Have you ever noticed how, when a building is knocked down in your neighbourhood and replaced by a new one, how difficult it is to remember what once stood there? It seems our minds are programmed to assign a sense of permanency and normality to the world as we see it at any, and every, point in time. What we see, always seems to be normal and permanent – even though, rationally, we fully know that this feeling of permeance cannot be true.

Presumably, there is a good evolutionary reason why we accept the normality of world as we see it even when we know it is constantly changing – but I’ll leave that to the psychologists and anthropologists to explain.

To be clear, when I refer to what we observe as being “normal”, I am not making a value judgement. In this context, normal does not necessarily mean acceptable or desirable. I am just referring to the feeling that something exists regardless of whether we are thinking about it or looking at it or talking about it.

It is like the proverbial tree in the forest. We feel confident it exists as a self-standing object in the world (and will make a noise if it falls regardless of whether we are there to hear it).
This evening, when we’re discussing the energy market – and whether it is accessible, equitable and affordable – in our, minds we’re picturing the market as a ‘thing’ that exists out there somewhere (just like the proverbial tree in the forest). In this sense, the market feels like it is a natural and normal part of the world in which we live.

And because we have given this ‘thing’ a name, in other words, because we call it a market, we ascribe to it characteristics commonly ascribed to other markets. For example, that it arose organically to efficiently enable countless transactions between willing buyers and sellers.

But these characteristics do not accurately describe the energy market.

The national energy market did not emerge organically. It is a completely artificial construct that was manufactured by some ambitious people during the 1980s and 90s.

Likewise, it is not a market defined by countless transactions. It is a market defined by tens of thousands of pages of rules and regulatory decisions. If there were no energy rules, there would simply be no energy market.

Nor is it a market characterised by willing buyers. Who here chooses to buy electricity? No-one. Our participation in this so-called ‘market’ is involuntary. That is why we call energy an essential service.¹

If the energy market was manufactured, then we need to ask: Who created it? We need to ask this question because whoever created it, created it the way they saw the world.

So... who created the energy market? Economists.

Now, I am an economist, as are many of my friends – and I reckon we’re not a bad bunch. But in manufacturing the national energy market, the market designers took one small step for market design; one giant leap (of faith) about customers.

As economists we’re inclined to believe that economic propositions such as diminishing marginal utility, or assumptions such as perfect competition, are judgement free – and these propositions imply nothing about what is good or bad, or right or wrong about the world.

That might be true when these propositions occupy textbooks and journals, but they do not remain judgement-free when they are released into the world occupied by

¹ For many of us, our energy consumption is also largely inelastic (we do not really get to choose how much electricity we consume).
real people. This is what happened in the energy market – and here, I am talking specifically about the retail energy market.

The retail energy market is that part of the market occupied by ‘real’ people, not “representative economic agents”. Real people like households, small businesses, community organisations; me and you.

In manufacturing the retail energy market, the market designers embedded within that market a suite of moral and ethical suppositions; contrary to what they thought they were doing as supposedly judgment-free economists.

Turning first to the moral aspects of this manufactured retail market...

In order to intellectually tame the world around it, economics adopts a series of simplifying axioms about human nature – most notably, that humans seek and efficiently process the information they require to make consumption decisions. A short-hand way of saying this is, “Consumers shop around (for a good deal).”

Okay. That is what the theorists say.

The market designers who created the retail energy market, took this simplifying axiom but subtly changed it into: “Consumers will shop around.”

In other words, they took a theoretical axiom and changed it into an assumption about real human behaviour. That assumption was then embedded in the design of the retail energy market which supposes customers will shop around.

Having completed their work, the market designers handed the market to economic regulators to run. The regulators (including myself) were now responsible for promoting the competitiveness of the market. Our central message was: “Customers should shop around.” I certainly went on the radio espousing this message, at least in the early days when I still believed it.

But do you see what has happened here?

A theoretical axiom about consumers (‘Consumers shop around’) morphed into an assumption (‘Consumers will shop around’), and then it morphed again into a policy prescription that now said consumers are required to shop around.

I refer to this morphing from axiom, to assumption, to policy prescription, as the central moral transition made unwittingly by the market designers when they manufactured the retail energy market. It is a moral intervention because it prescribes the correct way for people to behave. They must shop around or be prepared to suffer the potential consequences.

The effect of this policy prescription was to absolve energy retailers of any responsibility if they took advantage of customers who failed to shop around –
but remember, this is not any old purchase. It’s the purchase of an essential service. It’s an involuntary purchase. So even though it’s a purchase that cannot be avoided, customers must still shop around just to avoid the risk of exploitation.

Because this policy prescription made customers responsible for the efficient operation of the market, it also largely absolved energy regulators of responsibility for ensuring customers were not exploited.

As a result, regulators very consciously limited themselves to (i) promoting better product disclosure, (ii) trying to reduce search costs, and (iii) imploring customers to shop around. Regulators did not see themselves as responsible for consumer outcomes.

The retail energy market failed ethically as well as morally.

Eventually, the community’s patience with this prescription started wearing thin. By 2017, two inquiries were underway. One initiated by the Victorian government and led by John Thwaites; the other initiated by the federal government and led by the ACCC.2,3

Both reviews reached the same conclusion. The retail energy market was not delivering consistent, efficient, or fair outcomes for consumers.4

I suggest the retail energy market does not work, and cannot work, because its underpinning assumption is flawed. Customers do not shop around as frequently, effectively, or efficiently as the market designers assumed.

My friend Bruce Mountain at the Victorian Energy Policy Centre, has been doing work that highlights just how flawed this assumption has proven to be in the real world: the world occupied by real people – people who have real preoccupations and who do not have the time or inclination, let alone the literacy and numeracy required to engage effectively with the retail energy market.5

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Today, energy customers are facing far bigger challenges, or vastly more complicated choices, than when the retail energy market was established 20 years ago.

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2 Australian Competition and Consumer Commission (2018), Restoring electricity affordability and Australia’s competitive advantage, Retail Electricity Pricing Inquiry - Final Report, June
4 The Thwaites review concluded the retail energy market was not working for customers and needed to be more tightly regulated. The ACCC inquiry concluded competition was not working for customers and greater effort was required to ensure its competitiveness.
Everything about energy is changing – solar panels, feed in tariffs, batteries, demand management and demand charges, dynamic pricing, electric vehicles, etc, etc.

Everything is changing; everything except for one thing.

Energy remains essential.

And that essentiality means those moral and ethical suppositions that were baked into this manufactured market by its original designers, need to be called-out; re-examined, and in my view, disestablished.

Simplistic individualism is nether the moral nor ethical foundation on which the community expects to receive an essential service like energy.

The so-called ‘social licence’ under which energy is provided to the community, needs to be re-written.

I know what the naysayers will say. I’ve been hearing it for years. They’ll claim, “That’s not how markets work. That’s not how competition works. Governments mustn’t interfere with markets. What about sovereign risk? What about propriety rights? What about unintended consequences?”

Let me return to where I started.

There is nothing natural about this market. The retail energy market is a completely manufactured market. It exists only because it was deemed into existence 20-30 years ago.

It was created. And if it was created back then, then it can be re-created now.

And if it can be re-created now, then we have the opportunity, the right⁶ and the responsibility to recreate it in the fairest possible way – the fairest possible way for consumers, and the fairest possible way for the community, now and into the future.

— END —

⁶ If this right did not exist, it would be equivalent to arguing previous generations (i.e. the market designers 20 years ago) had rights that we do not have. Alternatively stated, it would be equivalent to arguing that by exercising their right to create the market, those market designers voided our right to re-create it. There is no self-evident justification for such an argument.