵

Gabriel Tarde first developed diffusion theory in 1903, recognizing the S shape that it follows.⁵⁶ Subsequently, scientists have applied diffusion models to analyze the adoption of numerous technologies, including cars, televisions, computers, other consumer goods, and non-commercial phenomena.⁵⁷ Applying diffusion-models

⁵³ G. Joga Rao, S.K. Shrivastava, & Gouse Baig, *Diffusion Modeling and Implementation of Renewable Energy Technologies in India*, 3 INT'L ADVANCED RES. J. IN SCI., ENGINEERING & TECH. 106, 110 (2016).

⁵⁴ K. Usha Rao & V.V.N. Kishore, *A Review of Technology Diffusion Models with Special Reference to Renewable Energy Technologies*, 14 RENEWABLE & SUSTAINABLE ENERGY REVIEWS 1070, 1075. (2010).

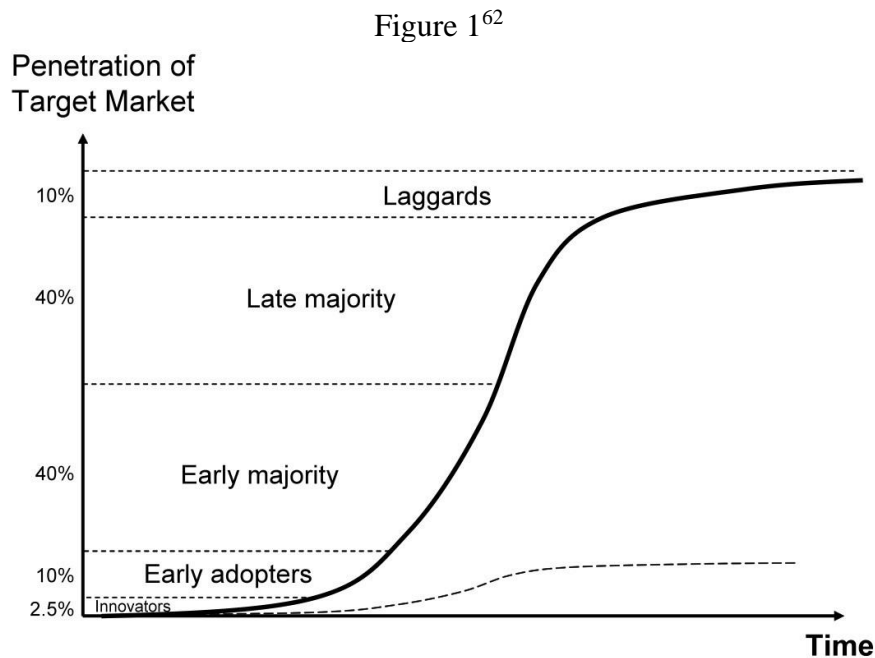
⁵⁵ Stephen W. Davies & Ivan Diaz-Rainey, *The Patterns of Induced Diffusion: Evidence from the International Diffusion of Wind Energy*, 78 TECH. FORECASTING & SOC. CHANGE 1227, 1235 (2011)..

⁵⁶ Cinderella Dube & Victor Gumbo, *Diffusion of Innovation and the Technology Adoption Curve: Where Are We? The Zimbabwean Experience*, Bus. & Mgmt. Stud. vol. 3, No. 3 (Sept. 2017) 34-52, 36 (Technology diffusion derives from the recognition of growth patterns of cell colonies in a medium. Colony growth reaches a saturation point because of nutrient or space limitations. Similarly, technology diffusion levels off as it approaches the number of potential adopters.); Rao, *supra* note 73, at 110.

⁵⁷ Dube, *supra* note 56 (These non-commercial phenomena includes things such as fatal car accidents, major nuclear accidents, and deaths from AIDS.).

analysis helps design and assess supporting policies.⁵⁸ For instance, new technologies typically require initial supporting policies before achieving diffusion and maturity, and maintaining these policies during later stages may be counterproductive.⁵⁹

In the 1950's and 1960's, economists became more engaged in diffusion analysis. They especially focused on understanding the patterns of diffusion.⁶⁰ The general pattern of technology diffusion consists of a slow start, acceleration to a peak, and then a slowing as saturation occurs.⁶¹ Analysts refer to this pattern as the S curve, as reflected below:



⁵⁸ Rao, *supra* note 54, at 1075.

⁵⁹ Stéphane Isoard & Antonio Soria, *Technical Change Dynamics: Evidence from the Emerging Renewable Energy Technologies*, 23 ENERGY ECON. 619, 631 (2001).

⁶⁰ Davies & Diaz-Rainey, *supra* note 75, at 1229.

⁶¹ International Energy Agency [IEA], *Deploying Renewables 201120112011: Best and Future Policy Practice 97* (2011) [hereinafter IEA, *Deploying Renewables*].

⁶² *The Adoption Curve*, INVESTAURA (Aug. 15, 2019), <http://www.business-planning-for-managers.com/main-courses/marketing-sales/marketing/the-adoption-curve/>.

The S curve begins with a relatively flat inception stage. During this stage, the technology first appears in commercial markets. Costs, however, remain relatively high, suppressing purchases.⁶³ Next, in the take-off phase, the market for the technology expands quickly, and costs begin to fall.⁶⁴ In the final stage, consolidation,⁶⁵ growth flattens as the market approaches saturation.⁶⁶ Development of renewable energy followed the S-curve pattern, as evidenced by its rate of adoption. Production of the first trillion watts of renewable energy required 40 years; the second trillion needed only 5 years.⁶⁷

As technologies progress through these stages, different barriers to deployment arise, often necessitating adjustments to supporting policies.⁶⁸ During the inception phase, developers focus on establishing the costs and potential of technologies. Typically, this involves the construction of pilot or demonstration plants, developing the requisite administrative infrastructure to process related permit applications, and establishing the necessary supply chains.⁶⁹ Policy considerations in the inception phase include policies that set the groundwork for long-term favorable conditions and that compensate for the high costs at this stage.⁷⁰

The take-off phase presents different challenges. During this stage, the infrastructure investments of the inception phase facilitate fast growth of installed capacity until markets approach saturation.⁷¹ At this stage, policies must be stable yet flexible. Stability is necessary to maintain investor confidence;⁷² flexibility is required because

⁶³ IEA, *Deploying Renewables*, *supra* note 61, at 97.

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ Rao, *supra* note 53, at 110.

⁶⁷ Jeremy Hodges, *Global Green Energy Capacity Surpasses a Trillion Watts*, BLOOMBERG L. ENV'T. & ENERGY REP. (Aug. 2, 2018, 11:00 AM), <https://news.bloomberglaw.com/environment-and-energy/global-green-energy-capacity-surpasses-a-trillion-watts>.

⁶⁸ IEA, *Deploying Renewables*, *supra* note 61, at 97-98.

⁶⁹ *Id.* at 101.

⁷⁰ *Id.* at 101-02 (A particular concern at this stage is the technological “valley of death,” during which technologies requiring large scale demonstration lack the requisite financing. These risks especially arise for large-scale projects that require substantial funding to develop and construct demonstration models.).

⁷¹ *Id.* at 110.

⁷² *Id.* at 103; Davies, *supra* note 55, at 1236. (The most successful systems have had such policy continuity.).

support costs can rise dramatically as deployments take off.⁷³ Either flexible policies or those that are transitional in nature best respond to issues arising at this stage.⁷⁴ Accordingly, at this stage incentives must decrease over time to prevent policy costs from skyrocketing.⁷⁵

Finally, in the saturation or consolidation stage, the issues are much simpler. At this stage, most of the market has already adopted the technology, and the remaining market consists of last adopters, identified as “laggards.”⁷⁶ Thus, the issues largely consist of dissemination to these remaining adopters and integration of the technologies at substantial levels of adoption.⁷⁷

Over time, economists have refined their analysis of diffusion patterns, focusing on inducing diffusion, accelerating diffusion, and identifying diffusion pivot points. Induced diffusion involves interventions that alter the speed or total level of diffusion of an innovation.⁷⁸ Although physical limitations can cap diffusion levels, government policies targeting specific technologies can accelerate diffusion.⁷⁹ Induced diffusion can result from policies that facilitate adoption or sustain the adoption process.⁸⁰ Graphically, the changes to the typical S curve engendered by induced diffusion involve a shifting of the curve to the left (accelerated diffusion) or a higher end point (increased saturation).⁸¹ Absent sufficient policy interventions, diffusion will follow the typical pattern. Strong policy inducements, however, can favorably reshape the diffusion curve.⁸²

The success of induced diffusion can depend upon a number of considerations, including supporting policies.⁸³ Prime examples of the interaction of policy and diffusion come from the development of

⁷³ IEA, *Deploying Renewables*, *supra* note 61, at 102.

⁷⁴ *Id.* at 103.

⁷⁵ *Id.*

⁷⁶ Rao, *supra* note 53, at 110.

⁷⁷ IEA, *Deploying Renewables*, *supra* note 61, at 104.

⁷⁸ Sergio Giaccaria & Silvana Dalmazzone, *Patterns of Induced Diffusion of Renewable Energy Capacity: The Role of Regulatory Design and Decentralization*, 282 CARLO ALBERTO NOTEBOOKS 2 (2012).

⁷⁹ C. Nolden, *The Governance of Innovation Diffusion – A Socio-Technical Analysis of Energy Policy*, EPJ Web of Conferences 33 (2012) at 2-3.

⁸⁰ Giaccaria & Dalmazzone, *supra* note 78, at 2.

⁸¹ Ivan Diaz-Rainey, *Induced Diffusion: Definition, Review and Suggestions for Further Research*, SSRN ELECTRONIC J. 6–7 (2009).

⁸² Davies, *supra* note 55, at 1237.

⁸³ *Id.* at 1229.

renewable energy. Many European countries successfully induced the diffusion of wind power.⁸⁴ During its inception, these countries provided financial incentives for demonstration wind projects.⁸⁵ The most successful European nations in inducing wind power's diffusion enacted feed-in tariffs ("FITs").⁸⁶ Characteristics of FITs that facilitated diffusion included revenue certainty, policy continuity, and removal of non-price (primarily grid access) barriers.⁸⁷ Support measures such as FITs helped renewable energy costs to decline, creating new demand. This triggered learning by doing⁸⁸ and economies of scale,⁸⁹ which pushed costs down further.⁹⁰

Research into diffusion of renewable energy has identified several factors that facilitate cost reductions. These included experience with the technology, as exhibited through a learning curve analysis, and economies of scale.⁹¹ Technologies proceed down the learning curve in a recurring pattern. Research and development facilitate initial cost declines; then, performance standards dominate, and price reductions drive demand.⁹² As developers gain more experience with new technologies, they are able to increase

⁸⁴ *Id.* at 1235.

⁸⁵ Rao, *supra* note 54, at 1072-73.

⁸⁶ Davies, *supra* note 55, at 1236.

⁸⁷ *Id.*; see also Section III, *infra* subsec. A.

⁸⁸ Saed Alizamir, Francis de Véricourt, & Peng Sun, *Efficient Feed-In-Tariff Policies for Renewable*, 64 OPERATIONS RES. 52, 53 (2016) ("Learning by doing" refers to a concept in economics that costs decline as production increases because manufacturers learn how to produce the technology more efficiently.); Björn A. Sandén & Christian Azar, *Near-term Technology Policies for Long-Term Climate Targets – Economy Wide Versus Technology Specific Approaches*, ENERGY POL'Y 1557, 1559-76, 1559 (2005) (In addition, labor becomes more skilled at production.) (These improvements also can generate positive feedbacks, which further benefit product development.).

⁸⁹ Sandén, *supra* note 88 ("Economies of scale" occur as production costs per unit of output fall as fixed costs get spread over an increasing volume of production. Rising production volumes also enable efficiencies through greater divisions of labor.).

⁹⁰ Malcolm Keay & David Robinson, *The Limits of Auctions: Reflections on the Role of Central Purchaser Auctions for Long-Term Commitments in Electricity Systems*, OXFORD INST. FOR ENERGY STUD. 4 (2019); Nolden, *supra* note 79, at 5-6 (One analyst concludes that for each doubling of installed capacity, prices fall by 7% because of economies of scale and supply chain efficiencies.).

⁹¹ Rao, *supra* note 53, at 115.

⁹² David Roberts, *What Made Solar Panels So Cheap? Thank Government Policy.*, VOX (Dec. 28, 2018), <https://www.vox.com/energy-and-environment/2018/11/20/18104206/solar-panels-cost-cheap-mit-clean-energy-policy>.

productivity through R&D, experimentation, and implementation.⁹³ This reduces time and labor costs, lowering unit costs of production.⁹⁴

Awareness of the S-curve pattern informs policy development for technology incentivization and diffusion. Specifically, it indicates that the growth of technologies will usually follow a nonlinear pattern. Consequently, slow initial growth is foreseeable and should not, by itself, trigger policy changes.⁹⁵ Policy stability enhances effectiveness. In fact, policy stability is a more important determinant of diffusion than financial support.⁹⁶ Conversely, regular changes to policies limit their effectiveness.⁹⁷

Renewable energy diffusion exhibited many of these characteristics. Government policies facilitated its development to the point where costs dropped as a result of learning and mass production.⁹⁸ Renewables then proceeded along a path of research and development, demonstration models, market introduction, and diffusion.⁹⁹ Economists have estimated that research and development, economies of scale, and learning-by-doing accounted for 60 percent of the cost decline of solar photovoltaic panels from 1980 to 2012.¹⁰⁰ Over a slightly longer period (1975 to 2015), the cost of PVs dropped 99 percent.¹⁰¹ As the technology improved, economies of scale became the dominant source of cost reductions.¹⁰²

The government policies that facilitated renewable energy diffusion included supply-side and demand-side approaches. Supply

⁹³ Rao, *supra* note 54, at 1073.

⁹⁴ Isoard, *supra* note 59, at 621.

⁹⁵ Davis, *supra* note 55, at 1235.

⁹⁶ Inga Boie, *Determinants For the Market Diffusion of Renewable Energy Technologies*, UNIVERSITY OF EXETER 242–43 (Nov. 2016) (unpublished Ph.D thesis, on file with University of Exeter).

⁹⁷ Rao, *supra* note 54, at 1074 (One example of the impact of policy uncertainty comes from the recurring expirations and extensions of the wind production tax credit in the United States, discussed more fully *infra* at Section III.E.).

⁹⁸ *Id.* at 1073.

⁹⁹ Rao, *supra* note 53, at 114; Nolden, *supra* note 79 at 3. (As technologies progress through these stages, supporting policies should be flexible; costs will usually have fallen sufficiently to render subsidies unnecessary.).

¹⁰⁰ Goksin Kavlak et al., *Evaluating the Causes of Cost Reduction in Photovoltaic Modules*, 123 ENERGY POLICY 700, 709 (2018).

¹⁰¹ Roberts, *supra* note 92.

¹⁰² Kavlak, McNerney, & Trancik, *supra* note 100, at 709.

side policies facilitate delivering new technologies to markets.¹⁰³ Price subsidies are classic examples of such policies, and they can play critical roles in facilitating diffusion.¹⁰⁴ Among such subsidies, FITs especially have been successful in promoting diffusion by encouraging learning and reducing costs.¹⁰⁵ Demand-side policies directly target consumption of the technology. For instance, renewable portfolio standards (“RPSs”) in the United States are exemplars of these approaches.¹⁰⁶ RPSs mandate that electricity providers receive a particular portion of their electricity from renewable sources, thus necessitating the installation of those resources.¹⁰⁷ Alternatively, tax credits, by reducing net installation costs, also stimulate demand.¹⁰⁸ Demand-side strategies, by stimulating demand for new technologies, generate production, which enhances learning-by-doing and economies of scale.¹⁰⁹ Increased production can then reinforce these effects by reducing costs, accelerating economies of scale, and inducing further learning effects.¹¹⁰

To achieve these results, governments used policies that created financial incentives or imposed quantity regulations to generate demand for renewable energy.¹¹¹ Government policies were critical to incentivizing private activity that drove down costs.¹¹² Figure 2 illustrates the relationship between cost and volume in the utility-scale solar power market. As solar power production and installation accelerated, production moved down the cost curve,

¹⁰³ Juliana Subtil Lacerda & Jeroen C. J. M. van den Bergh, *International Diffusion of Renewable Energy Innovations: Lessons from the Lead Markets for Wind Power in China, Germany and USA*, 7 *ENERGIES* 8236, 8240 (2014).

¹⁰⁴ Patrik Söderholm & Ger Klaassen, *Wind Power in Europe: A Simultaneous Innovation–Diffusion Model*, 36 *ENVTL. & RESOURCE ECON.* 163, 183 (2007).

¹⁰⁵ *Id.*; UNEP, *Feed-in Tariffs*, *infra* note 124 (Experts credit FITs with incentivizing a substantial majority of renewable energy installations.).

¹⁰⁶ Lacerda, *supra* note 103, at 8251.

