

Climate Change Policy Interactions and Risk

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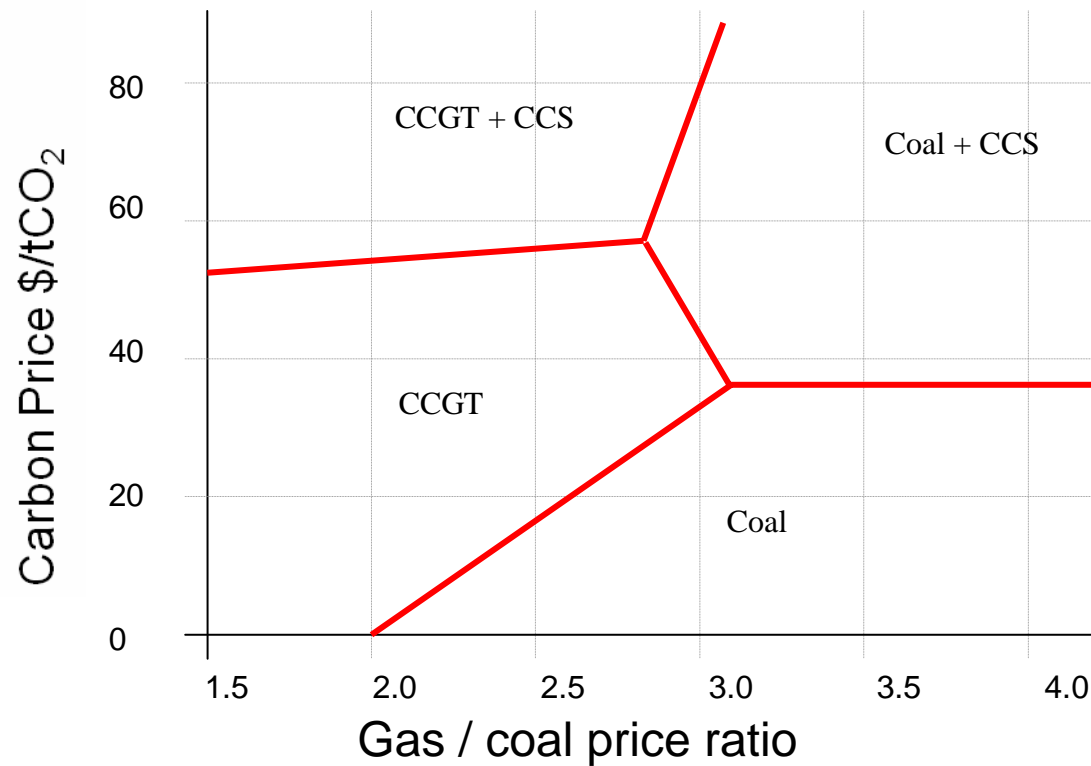
Oxford Energy Associates

and

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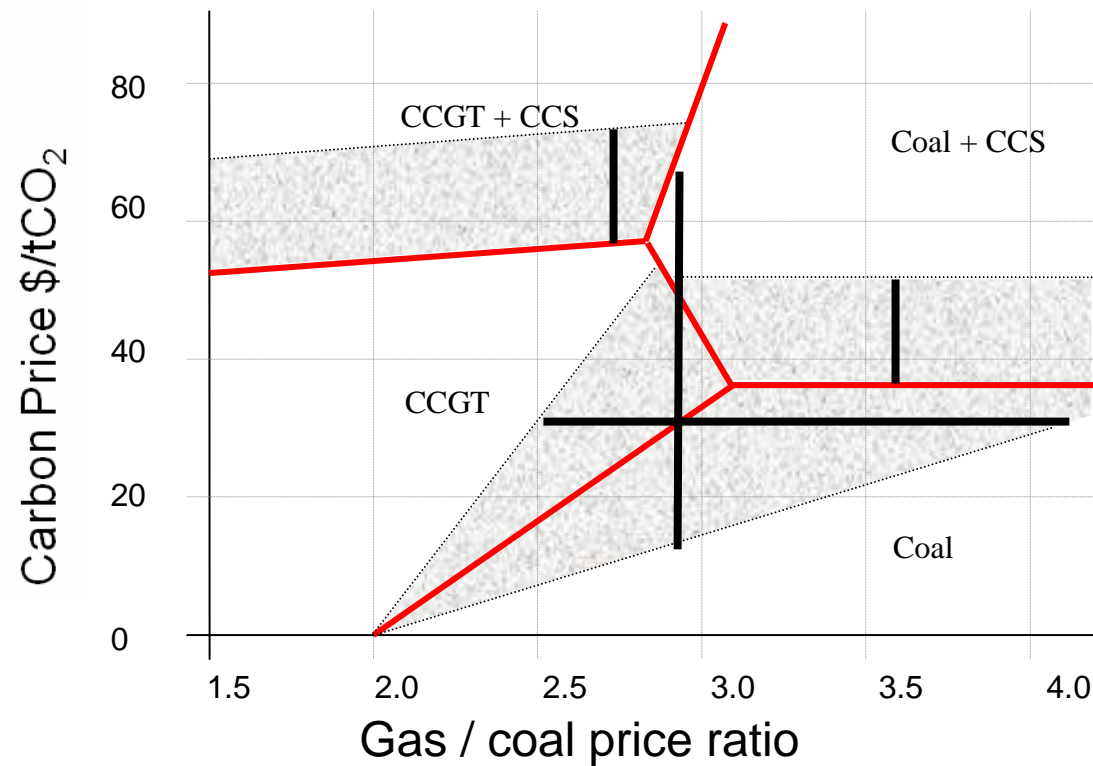
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Quantifying policy risk



