Transaction Costs and White Certificates Schemes

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Luis Mundaca
International Institute for Industrial Environmental Economics at Lund University
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I. Background
Background (1)

• Transaction:
  – “An instance of buying or selling something” (Oxford Dictionary)
  – “A transaction occurs when a good or service is transferred across a technologically separable interface” (Williamson, 1997)
Background (2)

- Transaction costs:
  - Any cost that is not directly involved in the production of goods or services but that it is essential for realizing the trade as such (Coase, 1960)
  - Challenge the ‘law of one price’
  - Examples: search of information, assessment of partners, costs of negotiation, legal advice, etc.
Background (3)

• Why transaction costs need attention?
  – Lower the expected profits and benefits
  – Raise total costs of investments and policy programmes
  – Discourage participation
  – Profitable small-scale projects may appear unfeasible

Identify ways to reduce TCs
II. The case of WhC schemes
• Life cycle of WhC:
TCs & WhC (2)

- Related transaction costs for:
  - Search of information/opportunity
  - Feasibility study
  - Search of partners / contractors
  - Negotiation / Agreement
  - Adm procedures
  - Time

Planning
• Related transaction costs for:
  
  - Approval & adm procedures
  - Commissioning time
  - Baseline setting
  - Opportunity costs
TCs & WhC (4)

- Related transaction costs for:
  - Search of information
  - Energy efficiency audit
  - Approval & adm procedures
  - Time
• Related transaction costs for:
  – Approval & adm procedures
  – Time

TCs & WhC (5)
TCs & WhC (6)

- Related transaction costs for:
  - Search of information
  - Market analysis
  - Search of partners
  - Negotiation / bargaining
  - Legal services
  - Approval & adm procedures
  - Political uncertainties
  - Others
TCs & WhC (7)

- Related transaction costs for:
  - Approval & adm procedures
  - Enforcement
  - Legal services

Diagram:
- Redemption
- Planning
- Trading
- M & V
- Issuance
III. Early lessons learnt
Early lessons learnt (1)

- Transaction costs in RES-E

Source: Skytte et al., 2003
Early lessons learnt (2)

• Related transaction costs for Monitoring & Verification phase:
  
  – EEC in Great Britain:
    • E.g. Costs of operating the scheme in Great Britain totalled £300.000/year; representing less than 0.5% of the total agency’s budget. Reason?
  
  – Australian scheme:
    • 6,250 Euro (average) per audit (~57,160 SEK) → negative impact on small-scale projects
Early lessons learnt (3)

- Related transaction costs for Trading phase:
  - EEC in Great Britain:
    - High costs related to search for information partly due to lack of formal trading platform
    - Perceived damages at corporate/business level
IV. Final remarks
Final remarks

• Nature and scale of transaction costs
  – Market-related
  – Institutional-related

• Administrative burden seems critical

• International WhC scheme: Easy deal?

• Find ways to reduce TCs, public or private actors? Brokers?

• Maximize theoretical benefits of implementing WhC schemes
Thanks for your attention!

For more information:
Luis Mundaca
IIIEE, Lund University
Tel +46 46 2220257
e-mail: Luis.Mundaca@iiiee.lu.se