

CONTENTS

| | |
|---|------------|
| Acknowledgment | i |
| List of Tables | v |
| List of Figures | vi |
| List of Abbreviations | vii |
| 1 Introduction | 1 |
| 1.1 Content of the Thesis | 9 |
| 2 Use coal or invest in renewables: a real options analysis of energy investments in the Philippines | 15 |
| 2.1 Background | 16 |
| 2.2 Methodology | 18 |
| 2.2.1 Net present value of investment in renewable energy | 19 |
| 2.2.2 Net present value of using coal | 19 |
| 2.2.3 Stochastic process and Monte Carlo simulation | 20 |
| 2.2.4 Dynamic optimization and optimal trigger prices | 21 |
| 2.2.5 Data and Scenarios | 22 |
| 2.3 Results and Discussion | 22 |
| 2.3.1 Baseline result | 23 |
| 2.3.2 Sensitivity in discount rate and volatility of coal price | 27 |
| 2.4 Limitations and discussion | 29 |
| 2.5 Conclusion | 31 |
| 2.6 Appendix | 32 |
| 3 Coal, renewable, or nuclear? A real options approach to energy investments in the Philippines | 35 |
| 3.1 Introduction | 35 |
| 3.2 Methodology | 38 |
| 3.2.1 Dynamic Optimization | 39 |
| 3.2.2 Geometric Brownian Motion and Monte Carlo simulation | 42 |
| 3.2.3 Risk of Nuclear Accident | 43 |
| 3.2.4 Data and Scenarios | 45 |
| 3.3 Results | 47 |
| 3.3.1 Baseline scenario | 47 |
| 3.3.2 Risk of Nuclear Accident Scenario | 49 |
| 3.3.3 Negative Externality Scenario | 51 |
| 3.4 Conclusion | 54 |
| 4 A real options approach to renewable electricity generation in the Philippines | 57 |
| 4.1 Background | 58 |

| | | |
|----------|--|------------|
| 4.2 | Methods | 60 |
| 4.2.1 | Real options approach | 60 |
| 4.2.2 | Dynamic Optimization | 61 |
| 4.2.3 | Stochastic Prices and Monte Carlo simulation | 62 |
| 4.2.4 | Trigger Price Strategy | 64 |
| 4.2.5 | Data and Scenarios | 66 |
| 4.3 | Results | 67 |
| 4.3.1 | Baseline scenario | 67 |
| 4.3.2 | Electricity Price Scenario | 68 |
| 4.3.3 | Negative Externality Scenario | 72 |
| 4.4 | Conclusion | 76 |
| 4.5 | Appendix | 77 |
| 5 | Real Options Analysis of Renewable Energy Investment Scenarios in the Philippines | 79 |
| 5.1 | Introduction | 80 |
| 5.2 | Methodology | 82 |
| 5.2.1 | Real options model | 83 |
| 5.2.2 | Parameter Estimation and Investment Scenarios | 86 |
| 5.3 | Results and Discussion | 88 |
| 5.3.1 | Business as usual scenario | 88 |
| 5.3.2 | Growth rate of renewable energy investment scenario | 90 |
| 5.3.3 | Price of electricity from renewable energy | 92 |
| 5.3.4 | Investment cost scenario | 94 |
| 5.3.5 | Externality scenario | 94 |
| 5.4 | Conclusion | 97 |
| 5.5 | Appendix | 99 |
| 6 | Conclusion and Recommendation | 103 |
| | Bibliography | 109 |