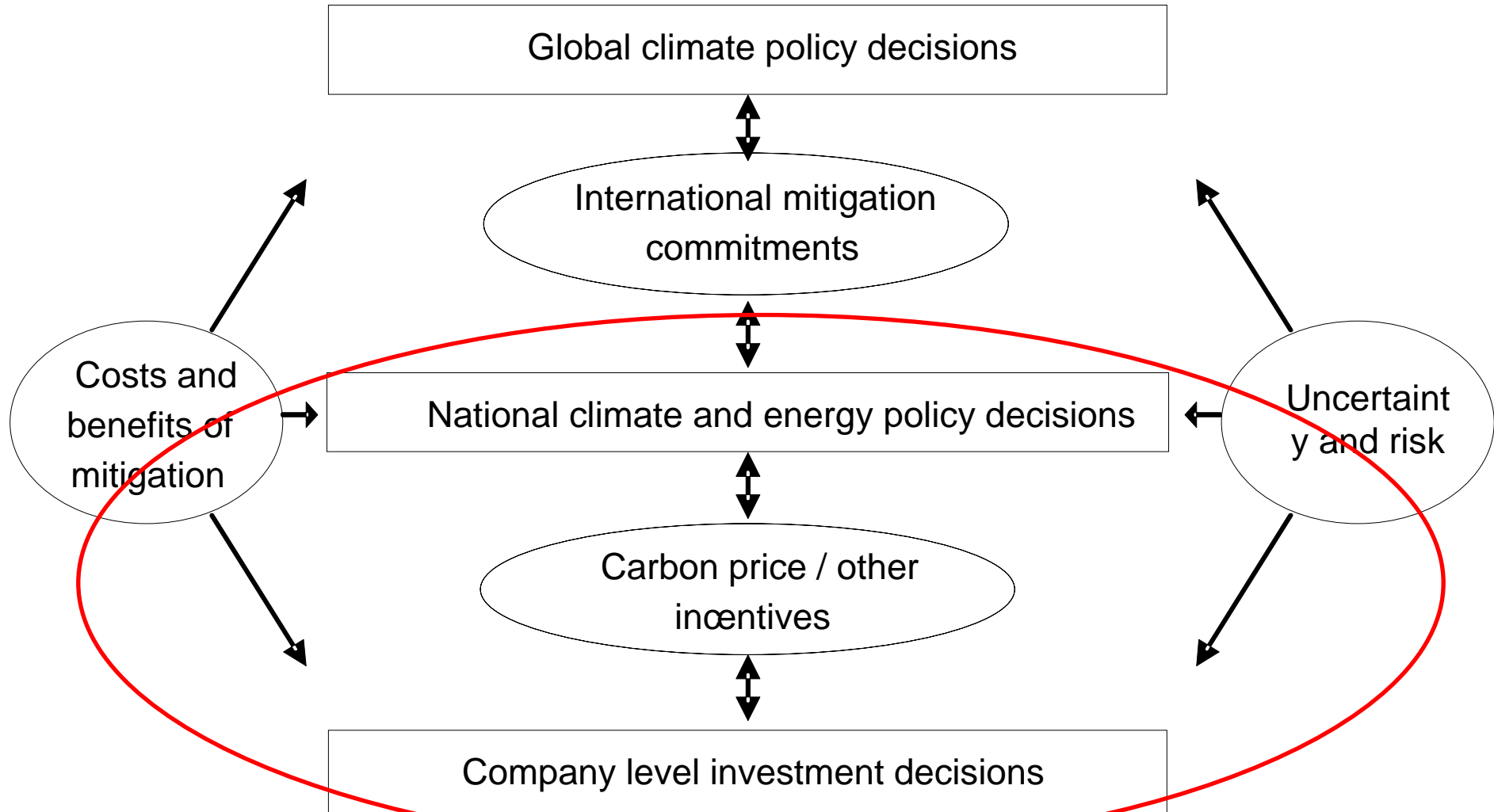
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Quantifying policy risk

