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Brookings, Stanford Experts Recommend that REITs and MLPs Be Opened Up to Renewable Energy Investment

Policy Proposal Outlines Reforms to Cut Cost of Clean Energy Finance

WASHINGTON, D.C. — Two well-established investment structures—Master Limited Partnerships (MLPs) and Real Estate Investment Trusts (REITs)—should be opened up to renewable energy investment in order to promote growth in the clean energy sector and move renewable energy closer to subsidy independence, according to a policy proposal issued today by the Brookings Institution’s Metropolitan Policy Program and the Steyer-Taylor Center for Energy Policy and Finance at Stanford University.

This policy proposal is part of a new government reform series entitled, Remaking Federalism / Renewing the Economy, launched today. The series addresses both the near-term “fiscal cliff” showdown and the longer-term budgetary, economic, and political challenges that will require response in the coming months. Through this series, the Metropolitan Policy Program will encourage the next administration to seek solutions beyond the partisan gridlock in Washington and to empower state and metro areas through policies and programs such as those recommended in this proposal.

Valued at $2.3 trillion globally over the next 10 years, the clean energy sector is a critical source of innovation, economic growth and employment. This emerging market also delivers enhanced energy security and significant environmental benefits but requires a massive influx of capital to scale up innovative low-carbon technologies. Scarcity of available low-cost capital, however, drives up the cost of financing: renewable energy projects currently face financing costs of up to 30 cents on the dollar.

“Innovation in the renewable energy industry will continue to be at a disadvantage as long as this sector lacks the same access to large pools of low-cost capital as conventional energy,” stated Dan Reicher, Executive Director of Stanford University’s Steyer-Taylor Center for Energy Policy and Finance and co-author of the policy proposal. “Federal policymakers should engage the full power of the American capital markets by allowing MLPs and REITs to invest in renewables, which would both increase available capital and reduce the cost of that capital for renewable energy projects.”
“Technological innovation alone will not be enough to make renewables fully cost-competitive with conventional energy and, hence, subsidy-independent,” remarked co-author Felix Mormann, Associate Professor at the University of Miami School of Law and Faculty Fellow at Stanford’s Steyer-Taylor Center for Energy Policy and Finance. “Instead, sustained technological innovation must be accompanied by critical financial innovation. MLPs and REITs offer innovative ways to bring down the cost of electricity from solar, wind, and other renewable energy technologies.”

MLPs and, more recently, REITs have emerged as high-impact and cost-efficient vehicles for energy investment. In fact, over 80 percent of MLP capital is currently funding oil, gas, and other traditional energy projects. A series of recent IRS private letter rulings have allowed REIT investment in a range of energy and infrastructure projects, including natural gas pipelines and terminals, electric power transmission lines, railroad tracks, cell towers, and even LED-lit billboards. But REITs have not yet been extended to renewable energy.

Extending MLPs and REITs to renewable energy investment is supported widely in the investment and clean energy communities and the use of MLPs for renewables enjoys bipartisan backing in both the House and Senate.

The policy proposal describes the current problem, outlines the budget implications, and details the implementation requirements for opening MLPs and REITs to renewable energy investment.

About the Steyer-Taylor Center for Energy Policy and Finance at Stanford University

The Steyer-Taylor Center for Energy Policy and Finance at Stanford University is an interdisciplinary initiative of Stanford Law School and the Graduate School of Business to study and advance the development and deployment of clean-energy technologies through innovative policies and financial mechanisms, leading to an energy future that protects the environment and security in an economically sensible way. To learn more visit: http://www.law.stanford.edu/node/149752. Follow us at Twitter.com/SteyerTaylorCtr.

About the Metropolitan Policy Program at Brookings

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