One intervention leads to another

The Business Secretary is not keen to bail out companies that cannot trade profitably at current gas price levels. The last few days we hear have been taken up by meetings with CF Fertiliser who have closed two of their plants and left us short of carbon dioxide as a result. There have also doubtless been plenty of talks with the gas industry itself, where smaller competitor companies seek relief from price controls so they can recharge the true costs of the gas supply, or seek government financial support to stay in business.

One well intentioned intervention often leads to another. Price controls designed to help customers can become too severe leading to the bankruptcy of the supplier facing them. Delays in getting price rises agreed to reflect the surge in the cost of the underlying gas comes with a price. If the cost of gas outstrips the price they are allowed to charge the customer they either need a state subsidy to underpin the price control, or need a relaxation of the price control. With neither the company goes bust and the Regulator has to find another company willing to take over the contracts and customers shed by the bankrupt business. There are doubts about how many loss making contracts another gas supplier is willing to pick up. If the eventual s0lution is to let the new supplier charge more, shouldn't the original supplier have been given that freedom to stave off bankruptcy?

This is but one small example of what increasing regulation of the energy sector is doing. Time was when UK energy policy balanced on a three legged approach. The policy needed to deliver sufficient capacity for all future needs. It needed to keep the costs down for business and consumers. It needed to contribute to a greener policy. This century policy makers have tended to take national capacity for granted, or have revelled in the idea that we can import any amount of gas, oil and electricity we may need. The wish to push us more in the direction of zero carbon has led to a raft of green levies and advantages given to renewable generators. This has greatly boosted installed wind capacity, just in time to find out that if you experience a period of little or no wind the rated capacity is meaningless and you have a shortage. It has also meant substantial surcharges on bills to pay for the energy transition.

Such a policy leads on to further government interventions. Government finds itself forced to project a plan for everything, to launch a raft of subsidies and rules to pursue the plan, and maybe to use government contracts or investments to force the pace of change. This can lead to substantial misallocations of capital and to supply failures. The system needs reforming in a pro market direction, so price signals can come to play a more important role in allocating investment and in choosing between competing methods of supply.