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Article — Accepted Manuscript (Postprint)

Heterogeneity in the Effect of Home Energy Audits: Theory and Evidence

Environmental and Resource Economics

Provided in Cooperation with:

RWI – Leibniz-Institut für Wirtschaftsforschung, Essen

Suggested Citation: Frondel, Manuel; Vance, Colin (2013) : Heterogeneity in the Effect of Home Energy Audits: Theory and Evidence, Environmental and Resource Economics, ISSN 1573-1502, Springer, Berlin, Vol. 55, Iss. 3, pp. 407-418,
<https://doi.org/10.1007/s10640-013-9632-4> ,
<http://link.springer.com/article/10.1007/s10640-013-9632-4>

This Version is available at:

<https://hdl.handle.net/10419/150049>

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Heterogeneity in the Effect of Home Energy Audits: Theory and Evidence

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Abstract. A longstanding question in the study of energy demand concerns the role of information as a determinant of home efficiency improvements. Although the provision of information via energy audits is frequently asserted to be an effective means for governments to encourage the implementation of efficiency-enhancing renovations, empirical support for this assertion is tenuous at best. Apart from endogeneity issues with respect to receiving an audit, two other factors have complicated attempts to measure their effect: First, the nature of the information provided by the audit is typically unobserved, and, second, the response to this information may vary over households. Using household data from Germany, we address both sources of heterogeneity by estimating a random-parameter model of four retrofitting alternatives. In addition to confirming the importance of costs and savings as determinants of renovation choices, our results suggest that the effects of consultancy vary substantially across households, with some households responding negatively to the provision of information.

JEL classification: C35, D81, Q41.

Key words: Energy audit, environmental policy, mixed logit, random-coefficient models.

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Acknowledgements: We are grateful for invaluable comments and suggestions by Christoph M. SCHMIDT and inspiring discussions with Frank WÄTZOLD. Furthermore, we thank Peter GRÖSCHE for very helpful research assistance. This work has been supported by the Collaborative Research Center “Statistical Modeling of Nonlinear Dynamic Processes” (SFB 823) of the German Research Foundation (DFG), within the framework of Project A3, “Dynamic Technology Modeling”.

1 Introduction

Increasing efficiency through home renovation is generally asserted to be a highly effective means for households to lower their expenditures on energy. Despite potentially high energy savings, however, it is frequently observed that homeowners refrain from undertaking cost-intensive renovations, such as investing in new windows with a better insulation.

This observation has led to a controversial discussion about what causes the so-called energy efficiency gap (see e.g. STERN, 1986, JAFFE and STAVINS, 1994). One frequently forwarded explanation for the gap is a lack of information about renovation options and the associated costs and benefits (GOLOVE and ETO, 1996, SCOTT, 1997). This may be one reason why many countries have introduced subsidized energy conservation audits to assist consumers in making well-founded decisions regarding the retrofitting of their homes.

The theoretical literature is generally unambiguous about the effect of such audits: more information enables households to assess the renovation options adequately and thus leads to a higher likelihood of efficiency investments. Empirical support for this view is weak, though. For example, in an early study, MCDOUGALL et al. (1983) analyze the Canadian residential home audit program 'Ener\$ave' and conclude that audits have nearly no effect on residential investment behavior. HIRST and GOELTZ (1985) consider a U. S. residential weatherization program and find likewise no effect of audits, and only a weak influence if the audits are offered together with loans. More recently, SCHLEICH (2004) examines whether energy audits can overcome certain investment barriers in the German commerce and service sector. His results imply that audits help to inform about the own energy consumption structure, but have little effect

in reducing a perceived information deficit.

A possible explanation for the disparity between the theoretical and empirical findings is offered by METCALF and HASSETT (1999), who speculate that consumers receive coaching from auditors on how to save energy through behavioral changes, which in turn may lead them to conclude that investments are not necessary. Yet, if an audit affects the investment decision of some households positively and others negatively, the overall effect of audits remains uncertain and an empirical consequence could be non-significant average effects.

The principal aim of the present paper is to contribute to this line of inquiry by developing a theoretical model focusing on the role of information in influencing decisions about retrofitting. Our model illustrates why this role is ambiguous: Given that the returns from the retrofitting investment are uncertain, the provision of information may offset the negative expectations of skeptics and thereby increase the likelihood of the investment, but it may also disabuse optimists of their positive expectation and decrease the likelihood.

To illustrate this issue, we draw on a unique data set from Germany that combines household, engineering, and GIS-based regional information for analyzing how consumers respond to home energy audits. We apply a mixed logit model to allow for the possibility that the effects of an audit on the choice among a variety of renovation options may vary across households and may be either positive or negative.