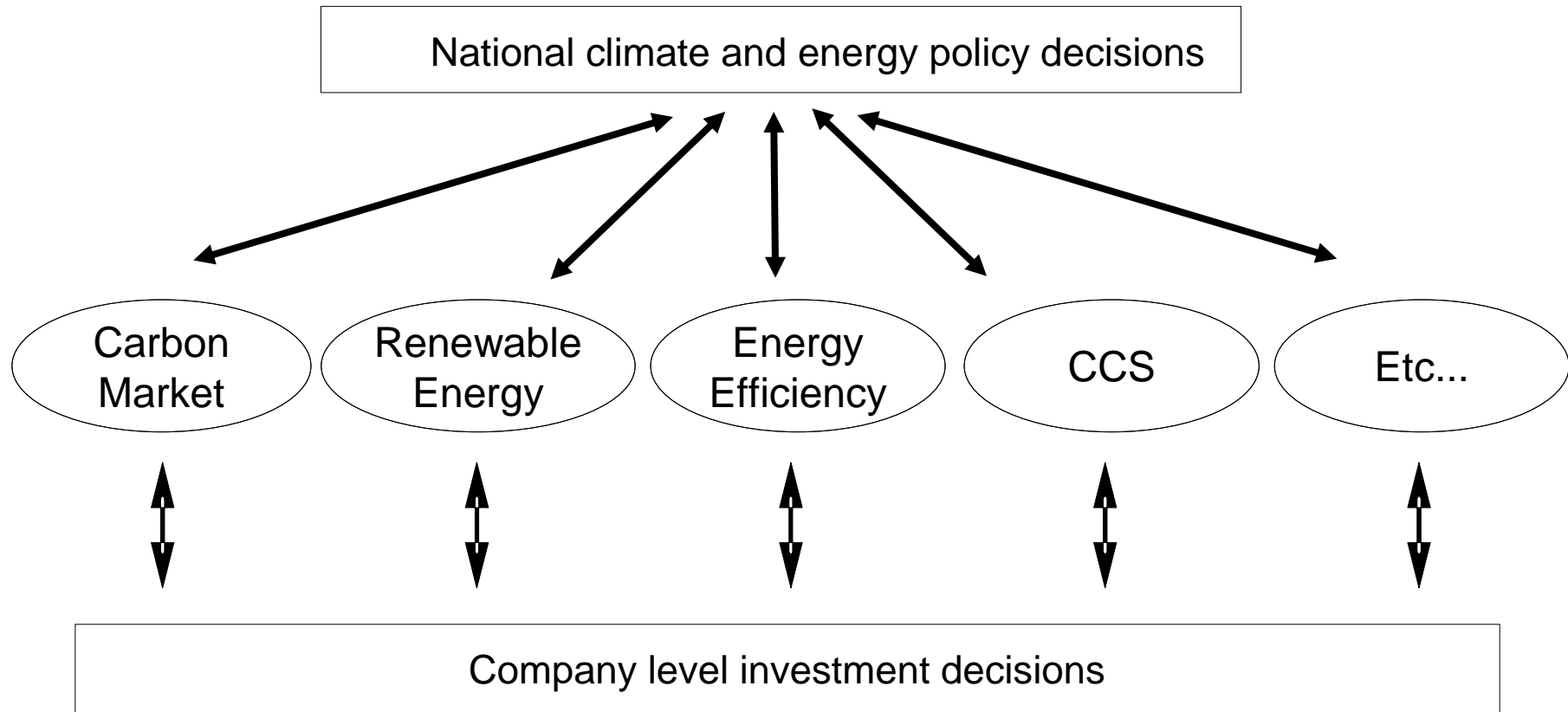


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Decision-making



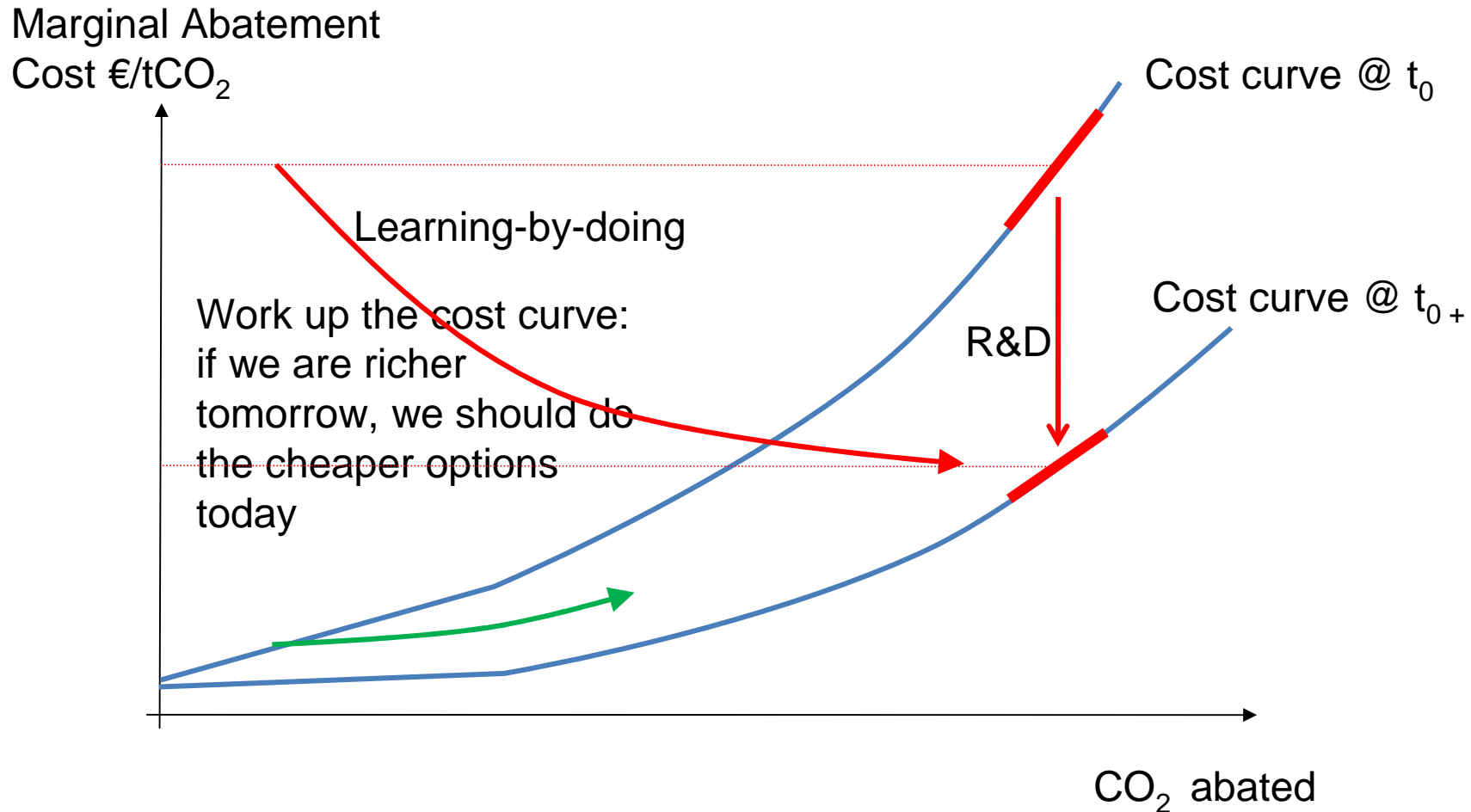
Companies may face multiple policy support mechanisms



