

Holding Up Green Energy*

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September 30, 2020

Abstract

Green energy is produced by specific assets that are vulnerable to hold-up if contracts are not strictly enforced. I study the role of counterparty risk in the procurement of green energy using data on the universe of solar procurement auctions in India. The Indian context allows clean estimates of how risk affects procurement, because solar power plants set up in the same states, and run by the same firms, are procured in auctions variously intermediated by either states or the central government. I find that centrally-intermediated auctions, which have much lower counterparty risk, yield solar prices 9 percent lower than comparable state auctions. The results suggest that the risk of hold-up may place developing countries at a disadvantage in the procurement of green energy.

*Thanks to Rahul Banerjee and Sushanta Chatterjee for informative discussions on the Indian solar market. Thanks to Yashaswi Mohanty, Andrew Wei and Tracy Zhou for excellent Research Assistance. All views and errors are my own.

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