¹⁰⁷ Corey N. Allen, *Untapped Renewable Energy Potential: Lessons for Reforming Virginia’s Renewable Energy Portfolio Standard from Texas and California*, 35 *VA. ENVTL. L.J.* 117, 120 (2016). (RPSs are discussed more fully *infra* at Section III.D.).

¹⁰⁸ *See* Section III, *infra* subsec. E.

¹⁰⁹ Lacerda, *supra* note 103, at 8242-43.

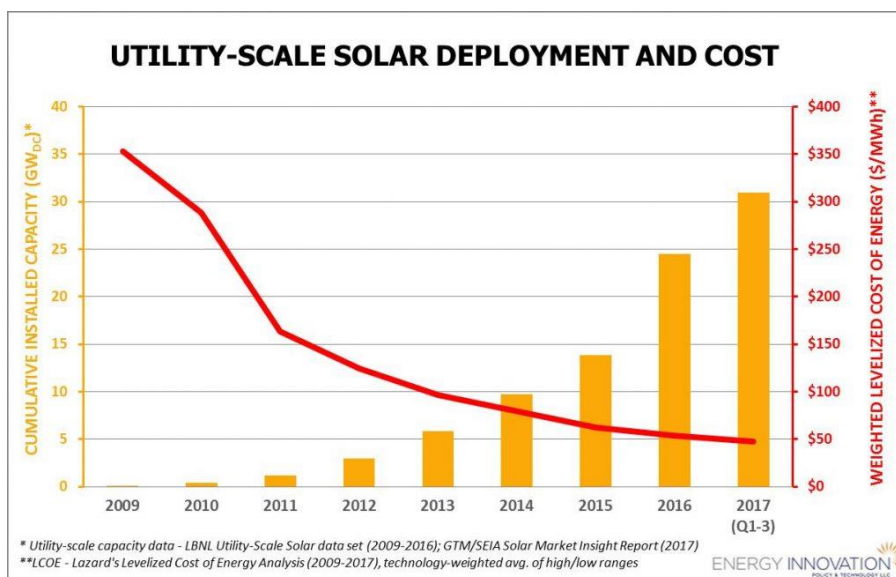
¹¹⁰ Isoard, *supra* note 59, at 620.

¹¹¹ Rao, *supra* note 54, at 1075.

¹¹² *Id.* at 709.

thereby further reducing costs.¹¹³ Experience demonstrates that costs of new technologies initially decline as the technology improves; then, costs fall in conjunction with increases in market volume.¹¹⁴

Figure 2¹¹⁵



Renewable energy markets actually contain many sub-markets, and diffusion occurred uniquely within each. Thus, different technologies developed at separate paces; each in unique locations on their individual technology curves.¹¹⁶ Even individual technologies may fall at different stages of the curve in different geographic levels. Thus, local or national markets may be at one stage while the global

¹¹³ Isoard, *supra* note 59, at 623; Kavlak, *supra* note 100, at 700 (The decline in PV costs and their resulting rapid increase in installations provide a recent example of this process.).

¹¹⁴ Hans-Josef Fell, *The Shift From Feed-In-Tariffs to Tenders is Hindering the Transformation of the Global Energy Supply to Renewable Energies* 15) (Policy Paper, Irena) (July 2017).

¹¹⁵ Megan Mahajan, *Plunging Prices Mean Building New Renewable Energy is Cheaper than Running Existing Coal*, FORBES (Dec. 3, 2018), <https://www.forbes.com/sites/energyinnovation/2018/12/03/plunging-prices-mean-building-new-renewable-energy-is-cheaper-than-running-existing-coal/#1cd0aad831f3>.

¹¹⁶ IEA, *Deploying Renewables*, *supra* note 61, at 95.

technology curve may be at another.¹¹⁷ Because of these differences, governments must be alert to tailor policies to local circumstances.¹¹⁸ This also suggests that policy makers should develop technology-specific, rather than technology-neutral, policies.¹¹⁹ As a result, applying policies that allow for individualization of application to separate technologies is a critical consideration.

In conclusion, we can anticipate that the growth and diffusion of CDR technologies will likely follow a recurring pattern. Armed with this knowledge, governments can more accurately tailor policies to enhance their ability to increase technological diffusion while containing their costs. The experience of renewable energy diffusion, discussed next, illustrates how policies can support diffusion, but also highlights some of the problems that may arise if not diffused correctly.

III. POLICIES SUPPORTING RENEWABLE ENERGY DIFFUSION

The development of renewable energy exhibited the S-curve pattern. This diffusion occurred in significant part because of a number of policies that facilitated investment in these technologies. This next section will examine these policies more closely and their effects on renewable energy deployment.

A. *Feed-In Tariffs – The Basics*

Feed-in tariffs (“FITs”) have been the most successful policy for incentivizing the investment in and diffusion of renewable energy. This is largely because they provide investors with certainty – a guaranteed, profitable return on their investments. Unfortunately, aspects of FITs that were instrumental in their success eventually

¹¹⁷ *Id.* at 97; Jorrit Gosens, Fredrik Hedenus, Björn A. Sandén, *Faster Market Growth of Wind and PV in Late Adopters Due to Global Experience Build-up*, ENERGY 131 (2017) 267-278, 275 (Not surprisingly, progress made in early-adopter nations can benefit late adopter states. Typically, late adopters experience much faster growth rates, even if they have a lower Gross Domestic Product (“GDP”). Even when policies have limited effect in the initial markets, they may have a multiplier effect by accelerating growth in the markets of late-adopter nations. One estimate calculated that late-adopter countries were able to build out wind power nearly five times faster than the initial countries; solar could grow as much as 16 times faster.).

¹¹⁸ IEA, *Deploying Renewables*, *supra* note 61, at 100.

¹¹⁹ *Id.*

created conditions that necessitated that many countries abandon their FITs at the peak of their success. In other words, as technologies reached the take-off stage, policies that were appropriate in the initial phase needed to be modified under the new circumstances. This suggests that awareness of diffusion patterns can guide policy makers to tailor their policies to maximize effectiveness and control costs.

Germany and Spain first instituted elements of what were to become their FITs in the 1970's and 1980's.¹²⁰ Subsequently, Germany enacted its FIT in 1991,¹²¹ and Spain followed in 1994.¹²² Since then, FITs have become widely adopted. FITs remain the most prominent form of policy adopted to support renewable energy production.¹²³ Sixty five nations,¹²⁴ and 110 jurisdictions overall, use FITs.¹²⁵ FITs have played particularly significant roles in Europe, and most countries in Asia use them, as well.¹²⁶

Feed-in-tariffs have been quite successful, too. Most studies have concluded that FITs significantly stimulated the growth of renewable energy, especially in nations at the initial stages of technology development.¹²⁷ Often their performance has exceeded projections.¹²⁸ Researchers consider FITs to be the primary cause of

¹²⁰ Lincoln L. Davies & Kirsten Allen, *Feed-in Tariffs in Turmoil*, 116 W. VA. L. REV. 937, 968-946 (2014) (In 1979, Germany passed a national competition law, which mandated purchases of renewable energy at avoided costs.) (Spain's Law 82/1980 required network connection and guaranteed contract prices.).

¹²¹ Yugo Tanaka, et al., *Feed-in Tariff Pricing and Social Burden in Japan: Evaluating International Learning through a Policy Transfer, Approach*, 6 SOC. SCI. 2. (2017).

¹²² Davies, *supra* note 120, at 969.

¹²³ REN21, *Renewables 2017 GLOBAL STATUS REP.* 122 (2017).

¹²⁴ UNEP, *Feed-In Tariffs as a Policy Instrument for Promoting Renewable Energies & Green Economies in Developing Countries* 4 (2012) [hereinafter, UNEP, *Feed-in Tariffs*].

¹²⁵ REN21, *supra* note 142, at 21.

¹²⁶ Chris Lo, *Renewable Energy: Are Feed-in Tariffs Going out of Style?*, POWER TECH. (Jan. 18, 2017), <https://www.power-technology.com/features/featurerenewable-energy-are-feed-in-tariffs-going-out-of-style-5718419/> (The United States has some utility-based FITs and state-wide FITs.); Karlynn Cory et al., *Feed-in Tariff Policy: Design, Implementation, and RPS Policy Interactions* 9 (2009).

¹²⁷ Hojin Kang, *Establishing a New Guideline for South Korea's Renewable Portfolio Standard* 19 (Aug. 2. 2016) (unpublished MS in Engineering and Management thesis, Massachusetts of Technology) (on file with the Massachusetts Institute of Technology Library Archives).

¹²⁸ Tanaka, et al., *supra* note 121, at 5.

renewable energy growth in their founding states of Germany and Spain.¹²⁹ Overall, analysts attribute 64% of global wind and 87% of solar photovoltaic (“PV”) installations to the use of FITs policies.¹³⁰

Three particular components typify feed-in tariff agreements.¹³¹ The “feed-in” provision assures that generators of electricity from renewable sources will have access to the grid.¹³² The “tariff” requires utilities to purchase the electricity generated by designated sources at predetermined rates.¹³³ Finally, FITs contracts are usually required to last an extended period of time, typically at least 15-20 years.¹³⁴

Feed-in tariffs essentially guarantee payments at above-cost rates to electricity producers through long-term contracts.¹³⁵ FITs are production-based incentives, as distinct from incentives awarded for installation. Thus, FITs provide their benefits not when a renewable energy facility is built, but when it actually generates electricity.¹³⁶ The theoretical basis supporting FITs is that assuring payment at a guaranteed price removes market risk from investors. This helps to attract capital.¹³⁷ Indeed, the experience with FITs in Europe provides evidence that they succeeded.¹³⁸

¹²⁹ Cory, *supra* note 126, at 1.

¹³⁰ UNEP, *Feed-in Tariffs*, *supra* note 124, at 5.

¹³¹ Leah C. Stokes, *The Politics of Renewable Energy Policies: The Case of Feed-in Tariffs in Ontario, Canada*, ENERGY POLICY 56 (2013) 490-500, 490.

¹³² Felix Mormann, *Clean Energy Federalism*, 67 FLA. L. REV. 1621, 1631–32 (2016) [hereinafter Mormann, *Clean Energy Federalism*]; UNEP, *Feed-in Tariffs*, *supra* note 124, at 57 (The tariff functions similarly to a “must take” clause in a power purchase agreement.); *Solar Power Purchase Agreements*, U.S. ENVIRONMENTAL PROTECTION AGENCY [EPA], <https://www.epa.gov/greenpower/solar-power-purchase-agreements> (last visited Aug. 8, 2019) (In a power purchase agreement, a third-party developer owns and operates a renewable energy system, and a customer contracts to purchase the output of this system.); STOEL RIVES, LLP, *THE LAW OF SOLAR: A GUIDE TO BUSINESS AND LEGAL ISSUES* 27, 2 (5th ed. 2017) (The agreement then requires the customer to purchase the electricity generated by the operator.).

¹³³ Mormann, *supra* note 132, at 1631-32.

¹³⁴ IEA, *supra* note 61, at 79-80.

¹³⁵ *Id.* at 79.

¹³⁶ Toby Couture & Karlynn Cory, *State Clean Energy Policies Analysis (SCEPA) : Project: An Analysis of Renewable Energy Feed-in Tariffs in the United States* 2 (2009).

¹³⁷ Richard Schmalensee, *Evaluating Policies to Increase Electricity Generation from Renewable Energy*, 6 REV. OF ENVTL. ECON. & POL’Y 50 (2012).

¹³⁸ Cory et al., *supra* note 126, at 13.

The 15-20 year length of FITs contracts plays an important role. Sometimes referred to as payment length or payment duration, this assures that generators will receive the FIT above-cost premium for an extended period.¹³⁹ This guaranteed duration is a key component in providing a financial incentive to invest in a qualifying project.¹⁴⁰

Long-term contracts provide other benefits, as well. With a longer period of application, the time over which costs will be recovered increases. This reduces the levelized cost for the project.¹⁴¹ One analysis concluded that the reduced capital costs can lower the levelized costs by 10-30%.¹⁴² Long contracts assure stable revenue streams, which also minimize investor risk.¹⁴³ Long-term contracts, as well as policy stability generally, provide assurance to the finance sector, too, which facilitates financing.¹⁴⁴ The length and stability of FITs also encourages secondary industries, such as equipment supply, to make the necessary investments to assure the long-term prospects of the primary industry.¹⁴⁵ Feed-in tariff legislation often also requires standardized contracts. Their use simplifies project development since it reduces or eliminates the negotiation process.¹⁴⁶

The reimbursement rate set under FITs is critical.¹⁴⁷ Policy makers select from three different means to calculate the rate: actual cost, avoided cost or value, or market price plus premium. A cost-based price starts with the cost of electricity generation from the renewable source and adds an amount to provide a guaranteed

¹³⁹ UNEP, *Feed-in Tariffs*, *supra* note 124, at 41.

¹⁴⁰ Gustav Resch et al., *Feed-in Tariffs and Quotas for Renewable Energy in Europe*, CESIFO DICE REPORT 26 (Apr. 2007).

¹⁴¹ Couture, *supra* note 136, at 17. (“Levelized cost” refers to the lifetime costs of producing electricity from a source divided by the amount of energy produced. DOE Office of Indian Energy, Levelized Cost of Energy (“LCOE”)) (updated).

¹⁴² UNEP, *Feed-in Tariffs*, *supra* note 124, at 7.

¹⁴³ Couture, *supra* note 136, at 31.

¹⁴⁴ IEA, *supra* note 61, at 79.

¹⁴⁵ *Id.* at 84. (For an example of a policy lacking such stability and the effect on the primary and supporting industries of this uncertainty.); *see also* Section III, *infra* subsec. E. (discussion of the wind power production tax credit).

¹⁴⁶ UNEP, *Feed-in Tariffs*, *supra* note 124, at 70.

¹⁴⁷ Sonal Patel, *The Feed-in Tariff Factor*, POWERMAG (Aug. 31, 2010), <https://www.powermag.com/the-feed-in-tariff-factor/> (noting that policy makers seek to set FITs rates so as to drive renewable energy deployment).

return.¹⁴⁸ As such, this rate is independent of the market price.¹⁴⁹ Cost-based rates are most likely to assure developers and investors with their guaranteed returns. Consequently, this method is particularly effective in promoting market growth.¹⁵⁰ Since the cost-based system derives from the cost to generate electricity, the method inherently differentiates among sources. This supports portfolio diversification.¹⁵¹ A drawback of this system is that it has higher administrative costs because of the time and expertise required to calculate accurate rates.¹⁵² Because of its assurance of a reasonable return, the cost-based system was the most successful method to incentivize renewable energy, and it was the most common method in Europe.¹⁵³

Cost-based rates utilize one of three methods. The first, a fixed-price system, establishes a guaranteed price for a fixed period, and market fluctuations do not alter the rate.¹⁵⁴ The second, a premium-price method, provides a premium on top of the wholesale market price. To minimize the effect of market fluctuations, some jurisdictions set floors and ceilings for these rates.¹⁵⁵ The third, a spot-market system, sets a guaranteed payment level, and the FIT is determined as the difference between the guaranteed payment level and the wholesale market price.¹⁵⁶

A second group of methods used to set FITs rates relies upon external considerations. One category considers the fossil fuel costs avoided through utilization of renewable energy.¹⁵⁷ Another approach attempts to set a value for the services provided by the alternative

¹⁴⁸ UNEP, *Feed-in Tariffs*, *supra* note 124, at 38.

¹⁴⁹ Kang, *supra* note 127, at 29.

¹⁵⁰ UNEP, *Feed-in Tariffs*, *supra* note 124, at 40.

¹⁵¹ *Id.* at 41.

¹⁵² *Id.*

¹⁵³ Couture, *supra* note 136, at 3.

¹⁵⁴ UNEP, *Feed-in Tariffs*, *supra* note 124, at 44.

¹⁵⁵ *Id.*

¹⁵⁶ *Id.* at 82-83 (Another consideration when setting rates involves the availability of other, cost-impacting incentives. For instance, some jurisdictions utilize an investment tax credit, which reduces the net investment cost for projects.); Yoshihiro Yamamoto, *Feed-in Tariffs Combined with Capital Subsidies for Promoting the Adoption of Residential Photovoltaic Systems*, 111 ENERGY POLICY 312, 312 (2017) (The presence of such subsidies can reduce the cost of financing.); UNEP, *Feed-in Tariffs*, *supra* note 124, at 83 (This commensurately lowers the required FIT level.).

¹⁵⁷ Couture, *supra* note 136, at 2.

energy source by considering a number of avoided costs and resulting benefits.¹⁵⁸ These factors may include the costs of avoidance of numerous harms: climate change impacts, adverse health effects, air pollutants, and others.¹⁵⁹ Value-based methods are less accurate means to price FITs rates since many of their components are difficult to price accurately and the eventual rate is unlikely to approximate the value of different technologies.¹⁶⁰ On the other hand, value-based approaches are simpler to implement since they do not require technology-by-technology determinations, but depend upon the valuation of other factors.¹⁶¹

FITs can readily facilitate the development of multiple technologies.¹⁶² One particular means to accomplish this is tariff differentiation. This refers to assigning unique rates for separate technologies based upon a range of factors. FITs can range from undifferentiated to highly differentiated, upon a broad range of considerations.¹⁶³ Such differentiation can support various technologies and even subsets of technologies (such as onshore and

¹⁵⁸ UNEP, *Feed-in Tariffs*, *supra* note 124, at 38.