Identification of the effect of an audit is complicated by potential endogeneity bias. This could arise if unobservable characteristics that lead households to seek out information may also lead them to undertake a renovation. We address this issue by employing an identification strategy

suggested by HECKMAN and SINGER (1985) that effectively bounds the coefficient estimate of the audit indicator from above.

In addition to confirming the importance of costs and savings as determinants of renovation choices, our results suggest that the effects of an audit vary substantially across consumers. Specifically, while the mean effect of an audit is positive, the distribution of its respective coefficient exhibits substantial variability, with the provision of information having a negative effect for some households. We conclude that the mixed logit model reveals important information about behavioral heterogeneity that would otherwise be neglected, particularly with the application of a standard logit model. From a policy perspective, our results suggest that environmental protection measures based on the provision of information may elicit unintended responses for a share of the target population.

The subsequent section presents a theoretical model of the impact of information. Section 3 describes the empirical modeling approach, followed by an explication of the data assembly in Section 4. Section 5 presents an empirical illustration, while the last section summarizes and concludes.

2 Modeling the Impact of Information

Using the example of renovation decisions of homeowners, we present a stylized two-step model that aims at clarifying the general question as to whether allocating information, for instance by audits, may enhance participation in energy conservation programs or may increase the likelihood of renovation activities. To simplify matters, we focus on a single renovation option, such as façade insulation. On the basis of imperfect information about both investment costs as well as energy and cost savings result-

ing from renovation, which may be acquired from neighbors, friends and other sources, homeowner i builds expectations $E(V_i)$ on its individual net present value V_i , which is assumed to be random and to depend on i 's time preference rate ρ_i , the vector of individual and home characteristics \mathbf{x}_{it} , such as desired thermal comfort and indoor air quality, environmental stewardship, etc. and uncertain net revenues $R(\mathbf{x}_{it})$ originating from unknown energy savings in period t and annualized investment cost:

$$(1) \quad V_i = \sum_{t=0}^T U_{it}(R(\mathbf{x}_{it}), \mathbf{x}_{it}) \cdot (1 + \rho_i)^{-t} = E(V_i) + \varepsilon_i,$$

where U_{it} reflects i 's idiosyncratic utility. i 's uncertainty about net revenues $R(\mathbf{x}_{it})$ and, hence, the net present value V_i of renovating is captured by a random disturbance ε_i . Most notably, ε_i reflects uncertainties about future energy prices, which are crucial parameters for the profitability of any renovation measure.

Assuming risk neutrality, homeowner i might be inclined to renovate if the expected benefit $E(V_i)$ of renovation appears to be positive:

$$(2) \quad E(V_i) = \int_{-\infty}^{\infty} V_i f(V_i) dV_i > 0,$$

where $f(V_i)$ designates a density function. Given i 's imperfect a-priori information on V_i , there is scope for mistakes. These could be avoided if i were to receive perfect information on the net present value V_i by observing ε_i .

Wishing to ideally receive perfect information, homeowners may gather the desired information either on their own or by engaging in energy conservation audits, where the information cost are frequently reduced through subsidization. Either way, we assume that gathering information is costly and, just for didactic purposes, that uncertainty may at least be

reduced insofar as i is then informed whether V_i is positive: $V_i > 0$. Only in this case will homeowner i actually renovate.

It bears noting that – beyond audits – there are several channels through which homeowners may gather information on energy efficiency, including through neighbors and friends as well as the media. In terms of our modeling setup, such information may help to get an idea about the expected net present benefit $E(V_i)$, or at least its sign. While our discussion focuses on audits because we can observe these, the theoretical implications derived apply to the acquisition of information in general.