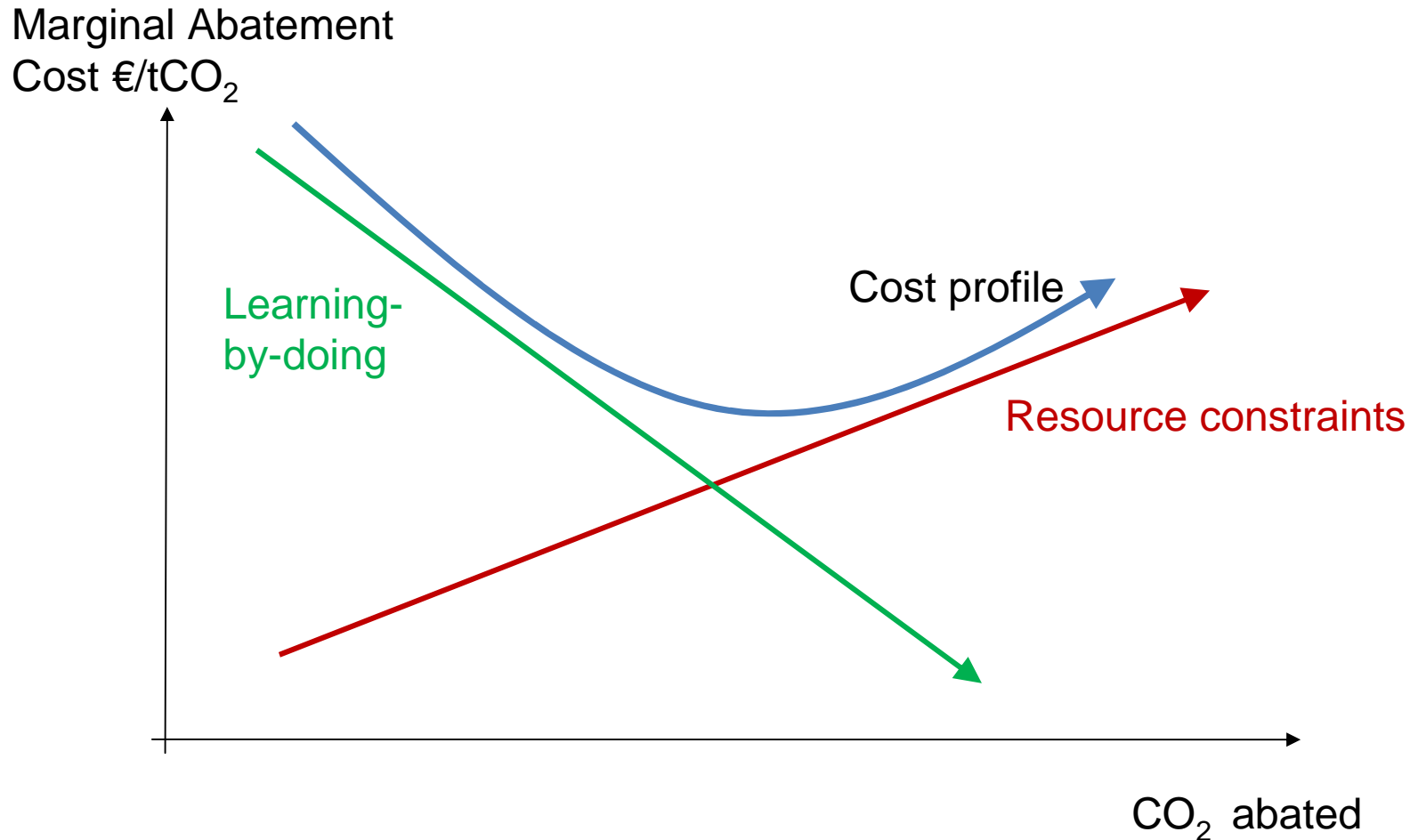
Why have multiple policies?

- Technology costs respond to:
 - R&D
 - Learning-by-doing