¹⁵⁹ John Farrell, *How to Phase out Incentives and Grow Solar Energy*, GRIST (May 5, 2014), <https://grist.org/article/how-to-phase-out-incentives-and-grow-solar-energy/> (Minnesota recently developed a similar policy with its value of solar policy.); John Farrell, *Minnesota's Value of Solar: Can a Northern State's New Solar Policy Defuse Distributed Generation Battles?*, INST. FOR LOCAL SELF-RELIANCE (2014), <https://ilsr.org/wp-content/uploads/2014/04/MN-Value-of-Solar-from-ILSR.pdf> (The system, adopted in 2014, provides that utilities pay a price for solar energy that incorporates the value of avoiding the purchase of electricity from polluting sources, the building of additional power plants, and the additional wear and tear on the electric grid.).

¹⁶⁰ UNEP, *Feed-in Tariffs*, *supra* note 124, at 41.

¹⁶¹ *Id.*; Kang, *supra* note 127, at 29 (Alternatively, the FITs rate can be based on the market price for electricity. Under this rate structure, generators receive the electricity market price plus a predetermined premium.) (Often called a feed-in premium system, it differs from the other methods by being market dependent. A market-dependent method exposes investors to a risk that the market price will not be sufficient to provide the expected return on investment.); Shahrouz Abolhosseini & Almas Heshmati, *The Main Support Mechanisms To Finance Renewable Energy Development*, 40 RENEWABLE SUSTAINABLE ENERGY REVIEWS 876, 876-88 (2014) (On the other hand, analysts have found that market-independent systems provide greater investment security, which tends to lower financing costs.); Q.Y. Yan, et al., *Overall Review of Feed-In Tariff and Renewable Portfolio Standard Policy: A Perspective of China*, EARTH ENVTL. SCIENCE 40 (2016). (Although several European nations have recently enacted market-dependent FITs, most countries use market-independent systems.).

¹⁶² Couture, *supra* note 136, at 5.

¹⁶³ UNEP, *Feed-in Tariffs*, *supra* note 124, at 35.

offshore wind). This can assure diversity in technologies with the additional benefit of higher levels of technology penetration.¹⁶⁴ FITs can also differentiate based upon project size, which can support large, industrial facilities as well as small-scale or residential projects.¹⁶⁵ Policies can also differentiate by resource quality, which involves recognition of different resource availability at particular sites. This allows for higher prices where resources are less abundant (less windy or sunny, for instance).¹⁶⁶ Other types of differentiation have included technology application (ground- or roof-mounted photovoltaics), ownership type (public or private utility), and local content percentage (to stimulate local industries and employment).¹⁶⁷ Of course, the greater the differentiation of a FIT scheme, the higher the administrative costs that it will necessitate.¹⁶⁸

A critical issue to address when structuring FITs involves the recovery of the FITs premium. As discussed, FITs typically mandate the payment of a premium exceeding the cost of generating electricity.¹⁶⁹ The utility customers pay the cost of the electricity they use; the question remains of covering the premium. FITs can allocate this cost recovery to ratepayers; alternatively, the state can cover this premium, effectively shifting payment to the taxpayers.¹⁷⁰ Policy makers tend to favor ratepayer payment, viewing it as a more secure and reliable means – payments included as part of a state budget can become targets in budget cutting times.¹⁷¹

¹⁶⁴ Couture, *supra* note 136, at 18.

¹⁶⁵ *Id.* at 4.

¹⁶⁶ *Id.* at 18.

¹⁶⁷ UNEP, *Feed-in Tariffs*, *supra* note 124, at 35.

¹⁶⁸ *Id.* at 38.

¹⁶⁹ Christopher Barry, *Feed-in Tariffs: A Policy Mechanism for Renewable Energy Growth*, (Dec. 13, 2016), <http://large.stanford.edu/courses/2016/ph240/barry2/>.

¹⁷⁰ UNEP, *Feed-in Tariffs*, *supra* note 124, at 81; *id.* (States could also choose a hybrid approach, which requires ratepayers to cover a portion of the premium and shifts the remainder to the state budget.).

¹⁷¹ *Id.*; Steven Ferrey, *Against the Wind—Sustainability, Migration, Presidential Discretion*, 44 COLUM. J. OF ENVTL. L. 341, 358 (2019) (An example of the unreliability of subsidies incorporated in a state's budget comes from the production tax credit provided by the United States for wind power. Congress allowed it to expire six times before extending it.); *see* Section III, *infra* subsec. E.

B. *Feed-In Tariffs – Illustrative Experiences*

While FITs are now widespread, the experiences of several nations – particularly those of Germany, Spain, and China – illustrate many of the policy’s strengths and weaknesses. Germany and Spain, the two founders of the FIT scheme, demonstrate FITs at their most effective. However, they also highlight that inherent consequences of successful FITs policies can necessitate substantial modifications, if not outright abandonment. China, on the other hand, illustrates issues that arise when FITs are adopted in larger, regionally diverse countries. Its experience also suggests an approach to avoid some of the problems confronted by Germany and Spain.

1. *Germany*

As noted previously, in 1979, Germany, adopted a national competition law, mandating purchases of renewable energy at avoided costs.¹⁷² Twelve years later, Germany enacted its FIT, which required the purchase of renewable energy through long-term, fixed-price contracts.¹⁷³ Under the German FIT, a surcharge on the bills of residential customers covered the renewable energy subsidies.¹⁷⁴ Germany modified its subsidies several times, most significantly in 2000.¹⁷⁵ The 2000 amendments mandated that FITs contracts last for at least 20-year terms and at prices that exceeded generators’ costs.¹⁷⁶

Germany’s feed-in tariff (called the Erneuerbare-Energien-Gesetz (“EEG”) (Renewable Energy Sources Act) after the 2000

¹⁷² Davies, *supra* note 120, at 946.

¹⁷³ Michael Ferguson et al., *Green America: Renewable Standards, Tax Credits, and What’s Next*, S & P GLOBAL (Oct. 16, 2017), <https://www.spglobal.com/en/research-insights/articles/green-america-renewable-standards-tax-credits-and-whats-next>.

¹⁷⁴ Amy Gahrn, *Germany’s Course Correction on Solar Growth*, GREENTECH MEDIA (Nov. 3, 2016), <https://www.greentechmedia.com/articles/read/germanys-course-correction-on-solar-growth#gs.12ZPE2s>.

¹⁷⁵ Ferguson, *supra* note 173, at 13.

¹⁷⁶ David Suzuki, *Feed-in Tariffs Help Renewable Energy Grow*, GEORGIA STRAIGHT (June 14, 2016), <https://www.straight.com/news/717431/david-suzuki-feed-tariffs-help-renewable-energy-grow>.

amendments)¹⁷⁷ facilitated a rapid growth in the country's renewable energy generation. In the decade from 1990 to 2000, renewable energy nearly doubled, rising from 3.4% to 6.2% of German electricity production. By 2016, it had jumped to 31.7%.¹⁷⁸ As of 2017, Germany had solar PV capacity of 38 GW,¹⁷⁹ despite having the solar potential of Alaska.¹⁸⁰

Several aspects of Germany's FIT led to its success. The FIT rate adjusted according to a project's location. This adaptability increased the viability of projects in sub-optimal locations, which promoted a more geographically-balanced distribution of wind installations.¹⁸¹ The FIT also benefitted from relative stability and long investment periods.¹⁸²

Problems, however, began as the overall cost of the FIT rose. To combat the rise in costs, starting with the EEG in 2000, Germany instituted a policy of rate degression. Degression is a FIT policy that decreases FITs rates by predetermined amounts.¹⁸³ Reducing FITs rates helps them to reflect technology cost reductions.¹⁸⁴ In addition, degression can be essential to contain overall policy cost as the number of facilities receiving the FITs premium increases in response to lower installation costs.¹⁸⁵

¹⁷⁷ Christoph Böhringer, et al., *The Impact of the German Feed-in Tariff Scheme on Innovation: Evidence Based on Patent Filings in Renewable Energy Technologies*, 67 *ENERGY ECON.* 545, 545 (2017).

¹⁷⁸ *Id.*

¹⁷⁹ *How Much Power Does a Nuclear Reactor Produce?*, OFFICE OF NUCLEAR ENERGY (Feb. 6, 2018), <https://www.energy.gov/ne/articles/infographic-how-much-power-does-nuclear-reactor-produce> (For comparison, each nuclear power plant in the United States on average produces about 1 GW of electricity.).

¹⁸⁰ Meredith Fowlie, *The Renewable Energy Auction Revolution*, *ENERGY INST. BLOG* (Aug. 7, 2017), <https://energyathaas.wordpress.com/2017/08/07/the-renewable-energy-auction-revolution/>.

¹⁸¹ Lacerda, *supra* note 103, at 8246.

¹⁸² *Id.*

¹⁸³ Couture, *supra* note 136, at 5; Tae-hyeong Kwon, *Rent and Rent-Seeking in Renewable Energy Support Policies: Feed-in Tariff vs. Renewable Portfolio Standard* 44 *RENEWABLE & SUSTAINABLE ENERGY REV.* 676, 679-80 (2015) [hereinafter Kwon, *Rent*] (Degression usually applies only to newly-installed facilities.).

¹⁸⁴ Couture, *supra* note 136, at 9.

¹⁸⁵ UNEP, *Feed-in Tariffs*, *supra* note 124, at 65-66.

As the costs of the EEG mounted, Germany instituted more aggressive degression policies. In 2009, it adopted a dynamic degression policy, which considered the quantity of the previous year's installations when determining adjustments to the FITs rates.¹⁸⁶ Two years later, to keep up with rapidly-declining costs, Germany began to adjust its solar PV FIT rates biannually.¹⁸⁷ In 2013, as prices began to fall even faster, Germany began degressing its FIT rates monthly.¹⁸⁸

At the same time, because of rising total solar subsidies, Germany capped the number of installations that could receive the FITs rate.¹⁸⁹ Nevertheless, the subsidy that ratepayers needed to cover rose substantially. In 2000, the annual EEG subsidy was less than €1 billion; by 2016, it had risen to €25 billion.¹⁹⁰ Twenty three billion euros of this appeared as a surcharge on ratepayers' bills, averaging €1,060 per household.¹⁹¹

A number of compounding factors caused this jump in the FITs surcharge. Prices for solar panels fell much faster than anticipated. This led to rapidly rising profit margins, which encouraged developers to install even more capacity.¹⁹² Degressing the subsidy more rapidly merely prompted developers to rush to install even more projects before rates fell further. Even though Germany eventually decided to degress rates monthly, the outstanding 20-year guaranteed contracts ensure that Germans will be paying the high FITs rates into the 2030's.¹⁹³ Even after its reforms, Germany's residents still pay among the highest electricity rates in Europe.¹⁹⁴

In 2014, Germany approved a plan largely to replace its FITs with auctions as the primary means to secure new renewable energy

¹⁸⁶ Tanaka, *supra* note 121, at 6.

¹⁸⁷ Davies, *supra* note 120, at 957-58.

¹⁸⁸ Bentham Paulos, *The Money Problem with Germany's Renewable Energy Law in 3 Charts*, GREEN TECH MEDIA (June 5, 2014), <https://www.greentechmedia.com/articles/read/the-money-problem-with-the-german-energie-wende-in-3-charts>.

¹⁸⁹ Davies, *supra* note 120, at 958.

¹⁹⁰ Böhringer, *supra* note 177, at 546.

¹⁹¹ Jeffrey Ball, *Germany's High-Priced Energy Revolution*, FORTUNE (Mar. 14 2017, 6:30 AM), <http://fortune.com/2017/03/14/germany-renewable-clean-energy-solar/>.

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ Suzuki, *supra* note 176.

contracts.¹⁹⁵ Initially, auctions were compulsory only for ground-mounted PV. Germany amended the EEG again in 2017 to expand the use of auctions for most renewable energy, except for small plants, prototypes, and geothermal energy.¹⁹⁶ Contracts for renewable energy still included 20-year terms, but the price was determined through auction rather than by the FITs.¹⁹⁷ Within two years, prices for solar PV dropped by almost 40%.¹⁹⁸ Nevertheless, as of 2018, German consumers were still paying subsidies totaling €27 billion.¹⁹⁹

2. *Spain*

In 1994, Spain adopted its FIT. The legislation, Royal Decree 2366/1994, mandated purchases of electricity from designated technologies and set FIT rates of up to 20% above costs.²⁰⁰ Spain further incentivized solar energy in 2007, when it set the highest rate for PV in the world.²⁰¹ Regarding overall renewable energy installations, these policies were quite successful. In 1990, less than 1% of Spain's electricity was sourced from renewables; by 2009, its share had grown to 25%, and, by 2013, to 54%.²⁰²

Unlike Germany, Spain did not allow its utility companies to pass on the premiums paid for renewable energy to their customers.²⁰³ Instead, it required the utilities to maintain deferral accounts. These

¹⁹⁵Corinna Klessmann & Silvana Tiedemann, *Germany's First Renewables Auctions are a Success, but New Rules Are Upsetting the Market*, ENERGY POST (June 27, 2017), <http://energypost.eu/germanys-first-renewables-auctions-are-a-success-but-new-rules-are-upsetting-the-market/>; see also, *Section III, infra* subsec. C.3 (Auctions are discussed more fully.).

¹⁹⁶Norton Rose Fulbright, *German Renewable Energy Act 2017 (EEG 2017) - What You Should Know* (Apr. 2017), <http://www.nortonrosefulbright.com/knowledge/publications/147727/german-renewable-energy-act-2017-eeg-2017-what-you-should-know>.

¹⁹⁷*Id.*

¹⁹⁸Klessmann, *supra* note 195.

¹⁹⁹Brian Parkin, *German Renewable Subsidy Drops after Wholesale Power Rebound*, BLOOMBERG ENV'T & ENERGY REP. (Oct. 15, 2018, 9:52 AM), <https://news.bloomberglaw.com/environment-and-energy/german-renewable-subsidy-drops-after-wholesale-power-rebound>.

²⁰⁰Davies, *supra* note 120, at 969.

²⁰¹*Id.* at 975.

²⁰²*Id.* at 979.

²⁰³Institute of Energy Research [IER], *Spain Halts Feed-In-Tariffs for Renewable Energy* (Apr. 9, 2012), <https://www.instituteforenergyresearch.org/renewable/wind/spain-halts-feed-in-tariffs-for-renewable-energy/>.

accounts enabled the utilities to recover shortfalls from previous years with subsequent years' revenues.²⁰⁴ However, Spain kept utility prices paid by consumers low. As a result, not only were utilities unable to recoup previous shortfalls, the tariff deficit grew.²⁰⁵ The 2008 financial crisis compounded problems. Unemployment in Spain rose above 20%, and electricity demand declined commensurately, resulting in excess generating capacity.²⁰⁶ Spain had hoped that the utilities could sell their tariff deficits as securitized debt, but this became impossible in these new economic conditions.²⁰⁷ This forced the Spanish government to bail out the utilities and provide backing for the tariff debt.²⁰⁸ The Spanish government effectively assumed this debt.²⁰⁹ By 2013, accumulated debt had ballooned to €26 billion.²¹⁰

Spain began introducing a series of measures to rein in its FIT. In 2012, it modified its compensation scheme, no longer basing it upon FITs rates, but instead assuring a "reasonable profitability" based upon a company's assets.²¹¹ Critically, Spain applied its reforms retroactively. Consequently, older facilities that were constructed in anticipation of receiving FITs rates stopped receiving subsidies altogether.²¹²

Not surprisingly, such retroactive changes prompted litigation, but, importantly, on two fronts. Domestic investors brought suits in Spanish courts, while international investors were able to pursue their claims in the International Centre for Settlement of Investment Disputes ("ICSID").²¹³ The Spanish courts upheld the FITs cuts.²¹⁴ The international court, however, sided with the investors. Investors have filed 26 cases in the ICSID over Spain's altering of its FITs

²⁰⁴ *Id.*

²⁰⁵ Davies, *supra* note 120, at 981.

²⁰⁶ IER, *supra* note 203.

²⁰⁷ Davies, *supra* note 120, at 981.

²⁰⁸ IER, *supra* note 203.

²⁰⁹ Davies, *supra* note 120, at 977.

²¹⁰ CARMEN OTERO GARCÍA-CASTRILLÓN, SPAIN AND INVESTMENT ARBITRATION: THE RENEWABLE ENERGY EXPLOSION 5 (2016).

²¹¹ Davies, *supra* note 120, at 978.

²¹² *Id.* at 979.

²¹³ GARCÍA-CASTRILLÓN, *supra* note 210, at 6.

