

Reduce government interference in energy

One subsidy leads to another. One windfall tax soon becomes several permanent tax rises on overtaxed energy. One price distortion tempts Regulators to do more. Instead of pursuing the three aims of security of supply, affordable power, and environmental requirements we end up with energy which is too dear and a growing dependency on imports and the goodwill of foreigners.

The boost to oil and gas prices caused by the decision to get Russian oil and gas out of our supply chains in retaliation for the invasion of Ukraine was used as an opportunity to increase taxes on oil and gas. It was called a windfall tax though the government did not specify what element of the price/profit was windfall, nor did it promise to cancel the tax when oil prices fell back. This then caused super profits for older renewable electricity investments so they too were put under a windfall tax. Subsequently new investment in renewables was exempted. All this reinforced dearer energy, so then the government decided to spend a fortune on subsidies to domestic consumers. The government introduced a price cap on domestic energy bills. As prices fell so the price cap held costs up until the next review point. All these interventions were backed by the Opposition parties who usually wanted them to go further, last longer and tax and subsidise more.

This is a wasteful and worrying model for energy. It has meant higher public sector spending and borrowing. It has deterred investment in new capacity through the higher and unpredictable taxes. It has helped close factories in the UK thanks to high energy prices, increase energy imports, and increase the imports of energy intensive goods.

The same thing is happening with energy using products. It is wrong to tax car producers for selling too many petrol vehicles that people want to buy, and for selling too few battery cars which people do not want to buy. It would be wrong to tax gas boiler manufacturers or to ban their product if people do not want to buy heat pumps. Government did not need to step in to ban blackberries in order to promote smart phones, or to boost computer pads by taxing home desktops. There was no subsidy to promote mobile phones or internet services. Good products sell because people want them.

Get a grip on nationalised industry

costs

When we had many nationalised industries they dominated public accounts and caused some of the overspending and over borrowing that damaged the Labour government of 1974-9. Nationalised industries sacked a lot of employees, over charged customers and often lost taxpayers huge sums. Rail, coal, steel were in painful decline. Telecoms fell well behind technically with shortages of investment.

Today the public accounts are being damaged again by two nationalised industries, rail and the Post Office, and by the colossal losses of the Bank of England. Since 2022 the Bank has demanded £50 bn from taxpayers to pay its bills. Network Rail has just got approval for £30 bn of taxpayer cash for the next five years. The Post Office has lost £1400 m in recent years and now expects taxpayers to pay up for all the repayments and compensation they owe the sub postmasters.

I have often reported on the needless damage to the accounts being perpetrated by the Bank. The Fed does not send its losses to the US Treasury for reimbursement. The ECB does not sell its bonds at huge losses in the markets. Only The Bank of England does this.

Network Rail plans to rely on taxpayer grant for almost two thirds of its cash needs. Only 4% will come from revenues of its commercial, property and freight interests. It has fabulous land and buildings, with key sites in the centres of our cities and many towns. It fails to develop those and to harness private capital to make more stations good locations to visit with retail and services. It fails to develop land adjacent to stations and rail yards for commercial purposes.

Nationalised HS 2 was a spectacular failure at building the original northern rail scheme to something like budget and timetable. It is ending up building us a ridiculously costly additional London to Birmingham line when improved signalling and by pass track would have been a much cheaper answer to any capacity issues.

My Daily Telegraph article on the green revolution as I sent them

The Telegraph amended this and added a headline without my consent. The vast ambition of the net zero policies envisages most people switching their heating to electricity, their travel to bicycles and electric cars, and their diets to vegetarian options. It certainly needs the wholesale conversion of electricity generation

from coal, oil and gas to renewables, and a solution to what to do when the sun does not shine and the wind does not blow. We need to ask are consumers ready for changes of this magnitude?

