

The energy shortage and cost of living squeeze

Dear Ministers

When you return from the holly and the Christmas pudding please attend urgently to the energy shortages. The gas price has shot up to very high levels and electricity is expensive. The price caps will be moved upwards sharply in April hitting people's heating and living costs badly.

It should come as no surprise. The price cap policy has bankrupted a large number of electricity suppliers. The policy of closing coal power stations, blocking more production of UK gas, failing to put in extra generating capacity other than wind and solar and relying more and more on imports was bound to lead to shortages and very high prices as some of us warned.

When thinking about how to abate the cost of living squeeze from dearer energy it is wise to remember the most basic lesson of economics. Supply and demand is balanced by market price. If something is in short supply its price rises in a free market until enough extra is produced. If something is in over supply the price falls until the surplus has been absorbed and production cut back.

If government sets a lower price than the market needs to balance supply and demand then there will be too little supply and a shortage. The government has to allow market prices to rise to bring forward additional energy. If it refuses to allow the suppliers to pass on the extra cost of the underlying energy then they will go bust unless the government subsidises them from taxes. Prices also of course hit or boost demand. On current policy energy will be worryingly dear for anyone on a lower income so government will need to boost their income somehow to make it more affordable. Taking VAT off fuel would be a welcome start.

The only reliable way to get the UK gas price down is to allow more domestic gas to boost supply. Much of this could then be offered as long term contract gas with sensible prices and price adjustments in the contract, to avoid more buying of very dear gas on an inflated spot market at times of shortage. The only reliable way to keep the lights on is to retain fossil fuel power stations as back up for when the wind does not blow and the sun does not shine, and to add more low or zero carbon generation from reliable sources that work in all weathers for the future.

There is also a crucial national security issue. Trying to rely more on gas and electricity imports from Europe gravely weakens our country. The EU is energy short and dependent on Putin's Russia. Energy will increasingly be used as a diplomatic weapon against countries that cannot be bothered to generate their own power and extract their own energy.