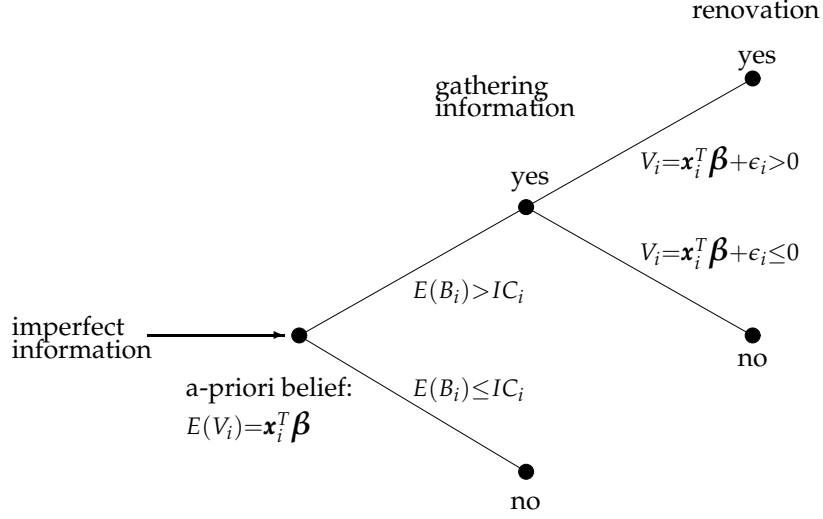
In the first step of our model, homeowner i decides upon information acquisition, e. g. through an audit. At the second stage, i decides on whether to renovate. In line with reality, where any renovation activity requires basic knowledge, it is further assumed that acquiring information on the renovation option, and hence incurring information cost, is an indispensable prerequisite for any renovation activity. This assumption implies that the decision tree depicted in Figure 1 is asymmetric.

A rational homeowner i will incur the generally well-determined information cost IC_i only if the expected benefit $E(B_i)$ of acquiring information exceeds the cost:

$$(3) \quad E(B_i) > IC_i > 0.$$

The expected benefit $E(B_i)$ of information results from either the positive renovation outcome that *a priori* has been expected ($E(V_i) > 0$) or from avoiding mistakes. A first type of mistake – from an ex-post perspective – results from the fact that although i expected a non-positive renovation outcome, $E(V_i) \leq 0$, i should have renovated if $V_i > 0$. If i is able to avoid this kind of mistake through information acquisition, the conditional ex-

Figure 1: A Two-Step Information Acquisition and Renovation Decision Model



pected benefit is positive: $E(B_i|V_i > 0) = \int_0^{\infty} V_i f(V_i) dV_i > 0$. In this case, in which i had negative expectations $E(V_i) < 0$, the unconditional expected benefit $E(B_i)$ from information acquisition is given by

$$\begin{aligned}
 E(B_i) &= P(V_i > 0) \cdot E(B_i|V_i > 0) + P(V_i \leq 0) \cdot E(B_i|V_i \leq 0) \\
 (4) \quad &= P(V_i > 0) \cdot E(B_i|V_i > 0) + P(V_i \leq 0) \cdot 0 \\
 &= P(V_i > 0) \cdot \int_0^{\infty} V_i f(V_i) dV_i,
 \end{aligned}$$

with a vanishing conditional expected benefit $E(B_i|V_i \leq 0) = 0$ in case that the non-positive expectation $E(V_i) \leq 0$ is confirmed.

A second type of mistake is that, although i expected a positive outcome $E(V_i) > 0$, i should have not renovated if, ultimately, it turned out that $V_i < 0$. If i is able to avoid this kind of mistake, the conditional ex-

pected benefit of information is positive: $E(B_i|V_i \leq 0) = - \int_{-\infty}^0 V_i f(V_i) dV_i > 0$. Overall, the unconditional expected benefit $E(B_i)$ from information acquisition in the case of positive expectations $E(V_i) > 0$ reads as follows:

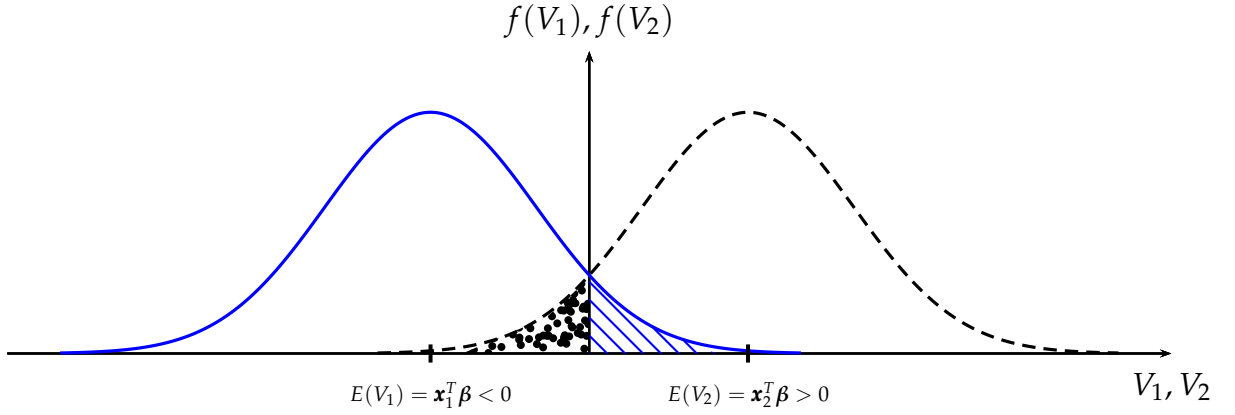
$$(5) \quad E(B_i) = P(V_i \leq 0) \cdot \left[- \int_{-\infty}^0 V_i f(V_i) dV_i \right] + P(V_i > 0) \cdot \int_0^{\infty} V_i f(V_i) dV_i.$$