²¹⁴ *Id.* at 10.

contract.²¹⁵ Spain has already lost several of these cases, with the judgments currently totaling in excess of \$590 million.²¹⁶

Although the Spanish FIT engendered substantial financial burdens, it did accomplish its purpose. Not only did renewable energy deployments take off under the FIT,²¹⁷ the FIT established conditions that enabled continued renewable energy investment. Indeed, in the past three years, Spain has added 12 GW of solar power, an amount that exceeded its remaining 9 GW of coal.²¹⁸ More notably, it started installing 5 GW of solar in 2018 despite the absence of subsidies.²¹⁹

3. China

In 2006, China enacted the framework for its FIT, and, three years later, it established a specific FIT to support wind power.²²⁰ In 2011, China enacted a series of FIT policies to further support solar PV.²²¹ This accelerated investment in solar, with annual installations rising from less than 5 GW in 2011 to nearly 35 GW in 2016.²²²

²¹⁵ Blanca Díaz López, *Spain Loses its First Renewable Energy Case in International Courts*, PV MAG. (May 5, 2017), <https://www.pv-magazine.com/2017/05/05/spain-loses-its-first-renewable-energy-case-in-international-courts/>.

²¹⁶ 9REN Holding S.a.r.l v. Kingdom of Spain, 2015 (No. ARB/15/15) (Spain), <https://www.italaw.com/cases/7374> (Damages \$46,958,243.); Eiser Infrastructure Limited and Energía Solar Luxembourg S.à.r.l. v. Kingdom of Spain, 2013 (No. ARB/13/36) (Spain), <https://www.italaw.com/cases/5721> (Damages \$140,757,760.); Masdar Solar & Wind Cooperatief U.A. v. Kingdom of Spain, May 16, 2018, (No. ARB/14/1) (Spain), <https://www.italaw.com/cases/6608> (Damages \$75,644,310.); NextEra Energy Global Holdings B.V. and NextEra Energy Spain Holdings B.V. v. Kingdom of Spain, May 31, 2019, (No. ARB/14/11) (Spain), <https://www.italaw.com/cases/2585>; (Damages \$327,145,274.).

²¹⁷ Davies, *supra* note 120, at 979.

²¹⁸ Reed Landberg, *Spain Says 5 Gigawatts of Subsidy-Free Solar Farms Being Built*, BLOOMBERG ENV'T & ENERGY REP. (Oct. 1, 2018, 11:21 AM), <https://news.bloomberglaw.com/environment-and-energy/spain-says-5-gigawatts-of-subsidy-free-solar-farms-being-built>.

²¹⁹ *Id.*

²²⁰ CAROLIN SCHENUIT ET AL., MONEY WELL SPENT: THE ECONOMIES OF SUPPORT POLICIES FOR RENEWABLES 38 (2018), https://www.dena.de/fileadmin/dena/Publikationen/PDFs/2018/The_Economies_of_support_for_renewables.pdf.

²²¹ Liang-Cheng Ye, João F.D. Rodrigues, & Hai Xiang Lin, *Analysis of Feed-in Tariff Policies for Solar Photovoltaic in China 2011–2016*, 203 APPLIED ENERGY 496, 496–97 (2017).

²²² *Id.* at 498.

Initially, China's program provided a premium payment for renewable sources, and the government paid the premium.²²³ Subsequently, in 2009, it imposed a surcharge on retail electricity rates to finance the FIT.²²⁴

Despite the rapid rise in PV installations, China encountered some issues in the application of its FIT program. China and its FIT program are distinct from European countries and their policies in several ways. First, China is a much larger country, and its renewable energy resources are unevenly distributed and are most abundantly available in the north, northwest, and south.²²⁵ Conversely, the developed areas of the country are in central and eastern China.²²⁶ As discussed below, these disparities would create implications for China's FIT structure. Second, unlike its contemporaries, the Chinese FIT did not impose an automatic degression. It did incorporate a 30-month tariff adjustment period,²²⁷ but this contrasts greatly to Germany's eventual adjustment period of one month.²²⁸ As in Europe, solar PV prices in China declined rapidly, leading to highly profitable FITs rates later in the period.²²⁹ The Chinese FIT policies did incentivize solar PV, but developers built a substantial portion of the facilities in the western portion of China. This area is rich in solar resources, but it was relatively undeveloped and lacked transmission lines to high-consumption provinces.²³⁰ Unused wind and solar capacity worsened after 2014.²³¹ In different regions of China, wasted wind power reached 21% and unused solar neared 20%.²³²

²²³ SCHENUIT, *supra* note 220, at 38.

²²⁴ *Id.*

²²⁵ Yan, *supra* note 161, at 7.

²²⁶ Ye, *supra* note 221, at 502.

²²⁷ *Id.* at 497.

²²⁸ Paulos, *supra* note 188.

²²⁹ Ye, *supra* note 221 at 503.

²³⁰ *Id.* at 497.

²³¹ Yuki Yu, *China RPS Won't Include Subsidy Cuts for Existing Projects*, RECHARGE NEWS (Aug. 13, 2018, 8:33 AM), http://www.rechargenews.com/wind/1553961/china-rps-wont-include-subsidy-cuts-for-existing-projects?utm_medium=email&utm_source=free_article_access&utm_content=227641456.

²³² Brian Publicover, *China Set to Rein in Provinces over Energy Policy in 2017*, RECHARGE NEWS (Jan. 30, 2017, 8:42 AM), <http://www.rechargenews.com/wind/1206551/china-set-to-rein-in-provinces-over-energy-policy-in-2017>.

To address this problem, China regionalized its FIT system. Under this approach, installations in areas receiving higher levels of solar radiation earned lower tariffs.²³³ In addition, China also imposed caps on the amount of PV installations built in each region. Installations that exceeded the quota would not receive the region's FIT rate.²³⁴ However, China does not utilize a hard cap. Instead, the central government sets the quotas, but it allows local governments to approve developments. Local governments, of course, are incentivized to approve projects to promote local economies. Consequently, they typically approved more projects than their quota targeted.²³⁵

As elsewhere, the Chinese FIT began to require substantial modification. Public support for the FIT began to wane, and tens of billions of yuan of FITs subsidies were not provided.²³⁶ By 2017, China's deficit exceeded \$16 billion.²³⁷ In 2017, China implemented a trial renewable portfolio standard ("RPS") for wind power and solar PV.²³⁸ The RPS applies to 31 cities and provinces,²³⁹ though full implementation will not occur for at least five years.²⁴⁰

The experiences of these three countries illustrate the success that FITs have had in promoting renewable energy; they also provide cautionary tales about potential problems that might arise. Consistent with the S curve pattern, slow technological development was followed by explosive growth. Although the cost of renewable energy

²³³ Ye, *supra* note 221, at 497.

²³⁴ *Id.* at 498.

²³⁵ *Id.* at 502.

²³⁶ Qi Zhang et al., *Substitution Effect of Renewable Portfolio Standards and Renewable Energy Certificate Trading for Feed-in Tariff (Substitution Effect)*, 227 APPLIED ENERGY 426, 426 (2018).

²³⁷ Becky Beetz, *New Renewable Funding Mechanisms Highlighted For China – Report*, PV MAGAZINE (Dec.13, 2018), <https://www.pv-magazine.com/2018/12/13/new-renewable-funding-mechanisms-highlighted-for-china-report/>.

²³⁸ Yuzhuo Zhang et al., (*The Development of the Renewable Energy Power Industry under Feed-In Tariff and Renewable Portfolio Standard: A Case Study of China's Photovoltaic Power Industry*, 9 SUSTAINABILITY 532 (2017)); *see*, Section III, *infra*. subsec. D (RPSs are discussed).

²³⁹ Yu, *supra* note 231.

²⁴⁰ Publicover, *supra* note 232; Yu, *supra* note 231 (Interestingly, the Chinese government's initial draft proposal planned to impose a Spain-like retroactive cut to FITs subsidies. Specifically, it proposed to eliminate FITs subsidies for production exceeding an annual limit.); Schenuit, *supra* note 220, at 39 (Instead, in May 2018, China decided to award subsidies only to solar projects staying within particular quota limits.).

dropped dramatically, the long-term commitment that fostered that growth became so burdensome that it necessitated policy changes, including the elimination of the FIT.

C. *Feed-In Tariffs – Long Term Effects*

1. *Problems*

Despite the profound success of FITs, or possibly because of it, countries utilizing them have eventually encountered difficulties. Nations who have successfully employed FITs to incentivize renewable energy installation during the early adoption stage have often needed to restrict or abandon these policies as the technologies advance through the take-off stage. A review of these developments suggests that the dynamics of the S curve provide especially important insights for the utilization and modification of FITs policies.

As noted, FITs have contributed substantially to the growth of renewable energy throughout the globe.²⁴¹ The experiences of Germany and Spain have demonstrated, however, the long-run effects of FITs can be problematic. FITs create market distortions that, as the targeted technologies begin to take off, require modification of the FITs or transition to alternative policies.²⁴²

Although FITs are very effective in their short- and intermediate-term impacts on new technologies, a number of concerns will typically arise over their long-term implementation.²⁴³ Long-run utilization of FITs can cause fiscal burdens, market distortions, and decreased innovation.²⁴⁴ Indeed, FITs caused heavy financial burdens throughout the globe.²⁴⁵ An aspect of FITs that constitutes one of their strengths – their contract requirements – inevitably leads to these problems. FITs typically require 15-20 year contracts set at premium levels.²⁴⁶ A problem inherent with FITs, however, is that governments establish the tariff levels, while the costs of the technologies result

²⁴¹ UNEP, *Feed-in Tariffs*, *supra* note 124, at 5.

²⁴² Lo, *supra* note 126.

²⁴³ Yan, *supra* note 161, at 2.

²⁴⁴ Hongwei Wang, *Analysis of the Policy Effects of Downstream Feed-In Tariff on China's Solar Photovoltaic Industry*, 95 ENERGY POL'Y 479–488, 486 (2016); *see also* Section III, *supra*, subsec. C.1.

²⁴⁵ Zhang, *supra* note 236, at 433.

²⁴⁶ Couture, *supra* note 136, at 17.

from market forces.²⁴⁷ Cost declines are one of the expected benefits of FITs.²⁴⁸ For example, wind power price reductions resulted from a number of factors triggered by FITs, including economies of scale, technological improvements, and learning by doing.²⁴⁹ Nevertheless, FITs mandate the purchase of electricity at premium rates potentially decades into the future. Consequently, declines in technology costs stimulate booms in installations to take advantage of the resulting profit margins, thereby triggering excessive subsidy burdens.²⁵⁰

These FIT surcharges, reflecting decades-long commitments, must be passed on either to ratepayers or to taxpayers.²⁵¹ Such surcharges plagued the FITs utilized by Germany and Spain, respectively.²⁵² Consequently, both nations, whose FITs were models for other countries, abandoned their FITs.²⁵³ The inevitability of such problems was noted by Professors Davies and Allen, who wrote, “the paradox inherent in feed-in tariffs is that they are designed to gradually self-destruct.”²⁵⁴ While a substantial and growing surcharge is usually inevitable (assuming FITs accomplish their intended purpose of reducing costs and thereby stimulating installations). As discussed below, jurisdictions can design FITs to compensate for these developments.

Interestingly, in 2012 South Korea replaced its FIT with an RPS.²⁵⁵ South Korea instituted this change for several reasons. The

²⁴⁷ SCHENUIT, *supra* note 242, at 39; *see also* Nolden, *supra* note 79, at 6 (Indeed, critics have pointed to the reliance of FITs upon governments instead of markets to set tariff levels as one of the policy’s greatest shortcomings.).

²⁴⁸ Mormann, *supra* note 132, at 1662; Rao, *supra* note 54, at 1073 (Especially for technologies that are at low production levels, the long-term unit cost curve demonstrates increasing returns to scale. This pattern was apparent both for wind and solar PV technologies.); *see also* Figure 2; Kavlak, *supra* note 100, at 700 (Indeed, while funding for R&D was initially the most important factor for cost reduction for solar PV, scale economies became more significant in lowering costs.).

²⁴⁹ Davies, *supra* note 55, at 1228.

²⁵⁰ SCHENUIT, *supra* note 242, at 39; *see also* Nolden, *supra* note 99 at 6 (noting that poor economic forecasting by governments can result in mismatching of tariffs and costs, resulting in “gold rushes” or “boom-and-bust’ cycles”).

²⁵¹ UNEP, *Feed-in Tariffs*, *supra* note 124, at 81.

²⁵² *See* Section III, *supra* subsec. C.1.

²⁵³ *Id.*

²⁵⁴ Davies, *supra* note 120, at 997.

²⁵⁵ RESEARCH OFFICE LEGISLATIVE COUNCIL SECRETARIAT, FEED-IN TARIFF FOR SOLAR POWER IN SELECTED PLACES (undated); Kang, *supra* note 127, at 20 (South Korea established its FIT in 2002.).

country paid its FIT subsidies through its national budget.²⁵⁶ Consequently, South Korea regularly confronted budget overruns caused by its FIT.²⁵⁷ Particularly problematic was a rapid increase in subsidies for solar photovoltaic.²⁵⁸ While the FIT was successful in incentivizing a number of suppliers to install solar, this imposed significant costs.²⁵⁹ Moreover, despite its success with solar, overall the FIT underperformed. Specifically, South Korea sought to raise renewable energy's share of total electricity to 8%, but it reached only 3%.²⁶⁰ Accordingly, the country switched to an RPS in part to impose a more results-oriented policy.²⁶¹ The move worked, as renewable energy installations increased three fold during the succeeding five years when compared to the previous decade's deployment under the FIT.²⁶²

Besides their well-documented financial burdens, FITs suffer from another concern: their continued promotion of technological innovation is limited. If set too high, subsidy policies, such as FITs, can encourage deployment of expensive and inefficient technologies, locking-in these methods and failing to incentivize less mature technologies.²⁶³ Moreover, since high-cost technologies receive profitable returns on investments, FITs remove a primary incentive to innovate and reduce costs.²⁶⁴ Eliminating – or at least reducing – subsidies, such as FITs, forces industry to lower costs.²⁶⁵ Because of the cost-plus-profit structure used by most FITs, they encourage

²⁵⁶ Davies, *supra* note 120, at 985.

²⁵⁷ TAE-HYEONG KWON, RENEWABLE PORTFOLIO STANDARD IN SOUTH KOREA: A SHORT POLICY REVIEW 1 (undated). [hereinafter KWON, RENEWABLE]; Ryan Wiser, Galen Barbose, & Edward Holt, *Supporting Solar Power in Renewables Portfolio Standards: Experience from the United States*, 39 ENERGY POL'Y 3894–3905, 3896 (2011) (The switch to an RPS had several financial implications for the government. First, premium costs for renewable energy would be borne by ratepayers. Second, an RPS's inherent incentivizing of least-cost alternatives would lower the overall costs of renewable energy deployment.); Davies, *supra* note 120, at 996 (Finally, an RPS's requirement to increase the share of renewable energy over time would encourage more predictable renewable energy growth.); Kang, *supra* note 127, at 11 (The latter is consistent with the South Korean government's interest in enacting a more results-oriented policy.).

²⁵⁸ KWON, RENEWABLE, *supra* note 257, at 3.

²⁵⁹ Kang, *supra* note 127, at 20.

²⁶⁰ *Id.* at 11.

²⁶¹ *Id.*

²⁶² Lo, *supra* note 126.

²⁶³ Böhringer, *supra* note 177, at 546.

²⁶⁴ *Id.*

²⁶⁵ SCHENUIT, *supra* note 220, at 39.

exploitative behavior (increasing production of existing technologies) over inventive activities (investing in research and development to increase efficiencies and reduce costs).²⁶⁶

2. *Making FITs Work*

To avoid the financial burdens inevitable with FITs, policy makers can incorporate provisions to minimize or avoid their effects. Because of the market changes FITs produce, FITs policies inevitably need to be adjusted over time.²⁶⁷ Such adjustments need to be proactive.²⁶⁸ If not adjusted timely, the disparity between technology costs and tariffs fosters “rent-seeking”²⁶⁹ behavior, sparking a rise in the number of installations as the FITs subsidy increases.²⁷⁰

FITs can avoid or at least minimize these consequences either by anticipating changes or adjusting their tariffs as conditions change. At the time that FITs are established, policy makers can select from a range of options to adjust the FITs subsidy, ranging from systems that are fully automatic to methods that require regulator decisionmaking.²⁷¹ Policy makers can anticipate market changes by structuring planned degressions in their FITs tariffs by basing them on the number of installations or overall cost.²⁷² Often, such policies

²⁶⁶ Böhringer, *supra* note 177, at 552.

