Transaction Costs of ‘White Certificate’ Schemes

IEA-DSM Task on White Certificates
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Luis Mundaca
International Institute for Industrial Environmental Economics at Lund University
Conclusions

• Nature and scale of transaction costs
  – Market-related
  – Institutional-related
• Find ways to reduce TCs, public or private actors. Brokers?
• Higher awareness of end-users seems to be very critical
• Potential commercial benefits counteract TCs (?)
• International WhC scheme: Easy deal?
Outline

• Background
• Research project on TCs of WhC
• Preliminary findings
  – EEC in Great Britain
  – Australian scheme
• Preliminary conclusions
I. Background
• 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)
  – Examples: search of information, assessment of partners, costs of negotiation, legal advice, etc.
  – Challenge the ‘law of one price’
Why ‘Transaction Costs’ need attention?

– Raise total costs of investments
– Lower the expected profits and benefits
– Discourage participation, reducing trading
– Profitable small-scale projects may appear unfeasible
– Reduce performance of policy instruments

Identify ways to reduce TCs
Background (3)

What do we know about Transaction Costs of WhC schemes?
II. Research project on TCs of WhC schemes
Background

- Supported by ELFORSK and IIIEE
- Objective: Identify and analyse the nature and scale of transaction costs present in WhC schemes
- Aim at providing policy recommendations for reducing TCs
- Research instruments: interviews and survey
Analytical framework (1)

- Life cycle of WhC:

  - Issuance
  - Trading
  - Redemption
  - Planning
  - Implementation
  - M & V
• Related transaction costs for:

- Search for information/opportunity
- Feasibility study
- Search for partners / contractors
- Negotiation / Agreement
- Adm procedures
- Marketing
Analytical framework (3)

- Related transaction costs for:
  - Approval & adm procedures
  - Commissioning time
  - Baseline setting
  - Opportunity costs
  - Marketing
Analytical framework (4)

• Related transaction costs for:
  – Search for information
  – Energy efficiency audit
  – Approval & adm procedures
  – Time
Analytical framework (5)

• Related transaction costs for:
  – Approval & adm procedures
  – Time
• Related transaction costs for:

- Search for information
- Market analysis
- Search for partners
- Negotiation / bargaining
- Legal services
- Approval & adm proc
- Political uncertainties
- Brokerage fees, etc.
Analytical framework (7)

- Related transaction costs for:
  - Approval & adm procedures
  - Enforcement
  - Legal services
III. Preliminary findings
Preliminary findings (1)

Nature of transaction costs in the EEC1:

- Planning
  - Search and persuasion of customers
  - Brokerage fees

- Implementation
  - Search for partners
  - Negotiation / Agreement

- Issuance
  - Energy audits (random)

- Redemption

- Trading
Preliminary findings (2)

• Scale of related transaction costs for M&V phase:
  
  – EEC1 in Great Britain:
    • Two audits conducted (2003, 2005). Random selection of measures. Total costs £150,000, representing 15% of the total budget for administering the programme
  
  – Australian scheme:
    • 6,250 Euro (average) per audit → negative impact on small-scale projects
Preliminary findings (3)

• Scale of related transaction costs for overall administration:
  
  – EEC1 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?
IV. Preliminary Conclusions
Conclusions

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Thanks for your attention!

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