

[My Conservative Home Article: Tackling the energy crisis is the key to defeating both recession and inflation](#)

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The new prime minister will want to finalise plans to tackle the cost of living crisis within days of taking office.

We read that there have been preparations both in her transition team and at the Treasury under the outgoing chancellor, speeding the task of bringing together the ideas and the official appraisal of options to produce an early statement to Parliament.

The immediate task is to see off a long and deep recession by putting enough money back into the economy that sky-high energy costs will be taking out.

Some of the extra cash removed from people and companies has been lifted by the Treasury itself, a winner from all the extra VAT, energy profits taxes and other energy levies that high prices bring. Some of the extra cash is effectively a tax imposed on us all by overseas energy markets, as the UK needs to import oil, gas and sometimes electricity to get by.

We cannot get any of this back, nor can we tax it, but we do need to take it into account when deciding how much help to offer people and businesses. It is a deadweight cost to all of us and a big loss for our country's finances.

Many people and businesses can benefit from the promised tax cuts. Where they remove taxes on energy, they also help get the inflation rate down; it is a pity Rishi Sunak did not get agreement that the £400 effective cut to all electricity bills should help lower the rate.

The Government will need to do more to help those who rely on benefits, as well as choosing tax cuts that have the best effect on tackling the squeeze brought on by the price hikes. Cutting the inflation rate by removing taxes from energy prices is particularly helpful, given the adverse impact of high inflation on public finances.

There are medium-term tasks as well if we are to chart a course out of this rolling energy crisis. It is a double problem. There is the severe jolt to the system and ratchet in prices caused by the war in Ukraine and the need for Europe to replace all its Russian gas and oil imports.

There are also the underlying issues posed by the long road to Net Zero, where we are at that point where substantial renewable power on the system is good when the wind blows and the sun shines, but causes difficulties at other times. Then we need back up power usually from fossil fuels, whilst we await commercial roll out of storage and hydrogen technologies that could underpin

a further major expansion of wind turbines.

All this points to the need to develop our energy policy around three objectives: environmental sustainability, affordability, and availability. The overriding environmental objective of recent years has skimmed us on the other, two leaving us too dependent on imports.

Recent events also remind us how we need an energy policy that responds to the phases of the electrical and renewable revolution at the pace it occurs. It was always going to be the case that Europe and the UK would need a lot of fossil fuel this decade. All the time most people still have gas boilers with petrol or diesel vehicles and industry runs on gas we will need plenty of gas as a transition fuel.

It was never a good idea to rely too much on imported gas. Now we know Russia will use it as a weapon that is even clearer. Imported gas means paying more than for domestic gas, if only because of the higher transport costs, and can mean desperate last minute bidding for additional supplies in a world market chronically short of offers.

If it comes as LNG rather than piped gas, it means generating a lot more CO₂. Compressing and transporting the gas by sea uses a lot of extra energy. It means far fewer well paid jobs at home. It means we miss out on the often substantial tax revenue collected from those producing gas.

There are things current producers are doing and can do in the North Sea to lift output from existing fields using existing investment. Flows can sometimes be turned up, maintenance periods shortened. Specifications of gas used to supply pipes might be safely flexed.

There is then the possibility over a matter of months of adding extra wells to an existing field, tied into the present production facilities. There is the opportunity to drill the production wells in known field deposits where they can be tied into existing production facilities and pipes nearby.

Finally, there is the longer term opportunity to invest in an entirely new field with new production facilities, and to explore to find new deposits.

There is also a huge opportunity to develop onshore fields away from centres of population, with revenue or gas sharing with local residents. This would need to be done with agreement.

As we are not about to produce sufficient gas to cover all our needs, we also need to put in more storage capacity which we can fill in summer or other times of low demand as a protection against shortages in global energy markets and a way of smoothing prices.

Price controls distort and deter investment. They make the imbalance between supply and demand worse, when you need to bring the two together. Nationalisation of energy businesses would impose a huge strain on finances as current owners would need compensation. More supply is the true answer to dear prices born of shortages.

The Government needs to work as it has been doing with the nuclear industry to see if the productive lives of our current nuclear fleet can be safely extended and to see how a new fleet of smaller nuclear reactors could be commissioned at sensible prices and in a realistic time frame.

Promotion of renewables needs to continue alongside work to encourage commercial development of battery storage and the green hydrogen roll out. If we are going to have an electrical revolution we will need a great deal more generating capacity to fuel it. Government and industry in the meantime need to ensure there is enough reliable capacity to meet our power needs on days when the wind does not blow and the sun does not shine.

We are fighting inflation and recession at the same time. As energy is the single biggest contributor to the price rises, supplying more and cutting energy taxes is important. As the big loss of spending power brought on by the big energy price hikes is the single biggest cause of economic slowdown, so again improving the energy position is crucial to fighting recession.