²⁶⁷ Davies, *supra* note 120, at 1003 (As the authors note, if FITs do not evolve, “they risk becoming ineffective, overly expensive, or unwanted.”); Tanaka, *supra* note 121, at 6 (Italy provides another example of a country that failed to reduce its subsidy in a timely manner and suffered its consequences. From 2007 to 2011, the cost of solar PV systems declined substantially while the country made no changes to its FITs rates. This led to a significant rise in the number of PV installations, prompting a commensurate rise in the financial burden of the Italian FIT.); V. Di Dio, S. Favuzza et al., *Critical Assessment of Support for the Evolution of Photovoltaics and Feed-in Tariff(s) in Italy*, 9 SUSTAINABLE ENERGY TECH. & ASSESSMENTS 95, 95 (2015) (The FIT charge constituted 18% of the average household’s bill, for an annual total exceeding €10 billion.).

²⁶⁸ Davies, *supra* note 120, at 1004.

²⁶⁹ Kwon, *Rent-Seeking*, *supra* note 183, at 678 (“Rents” in this context are windfall profits.); VIVID ECONOMICS, ADVANCE MARKET COMMITMENTS FOR LOW-CARBON DEVELOPMENT: AN ECONOMIC ASSESSMENT 48 (2009) (They arise when the same price is paid for a good with a declining cost of production.).

²⁷⁰ KWON, RENEWABLE, *supra* note 257, at 6.

²⁷¹ UNEP, *Feed-in Tariffs*, *supra* note 124, at 65-66.

²⁷² Mormann, *supra* note 132, at 1662, n.231 (Professor Mormann notes, for instance, that Germany’s FIT incorporated standard degressions that anticipated cost reductions, while California’s FIT automatically adjusted its FIT rates lower (or higher) if technology deployments exceeded (or failed to meet) expectations.);

utilize predetermined triggers to initiate automatic adjustments. Typical triggers include the passage of a specified period of time, the achievement of specific capacity or generation levels, or total policy costs.²⁷³ Alternatively, policy makers can design their FITs to require regulators to evaluate market conditions periodically and to adjust their tariffs accordingly.²⁷⁴

Because FITs control price rather than quantity,²⁷⁵ the amount of actual installations under a FIT is often difficult to forecast.²⁷⁶ Thus, when the FITs subsidies effectively increase because costs have declined while the tariff has remained flat, adjustment mechanisms help to control the volume of projects eligible for the tariff.²⁷⁷ Unfortunately, these approaches implicate a tension inherent in FITs between maintaining price stability and adjusting tariffs to compensate for changing circumstances.²⁷⁸ Injecting uncertainty through price adjustments for as little as a few years into the future can increase the perceived riskiness for financiers.²⁷⁹ Policy stability and transparency better supports investors' security.²⁸⁰ The detrimental effect of tariff adjustments can be minimized by increasing the transparency of the process – such as setting predetermined periods for adjustments or tying adjustments to levels of deployment.²⁸¹

Pablo del Rio & Mercedes Bleda, *Comparing the Innovation Effects of Support Schemes for Renewable Electricity Technologies: A Function of Innovation Approach*, 50 ENERGY POL'Y 272, 277 (2012) (An added advantage of depressions is that they provide incentives to innovate to reduce costs and maintain profit margins. Indeed, evidence indicates that Germany's depression stimulated R&D investments.).

²⁷³ UNEP, *Feed-in Tariffs*, *supra* note 124, at 66.

²⁷⁴ Couture, *supra* note 136, at 5 (For example, Spain chose to adjust its FITs rates annually.).

²⁷⁵ Nurcan Kilinc-Ata, *The Evaluation of Renewable Energy Policies Across EU Countries and US States: An Econometric Approach*, 31 ENERGY FOR SUSTAINABLE DEV. 83, 84 (2016).

²⁷⁶ Nigel Martin & John Rice, *Solar Feed-In Tariffs: Examining Fair And Reasonable Retail Rates Using Cost Avoidance Estimates*, 112 ENERGY POL'Y 19. (2018).

²⁷⁷ UNEP, *Feed-in Tariffs*, *supra* note 124, at 69.

²⁷⁸ Stokes, *supra* note 131, at 490.

²⁷⁹ Cory, *supra* note 126, at 12.

²⁸⁰ UNEP, *Feed-in Tariffs*, *supra* note 124, at 60.

²⁸¹ IEA, *supra* note 61, at 81; UNEP, *Feed-in Tariffs*, *supra* note 124 at 69 (Of course, including adjustments with triggers or market reviews requires additional administrative infrastructure to support these policy shifts.).

Thus, some adjustments are available within the FITs system. Nevertheless, most nations chose to replace their FITs partially or wholly with other policies.

3. *Transitioning to Auctions*

To minimize the financial impacts of FITs, jurisdictions have turned to another mechanism – tenders. As renewable energy technologies have matured, their costs no longer impede investment. Consequently, the FITs subsidy becomes unnecessary to encourage deployment of these technologies.²⁸² Furthermore, perpetuating FIT subsidies during a technology’s take-off stage increases their financial burden substantially.²⁸³ Accordingly, a number of countries have turned to a process first used decades before to secure renewable energy contracts – tenders.²⁸⁴ Tenders (also called “competitive bidding,”²⁸⁵ “reverse auctions,”²⁸⁶ or just “auctions”²⁸⁷) enable governments to control the costs of renewable energy deployment. Governments determine the amount of capacity to be built, open the contracts for these installations to bidders, and then contract with a low bidder, who agrees to build the identified capacity.²⁸⁸ Some tenders award the contract to the lowest bidder, while others may use multiple criteria to select winners.²⁸⁹ Governments have sought fulfillment by specific technologies or groups of technologies, or they have been technology neutral.²⁹⁰

²⁸² Herman K. Trabish, *RIP FITs: As US Feed-in Tariffs Fade, Adopting Elements could Spur Solar Growth*, UTILITY DIVE (July 18, 2016), <https://www.utilitydive.com/news/rip-fits-as-us-feed-in-tariffs-fade-adopting-elements-could-spur-solar-gr/422727/>.

²⁸³ SCHENUIT, *supra* note 220, at 39.

²⁸⁴ Fell, *supra* note 114, at 3 (In the 1990’s under its Non Fossil Fuel Obligation (“NFFO”), the United Kingdom accepted bids for electricity generation from non-fossil fuel sources, including renewable energy.).

²⁸⁵ REN21, *supra* note 123, at 122-23.

²⁸⁶ Kilinc-Ata, *supra* note 275, at 84.

²⁸⁷ REN21, *supra* note 123, at 122-23.

²⁸⁸ Kilinc-Ata, *supra* note 275, at 84; SCHENUIT, *supra* note 220, at 16 (Tenders may include ceiling prices to signal the maximum rate that will be accepted, thereby assuring policy costs.).

²⁸⁹ SCHENUIT, *supra* note 220, at 9, 18 (Additional criteria typically involve factors such as local industrial development, project lead time, or geographic distribution of installations.).

²⁹⁰ Malte Gephart, Corinna Klessmann & Fabian Wigand, *Renewable Energy— When are they (Cost-)Effective?*, 28 ENERGY & ENV’T 145, 148 (2017).

The use of tenders to source renewable energy has increased significantly. Nations both in Europe and Asia have utilized tenders in recent years. A number of European nations, including many renewable energy leaders, have turned to tenders. In 2015, Germany, the country that developed one of the model FITs, replaced its tariff program with auctions.²⁹¹ France, Denmark and the Netherlands, among many others, are now using tenders as a primary means to add renewables.²⁹² Some of the largest tenders, however, occurred in Asian countries, including China and India; Japan also has scheduled its own tenders.²⁹³ Overall, the number of countries using auctions has grown from 6 in 2005 to 67 in 2016.²⁹⁴

Not only do tenders avoid the burden of FITs subsidies, they can reduce renewable energy costs. Tenders, by their nature, encourage price competition.²⁹⁵ In a typical tender system, developers bid to sell electricity they will generate from a specified technology.²⁹⁶ Thus, a primary function of tenders is to establish prices for electricity generated from particular technologies and to award contracts.²⁹⁷ One of the key advantages of tenders is that they determine prices through competitive price discovery rather than by administrative determination.²⁹⁸ Tenders, accordingly, are not truly support instruments, but instead they constitute a design element that can work with support mechanisms (such as a FIT or grid-connection

²⁹¹ REN21, *supra* note 123, at 122.

²⁹² *Id.* at 122-23 (Tenders currently constitute the fastest-growing form of renewable energy procurement in the United Kingdom.).

²⁹³ *Id.* at 123.

²⁹⁴ INTERNATIONAL RENEWABLE ENERGY AGENCY [IRENA], RENEWABLE ENERGY AUCTIONS: ANALYSING 2016 8, 16 (2017); UNEP, *Feed-in Tariffs*, *supra* note 124, at 12 (Typically, countries schedule tenders periodically.).

²⁹⁵ TOBY D. COUTURE ET AL., THE NEXT GENERATION OF RENEWABLE ELECTRICITY POLICY: HOW RAPID CHANGE IS BREAKING DOWN CONVENTIONAL POLICY CATEGORIES, 5 (2015).

²⁹⁶ UNEP, *Feed-in Tariffs*, *supra* note 124, at 12.

²⁹⁷ COUTURE, *supra* note 295, at 12; SCHENUIT, *supra* note 220 at 11 (Another value of tenders is that they provide governments with a better ability to control the installation of renewable energy and the particular mix of resources installed.).

²⁹⁸ IEA, *supra* note 61, at 132; SCHENUIT, *supra* note 220 at 11 (By determining prices through direct competition, tenders help avoid the windfall profits, or rents, possible when prices fall faster than tariffs adjust.); IRENA, *supra* note 294, at 17 (This price discovery process also not only informs the current price, but also the historic trend informs future auction prices.).

policies).²⁹⁹ Besides assisting with price discovery, another benefit of tenders is that they reduce procurement costs.³⁰⁰ By forcing developers to bid for the opportunity to sell electricity into the grid, tenders incentivize developers to reduce costs to secure contracts for their projects.³⁰¹

Despite the popularity of tenders, critics have raised several concerns about their use. A primary concern is that tenders limit the volume of new installations.³⁰² This in part results from the contrasting

²⁹⁹ SCHENUIT, *supra* note 220, at 9; Oscar Fitch-Roy, David Benson & Bridget Woodman, *Policy Instrument Supply and Demand: How the Renewable Electricity Auction Took over the World*, 7 *POL. & GOVERNANCE* 81, 82 (2019) (Jurisdictions utilize tenders in a number of different capacities relative to FITs. In many instances, tenders replace their FITs.); Paolo Cozzi, *ASSESSING REVERSE AUCTIONS AS A POLICY TOOL FOR RENEWABLE ENERGY DEPLOYMENT* 30 (2012), <https://sites.tufts.edu/cierp/files/2018/02/May12CozziReverseAuctions.pdf> (In others, they merely supplement FITs policies.); REN21, *supra* note 123, at 132 (In some instances, countries use tenders side-by-side with FITs, typically awarding contracts for larger contracts through tenders while using FITs to support smaller projects (and, typically, smaller developers).).

³⁰⁰ Fowlie, *supra* note 180.

³⁰¹ Brian Parkin, *Germany Pits Solar Against Wind for First Time in Power Auction*, *BLOOMBERG ENV'T & ENERGY REP.* (Feb. 21, 2018), 11:41 AM), https://www.bloomberglaw.com/document/X7R3STGO000000?bna_news_filter=environment-and-energy&jcsearch=BNA%252000000161b918d846a17fb9da38360000#jcite.

³⁰² Fell, *supra* note 114, at 1; Jan Kreiss, Karl-Martin Ehrhart, & Marie-Christin Haufe, *Appropriate Design of Auctions for Renewable Energy Support – Prequalifications and Penalties*, vol.101 *ENERGY POL'Y*, 512, 512 (2017) (stating, actually, that “tenders massively curb the expansion rates of renewable energies”) (An initial concern regarding the replacement of FITs with tenders was the latter’s realization rates. Low realization rates – awarded bidders failing to generate the amount of electricity contracted – characterized tenders.) (This results from bidders submitting low bids that do not cover project costs.); Gephart, *supra* note 290, at 151. (For example, early tenders suffered from realization rates below 40% (38% under the UK’s NFFO program from 1990 to 1998, 30% for a geothermal auction by The Netherlands’ in 2011, and 30% for an onshore wind auction in Brazil in 2009-10).); Kreiss, *supra* note 302, at 512, 512-13 (The low realization rates have had different causes. For instance, in the United Kingdom, tenders utilized low financial prequalification standards; in Brazil, conversely, the unavailability of grid connections rendered timely satisfaction of realization requirements impossible.); Kreiss, *supra* note 302, at 512-23 (Governments can avoid the problem of low realization rates, however, by imposing prequalification requirements or penalties.) (Prequalification requirements may include satisfaction of general criteria (such as experience, technical ability, or financial strength) or fulfillment of project-specific actions (such as submission of a land-use plan or a feasibility study)); Sandra Enkhart, *Germany Reports High Realization Rate for PV Projects Selected in Auctions*, *PV MAG.* (Jan. 9, 2018), <https://www.pv->

natures of tenders and the mechanism often preceding them, FITs. A critical benefit of FITs is that any investor in a qualifying project is assured of receiving the tariff for generated electricity.³⁰³ Conversely, tenders award contracts only to those projects necessary to achieve a particular installation or budget goal.³⁰⁴ Indeed, several nations have turned to tenders to slow down the installation of renewable energy resources. Countries with mature solar markets, for instance, have used tenders to address subsidy budget deficits, market saturation, and grid management concerns.³⁰⁵

A critical distinction of tenders from FITs is that tender systems reduce investor certainty. Since tenders cannot assure investors of securing contracts unless they submit a winning bid, tenders inject uncertainty into the development phase of a project.³⁰⁶ Not only do tenders instill doubt, they also impose new administrative costs in the form of bid preparation.³⁰⁷ This can be especially problematic for smaller developers.³⁰⁸ Finally, tenders tend to favor a few, dominant players over smaller participants. Several characteristics of tenders – including administrative and financial requirements – discourage engagement by small actors.³⁰⁹

Nevertheless, a number of countries have begun using tenders to secure renewable energy production. France was one of the first countries to do so. In 2001, it applied FITs to projects under 12 MW

magazine.com/2018/01/09/germany-reports-high-realization-rate-for-pv-projects-selected-in-auctions/ (Penalties can include lower levels of financial support, a shortened support period, termination of the contract, or exclusion from future auctions.); Kreiss, *supra* note 302, at 513 (Accordingly, more recent realization rates have exceeded 90%).

³⁰³ Schmalensee, *supra* note 137, at 50.

³⁰⁴ IRENA, *supra* note 294, at 17.

³⁰⁵ Sonal Patel, *More Countries Banking on Competitive Auctions over Subsidies to Stimulate Renewables*, POWER MAG. (Jan. 3, 2018), <https://www.powermag.com/more-countries-banking-on-competitive-auctions-over-subsidies-to-stimulate-renewables/>.

³⁰⁶ IEA, *Deploying Renewables*, *supra* note 61, at 132.

³⁰⁷ SCHENUIT, *supra* note 220, at 11.

³⁰⁸ *Id.*

³⁰⁹ Fell, *supra* note 114, at 9, 18 (On the other hand, Fell acknowledges that tenders can be helpful in procuring investments from large investors for more sizeable projects that help reduce costs.).

and tenders to larger projects.³¹⁰ Ten years later, France extended its tender program to smaller projects and broadened it to cover rooftop solar.³¹¹ Both FITs and tenders were successful. In fact, as of 2014, 38% of the country's solar PV capacity resulted from its FIT while the remaining 62% derived from tenders.³¹²

Another country now relying upon tenders is Germany. As previously discussed, in response to high electricity costs, Germany abandoned its FIT.³¹³ In its place, Germany instituted tenders for renewable energy procurement.³¹⁴ It started with auctions for solar power in 2015.³¹⁵ Germany then added tenders for onshore wind, offshore wind, and biomass.³¹⁶ In the eleven solar auctions Germany has conducted since 2015, tender prices fell steadily from 9.17 cents/kWh to 4.59 cents/kWh in less than three years.³¹⁷ Furthermore, the realization rate of the first four tenders (for which contract completion data is available) ranged between 90% and 99.9%.³¹⁸ The tenders have seen such successes that Germany's parliament approved legislation to expand the country's use of auctions. In fact, the parliament expects renewable energy's share of Germany's electricity production to rise from 38% to 65% by 2030.³¹⁹ Furthermore, tenders have achieved their intended goal of controlling renewable energy costs. After the adoption of tenders, renewable energy prices fell to levels comparable to those of fossil fuel sources.³²⁰

³¹⁰ COUTURE, *supra* note 295, at 5, 8 (Advantages of this "layered" approach include enabling better control over market segment development and ensuring growth of multiple project size categories.).

³¹¹ *Id.*

³¹² *Id.* at 10.

³¹³ Fowlie, *supra* note 180.

³¹⁴ *Id.*

³¹⁵ SCHENUIT, *supra* note 220, at 24.

³¹⁶ Klessmann, *supra* note 195.

³¹⁷ SCHENUIT, *supra* note 220, at 24.