Note that in addition to $E(B_i|V_i \leq 0) > 0$, the second part of this expression is also non-vanishing if the expected positive outcome materializes, i. e. if $E(B_i|V_i > 0) > 0$, which, by assumption, may be realized only after acquiring the information that is indispensable for starting renovation activities.

While formulae (4) and (5), and condition $E(B_i) > IC_i$ rationalize the decision on acquiring information, Figure 2 illustrates that information measures do not necessarily foster conservation activities. This holds true for those who *a priori* expect a positive net present value, $E(V_2) > 0$, but on the basis of more information must then realize that an investment is actually not advantageous, i. e. $V_2 \leq 0$, and thus refrain from any renovation activities. This situation is illustrated in Figure 2 by the dotted part of the right-hand distribution centered around the positive expectation $E(V_2)$.

Such negative impacts of information measures on renovation activities might be outweighed through the unexpected activities of skeptics, who *a priori* expect a negative net present value, yet have mild hopes that conservation measures might turn out to be positive and thus are open-minded to information measures such as audits. This case is illustrated in Figure 2 by the highlighted part of the left-hand distribution centered around the negative expected value $E(V_1) < 0$. In this case, information measures would positively affect renovation investments, yet not by providing additional incentives, but by convincing skeptics that conservation

Figure 2: Expectations $E(V_i)$ and Actual Renovation Outcomes V_i



would be a success. Overall, though, it clearly remains a matter of the particular conservation measure and the concrete conditions and incentives, in other words an empirical issue, in which direction information measures, such as audits, affect an investment decision.

The basic role of information provision by audits is that it may lower individual information cost IC_i and, in the end, may favor conservation by increasing the number of potential investors. Much more important than information measures, however, should be strong incentives given by a large positive expected net present value $E(V_2)$ that substantially increase the attractiveness of conservation investments. In the extreme case that the uncertainty reflected by ε_2 is negligible compared to $E(V_2)$, information measures should not have any impact on renovation decisions at all.

In sum, while information measures, such as audits, do not necessarily spur renovation activities or participation in conservation programs, they are to be embraced from an individual welfare perspective. Audits sen-

sitize homeowners to the particular renovation measures that afford the greatest scope for reducing energy consumption, which may itself generate positive externalities as this information is propagated to other homeowners. Not least, the information from audits may help to avoid mistakes, as the two-step decision model presented in this section has demonstrated.

3 Data Description

Our data is drawn from a sample of 2,530 single-family home owners, surveyed in 2005 as part of the German Residential Energy Consumption Survey (GRECS). From this survey, it is known whether household i participated in an audit – captured by a binary variable *audit* – and what retrofit measure was implemented within the last 10 years, if any. Four different retrofit measures have been surveyed: roof insulation ($j = 1$), façade insulation ($j = 2$), windows replacement ($j = 3$), and replacement of heating equipment ($j = 4$). The information on the retrofit measures is captured each with a separate binary response variable r_{ij} , yielding four entries for each household i on its retrofit choices.

In total, 64% of the households undertook at least one of these four retrofit measures between 1995 and 2005, of which 13.7% received an audit. Among the 11.6% of households who received an audit overall, 76% undertook some renovation. That a sizeable share of audited households (24%) undertook no action provides some preliminary evidence that audits do not necessarily persuade households to renovate.¹

¹The audited households that do renovate, however, have a tendency to undertake several measures, which would reduce their average information costs on a per retrofit basis. Of the 293 households in the data who are audited, 70 do nothing, 65 implement a

Table 1: Descriptive Statistics

Variable Name	Variable Definition	Mean	Std. Dev.
<i>audit</i>	Dummy: 1 if household received an audit	0.12	–
<i>cost</i>	Cost of renovation option in 1,000 €	7.72	4.86
<i>savings</i>	Annual energy savings in 1,000 kWh	5.01	4.59
<i>consumption</i>	Annual energy consumption in 1,000 kWh	31.48	14.65
<i>age</i>	Age of the single-family house in years	43.01	42.49
<i>income</i>	Net monthly household income in 1,000 €	2.23	1.04
<i>east</i>	Dummy: 1 if house is located in Eastern Germany	0.16	–
<i>degree</i>	Dummy: 1 if household head has a university degree	0.24	–

In addition to the information on audits, most of the remaining variables were elicited directly via the questionnaire, the descriptive statistics for which are presented in Table 1. These variables include the age of the house, household income and energy consumption for the year 2003, a dummy indicating whether the household head has a university degree, and a dummy indicating location in Eastern Germany. In addition to socio-economic and dwelling characteristics, the data includes a location identifier measured at the municipal level for each household.

