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Abstract Title: Default Bias, Follow-on Behavior and Welfare in Residential Electricity Pricing Programs

Abstract Text:

Economists and psychologists have long recognized default bias: when confronted by a choice with a default option, people are predisposed to accept the default. We study the default bias in a large randomized control trial, in which one treatment group was allowed to opt-in to time-based pricing while another was allowed to opt-out. We provide dramatic evidence of default bias – a significantly higher fraction of households enrolled in the time-based pricing plan in the opt-out enrollment group compared with the opt-in group. Second, unlike most cases in which default bias has been documented, we observe follow-on behavior of consumers subsequent to the default manipulation. This, in conjunction with randomization of the default enrollment mechanism, allows us to estimate the subsequent response of “complacent” households (i.e., those who only enroll in time-based pricing if assigned to the opt-out treatment) to the pricing incentives. We find that “complacent” households do reduce energy use during higher priced peak periods, though less on average compared to customers who actively opted in. However, because of the significantly larger enrollment in the group defaulted onto the time-based rate relative to the opt-in group, the pricing incentives produced much greater aggregate demand reduction during peak periods in the opt-out group. Finally, we explore the possible welfare implications of and explanations for the default bias by considering heterogeneity in demand responses and financial outcomes across consumers, as well as ancillary evidence.