³¹⁸ *Id.*

³¹⁹ Brian Parkin, *German Wind, Solar Tenders Expand as Sights Set on Coal's Exit*, BLOOMBERG ENV'T & ENERGY REP. (Nov. 30, 2018, 12:55 PM), <https://news.bloomberglaw.com/environment-and-energy/german-wind-solar-tenders-expand-as-sights-set-on-coals-exit>.

³²⁰ Vaishnavi Chandrashekar, *As Subsidies Wane, Market Forces Drive the Growth of Renewables*, GREEN BIZ (July 16, 2018), <https://www.greenbiz.com/article/subsidies-wane-market-forces-drive-growth-renewables>.

Following this lead, other countries have adopted tenders as well. The two largest developing countries, China and India, have decided to use tenders to secure future renewable energy installations. In 2018, China announced that it would end its FIT for utility-scale projects and require the use of tenders to set their prices.³²¹ India also has turned to tenders to increase its renewable energy installations. Specifically, it will use tenders to secure 500 GW of renewable energy generation capacity by 2028.³²²

Several jurisdictions and utilities in the United States have begun turning to tenders, too. Since 2010, California has enabled investor-owned utilities to use tenders to procure RPS-eligible renewable energy production from small producers.³²³ In addition, the PJM Interconnection³²⁴ and utilities in Arizona, Massachusetts, and Nevada, have all recently enacted tenders.³²⁵

Tenders have helped to lower the costs of renewable energy installations. They have established lower prices for solar PV, onshore wind, and offshore wind.³²⁶ For projects coming online by 2023, costs

³²¹ Emma Foehringer Merchant, *China's Bombshell Solar Policy Shift Could Cut Expected Capacity by 20 Gigawatts*, GREENTECH MEDIA (June 6, 2018), <https://www.greentechmedia.com/articles/read/chinas-bombshell-solar-policy-could-cut-capacity-20-gigawatts#gs.pfkhc6>; SCHENUIT, *supra* note 220, at 40 (China first implemented a tender in 2003, six years before it established its FIT. A wide variance in bid prices, however, reflected the industry's still immature state.).

³²² *Renewables Continue To Add Capacity Despite Glut*, ENERGY NEWS MONITOR (May 13, 2019), <https://www.orfonline.org/research/energy-news-monitor-volume-xv-issue-48-50758/>; Gephart, Klessmann & Wigand, *supra* note 290, at 155 (Brazil, another developing country, has also turned to tenders for new wind installations, setting contract prices that represent a 60% reduction from its FITs rates.).

³²³ *Renewable Auction Mechanism*, CAL. PUB. UTIL. COMM'N (2020), http://www.cpuc.ca.gov/renewable_auction_mechanism/.

³²⁴ *Who We Are*, PJM (1999-2020) <https://www.pjm.com/about-pjm/who-we-are.aspx> PJM (Interconnection is a regional transmission organization that coordinates wholesale electricity transactions in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.).

³²⁵ SCHENUIT, *supra* note 220, at 27.

³²⁶ IEA, *Have the Prices from Competitive Auctions become the "New Normal" Prices for Renewables?* (Feb. 4, 2019), <https://www.iea.org/articles/have-the-prices-from-competitive-auctions-become-the-new-normal-prices-for-renewables> [hereinafter IEA, *Prices*] <https://www.iea.org/newsroom/news/2019/february/have-the-prices-from-competitive-auctions-become-the-new-normal-prices-for-.html>.

range from 45% to 67% lower.³²⁷ Thus, tenders have provided a means to contain costs in the take-off stage after FITs have successfully promoted these technologies.

D. *Renewable Portfolio Standards*

1. *A Brief Review*

RPSs have also played a prominent role in incentivizing renewable energy deployment. A quick review of RPSs follows to enable a comparison to FITs, leading to a proposal to incorporate aspects of both policies to accelerate CDR development.³²⁸

RPSs implement a different approach from that used by FITs, and they have unique strengths and weaknesses. RPSs mandate that electricity producers must generate or purchase pre-established minimum percentages of their power from designated (usually renewable) sources.³²⁹ The generation of electricity from such sources is recognized through the provision of renewable energy credits (“RECs”).³³⁰ RPSs then utilize markets to set prices for renewable energy by allowing trading of these RECs.³³¹ The trading of RECs in a market fosters price competition.³³² RPSs have been popular and successful in incentivizing renewable energy development. While RPSs are not as widespread as FITs, as of 2017, at least 67 countries had set RPS-like targets for renewable capacity or generation.³³³

³²⁷ *Id.*; IRENA, *supra* note 294, at 21 (A number of factors, however, determine the prices established by the auctions and their eventual success in securing the electricity sought. These include any land acquisition costs, resource quality, and project size.).

³²⁸ Anthony E. Chavez, *Using Renewable Portfolio Standards to Accelerate Development of Negative Emissions Technologies*, 43 WM. & MARY ENVTL. L. & POL’Y REV. 1 (2018) (For a more complete discussion of RPSs).

³²⁹ Ryan Wiser, Galen Barbose, & Edward Holt, *Supporting Solar Power in Renewables Portfolio Standards: Experience from the United States*, 39 ENERGY POL’Y 3894, 3894 (2011).

³³⁰ Mormann, *supra* note 132, at 1663.

³³¹ *Id.*

³³² Abolhosseini, *supra* note 161, at 881.

³³³ Jenny Heeter, Bethany Speer, & Mark B. Glick, INT’L BEST PRAC. FOR IMPLEMENTING & DESIGNING RENEWABLE PORTFOLIO STANDARD POLICIES 1 (2019).

A major distinction between FITs and RPSs involves the certainty for developers of their return on investment.³³⁴ FITs, of course, guarantee the purchase of electricity generated by qualified sources.³³⁵ Power producers in RPS jurisdictions, however, submit proposals through competitive solicitations.³³⁶ A competitive solicitation can impose significant burdens on applicants, such as the costs of developing the proposal, the risks of failing to secure the bid, and more complicated financing arrangements (since the return on investment is not assured).³³⁷ Thus, RPSs not only shift risk to investors, they also raise investors' transaction costs.³³⁸

While basic RPSs do not incentivize specific technologies, policy makers can add certain provisions – called multipliers and carve outs – to enable RPSs to promote particular technologies. Carve outs identify minimum levels of electricity to be produced from a particular type of source. These targets are “carved out” of the overall renewable energy percentage for the jurisdiction’s electricity.³³⁹ Conversely, multipliers allow the generation of electricity by particular energy sources to earn multiples of credits as compared to electricity produced by other identified sources.³⁴⁰ For instance, seven states use multipliers for solar, with multipliers of credits ranging from two to three times the standard one credit for each megawatt of generation by other renewable energy sources.³⁴¹ One benefit that both carve outs and multipliers share is that jurisdictions can apply these devices to several technologies at the same time, thereby supporting multiple undeveloped methods. Delaware, for instance, uses multipliers for fuel cells, solar, and offshore wind.³⁴² New Mexico, on the other hand,

³³⁴ Kang, *supra* note 127, at 28.

³³⁵ Mormann, *supra* note 132, at 1631-32.

³³⁶ Couture, *supra* note 136, at 22.

³³⁷ Cory, *supra* note 126, at 9.

³³⁸ Mormann, *supra* note 132, at 1664.

³³⁹ EPA, ENERGY & ENVIRONMENT GUIDE TO ACTION 5 [hereinafter EPA ENERGY & ENVIRONMENT GUIDE].

³⁴⁰ Greg Buckman, *The Effectiveness of Renewable Portfolio Standard Banding and Carve-Outs in Supporting High-Cost Types of Renewable Electricity*, 39 ENERGY POL’Y 4105, 4105 (2011); *Id.* (Multipliers are also identified as banding.).

³⁴¹ EPA ENERGY & ENVIRONMENT GUIDE, *supra* note 339, at 5.

³⁴² Miriam Fischlein & Timothy M. Smith, *Revisiting Renewable Portfolio Standard Effectiveness: Policy Design and Outcome Specification Matter*, 46 POL’Y SCI 277, 290 (2013).

carves out minimum percentages of its RPS goals for solar, wind, and “other renewables.”³⁴³

2. *Differences between FITs and RPSs*

At a fundamental level, the two systems differ in the focus of their approaches. FITs are price-based policies, whereas RPSs are quantity based.³⁴⁴ Under FITs, regulators determine the price for power from particular sources, and the market determines the quantity to be installed.³⁴⁵ Conversely, regulators under RPSs set the quantity of electricity to be sourced from designated technologies, and the market establishes the price.³⁴⁶

The different structure of these policies alters the allocation of risks. RPSs, which rely on competitive solicitations, shift more risk to investors.³⁴⁷ By requiring particular quantities of renewable energy at whatever price providers can acquire it, RPSs incentivize cost reduction, while the risk of project acceptance and pricing falls on investors.³⁴⁸ FITs facilitate the development of new technologies by requiring investors to assume only a minimal level of risk.³⁴⁹ The guaranteed contract of FITs enables developers to avoid competitive solicitations. Also, they can secure financing for larger proportions of their projects, which helps lower the cost of financing.³⁵⁰ Not only do FITs assure profitability, they also provide predictable returns.³⁵¹

Because of the structural differences between FITs and RPSs, these policies tend to be most effective in incentivizing different types of investors and technologies. Quantity-based policies, such as RPSs, are better suited to more mature technologies.³⁵² In addition, because of the uncertainty of return on investment with the competitive solicitation method used with RPSs, larger investors are better able to

³⁴³ *Id.* at 287.

³⁴⁴ Kilinc-Ata, *supra* note 275, at 84.

³⁴⁵ Kwon, *Rent*, *supra* note 183, at 677.

³⁴⁶ *Id.*

³⁴⁷ Cory, *supra* note 126, at 9.

³⁴⁸ Kwon, *Rent*, *supra* note 183, at 677.

³⁴⁹ Abolhosseini, *supra* note 161, at 884.

³⁵⁰ Cory, *supra* note 126, at 9.

³⁵¹ Zhang, *supra* note 236, at 427.

³⁵² Francesco Nicolli & Francesco Vona, *Heterogeneous Policies, Heterogeneous Technologies: the Case of Renewable Energy*, 56 *ENERGY ECON.* 190, 190 (2016).

weather the costs and risks associated with starting projects.³⁵³ RPSs also tend to favor projects with long-term targets (10-15 years) for profitability.³⁵⁴ This also incentivizes more mature technologies, which are closer to competitiveness.³⁵⁵ Because RPSs set quantity requirements and allow others to choose the technology with which to satisfy the mandate, they encourage lower-cost technologies,³⁵⁶ which also tends to incentivize cost-reducing innovation.³⁵⁷

Conversely, guaranteed-price policies, such as FITs, tend to facilitate the development of technologies in their initial phases.³⁵⁸ FITs also insulate covered technologies from competition with other technologies. Thus, they are especially effective at supporting new technologies that are not yet competitive.³⁵⁹

The risk shifting of these two policies also impacts regulators. The reduced risk encountered by investors with FITs does not disappear. Instead, FITs shift risk from investors to regulators.³⁶⁰ In FITs systems, regulators must set the FITs rates. If regulators set the rates too high, the number of investors and projects will increase, but the overall policy costs will rise. If the rates are too low, market expansion will be constrained, since only the most efficient projects will be viable.³⁶¹ The precision of these rates is essential because excess premiums would eventually burden ratepayers or taxpayers.³⁶²

³⁵³ IEA, *Deploying Renewables*, *supra* note 81, at 132.

³⁵⁴ Kang, *supra* note 127, at 27.

³⁵⁵ IEA, *supra* note 61, at 132.

³⁵⁶ Ryan Wiser, Galen Barbose, & Edward Holt, *Supporting Solar Power in Renewables Portfolio Standards: Experience from the United States*, 39 ENERGY POL'Y 3894, 3896 (2011).

³⁵⁷ Nathaniel Horner, Iñes Azevedo & David Hounshell, *Effects of Government Incentives on Wind Innovation in the United States*, 8 ENVTL. RES. LETTERS 6 (2013).

³⁵⁸ Nicolli, *supra* note 352, at 190.

³⁵⁹ IEA, *Deploying Renewables*, *supra* note 61, at 132; Zhang, *supra* note 236, at 433 (For this reason, China has plans to utilize a mix of RPS and FIT policies - the former to incentivize the more established source of wind power and the latter to promote the less competitive technologies, such as solar photovoltaic.); *see also* Section IV, *infra* subsec. B.

³⁶⁰ Mormann, *supra* note 132, at 1660.

³⁶¹ Alizamir, *supra* note 88, at 53.

³⁶² UNEP, *Feed-in Tariffs*, *supra* note 124, at 7.

Because FITs limit the risks to investors, they have been the more popular policy.³⁶³ In general, studies have found that FITs have more effectively promoted renewable energy development than any other policy.³⁶⁴ Because of this difference, a study of 35 countries concluded that FITs mitigate investor risks and encourage up to four times the amount of renewable energy deployment as that incentivized by RPSs.³⁶⁵

Thus, each policy has its own strengths. RPSs support a managed growth of technologies and encourage innovation and cost reduction. FITs, however, have proven to be more robust promoters of new technologies.

E. Tax Credits and Cash Grants

While FITs and RPSs were the primary drivers of renewable energy deployment, other policies played significant roles. In the United States, tax credits and cash grants were particularly supportive.³⁶⁶ Two types of tax credits have been used, one based on actual electricity generation and the other on the amount of investment in new technologies.

The United States enacted a production tax credit (“PTC”) that became a primary driver of wind energy.³⁶⁷ Congress established the wind PTC in the Energy Policy Act of 1992. As originally enacted, the PTC provided a tax credit for the first ten years of operation of a wind turbine.³⁶⁸ It provided a credit based upon the amount of annual electricity production from the turbine.³⁶⁹ Thus, a primary benefit of

³⁶³ Schmalensee, *supra* note 137, at 60.

³⁶⁴ Barry, *supra* note 169.

³⁶⁵ Mormann, *supra* note 132, at 1660; IEA, *Deploying Renewables*, *supra* note 61, at 115 (However, analysis suggests this may result more from a greater adoption of FITs policies than from a greater effectiveness of that approach.).

³⁶⁶ Felix Mormann, *Beyond Tax Credits: Smarter Tax Policy for a Cleaner, More Democratic Energy Future (Beyond Tax Credits)*, 31 *YALE J. ON REG.* 303, 311 (2014) (Accelerated depreciation provisions also applied to renewable energy investments, but tax credits played a more significant role in renewable energy development.).

³⁶⁷ Ferrey, *supra* note 171, at 354.

³⁶⁸ *Id.*

³⁶⁹ Alexandra B. Klass, *Tax Benefits, Property Rights, and Mandates: Considering the Future of Government Support for Renewable Energy*, 20 *J. ENVTL. & SUSTAINABILITY L.* 19, 37 (2013); MOLLY F. SHERLOCK, *CONG. RSCH.*

the PTC is that it subsidizes the specific activity – electricity generation by wind turbines – Congress sought to encourage.³⁷⁰

Numerous studies have found that the PTC successfully encouraged wind power installations.³⁷¹ Researchers have found that the wind PTC has had a consistently positive and highly significant effect on wind technology deployment.³⁷² Furthermore, the PTC enhances the effectiveness of other supportive policies, most noticeably RPSs.³⁷³

One limitation inherent with the PTC is that, as a credit against taxes, it requires tax liability to provide value.³⁷⁴ Because of the upfront costs involved with wind installations, however, developers do not typically produce profits (and the resulting tax liabilities) until after 10 years or more of operations.³⁷⁵ Thus, to benefit from the PTC, many developers needed to use tax equity financing to monetize their tax benefits sooner.³⁷⁶ This process reduced the effective amount of financial support provided directly to the targeted activity, renewable energy production.³⁷⁷

Despite the PTC's success in growing the wind industry, uncertainty concerning its availability negatively impacted its effectiveness.³⁷⁸ Congress repeatedly enacted the PTC for only a limited period of time and often let the credit expire before renewing it. Since the PTC's first enactment in 1992, Congress has needed to

SERV., R43453, THE RENEWABLE ELEC. PROD. TAX CREDIT: IN BRIEF 1 (2018) (The Tax Code further requires that the electricity be sold to an unrelated party.).

³⁷⁰ Victoria Chang, Note, *Wind Energy Incentives in Texas*, 14 TEX. J. OIL GAS & ENERGY L. 189, 200 (2019).

³⁷¹ Sherlock, *supra* note 369, at 9.

³⁷² Gireesh Shrimali, Melissa Lynes, & Joe Indvik, *Wind Energy Deployment in the U.S.: An Empirical Analysis of the Role of Federal and State Policies*, RENEWABLE AND SUSTAINABLE ENERGY REVIEWS 43 (2015) 796–806, 805.

³⁷³ *Id.* at 806.

³⁷⁴ Michelle D. Layser, *Improving Tax Incentives for Wind Energy Production: The Case for a Refundable Production Tax Credit*, 81 MO. L. REV. 453, 455 (2016).