So far governments have concentrated on doing what should be the easier bits of the change over. They have considerable influence and control over energy markets and have increased their interventions in them. They have ordered more renewables and pressed for closures of coal based generation. They have used subsidies, tax breaks, windfall taxes, regulations, managed prices and bans to tip electricity generation more strongly towards wind and solar power away from fossil fuel. They have got support or acquiescence from the industry to this pathway. Industry actively promotes renewable power as a good. At home it is forced to roll out smart meters to an increasingly sceptical group of consumers who have resisted them so far. It has come forward with many new windfarms and solar arrays.

Even this transition in the UK has hit some buffers. More renewables means more grid to handle the great variability of output and to transfer the power from offshore and from the north to onshore and in the south where most of the customers are. The industry is behind on increasing grid capacity, and plans for it are delayed by planning processes that reveal the opposition to pylons in local landscapes. It is all more cost for consumers and taxpayers.

The digital revolution sweeps on because people like its products and services. We have seen a near universal adoption of mobile phones. The majority have signed up readily to the internet, have liked downloading entertainment of their choice when they want it, have turned to social media and on line meetings to keep in touch with friends and family, have undertaken many a google search, let their photos and memos be stored on an Amazon web server and usually use Microsoft software. A handful of leading US companies have swept the globe with their new products and services without government subsidy, tax break or exhortation.

So far the green revolution has not fired the same enthusiasms. Battery electric cars are still a hard sell. Heat pumps with a £7500 subsidy do not fly off the shelves. Whilst many people do say global warming is a problem and something should be done about it, few think it sufficient of a problem that they need to change their travel, heating and diet. There are determined minorities on both sides of the argument. One group say it is essential people are made to change to stop the rise in temperatures. They want tougher tax rises, more restrictions on drivers and bans on fossil fuels. One group says it is all nonsense, with a variable climate affected by many things in addition to human carbon dioxide. They do not want the government interfering and think adaptation much cheaper than prevention if temperatures do rise. The majority in the middle would like policy to be gently pointing in a less carbon direction, but not in a way which would worsen their living standards and put up their costs.

The all electric battery car is mainly bought by fleet buyers who benefit from a tax break and have to show their shareholders they are taking net zero seriously. Hertz car rentals has recently announced it bought too many electric cars and is unable to rent them all out, so it is selling some of its fleet. In the UK most individual car buyers think battery cars too dear, worry about their range and how you would be able to recharge them. Some think it would be better to develop synthetic fuels which can already be produced in small quantities. These work in conventional engines and be supplied through existing filling stations.

The heat pump is an even more difficult sell. If like many you have an older house you first need to spend a lot with disruptive works to properly insulate the whole building. You then face an installation and supply cost of around £15,000 before subsidy with more works. You may need to put in bigger pipes and radiators to get it hot enough. Whilst the heat pump does cut the amount of energy needed to heat the home, given the much higher cost of electricity per unit of energy the running costs can still come out higher than a gas boiler.

Some think it better to keep a modern gas boiler and change the gas fuel used to fire it. Increasing volumes of hydrogen or its derivatives made from renewable electricity and water could be fed into the gas supply as the power becomes available. There is little point people buying a heat pump system all the time we depend on gas fired power stations for the extra demand. Why burn the gas in a remote power station, losing energy in transmission, when you could burn it at home?

More people are turning to vegetarian diets but no political party is going to ban meat or impose a special meat tax anytime soon. When the Dutch tried to cut back animal numbers on local farms as part of a net zero strategy there was a political earthquake with a new Farmers party and the Wilders party helping evict the government that did it. The best way to wean people off methane intensive animal products is by producing better alternatives.

The world cannot get to net zero without major changes of consumer behaviour. The digital revolution shows people are willing to make big changes in the way they work, enjoy entertainment and talk to each other if you produce great new products and services. The Green revolution designed by global civil servants and forced upon us by governments still has to find the iconic products that would fire the imaginations of families. People do not want a landscape covered in pylons, a car that cannot make it easily to the next working charging point and a heating system that is a lot dearer than the one they have got. They do not want to be stuck in more traffic jams as highways authorities make it ever more difficult to get about in a van or car. More do now worry about what happens to everything electric when the wind does not blow and when evening darkness has closed down the solar.

