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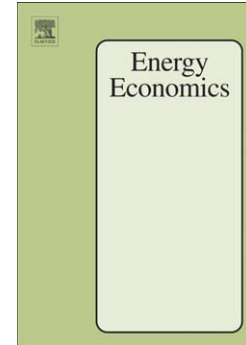
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The effect of price on electricity contract choice

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Abstract

I explore how households switch between fixed-price and variable-price electricity contracts in response to variations in price and temperature, conditional on previous contract choice. Using panel data with roughly 54000 Swedish households, a dynamic probit model is estimated. The results suggest that the choice of contract exhibits substantial state dependence, with an estimated marginal effect of previous contract choice of 0.96, and that the short-run effects of variation in prices and temperature on the choice of electricity contract are small. Further, the state dependence and price responsiveness are similar across housing types, income levels and other dimensions. A plausible explanation of these results is that transaction costs are perceived to be larger than the relatively small cost savings from switching between contracts.

Keywords: Electricity Contract Choice, Residential Electricity Demand, Demand Flexibility, Transaction Costs

JEL: Q41, D10, D12, Q48

1. Introduction

In this paper, I explore households' choice of electricity contract using unique monthly household data from Sweden. As far as I am aware, this is the first paper to explore this topic using household-level panel data, allowing for a dynamic analysis of electricity contract choice. In more detail, conditional on the previous electricity contract, households are assumed to switch between different contracts in response to variations over time in prices, temperature, and other relevant variables.

Understanding households' choice of electricity contract is important for several reasons. First, understanding the choice between electricity contracts

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