

## Extreme Contract Variety After Deregulation: Electricity Retail Choice in Texas

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I study (1) the limitations of consumer decision-making in a setting with large choice sets and (2) the relationship between competition and product variety after deregulation. In retail choice electricity markets, consumers choose their electricity contract from a competitive market of retailers, who are then responsible for procuring electricity from generators in the wholesale market. Retailers in this market compete on price, contract features, and additional services. I develop a model of consumer decision-making where consumers choose their multi-period sequence of cost-minimizing contracts subject to various constraints on their information sets and behavior. Using this model, I find that consumers usually fail to cost-minimize. Consumers spend a mean of \$33 per month more on their actual contract choices than they would have on their ex post cost-minimizing contracts. I present evidence that it is unlikely that these missed savings are rationalized by discounting, risk aversion, or other behavioral explanations. Therefore, the value of missed savings captures the combined costs of search, inattention, and mis-selling in this market. This paper also presents the descriptive result that there is substantial heterogeneity in consumer preferences across contract features, which is not the case in regions where the monopolist utility has been allowed to remain in the retail market.