

The energy package

Today we are told to expect a new energy policy. This note is based solely on press accounts of what the government may announce. There will be two different parts to it. The first is to tackle the underlying problem. We have too little domestic energy. We are too dependent on imports from an energy starved Europe. We need to produce more of our own oil, gas, hydro power, renewable energy and nuclear energy. We need to prolong the lives of those gas, coal and nuclear stations where it is safe to do so, as we wait for the new investment to go in and provide us with sufficient alternative supply. I look forward to bold steps to promote more UK onshore and offshore oil and gas, which will bring in substantial tax revenues, create more well paid jobs and lower the CO2 generated compared with importing more LNG. I look forward to decisive action to commission new nuclear facilities through smaller nuclear reactors, to explore the commercial roll out of more ways of storing and using wind power and to ensure the lights and heating stay on this winter and next.

The second part is the need for immediate action to deal with the cost of living and business crisis created by extreme price movements in the gas and electricity markets here and on the continent, affecting our imports. If the government decides on a comprehensive price control as a temporary measure this would indeed take the worst pressure off business and families and save many jobs currently threatened by unaffordable business energy bills. It will also bring with it a substantial bill for taxpayers and the state in the form of borrowings needed to subsidise the supply of energy below the cost of production and purchase. That is why the government needs to reassure markets and taxpayers that everything will be done to eliminate the demand/supply gap to bring prices down and to speed an elimination of price controls. Whilst they are in place the government will need to ensure it encourages investment in new energy supply. This requires prompt granting of licences, ending some of the penal taxes on the energy produced from new facilities and allowing contracts to supply that are reliable and make economic sense. Government itself needs to cut its own energy usage to show the way to reducing demand pressures on the currently limited supply. One thing that most people do agree about in this contentious debate is the desirability of more insulation of buildings and more fuel efficient machines and processes where these can be afforded.

So the important questions are likely to be

How will the government ensure proper incentives to greatly expand UK energy supply from domestic resources?

What can be expected of demand management in the public sector, and how can government help the private sector cut demand whilst still keeping warm and carrying out the work?

What controls will there be on the costs of this intervention?