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Research Brief

Why Do We Need Electricity Retailers? Twenty-five Years of Evidence: What Does Competition in Energy Services Need?

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Twenty-five years ago — when the household experiment was barely under way, and no market had yet abolished its regulated default supply — Paul Joskow questioned how much value electricity retailers could add for small customers, and treated that default as scaffolding for a transition. This paper audits that forecast against a quarter-century of accumulated experience, and the verdict is unambiguous: as the paper details, the evidence gathered over all these years confirms what Joskow expected on essentially every count. Retail competition has not merely failed to add value for households — on the record, it has subtracted it. The one point where the record corrects him is the single word transitional: after twenty-five years of earnest trying, the transition has to be declared over — and the well-designed basic supply service acknowledged for what it is, not a bridge to competition but permanent market infrastructure, and the precondition for the competition that was actually worth wanting.

The audit is anatomical rather than ideological. Dissecting the retail activity function by function, on cost information regulators compelled the firms themselves to provide, the paper puts numbers on what was always qualitatively clear: serving a household costs a few percent of the bill — and falls steeply with scale — while the mark-ups the regulators of the pioneering jurisdictions keep reporting, measured over the final price, are of a different order. The gap is largely the apparatus competition itself demands — acquisition, retention, advertising, bad debt concentrated in the competitive segment — an apparatus that grows with rivalry, not with customers, so scale alone never pays for it. In Europe, where entry was tried hardest, it has stalled at commodity resale: hundreds of entrants, a combined share that stopped growing years ago, and only a handful of firms above two percent each — resellers, not a service layer. The United States says the same thing more quietly: after twenty-five years, about a dozen states retain residential choice, Massachusetts has priced a decade of switching at over $738 million in losses, and the one arrangement that scaled — opt-out municipal aggregation — is a well-procured default by another name.

Why has the layer where value could genuinely be added — automation, optimization, flexibility — not taken off? Because household savings are bounded by arithmetic that caps rational engagement; because consumers face the market in two states, indifference for most and error for the engaged; and because the equilibrium product, the flat rate, withholds hour by hour exactly the information those services need, most completely when the hour is most expensive.

The proposal follows from the diagnosis. A Basic Electricity Service — permanent, unsubsidized, the default for whoever chooses nothing and binding on no one — built on two rules and open to tender. It bundles only the functions where competition can add little or no value. Its price is the hourly market price, passed through: no embedded hedge, because for the non-vulnerable majority the hedge is worth close to nothing and costs twice — the record shows a one-year hedge defers the cost of a crisis rather than removing it (Spanish consumers paid €86.8 million more under the hedged formula through 2021–2023), while destroying demand response precisely in scarcity hours. Protection for those who genuinely cannot bear the variation belongs in targeted instruments, not inside everyone's price. And the service itself can be auctioned — the fee for serving, never the energy price. The distinction is decisive: America's full-requirements default auctions clear some 40% above forward wholesale because they price the hedge and the risk; Italy auctioned the bare service in 2024 and the bids were negative. An auction faithfully prices whatever is put inside it.

The result is a reference against which every commercial promise — fixed prices, bundled services, procurement claims — becomes measurable. Nothing is forbidden and nothing is subsidized; inertia stops being a revenue stream; and the providers of energy services get what they have lacked for twenty-five years: a customer exposed to honest prices and a benchmark that cannot be gamed. That, the paper argues, is what competition in energy services needs.

References

Link to the full working paper discussed in this brief:

Batlle, Carlos (2026), "Why Do We Need Electricity Retailers? Twenty-five Years of Evidence: What Does Competition in Energy Services Need?," MIT CEEPR Working Paper 2026-20, November 2026

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Carlos Batlle is Professor at Comillas Pontifical University in Madrid, part-time Professor of the Florence School of Regulation (FSR) and Research Affiliate of MIT CEEPR. At Comillas he teaches Energy Economics and Electric Power Systems Regulation, and he is also member of the Institute for Research in Technology, where he leads research projects and supervises PhD and master dissertations.

At the FSR, an institution under the aegis of the European University in Florence, he is member of the Training Program for European Energy Regulators and (among other courses) Director of the FSR Annual Training on the Regulation of Energy Utilities. From 2011 to 2024 he served at the MIT Energy Initiative and the MIT Sloan School of Management, teaching the course entitled "Engineering, Economics and Regulation of the Electric Power Sector" and also leading research projects and supervising master and PhD thesis.

He is also member of the Board of Appeal of ACER, the principal European Union body for energy regulation, and of the Advisory Academic Panel of Ofgem, the UK energy National Regulatory Authority. He has worked and lectured extensively on electric power systems regulation, with special focus on markets and end-user rate design. He has also a vast experience on the operation, planning, and risk management modeling of electricity generation. He has rendered consulting services for (mainly) governments and international regulatory institutions in over 30 countries. He has published over 40 papers in national and international journals and conference proceedings and authored 10 book chapters.

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