 - Technology Spillovers

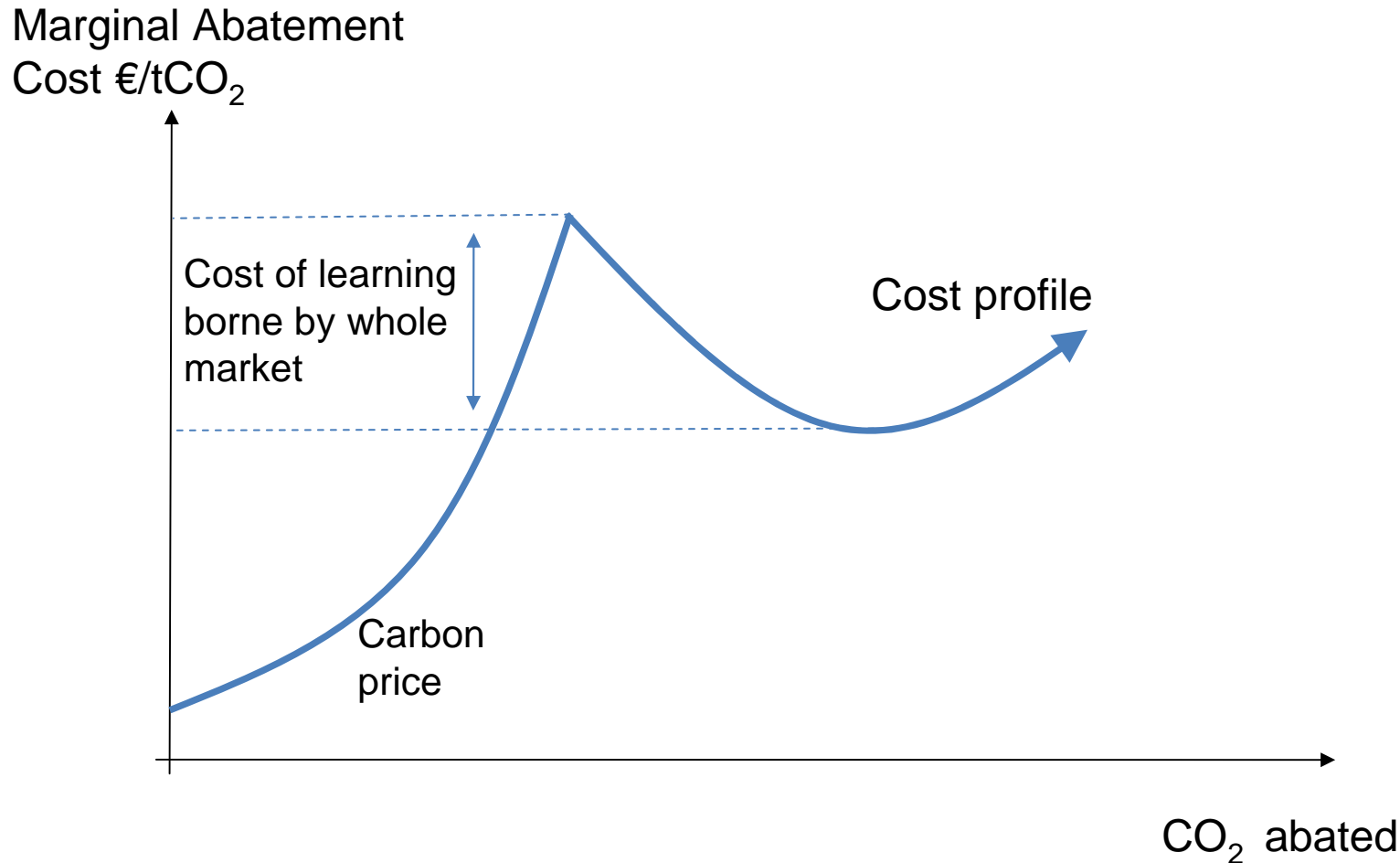
How do we think about technology development?