³⁷⁵ Mormann, *supra* note 366, at 315.

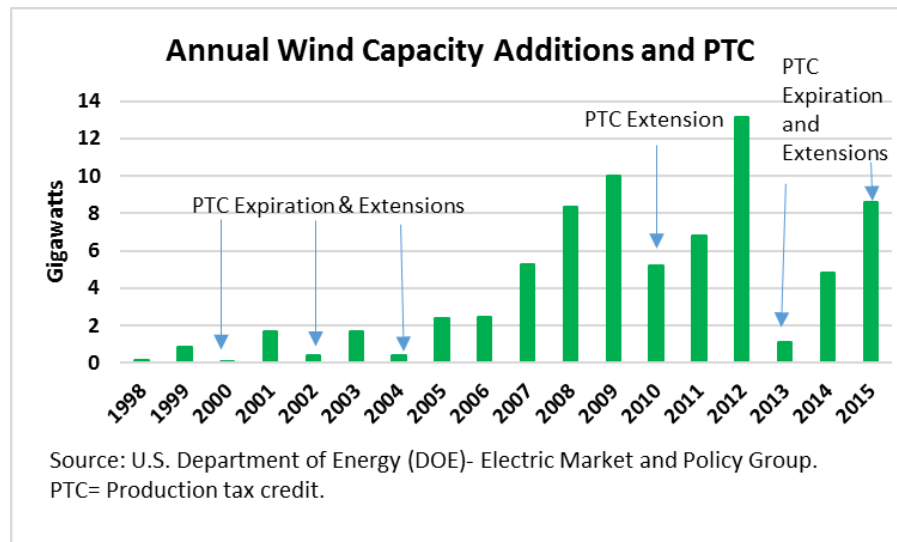
³⁷⁶ Chang, *supra* note 370, at 197-98.

³⁷⁷ Sherlock, *supra* note 369, at 10.

³⁷⁸ Travis Roach, *The Effect of the Production Tax Credit on Wind Energy Production in Deregulated Electricity Markets*, 127 ECON. LETTERS 86, 86 (2015).

renew it eleven times.³⁷⁹ On six of these occasions, Congress actually allowed the PTC to expire before extending it.³⁸⁰ Figure 3 illustrates this history of the PTC's availability and its impact on wind power installations.

Figure 3³⁸¹



The PTC's erratic availability reduced its effectiveness. The Department of Energy analyzed the effect of the starts and stops of the credit on the ability of developers to plan their projects. It used the date of congressional enactment and the expiration of the PTC to calculate a planning window for each PTC period.³⁸² The Department found that

³⁷⁹ Ferrey, *supra* note 171, at 358 (identifying ten extensions as of 2018); John A. Eliason, David B. Weisblat, & Tori Roessler, *Production Tax Credit Extended for Renewable Projects Beginning Construction in 2020*, 10 NAT'L L. REV. (2020), <https://www.natlawreview.com/article/production-tax-credit-extended-renewable-projects-beginning-construction-2020> (In 2019, Congress extended the PTC an eleventh time to be available for projects commencing in 2020.).

³⁸⁰ Ferrey, *supra* note 171, at 358.

³⁸¹ Isaac Orr, *Don't Believe the Wind Industry's Steel Tariff Talk, they Always Wanted More Subsidies*, CTR. OF THE AM. EXPERIMENT (Oct. 16, 2019), <https://www.americanexperiment.org/2019/10/dont-believe-the-wind-industrys-steel-tariff-talk-they-always-wanted-more-subsidies/>.

³⁸² Ryan Wisner & Mark Bollinger, U.S. DEP'T OF ENERGY, 2017 WIND TECHNOLOGIES MARKET REPORT 67 (2018).

14 such periods have arisen since 1992, and the average length of these periods was only 27.5 months.³⁸³

These regular expirations and extensions negatively impacted wind development.³⁸⁴ They also engendered boom-and-bust cycles in the industry.³⁸⁵ As illustrated by Figure 3, the cycles exhibit strong growth followed by dramatic slowdowns.³⁸⁶ During the slowdowns, installations fell from 76% to as much as 93%.³⁸⁷ These boom-and-bust cycles caused a number of problems within the wind industry itself and its supporting industries.³⁸⁸ The drop in demand destabilized the industry's labor force and disrupted manufacturing processes and supply chains.³⁸⁹ These disruptions impaired the industry's ability to take advantage of favorable developments, such as the tax credits' renewal or strong market conditions.³⁹⁰ They also increased prices for goods and labor.³⁹¹

These cycles do, however, demonstrate the impact of the PTC on the wind industry.³⁹² The effectiveness of the PTC is apparent by the dropoff in installations illustrated by Figure 3 when Congress allowed the PTC to expire. Consequently, Congress has amended the PTC to apply to additional technologies, including biomass, geothermal, landfill gas, municipal solid waste, qualified hydropower, and marine and hydrokinetic facilities.³⁹³

³⁸³ *Id.* (The author calculated more periods than extensions because, in some instances, the extensions provided that different investment periods would receive different credit amounts. For instance, the 2014 extension allowed a 100% credit for construction started before 2017, but only 80% for construction commenced before 2018.).

³⁸⁴ Klass, *supra* note 369, at 41-42.

³⁸⁵ Chang, *supra* note 370, at 196-97.

³⁸⁶ *Production Tax Credit for Renewable Energy*, UNION OF CONCERNED SCIENTISTS (Feb. 9, 2015) [hereinafter, UNION OF CONCERNED SCIENTISTS], <https://www.ucsusa.org/resources/production-tax-credit-renewable-energy>.

³⁸⁷ *Id.*

³⁸⁸ Blake Harrison, *Expanding the Renewable Energy Industry Through Tax Subsidies Using the Structure and Rationale of Traditional Energy Tax Subsidies*, 48 U. MICH. J. L. REFORM 845, 866 (2015).

³⁸⁹ *Id.*

³⁹⁰ Chang, *supra* note 370, at 197, n.58.

³⁹¹ *Id.*

³⁹² Mormann, *supra* note 366, at 319.

³⁹³ *Id.* at 313; SHERLOCK, *supra* note 369 at 1 (In 1992, the PTC included only closed-loop biomass along with wind.) (By 2017, Congress had amended the PTC to cover the additional technologies.).

Another tax credit that Congress used to stimulate renewable energy was the investment tax credit (“ITC”). Congress first applied the ITC to renewable energy investments in the Energy Tax Act of 1978.³⁹⁴ In contrast to the PTC, which rewards electricity generation,³⁹⁵ the ITC mainly rewards the investment in equipment that enables that generation.³⁹⁶ Thus, the ITC does not require – and, consequently, does not ensure – the actual generation of electricity by renewable sources. The ITC provides a credit of 30% of the investment in renewable energy equipment.³⁹⁷

Investors typically used the PTC for their investments in wind power, while the ITC has been the credit of choice for investment in solar power.³⁹⁸ The distinction arose largely because of the differences in electricity generation by the two sources of power.³⁹⁹ Historically, the per kilowatt capital cost of solar has been higher than that of wind. Thus, the ITC was more attractive for solar investments than those in wind.⁴⁰⁰ Conversely, wind’s higher generating capacity made the PTC more appealing to its investors.⁴⁰¹ In fact, the PTC could provide up to double the credit for wind developments that some solar projects could earn.⁴⁰²

Conclusions about the success of the ITC in incentivizing solar energy investments are mixed. Investment in solar power has undergone a significant increase since the passage of the ITC.⁴⁰³

³⁹⁴ Mormann, *supra* note 366, at 314.

³⁹⁵ Chang, *supra* note 370, at 200.

³⁹⁶ Mormann, *supra* note 366, at 314.

³⁹⁷ Klass, *supra* note 369, at 38.

³⁹⁸ Ferrey, *supra* note 171, at 354.

³⁹⁹ *Id.*; Simon P. Neill & M. Reza Hashemi, *Fundamentals of Ocean Renewable Energy: Generating Electricity from the Sea*, 28 (Mariana Kuhl ed., 2018) (A renewable source’s capacity factor refers to the actual electricity generated in a year divided by the maximum possible electricity that could have been produced.); E. Ela, V. Diakov, E. Ibanez, & M. Heaney. Golden, *Impacts of Variability and Uncertainty in Solar Photovoltaic Generation at Multiple Timescales*, NAT’L RENEWABLE ENERGY LAB. [NREL] (May, 2013), <https://www.nrel.gov/docs/fy13osti/58274.pdf> (Capacity factors are important with renewable energy sources because their electricity generation is variable over multiple timescales.).

⁴⁰⁰ Ferrey, *supra* note 171, at 354-55.

⁴⁰¹ *Id.* at 355.

⁴⁰² *Id.* at 356.

⁴⁰³ Brian Palumbo, *Looking in the Side-View Mirror: Assessing the Current and Future State of the Solar Energy Industry as It Reaches the Mainstream*, 41 COLUM. J. ENVTL. L. 183, 191 (2016).

Nevertheless, a number of considerations call into question the ITC's role in causing this rise. For instance, the acceleration in solar installations does not coincide with favorable changes to the ITC.⁴⁰⁴ Furthermore, solar energy has grown at similar levels worldwide.⁴⁰⁵ Finally, analysts generally consider the PTC to yield more renewable energy per dollar of subsidy than has the ITC.⁴⁰⁶

Because of the necessity of having income to benefit from the tax credits, the government turned to a different mechanism during the Great Recession. The American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) established section 1603 cash grants.⁴⁰⁷ This provision enabled developers to choose to receive cash grants of up to 30% of their investments instead of receiving either the production or investment tax credits.⁴⁰⁸ Congress enacted this provision in recognition of reduced investor demand for tax credits during the recession.⁴⁰⁹

Since cash grants provide financial benefits directly to investors, they have certain advantages over tax credits. Credits, as discussed before, require developers either to generate taxable income to benefit from the credit or to engage outside investors to monetize their tax benefits.⁴¹⁰ As a result, a significant portion of the subsidy goes to the outside investors and to efforts to identify and attract them.⁴¹¹ Consequently, analysts have concluded that one dollar of direct cash has twice the benefit of one dollar of tax credit.⁴¹² Not surprisingly, in the period after the passage of the Stimulus Bill, developers demonstrated a clear preference for cash grants over the tax credits.⁴¹³

Another criterion upon which to evaluate these three mechanisms is their allocation of project risks. Since the PTC rewards production, project developers assume the risk of its

⁴⁰⁴ *Id.* at 201-02.

⁴⁰⁵ *Id.* at 203.

⁴⁰⁶ SHERLOCK, *supra* note 369, at 10.

⁴⁰⁷ Mormann, *supra* note 366, at 316.

⁴⁰⁸ *Id.*

⁴⁰⁹ *Id.*

⁴¹⁰ SHERLOCK, *supra* note 369, at 10.

⁴¹¹ Mormann, *supra* note 366, at 324.

⁴¹² *Id.* at 322.

⁴¹³ *Id.* at 323.

nonperformance.⁴¹⁴ Conversely, the value of the ITC to the developer depends upon the amount of its investment, not its production.⁴¹⁵ Thus, the ITC does not assure electricity generation. Similarly, the government determines the amount of Section 1603 grants with reference to developer investments, not electricity generation.⁴¹⁶ Thus, the PTC better assures that the targeted benefit will actually be produced.

IV. USING RENEWABLE ENERGY POLICIES TO INCREASE CDR DIFFUSION

Diffusion theory and experience with renewable energy can help inform the crafting of policies to incentivize the development and deployment of CDR. The renewable energy experience suggests several principles that should guide these policies. Policies should provide for differentiation along a series of criteria, be stable until technologies are able to mature, but be able to adapt to new circumstances as technologies do reach later stages of diffusion. The renewable energy experience suggests that FITs are robust supporters of new technologies. However, they might work best operating in an RPS structure that assures steady growth while incentivizing least-cost technologies. At early stages of diffusion, additional policies that can subsidize new technologies, such as cash grants, have proven to be effective. As technologies become mature, subsidies need to be reduced and replaced with policies such as tenders that will contain costs.

A. Principles to Guide CDR Policies

Diffusion theory and the recent experiences with renewable energy development suggest several principles that should guide policies intended to promote CDR. A critical principle that must be incorporated into CDR policies is differentiation. To best promote CDR technologies, policy makers should develop technology-specific, rather than technology-neutral, policies.⁴¹⁷ Policies must differentiate among technologies to take into account different stages of development, to recognize disparate geographic resources, and to assure the development of a variety of different technologies. Tailoring

⁴¹⁴ *Id.* at 322.

⁴¹⁵ *Id.*

⁴¹⁶ *Id.*

⁴¹⁷ IEA, *Deploying Renewables*, *supra* note 61, at 100.

policies to specific technologies facilitates the development of less mature – and typically more expensive – technologies.⁴¹⁸ Experience with renewable energy illustrates that technologies develop at different paces,⁴¹⁹ necessitating policies targeted to their different locations on the S curve.⁴²⁰ Similarly, CDR technologies currently are at different levels of development,⁴²¹ and, therefore, will benefit from the adoption of policies that allow for differentiation.

Differentiation will have additional benefits. It will enable rates to recognize the geographic disparity of resources.⁴²² It also lowers the overall costs of the policies, since differentiation facilitates reducing support for technologies further along on the diffusion curve.⁴²³

Tailoring is also important to avoid leaving technologies undeveloped. Essentially, those benefits that arise with technology maturity – economies of scale and learning by doing – become hindrances to the development of other technologies. Positive feedbacks and increasing returns to scale foster path dependency.⁴²⁴ Path dependency locks in established technologies, not because they are superior, but because they are widely used.⁴²⁵

Once again, renewable energy provides examples of these concepts. For instance, the potential for Spain to generate significant quantities of electricity through solar power is substantial.⁴²⁶ Nevertheless, Spain's policies favored wind power and locked in wind technology over others, including solar.⁴²⁷ Another energy source that globally remains largely fallow is tidal power. Typical estimates calculate that tidal energy generation could exceed 100 GW

⁴¹⁸ Del Rio, *supra* note 272, at 277.

⁴¹⁹ IEA, *Deploying Renewables*, *supra* note 61, at 95.

⁴²⁰ *Id.* at 97.

⁴²¹ *Greenhouse Gas Removal*, THE ROYAL SOCIETY (Sept. 2018), <https://royalsociety.org/-/media/policy/projects/greenhouse-gas-removal/royal-society-greenhouse-gas-removal-report-2018.pdf>.

⁴²² Shrimali, *supra* note 372, at 806.

⁴²³ IEA, *Deploying Renewables*, *supra* note 61, at 100; Del Rio, *supra* note 272, at 277 (Failure to reduce subsidies in recognition of the declining costs of mature technologies often results in windfall profits for them.).

⁴²⁴ Sandén, *supra* note 188, at 1559.

⁴²⁵ *Id.*

⁴²⁶ Rao, *supra* note 54, at 1073.

⁴²⁷ *Id.*

worldwide.⁴²⁸ Nevertheless, a lack of support for tidal power research has limited its development. Recently, Naval Group SA, a pioneer in tidal power, decided to shift its focus to offshore wind power because of limited support for tidal energy and competition from offshore wind.⁴²⁹ Other recent decisions by France to limit support for tidal projects and by the United Kingdom to require tidal projects to compete with offshore wind influenced Naval Group's decision.⁴³⁰ The United Kingdom's focus on offshore wind indirectly impacted marine technologies by limiting their relative competitiveness.⁴³¹ To avoid such results, CDR technology policy needs to maintain support for still-developing technologies before their ultimate value has become apparent.⁴³² This will be especially important since analyses conclude that multiple CDR technologies should be developed to sequester the amount of carbon required.⁴³³

Experience with renewable energy also demonstrates that stability enhances the effectiveness of policies. The contrast between the results in Germany⁴³⁴ with FITs and the uneven history of wind power installations in the United States⁴³⁵ illustrates the importance of this factor. As demonstrated by the wind PTC, short-term extensions and occasional expirations of the credit injected uncertainty into the wind power market, leading to drops in installations greater than 90%.⁴³⁶ Not only did this disrupt the clear upward trend in installations,⁴³⁷ it also impacted the wind industry's employment, finances, and supply chain.⁴³⁸ Conversely, Germany structured its FIT

⁴²⁸ Lee Buchsbaum, *MeyGen Array Sets Global Records for Harnessing Tidal Power*, *POWER* (Sept. 1, 2018), <https://www.powermag.com/meygen-array-sets-global-records-for-harnessing-tidal-power/>.

⁴²⁹ Brian Parkin, *Tidal Power Shaken as Naval Group Drops Business for Wind Focus*, *BLOOMBERG L. ENV'T & ENERGY REPORT* (July 27, 2018), <https://news.bloomberglaw.com/environment-and-energy/tidalpowershaken-as-naval-group-drops-business-for-wind-focus.>

⁴³⁰ *Id.*

⁴³¹ Nolden, *supra* note 79, at 5.

⁴³² Lacerda, *supra* note 103, at 8240.