The data is completed by information on the investment cost for each retrofit option, the resulting household-specific energy savings, and a suite of variables describing the home itself and the socioeconomic characteristics of its occupants. Estimates of energy savings following a retrofit are based on engineering calculations. Investment cost estimates draw on cost values of actual retrofit projects published by the German Architectural Association. We have refined these figures by controlling for regional single measure, and 158 implement multiple measures.

wage differences for craftsmen. Details on the data assembly for energy savings and investment cost are given by GRÖSCHE and VANCE (2009).

4 Methodology

While investment cost of retrofitting options and the resulting energy savings are certainly two key determinants of renovation decisions, the net benefit of any renovation option is difficult to anticipate for households because of numerous uncertainties, including unknown future energy prices that may undermine the profitability of a renovation. Furthermore, households may face information deficits about the variety of retrofitting alternatives. Not least, even if all alternatives are known, the calculation of energy savings is likely to go beyond the capabilities of the majority of households.

By informing about the variety of retrofitting options, the associated costs, and the energy savings to be expected, energy audits may provide valuable information that is highly relevant for the decision of households. As demonstrated by the theoretical model presented in Section 2, it is an open question, however, as to whether the information provided by audits increases the likelihood of undertaking a renovation.

To account for both the potentially varying effect of an audit on household i 's retrofit decisions and the inherent dependency among the $J = 4$ renovation decisions of household i , we employ a logit model with mixed effects, frequently called mixed logit, random-parameters, or random-coefficients logit (REVELT and TRAIN, 1998:647), which can approximate any random-utility model (MC FADDEN and TRAIN, 2000). For brevity, we use here the term mixed logit, even though our model specification is moti-

vated through a random-coefficients concept. This model generalization overcomes the three limitations of standard logit models by allowing for (1) unrestricted substitution patterns, (2) correlation in unobserved factors over repeated choices, and (3) correlation of unobserved and observed factors commonly described by the notion of random-taste variation (TRAIN, 2003:46). Of course, decision-makers' tastes or preferences also vary for reasons that are not linked to observed individual characteristics and attributes of the alternatives. That is, two household heads with the same income, education, etc. will make different choices, reflecting their individual preferences (TRAIN, 2003:47).

Closely following the illuminating introduction given by TRAIN (2003), mixed logit models can be defined on the basis of the functional form for the probabilities P_{ij} of household i 's choices among the alternatives $j = 1, \dots, J$:

$$(6) \quad P_{ij} = \int \left(\frac{\exp(\boldsymbol{\beta}^T \mathbf{x}_{ij})}{\sum_k \exp(\boldsymbol{\beta}^T \mathbf{x}_{ik})} \right) f(\boldsymbol{\beta}) d\boldsymbol{\beta},$$

where

$$(7) \quad L_{ij}(\boldsymbol{\beta}) := \frac{\exp(\boldsymbol{\beta}^T \mathbf{x}_{ij})}{\sum_k \exp(\boldsymbol{\beta}^T \mathbf{x}_{ik})}$$

is the well-known formula for the conditional logit probability evaluated at $\boldsymbol{\beta}$, with \mathbf{x}_{ij} designating the observable factors and $f(\boldsymbol{\beta})$ being a density function. In other words, the mixed logit probability given by (6) is a weighted average of the conditional logit formula evaluated at different values of $\boldsymbol{\beta}$, with the weights being given by density $f(\boldsymbol{\beta})$.² The mixed logit model degenerates to the conditional logit model for the special case

²In the statistics literature, the weighted average of distinct functions is called a mixed function, which explains the name of the mixed logit model, while the density that provides for the weights is called the mixing distribution.

in which $f(\beta) = 1$ for $\beta = \mathbf{b}$ and zero otherwise. In this special case, choice probability (6) coincides with the logit formula given by (7), when β is replaced by \mathbf{b} .