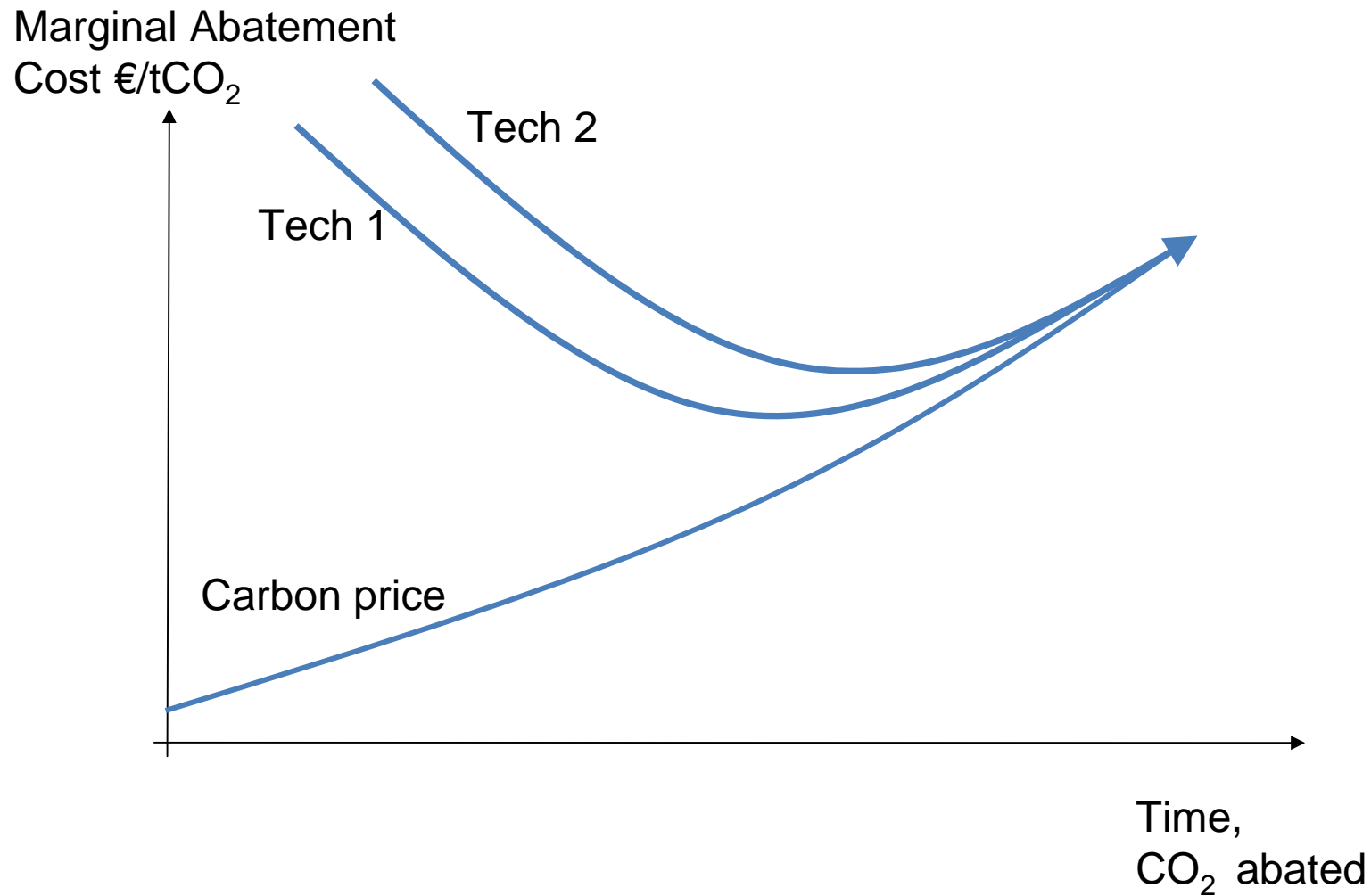
Factors driving technology costs



