

Consultation on electricity regulation

The UK government has recently published a consultation document on possible reform of the management and regulation of the UK electricity industry.

The UK fell under the EU system of control and regulation, which was progressively tightened and embodied in the 71 page 2019 Regulation. This Regulation wished to achieve two main aims, the integration of a Europe wide system of power provision and rapid progress to decarbonise the electricity used. The two aims were self reinforcing. The Regulation warned that as more power came from interruptible renewable sources there would be more need for interconnectors to allow the import and export of power across national boundaries to compensate for shortfalls in supply. The UK duly obliged even though we were in the process of exiting the EU, continuing its drive to rely more on interconnectors to the continent and very willing to add large extra volumes of wind energy to the system.

In line with other European countries the UK had developed twin market interventions to bring about the net zero progress. More low carbon power was attracted by offering long term contracts at guaranteed prices. In the early days of renewable power and for nuclear these were at premium prices to the then market wholesale price. The investors putting in the new capacity agreed to pay back any money earned over the contract price were energy prices to rocket, whilst requiring a subsidy all the time the contract prices remained above the wholesale price. The grid operator also had to hold capacity auctions, offering money to owners of stand by plants that would work in periods of low wind or little solar to keep their capacity ready to run. As they hoped these plants were not going to run that often they needed to offer sufficient money to make it worthwhile maintaining , staffing and fuelling the plants ready to run. Gas plants ended up running a lot to keep the system going with more than half our electricity coming from gas on a typical light wind day.

The consultation document does not give a clear steer of what would be a better system to guarantee security of supply whilst also providing plenty of competitive pressure to keep prices under control. The original regulatory system set up by the UK in the 1980s before the EU took over was a simple one of generators bidding into the system their price offers. The grid manager always took the next cheapest offer when having to scale up the output, and dropped off the dearest when cutting supply. The system was sufficiently attractive for there to be spare capacity so we never ran out of power even on cold dark windless busy day. Most of the power came from coal and gas, with a useful contribution from nuclear.

The immediate issues are the way some providers of renewable power can receive the elevated gas based price despite having much lower costs, and the lack of margin in our capacity for when the wind does not blow and the sun does not shine. The UK has also to prepare for a reduction in output from nuclear this decade, which is planned to see the closure of all but one of the existing nuclear stations. What are your thoughts on the changes we need?

Making energy cheaper

The Liz Truss team have said they want to ease the energy squeeze. They like the ideas of lower taxes and the removal of needless or excessively costly regulation. Energy would be a good place to start.

Let us consider first of all the £16bn or more cost of fitting a smart meter in every home for electricity. Indeed total roll out may well cost more, given the reluctance of almost half the population to have one and the troubles with how the early ones worked. The idea is to charge the mounting costs to all bill payers.

Whilst electricity is this dear why not pause the programme? By all means fit one where the householder is keen and applies willingly for one, but save all the promotional money and conversion costs where people need to be talked into it.

Then there are the green levies. It is a good idea to cease charging these direct to bill payers for a bit. More importantly going forward the grid controllers should only sign contracts for renewables that can deliver affordable energy without subsidy. This should be easy at current gas prices.

Large scale energy intensive industry has to buy carbon permits over an initial and reducing free allowance. Designed to cut fossil fuel use by industry, it can end up closing plants in the U.K. only to import more from abroad. The imports will often generate more CO2 than relying on domestic production given transport costs and more reliance on coal in China and Germany. So why not suspend this scheme whilst U.K. energy prices remain so elevated? How many high energy using businesses will we lose if we carry on with dear gas and carbon penalties?

Competition is the best regulator

Ofgem has left us short of generating capacity and too dependent on imports. It seems the Regulator has been reluctant to see security of supply as a crucial prime requirement. There had been competition between the retail energy suppliers, but competition between different ways of generating power has been regulated heavily around carbon dioxide issues rather than relying on cost and price unsubsidised to be the main determinant.

Ofwat has left us short of water. The introduction of competition has been limited to supplying businesses and to the provision of service rather than to the costs of collecting and cleaning water. There is no great problem with

moving to a competitive model. You would treat the pipe network as a common carrier with the company owners required to offer terms to other companies to use pipe capacity. The Regulator could adjudicate disputes. Oil and gas pipes are commonly shared under commercial contracts.

The railways can also benefit from competitive challenge. Were the government to return the railways to the private sector by creating regional companies that owned and reunited track and trains there would need to be means to secure regular use of track for freight trains and long distance passenger services which cross company borders. The Hull train service was greatly improved by allowing a new challenger to provide better services.

Competition introduces more capital, service and productivity improvements and innovation. Monopoly stifles these things. Regulated monopolies leave us short of capacity.

The public sector could save some energy to help us out

Facing a winter of scarce energy the public sector could help us out by cutting its own substantial demands. This would save us money as taxpayers and leave more the available energy available for the homes that most need it and to keep business working without rationing.

Councils could review their street lighting and switch it off at times and in places where few people are out and about to need it.

All government offices could ensure through controls or caretakers that all electrical appliances are switched off early evening to avoid evening and night power waste.

Government officials could keep in touch with overseas governments more by on line meetings, to curb the number of jet flights needed.

Temperature and time controls on heating and cooling systems in buildings should be adjusted down where possible

More insulation should be included in public sector buildings.

Lights should be turned off when people leave offices for the evening.

Paying for energy

All the time we need to import energy we are at the mercy of world prices for oil and of regional prices for gas and electricity. As we mainly import from Europe we are pushed into high prices by the chronic shortfall of energy provision on the continent. That is why I have been urging more domestic supply and trying to get us to pursue self sufficiency.

Policy has now changed to seek to produce more gas and oil at home, to keep open coal power stations pending new replacements, to revive nuclear and to examine commercial exploitation of technologies that would allow storage and time shifting of wind energy.

The solution to dear energy is to produce more cheaper energy. The immediate crisis prices come from a deliberate gas shortage in Europe caused by Putin's economic warfare. The policy of encouraging electrification of transport and heating will require far more electrical generation than we currently manage, so we need to think through the pace of introduction. When assessing the true costs of different means of generating power we need to take into account costs of stand by and back up power.

The immediate need is a further package of measures to cut the cost of energy by reducing energy taxes, and to provide some offset to the loss of spending power from the increase in gas and electricity prices. It needs to ensure those on low incomes are looked after. What would you like to see in that announcement?