In line with random-utility theory, the mixed logit probability (6) can be derived from utility-maximizing behavior, with the utility U_{ij} of household i from alternative j being specified as follows:

$$(8) \quad U_{ij} = \beta_i^T \mathbf{x}_{ij} + \epsilon_{ij}.$$

Vector \mathbf{x}_{ij} captures both alternative-specific attributes, such as investment cost, and household-specific characteristics, such as income, while ϵ_{ij} represents the portion of utility that is unobservable to the researcher and often referred to as “unobserved heterogeneity”.³ β_i is an unobservable vector of coefficients that represents household i ’s preferences and, hence, generally varies over households.

Given this variation, it is impossible for researchers to condition on β_i and calculate the probability *conditional* on β_i that would be given by the conditional logit formula (7). Rather, the researcher is forced to assume that β_i is a random variable with density $f(\beta)$ and to compute the unconditional choice probability resulting from the integral given by (6), generally through simulation. To this end, the distribution of β_i and, hence, density $f(\beta)$ must be specified. The normal or the lognormal distribution is selected in most applications, such as REVELT and TRAIN (1998:647): $\beta \sim N(\mathbf{b}, \mathbf{W})$ or $\log \beta \sim N(\mathbf{b}, \mathbf{W})$, where the moments \mathbf{b} and \mathbf{W} of the distribution of the household-specific coefficients β_i are to be estimated.

³For both the standard and the mixed logit, the error terms are assumed to be independently and identically distributed, obeying a Gumbel or Type I extreme value distribution with $F(\epsilon) = e^{-e^{-\epsilon}}$ being the cumulative distribution function. Differences $\epsilon_{ijk}^* := \epsilon_{ij} - \epsilon_{ik}$ of two error terms then follow the logistic distribution: $F(\epsilon_{ijk}^*) = \frac{\exp(\epsilon_{ijk}^*)}{1 + \exp(\epsilon_{ijk}^*)}$.

As a formally equivalent alternative to the random-coefficients interpretation, a mixed logit model can be derived from a utility representation that allows for an error component interpretation:

$$(9) \quad U_{ij} = \boldsymbol{\beta}^T \mathbf{x}_{ij} + \boldsymbol{\Delta}_i^T \mathbf{z}_{ij} + \epsilon_{ij},$$

where the unobserved utility portion $\eta_{ij} := \boldsymbol{\Delta}_i^T \mathbf{z}_{ij} + \epsilon_{ij}$ consists of two error components, with the first component creating correlations among alternatives:

$$\text{Cov}(\eta_{ij}, \eta_{ik}) = E(\boldsymbol{\Delta}_i^T \mathbf{z}_{ij} + \epsilon_{ij})(\boldsymbol{\Delta}_i^T \mathbf{z}_{ik} + \epsilon_{ik}) = \mathbf{z}_{ij}^T \mathbf{W} \mathbf{z}_{ik},$$

where $\mathbf{W} = E(\boldsymbol{\Delta}_i \boldsymbol{\Delta}_i^T)$ is the covariance matrix of $\boldsymbol{\Delta}_i$. It bears noting that utility is correlated over alternatives even when error components are assumed to be independent, such that \mathbf{W} is diagonal.

It is instructive to demonstrate that the random-coefficients and the error components specification (8) and (9) of utility are formally equivalent. First, when decomposing the coefficients $\boldsymbol{\beta}_i$ into their mean $\boldsymbol{\beta}$ and respective deviations $\boldsymbol{\Delta}_i := \boldsymbol{\beta}_i - \boldsymbol{\beta}$, the error components specification (9) follows from the random-coefficients specification (8) by replacing $\boldsymbol{\beta}_i$ through $\boldsymbol{\beta} + \boldsymbol{\Delta}_i$: $U_{ij} = \boldsymbol{\beta}^T \mathbf{x}_{ij} + \boldsymbol{\Delta}_i^T \mathbf{x}_{ij} + \epsilon_{ij}$, with the \mathbf{z}_{ij} from the random-coefficients representation (9) being equal to \mathbf{x}_{ij} . Conversely, under an error components motivation, utility is given by $U_{ij} = \boldsymbol{\beta}^T \mathbf{x}_{ij} + \boldsymbol{\Delta}_i^T \mathbf{z}_{ij} + \epsilon_{ij}$ (see expression (9)), which is equivalent to a random-coefficients model with fixed coefficients for variables \mathbf{x}_{ij} and random coefficients with zero means for variables \mathbf{z}_{ij} .⁴

⁴If \mathbf{x}_{ij} and \mathbf{z}_{ij} overlap, that is, some of the variables enter both vectors, \mathbf{x} and \mathbf{z} , the coefficients of these variables can be considered to vary randomly with mean $\boldsymbol{\beta}$ and the same distribution as around their mean.