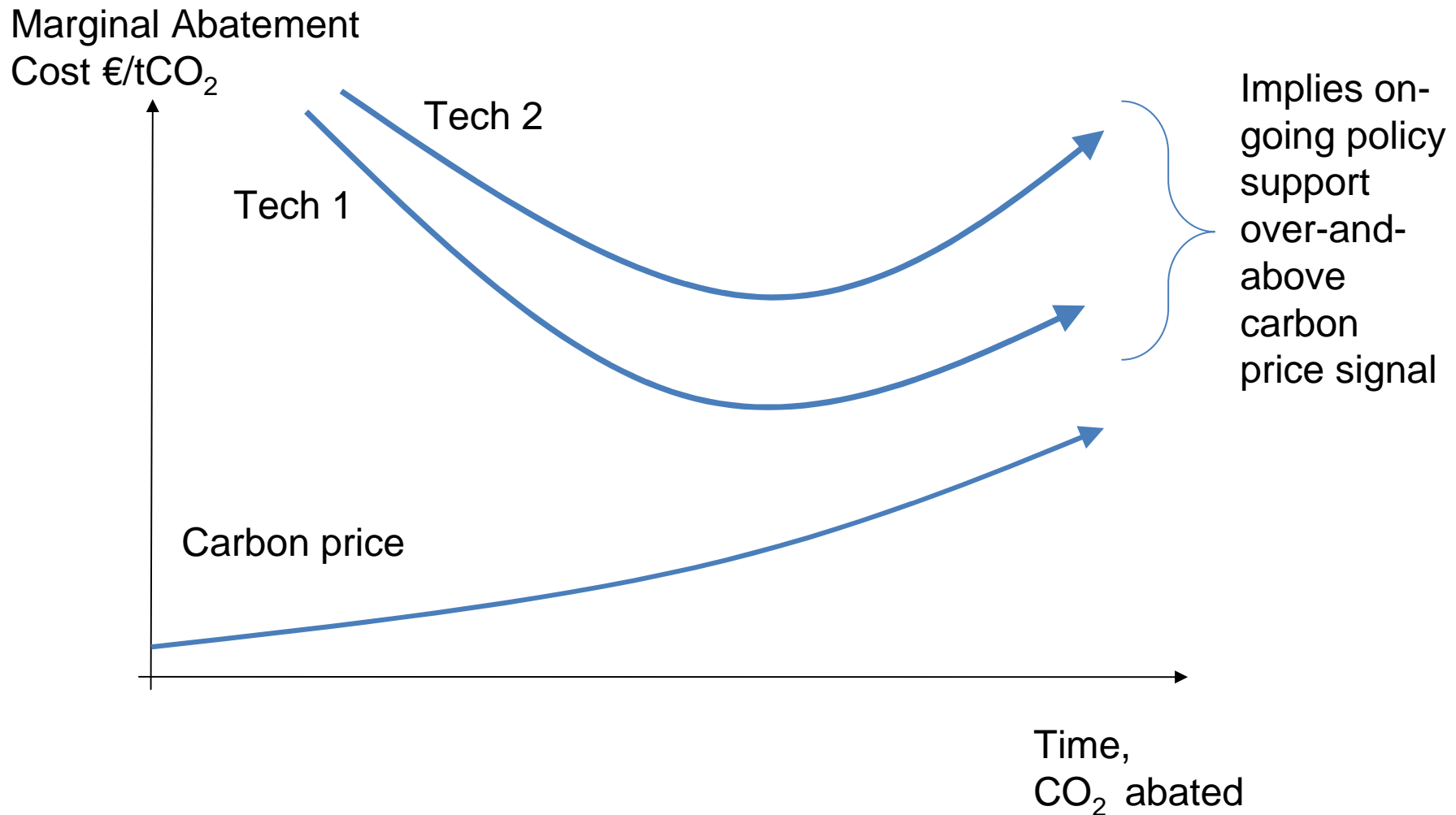
Driving technology costs down purely with a carbon price



