

Energy prices and regulation

The Prime Minister announced the headlines of a solution for the energy crisis. She proposes removing green levies and capping domestic energy costs per unit of energy, with a matching scheme for business. Presumably taxpayers pay compensation to the energy companies for selling us energy below their costs.

I favour doing more by way of tax cuts on energy, adding an end to VAT on fuel and cancellation of the carbon tax to cut energy costs. The problem with price controls is they might put people off investing in more supply, deterred by lower and unpredictable returns from intervention. They also blunt the role of price in lowering demand when there is scarcity. It is necessary to help people on low income with bills, or better to help them get jobs with decent incomes.

The EU was looking at plans of its own to tackle their cost of living crisis. They have been seeking a mixture of windfall taxes, price controls and rationing. It appears they have fallen out over controlling gas prices, with some fearing that would lead to an earlier loss of Russian gas and rationing. They expect Putin to find other markets for his gas. The EU seems to think the answer to dear and scarce Russian gas is even more investment in wind turbines and hydrogen.

It is difficult to understand why they believe this. Without storage wind turbine power is erratic and lets you down all too often. Hydrogen made using renewable electricity is not yet a commercial proposition and will need a vast new distribution network. The truth is this decade many people are relying on the natural gas boiler for heating and the petrol or diesel car and van for transport. All the time that remains true Europe needs to secure supplies of gas and oil.

The U.K. can do something about this reality as it has reserves to exploit.