Along the lines of this methodological discussion, we specify the probability for the binary choice that household i chooses retrofit response r_{ij} as follows:

$$\begin{aligned}
 P(r_{ij} = 1) &= \alpha + \zeta_i + \mathbf{x}_{ij}^T \boldsymbol{\beta} + (\delta + \psi_i) \cdot \text{audit}_i + \varepsilon_{ij} \\
 (10) \qquad &= \alpha + \mathbf{x}_{ij}^T \boldsymbol{\beta} + \delta \cdot \text{audit}_i + \underbrace{\zeta_i + \psi_i \cdot \text{audit}_i + \varepsilon_{ij}}_{\eta_{ij}},
 \end{aligned}$$

where household- and option-specific characteristics are captured by vector \mathbf{x}_{ij} . ζ_i and ψ_i denote random deviations from the intercept and the mean effect of home audits on retrofit decisions, respectively, and are assumed to be normally distributed with zero mean and covariance matrix

$$(11) \qquad \boldsymbol{\Sigma} = \begin{bmatrix} \text{Var}(\zeta_i) & \text{Cov}(\zeta_i, \psi_i) \\ \text{Cov}(\zeta_i, \psi_i) & \text{Var}(\psi_i) \end{bmatrix}.$$

Various covariance structures can be specified, the most flexible of which allows unique variances and covariances. Restrictions can also be introduced, for instance by imposing a single variance, $\text{Var}(\zeta_i) = \text{Var}(\psi_i)$, and constraining the covariances to zero: $\text{Cov}(\zeta_i, \psi_i)$.

The residuals ε_{ij} are assumed to be uncorrelated with ζ_i and ψ_i and, as with the standard logit model, are independently and identically distributed type I extreme value with variance $\pi^2/6$. The composed error term $\eta_{ij} = \zeta_i + \psi_i \cdot \text{audit}_i + \varepsilon_{ij}$ allows for correlation among any two response probabilities $P(r_{ij} = 1)$ and $P(r_{ik} = 1)$ for the same individual i , thereby controlling for the inherent dependency among the individuals' four response options.

5 Empirical Illustration

The primary goal of our empirical illustration is to explore the extent of heterogeneity in household responsiveness to home audits. To this end, we conceive of the decision tree depicted in Figure 1 as involving two sequential and independent steps, whereby the household first decides to gather information, e. g. via an audit, and subsequently chooses which, if any, renovation options to undertake. We thereby assume that the *audit* dummy is exogenous. It is most likely, however, that the decision to undertake an audit is endogenous, an issue that we address below.

Table 2 compares estimates from both a standard logit model in which the coefficients are fixed without exception, and a mixed logit model in which the coefficient on *audit* is treated as a random parameter obeying a normal distribution. Turning first to the dummy variable *audit*, the coefficient estimate is seen to be positive and statistically significant at the 1% level in the standard logit model. Interpretation is facilitated by exponentiating the coefficient to yield the odds ratio: The odds of undertaking a renovation are 1.67 times higher for households that have received an audit relative to those without any such information measure.

All of the remaining coefficients have signs consistent with intuition and, with the exception of *income* and *energy consumption*, are statistically significant at the 1% level. The cost of the renovation decreases the likelihood that it is undertaken, while the expected energy savings and the age of the home both increase it. Likewise, residence in former East Germany, where the housing stock is generally more dilapidated, increases the likelihood of a renovation. As reflected by the coefficients on the option-specific constants, retrofitting of the roof and façade tend to be more onerous undertakings in terms of the cost and grime incurred than window and heat-

ing retrofits, so that these renovation options both have higher likelihoods.

Table 2: Estimation Results for the Decision on Renovation.

	Standard Logit				Mixed Logit	
	Coeff.s	Std. Errors	Odds Ratios	Std. Errors	Coeff.s	Std. Errors
<i>audit</i>	** 0.513	(0.092)	** 1.669	(0.154)	** 0.730	(0.130)
<i>cost</i>	** -0.108	(0.017)	** 0.898	(0.016)	** -0.084	(0.015)
<i>savings</i>	** 0.185	(0.013)	** 1.204	(0.016)	** 0.152	(0.012)
<i>consumption</i>	0.002	(0.002)	0.998	(0.002)	0.0001	(0.003)
<i>age</i>	** 0.010	(0.001)	** 1.010	(0.001)	** 0.016	(0.001)
<i>east</i>	** 0.326	(0.089)	** 1.386	(0.123)	** 0.464	(0.115)
<i>income</i>	0.042	(0.030)	0.960	(0.029)	-0.060	(0.040)
<i>window</i>	** 0.841	(0.084)	** 2.319	(0.196)	** 0.979	(0.103)
<i>façade</i>	** -1.066	(0.071)	** 0.344	(0.025)	** -1.296	(0.088)
<i>heating</i>	** 0.580	(0.129)	** 1.785	(0.230)	** 0.924	(0.141)
<i>constant</i>	** -1.414	(0.166)	—	—	** -2.120	(0.194)
$\sqrt{Var(\zeta_i)}$	0.654	(0.370)	LR test: $\chi^2(2) = 521.31$			

Note: * denotes significance at the 5 %-level and ** at the 1 %-level, respectively.