⁴³³ James Mulligan, et al., *CarbonShot: Federal Policy Options for Carbon Removal in the United States*, *WORLD RES. INST.* (Jan. 2020), https://files.wri.org/s3fs-public/carbonshot-federal-policy-options-for-carbon-removal-in-the-united-states_1.pdf.

⁴³⁴ *See* Section III, subsec. B.1.

⁴³⁵ *See* Section III, subsec. E.

⁴³⁶ UNION OF CONCERNED SCIENTISTS, *supra* note 386.

⁴³⁷ *See* Figure 3.

⁴³⁸ Harrison, *supra* note 388, at 866.

to provide decades-long certainty to investors.⁴³⁹ Without doubt, this disparity helped wind power to achieve its fast growth in that country.⁴⁴⁰

Although CDR policies need to be stable, they must also be flexible. Diffusion theory tells us that technology deployment will follow a predictable – yet changing – pattern.⁴⁴¹ In general, we can expect that CDR technologies will first undergo a period of innovation and early adoption.⁴⁴² This phase is characterized by limited diffusion as costs remain high.⁴⁴³ During this period, supportive policies that lower the effective cost of installation will be especially helpful in promoting diffusion, since diffusion normally proceeds slowly.⁴⁴⁴ As CDR technologies advance to the adoption stages, the costs of installations can overwhelm governments relying upon subsidies.⁴⁴⁵ Thus, policies will need to adapt to contain their overall costs.⁴⁴⁶ This will require regular reviews of market conditions to determine the optimal time to enact transitional policies.⁴⁴⁷ Alternatively, they could rely upon predetermined levels, typically overall cost or total installations, to implement changes in support.⁴⁴⁸ Regardless of the particular mechanism, the policies will need to be able to adapt as the technologies mature.

B. A Policy Proposal to Support CDR Development and Deployment

Diffusion theory, the renewable energy experience, and the principles identified above can help guide the establishment of policies that can accelerate development and deployment of CDR technologies. At the initial stages, policies need to encourage investment, reduce costs, and provide stability. During the take-off stage, monitoring of changing conditions will be critical, with an expectation that policies will need either to evolve or be replaced to best fit new circumstances

⁴³⁹ Suzuki, *supra* note 176.

⁴⁴⁰ Fowlie, *supra* note 180.

⁴⁴¹ Davies, *supra* note 55, at 1229.

⁴⁴² IEA, *Deploying Renewables*, *supra* note 61, at 97.

⁴⁴³ *Id.*

⁴⁴⁴ *Id.* at 101.

⁴⁴⁵ *Id.* at 102.

⁴⁴⁶ *Id.*

⁴⁴⁷ *Id.* at 103.

⁴⁴⁸ Mormann, *supra* note 132, at 1662, n.231.

and to contain the overall costs of these policies. Finally, as markets begin to saturate, most policies can be removed altogether.

In light of the success demonstrated by FITs in promoting wind and solar power, FITs should be used as an initial policy to support technologies that capture and sequester carbon. Cost-based rates with premiums should be used since this method inherently differentiates among sources, which, among other benefits, supports portfolio diversification.⁴⁴⁹ FITs have several characteristics that should contribute to the acceleration of CDR installations. First, their premium rates will ensure that investors will receive a favorable return, thereby encouraging investment.⁴⁵⁰ Second, FITs incorporate long contract periods, which provide important stability for new technologies.⁴⁵¹ By setting different rates for different technologies, FITs also can promote multiple technologies at once.⁴⁵² Differentiated rates also can recognize geographic differences in technologies' effectiveness and tailor rates accordingly,⁴⁵³ thereby controlling overall costs.⁴⁵⁴

FITs, however, have not proven to be perfect. Although FITs usually fostered substantial renewable energy growth,⁴⁵⁵ the costs of this growth led many FITs countries to abandon or severely restrict these policies as technologies matured.⁴⁵⁶ Both in Europe and Asia nations have been shifting away from FITs to market-based methods.⁴⁵⁷ In other instances, they failed to stimulate the anticipated growth in renewable energy.⁴⁵⁸ Thus, modifications will be required to ensure that CDR installations achieve their targeted level while avoiding burdensome costs. To ensure that installations continue even when FITs are reduced or eliminated, FITs should be used in conjunction with RPSs.

⁴⁴⁹ UNEP, *Feed-in Tariffs*, *supra* note 124, at 41.

⁴⁵⁰ *Id.* at 40; *see also id.* at 38 (To ensure profitability, a CDR FIT should thus commence with a cost-based rate.).

⁴⁵¹ Resch, *supra* note 140.

⁴⁵² UNEP, *Feed-in Tariffs*, *supra* note 124, at 41.

⁴⁵³ Lacerda *supra* note 103, at 8246.

⁴⁵⁴ IEA, *Deploying Renewables*, *supra* note 61, at 100.

⁴⁵⁵ UNEP, *Feed-in Tariffs*, *supra* note 124, at 5.

⁴⁵⁶ Section III, *supra* subsec. C.1.

⁴⁵⁷ REN21, *supra* note 123, at 122.

⁴⁵⁸ Kang, *supra* note 127, at 11.

Typically, jurisdictions have approached the two policies as mutually exclusive alternatives.⁴⁵⁹ However, in recent years analysts have begun to suggest that FITs and RPSs can be used jointly, either as separate but parallel measures or with FITs serving to promote certain technologies within a broader RPS structure.⁴⁶⁰ Using the two policies jointly can be more effective since this approach is able to combine the policies' most effective provisions.⁴⁶¹ Furthermore, analysts have concluded that use of both policies increase their effectiveness.⁴⁶² Importantly, both policies can support tailoring for specific technologies.⁴⁶³

The RPS structure can readily incorporate FITs policies.⁴⁶⁴ RPSs can act as a framework with which other policies can be integrated to achieve the RPSs' requirements.⁴⁶⁵ With their tradable certificates, RPSs create markets for technologies; FITs can encourage investment in the technologies intended to populate these markets⁴⁶⁶ and help achieve the RPS quotas.⁴⁶⁷ Specifically, FITs and RPSs can interact in several ways. First, FITs can provide a more certain means to award contracts as compared to the competitive solicitation process typically used in RPS jurisdictions.⁴⁶⁸ Second, jurisdictions can use

⁴⁵⁹ Mormann, *supra* note 132, at 1628.

⁴⁶⁰ Cory, *supra* note 126, at 11.

⁴⁶¹ Kang, *supra* note 127, at 75.

⁴⁶² Fugui Dong, et al., *Study on China's Renewable Energy Policy Reform and Improved Design of Renewable Portfolio Standard*, 2 ENERGIES 12, 2147 (2019).

⁴⁶³ Couture, *supra* note 136, at 18 (FITs can differentiate tariffs by technology type.); Buckman, *supra* note 340, at 4105 (RPSs, on the other hand, can target specific technologies by utilizing carve outs or multipliers.); *see also* EPA ENERGY & ENVIRONMENT GUIDE, *supra* note 339, at 5-10.

⁴⁶⁴ EPA ENERGY & ENVIRONMENT GUIDE, *supra* note 339, at 5-11 (While a traditional RPS requires utilities to comply with their mandates, here the RPS mandate should be applied effectively as a carbon offset for industries with high CO₂ emissions. California, for instance, will allow carbon capture and sequestration as an offset to companies with high-carbon intensity fuels under its Low Carbon Fuel Standard.); *see also* *Accounting and Permanence Protocol For Carbon Capture and Geological Sequestration Under Low Carbon Fuel Standard*, CAL. AIR RES. BOARD (updated).

⁴⁶⁵ Zhao Xin-Gang, et al., *The Policy Effects of Feed-In Tariff and Renewable Portfolio Standard: A Case Study of China's Waste Incineration Power Industry*, 68, INT'L J. OF INTEGRATED WASTE MANAGEMENT, SCI. & TECH., 711-723, 711-12, (2017).

⁴⁶⁶ Mormann, *supra* note 132, at 1658.

⁴⁶⁷ Couture, *supra* note 136, at 22.

⁴⁶⁸ *Id.*

FITs to award contracts when no competitive solicitations are pending.⁴⁶⁹ Third, FITs can work in conjunction with RPSs, providing a means to promote targeted technologies.⁴⁷⁰ In place of or in addition to carve outs and multipliers, RPSs can utilize FITs to encourage investment into technologies jurisdictions favor or seek to develop. FITs can be especially helpful when RPSs are first implemented as a means to accelerate investment in undeveloped technologies.⁴⁷¹ Finally, because they lower barriers to market participation, FITs enable governments to encourage investment by small investors.⁴⁷²

Using the RPS framework provides several crucial benefits. RPSs can serve as baseline policies that assure smooth and continuous growth.⁴⁷³ RPSs can also be helpful after technologies have progressed along the diffusion curve.⁴⁷⁴ They can enable jurisdictions to avoid the financial burden of additional installations with FIT subsidies while assuring continued installations of the technology.⁴⁷⁵ As noted previously, South Korea replaced its FIT with an RPS, and renewable energy installations then increased three fold over their rate under the South Korean FIT.⁴⁷⁶ Furthermore, with their utilization of competitive markets to encourage investment in lowest-cost technologies, RPSs can help control the burden of FITs subsidies.⁴⁷⁷

One country that is combining FITs with RPSs is China. It is utilizing a portfolio approach to renewable energy development, combining RPS policies with FITs and other policies.⁴⁷⁸ As noted previously, China enacted its RPS in response to problems with its

⁴⁶⁹ *Id.*

⁴⁷⁰ *Id.*

⁴⁷¹ Xin-gang, *supra* note 465, at 721.

⁴⁷² Abolhosseini, *supra* note 161, at 879; Fell, *supra* note 114, at 11 (Conversely, experience has demonstrated that another means to acquire renewable energy generation, tenders, raise barriers to participation by small investors.).

⁴⁷³ Herman K. Trabish, *Why Mandates Still Matter in the Age of Cheap Renewables*, UTIL. DIVE (Jan. 3, 2018), <https://www.utilitydive.com/news/why-mandates-still-matter-in-the-age-of-cheap-renewables/513797/>.

⁴⁷⁴ Abolhosseini, *supra* note 161, at 884.

⁴⁷⁵ Xin-gang, *supra* note 465, at 721 (suggesting that FITs subsidies can be reduced or canceled as investments increase, thereby controlling costs. Policy makers can then increase RPS quotas to assure continued installations).

⁴⁷⁶ Lo, *supra* note 126.

⁴⁷⁷ Mormann, *supra* note 132, at 1628.

⁴⁷⁸ Dong, *supra* note 462, at 20.

FIT.⁴⁷⁹ Specifically, the FIT incentivized the development of solar PV in resource-rich portions of the country, but low development also characterizes these regions.⁴⁸⁰ Because of a lack of long-distance transmission lines, this PV development – and its attendant costs – were wasted.⁴⁸¹ China then imposed an RPS to control PV waste, to balance special deployment, and to contain policy cost.⁴⁸² Thus, it turned to RPSs to assure controlled and directed growth while using FITs to incentivize that growth.

Finally, to enhance the effectiveness of these policies, governments should incorporate cash grants and tax credits. Because many CDR technologies are still nascent,⁴⁸³ we can anticipate that most CDR developers will have minimal taxable income for several years. Cash grants will usually be most effective in these circumstances since they will assure that a larger proportion of the government's support will stay with the developers.⁴⁸⁴ Still, the production tax credits can be valuable tools to incentivize more mature technologies that are already able to produce the desired product, carbon sequestration.⁴⁸⁵ The final mix of subsidies may be less important than the fact that subsidies are available. From the perspective of investors, analysts have found that the extent of price support is at least as important as the type of instrument that provides it.⁴⁸⁶

As CDR technologies mature and enter the take-off phase, subsidies – FITs, grants, and tax credits – will need to be reduced to avoid excessively burdensome costs. Accordingly, administrators will need to monitor installations and overall costs. As both rise, they will need to degress the FIT rates and prepare to transition from subsidies to tenders.⁴⁸⁷ Experience demonstrates that auctions can work well

⁴⁷⁹ Section III, *supra* subsec. B.3.

⁴⁸⁰ Ye, *supra* note 221, at 497.

⁴⁸¹ *Id.*

⁴⁸² *Id.*

⁴⁸³ NAS, *supra* note 11, at 40.

⁴⁸⁴ Mormann, *supra* note 366, at 324.

⁴⁸⁵ Chang, *supra* note 370, at 200.

⁴⁸⁶ Valentina Dinica, *Support Systems for the Diffusion of Renewable Energy Technologies—an Investor Perspective*, 34, ENERGY POL'Y, 461, 463, (2006).

⁴⁸⁷ See *Exploring the role of the US Government in a future advance market commitment*, GLOB. HEALTH TECH. COAL. (2011), <https://www.ghcoalition.org/pdf/AMC-Policy-Brief.pdf> (Another policy similar to

either independently or in conjunction with broader structures, such as FITs or RPSs. Tenders can, for instance, serve several different functions within FITs. Jurisdictions can use tenders to procure larger projects,⁴⁸⁸ leaving FITs to support smaller installations.⁴⁸⁹ Alternatively, governments can use tenders as a device to determine the appropriate price level for the FITs subsidies.⁴⁹⁰

The German experience illustrates another role for tenders. First, it used FITs to assure predictability of renewable energy investments. After the technologies matured, it then replaced its FITs with auctions, thereby not only controlling its subsidy costs but also lowering the price of energy.⁴⁹¹ Tenders also have worked successfully within the RPS structure. New York⁴⁹² and California⁴⁹³ provide examples of states that use tenders to secure renewable energy projects

FITs that might better control overall costs is Advance Market Commitments (“AMCs”). AMCs arose as a means to incentivize the production of vaccines for developing countries.) (They consist of a pool of funds available to producers of specified products, in this case, vaccines. AMCs guarantee a market at a specific price.); *What is an Advance Market Commitment?*, CTR. FOR GLOB. DEV. (Feb. 18, 2005), <https://www.cgdev.org/blog/what-advance-market-commitment> (Unlike FITs, however, they do not guarantee that all available products will be purchased.) (Thus, they still enable purchasers to select the best product for their purposes, thereby incentivizing manufactureres to improve their products.); Vivid Economics, *supra* note 269, at 18, 16 (AMCs increase revenues and reduce their volatility.) (By providing certainty regarding demand, AMCs stimulate investment.) (AMCs are most effective at supporting existing technologies or incremental R&D improvements.); GHTC, *supra* note 487, at 3 (They are especially appropriate for products that benefit society, but may not necessarily be profitable.); Christopher M. Snyder et. Al., Wills Begor, & Ernst R. Berndt, *Economic Perspectives on the Advance Market Commitment*, 30, HEALTH AFF. No. 9 (Aug. 2011), 1508-1517, 1514-15 (2011) (Experience has demonstrated that AMCs accelerated the production and distribution of targeted vaccines, though other factors may also have had an effect.).

⁴⁸⁸ COUTURE, *supra* note 295, at 5 (recognizing that, because of their administrative and transaction costs, tenders favor larger investors and larger projects).

⁴⁸⁹ Fell, *supra* note 114, at 17-18 (concluding that for small projects jurisdictions should abandon the use of tenders and instead rely upon FITs).

⁴⁹⁰ SCHENUIT, *supra* note 220, at 40.

⁴⁹¹ Reed Landberg, *BNA Environment & Energy Report: Germany Seeks to Become First to Auction Energy Efficiency Deals*, BLOOMBERG L. (Oct. 10, 2018), <https://news.bloomberglaw.com/environment-and-energy/germany-seeks-to-become-first-to-auction-energy-efficiency-deals>.

⁴⁹² IRENA, *supra* note 294, at 38.

⁴⁹³ *RPS Procurement Programs*, CAL. PUB. UTIL. COMM’N (2020), https://www.cpuc.ca.gov/RPS_Procurement_Programs/.

to satisfy RPS requirements. Furthermore, combining tenders with RPSs will overcome one of the common objections to tenders – underrealization of installation targets.⁴⁹⁴ The rising minimum requirements under RPSs will assure that installations will continue to achieve higher targets.⁴⁹⁵

CONCLUSION

Virtually all projections conclude that keeping warming under 2°C will require the use of CDR technologies, and in substantial quantities. Although many such technologies are available, few are ready to be deployed at scale, and many still require significant development. Diffusion theory helps demonstrate how this deployment may unfold, but, even more importantly, how policies may accelerate this process while containing its costs. The recent experience of renewable energy deployment points to several policies that may accelerate the diffusion of CDR technologies. The RPS structure can set rising targets for deployment and incentivize continual innovation of mature technologies. FITs provide conditions favorable to encouraging investment and deployment of still-developing technologies. Importantly, however, FIT premiums must be reduced or eliminated as the technologies pass through the take-off stage of the S curve. At this point, RPS minimums and tenders should be able to ensure that diffusion continues and does so at the lowest costs possible.

⁴⁹⁴ Kreiss, *supra* note 302, at 512.

⁴⁹⁵ EPA, *supra* note 339, at 5-10.