

Beyond Price Signals: Firm Proximity and the Geography of Clean Investment

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Extended Abstract

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Abstract Summary

This paper examines how firm proximity and organizational structure shape investment location choices in a market with locational marginal prices. Using a discrete choice model applied to plant-level data on proposed clean power projects in California's electricity market from 2024 to 2030, we find that a firm's 'home advantage', arising from headquarters proximity, existing operational presence, and vertical integration, is the dominant determinant of location choice, while locational prices provide only weak investment incentives. We further show that proximity to existing operations and headquarters significantly reduces development costs – as measured by development delay – thereby identifying one significant mechanism underlying this home advantage. The results are robust to controlling for local market power, developer heterogeneity, and spatial tax incentives. Our findings suggest that market-based mechanisms relying on locational price signals are insufficient alone to guide clean energy investment toward socially efficient locations, and that policies targeting informational and regulatory frictions may be more effective complements.