

# Alert the Inert! Switching Costs and Limited Awareness in Retail Electricity Markets\*

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## Abstract

We quantify how switching costs and limited awareness affect consumer inertia in liberalized retail electricity markets by developing and estimating a structural demand model using a novel data set on electricity contract choices in Belgium. Our data allow us to disentangle different sources of inertia by using a rich combination of macromoments and micromoments. Our estimates indicate that consumers perceive electricity contracts as differentiated and that both limited awareness and switching costs significantly hinder efficient contract choices. Our counterfactual simulations reveal the potential for substantial welfare gains from retail competition compared to a market with a regulated monopolist.

**JEL Classification:** D12, L13, D83, L97

**Keywords:** Switching Costs, Limited Awareness, Retail Electricity Markets, Structural Demand Estimation

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