Observations used for estimation: 10,120. Number of households: 2,530.

The last two columns present the results from a mixed logit model in which the coefficient on *audit* is allowed to vary over households. Several variants of the mixed logit model were explored using different covariance structures. When estimated with the most flexible structure having unique variances and covariances, the model failed to converge. As an alternative, we specified a structure that imposes a common variance and allows for a non-zero correlation. Based on a likelihood ratio test, this structure proved a better fit than one that imposes a common variance and zero covariance. Moreover, the chi-square statistic obtained from a likelihood ratio test with which the mixed logit is compared to the standard logit is $\chi(2) = 521$, sug-

gesting that the mixed logit provides a significantly better fit to the data. The estimated mean effect of the distribution of the coefficient on *audit*, at 0.73, is somewhat higher than in the standard logit model. Furthermore, the estimate of 0.654 of $\sqrt{Var(\zeta_i)} = \sqrt{Var(\psi_i)}$ suggests the existence of significant heterogeneity in the responsiveness of households to information.

Further insight into this result can be gleaned from the distribution of the individual slope coefficients on *audit*, whose estimation suggests that for a small share of the households – about 4% – the effect of the audit is negative. This finding is consistent with our theoretical conjecture presented in Section 2 that information provision can, in some cases, lead the household to decide against undertaking a renovation. As METCALF and HASSETT (1999:517) note, this outcome is conceivable if, for example, the household receives coaching from the auditor about cheaper alternatives than retrofitting for saving energy.

An important qualification in interpreting these findings is the possibility that the coefficient estimate on *audit* is biased because of endogeneity, so that exact identification of its magnitude is not possible. As suggested by Heckman and Singer (1985), however, it may be possible to bound the magnitude of the coefficient. In the current application, it is likely that those households who are seriously considering a renovation are also more likely to seek an audit, which would impart a positive bias via the positive correlation between the error term of the model and *audit*. In the absence of instruments to correct for this simultaneity, we cannot rule out the possibility that the expected value on the coefficient on *audit* is less than our estimate. This would in turn imply that the estimated 4% of households for whom the impact is negative can be regarded as a lower-

bound estimate. Thus, even the presence of bias would not undermine one of the central insights emerging from the theoretical model, that is, that the impact of the audit is negative for some share of households.

6 Summary and Conclusion

Reducing the energy demand consumption in Germany's residential sector via improvements in energy efficiency is seen as a cornerstone in the country's efforts to combat climate change. From a public policy perspective, increasing efficiency has the additional benefit of reducing reliance on fossil fuels, thereby contributing to both energy security and environmental stewardship. Given Germany's ambition to double homeowners' renovation activities, this paper has addressed the question of how the provision of information, particularly through home energy audits, bears upon renovation decisions of private households.

Using a random-utility framework, we began with a theoretical model of the decision to renovate that assumes that homeowners are equipped with imperfect information about the associated benefits and costs. Under these circumstances, energy audits can serve to avoid two types of mistakes: Audits may encourage skeptics who have negative expectations about the net benefits to renovate when the realized net benefit is positive. Conversely, audits may discourage optimists who have positive expectations about the net benefits to refrain from renovating when the realized net benefit is negative. The overall effect of an audit on the likelihood of a renovation is thus ambiguous.

This ambiguity was reflected in the results from our empirical illustration that explored the impact of home audits on the probability of under-

taking a renovation among a sample of 2,530 single-family homeowners in Germany. To capture response heterogeneity, we applied the mixed logit model, which generalizes standard logit models for analyzing multinomial choices by allowing the coefficients associated with observed variables to vary randomly across observation units such as households (REVELT and TRAIN, 1998:647).

While we have abstracted from the question of whether publicly financed audits are justified for capturing positive externalities from the provision of information, our estimates suggest substantial heterogeneity in how homeowners respond to audits, with roughly 4% of households exhibiting a negative response. This result is in line with our theoretical reasoning and suggests that the provision of information does not necessarily increase the likelihood of investments in residential energy efficiency, but may elicit unintended negative responses for a share of the target population.

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