Two modern arguments against nationalisation

The two best arguments against nationalisation today are the Post Office and the nationalised rail companies Network Rail and HS 2.

Both of these have lost taxpayers a fortune. Both have failed to deliver good service and to achieve the aims set for them by governments.

The Post Office under Labour and Lib Dem Ministers bungled putting in an expensive new computer system. It then blamed its sub postmasters demanding money from them they did not owe and putting many into court and prison. Under Conservative Ministers since 2015 the Post Office has delayed and diluted efforts to correct the record and compensate those falsely accused.

In recent years the Post Office has racked up losses of £1400 million plunging the balance sheet into the red. The Post Office is only allowed to trade by its auditors with a Treasury guarantee to pay all the continuing losses. Without a taxpayer guarantee the PO is now bankrupt.

HS2 Ltd has presided over a massive escalation of costs to build a railway line, and allowed long delays in building the track and ordering the trains. So bad has it been it has resulted in deleting important parts of the original plan whilst we await a new track between Birmingham and London for a train which was meant to improve connections for the north. If they had stuck to the original budget and timetable we would at least have got a new railway to the north.

Network Rail has presided over colossal losses. It regularly shuts sections of railway down for maintenance at holiday periods when more people might need a train. They do not resurface the main runways at Heathrow over a bank holiday. It is often the reason for train delays and cancellations with points and signals failures, and with flooded and undermined track.

Network Rail has been slow to introduce digital signalling that would allow more trains to run safely on the same track, knowing exactly where all the other trains are. Its vast rambling property estate is poorly kept, and underdeveloped with often a negative response to ideas to develop station property better.

All 3 of these nationalised companies have paid large salaries and bonuses to senior executives regardless of the losses and poor performance. There have been many changes of Minister and 3 different governing party governments (Lab/Coalition/Conservative) presiding over these companies. How can you argue this has been a good way to run things? Don't private sector companies like Amazon and Microsoft do things better?

Sorting out water

There are 3 ways forward for a company like Thames Water. There can be a deal between Regulator and the current shareholders and management agreeing an affordable investment programme and realistic customer charges for the task. There could be a move to force a sale to new shareholders by undermining the current company, with a possible period of management by a government Administrator. There could be nationalisation.

Nationalisation is a particularly bad idea. Existing shareholders would need to be compensated for the enforced sale of their shares. The state cannot confiscate the assets of the UK Universities Pension Scheme and the Ontario Municipal Pension Scheme. To do so would put off the many investors and supporters of private finance activities that the UK relies on. University teachers in the UK would demand compensation for their pension scheme.

The state would have to honour the £14 bn of company debts. It would then need to find additional money to increase the investment spend. It would all add up to a very large bill for taxpayers. In the past nationalised industries have also been good at running up large losses taxpayers have to pay. Current state enterprises, the PostOffice and HS 2 have shown just how huge the losses and cost overruns can be.

Tipping a water company into Administration also comes with considerable costs as well as reputational damage to the UK as a good place to invest. The special Administration would need to honour the loans, would impose substantial charges for its management and would doubtless wish to provide for all manner of inherited liabilities up front. Before selling on the company to new owners the Administrator and the Regulator would need to reach an agreement on customer charges and on how large an investment programme needed financing.

To those who think the company should be bankrupted and the debts written off and not met, I remind you that the government and Labour rely heavily in their forward plans on harnessing large sums of private capital to provide the extra homes, energy capacity, broadband and the rest we need. If the country got a reputation for stealing assets off investors and undermining businesses by unrealistic price controls and regulations that would get a lot dearer and more difficult to pull off.

The best way forward is a negotiated settlement between the company and the Regulator. As most want faster progress with expanding capacity of our dirty water pipes there needs to be an increase in spend and in customer contribution. If we want more and better sewers then either customers or taxpayers have to pay more. As it is the same people paying VAT, Income tax and water bills I prefer it to be on water bills. There needs to be a clear link and financial discipline on water companies between revenue and renewal expenditure.