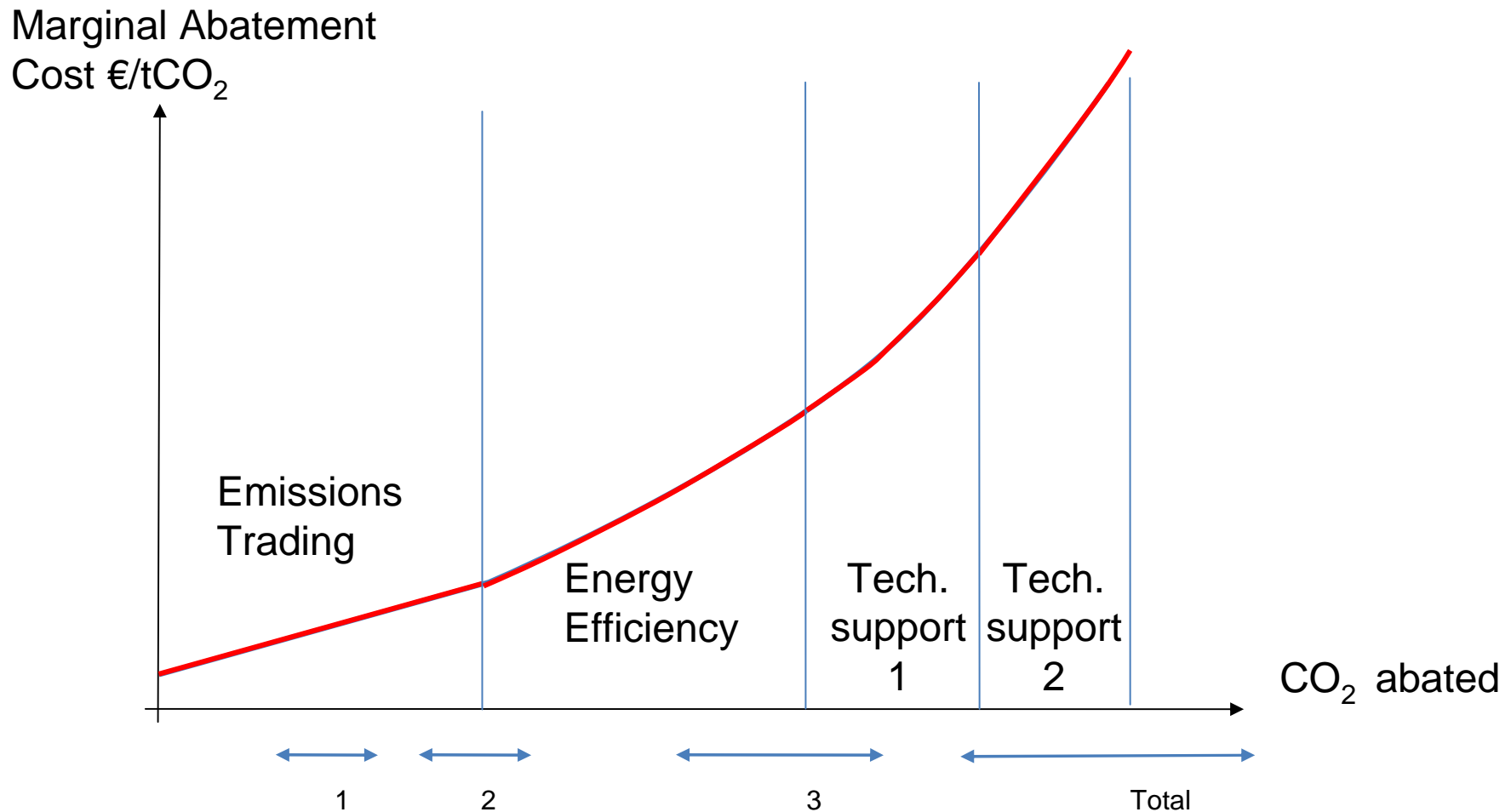
'Ideal' cost evolution



In reality, cost profiles are uncertain creating risks for policy-makers



Company-eye view



Conclusions

- Uncertain cost evolution for new technologies creates risk
- Managing these risks depends on what drives the cost evolution (R&D, learning, spillovers)
- Multiple policy approaches may help, but policy interactions need to be understood:
 - Risks to carbon markets
 - Risks to policy-makers