

One thing we have learnt this week-energy price freeze

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At the labour party conference this week, Ed Milliband announced an energy price freeze on gas and electricity prices for 20 months. This will happen if labour win the election whilst legalisation is put through parliament to create a new regulator and break up the big six energy suppliers. This has energy in the news, as it rarely is and a real debate going. The 4 billion pound question (literally) is, is this a good idea? The first thing to ask is how have we got there? The regional electricity and gas boards were privatised by Mrs Thatcher. Part of British Energy (nuclear) was sold off later. Essentially we have ended up with six energy suppliers (four being foreign owned - ironically by European state owned energy companies). There are apparently as many 80 small suppliers, but these have less than 2% of the customers. The big six have vertically integrated businesses i.e. they generate the electricity and sell it to customers. They have a reputation for colluding on prices, making excessive profits and having until recently a huge number of complicated tariffs. The regulator OFGEM (Office for gas and electricity) is rightly regarded as fairly useless. After privatisation the price of energy fell but this coincided with the peak in north gas production. The big six built a lot of gas powered power stations so the price of electricity fell. The amount the consumer compared to incomes spent on energy also fell in line with this gas production. By the way an excellent background to this can be seen here at ["Make Wealth History"](#). However, since 2004 as gas production started to fall prices have risen. In 2004 I was paying 6.8p/unit for electricity (which had not changed for years) and about a penny a unit for gas*. Now I'm paying 16.4p/unit for electricity and 5.06p/unit for gas. In 2008 wholesale electricity prices soared as gas prices linked to the record oil price soared. Most of the price increases in my bills have taken place since then. In 2011 my gas bill went up by 30%. There have been only modest drops in bills since then which have been more than made up for by subsequent increases. Right wing commentators try to blame increases on renewables, but the bulk of the price rises are due to the fact that we have to increasingly buy gas on international markets. Back to our original question. Is this a good idea? The first thing is to say as a labour supporter I can see where the party are coming from. I slightly disagree with "Make wealth history" about the implications of the % of consumer spend being lower than it was 40 years ago. Energy is both too cheap and too expensive. To explain, I once went round to one very wealthy family that used to go my church, every light was on in every room (occupied or not) in every house plus a number of coal effect electric fires. For this family energy was clearly too cheap. However, every article I read or see on TV about food banks brings the price of energy into the reason why so many families (often working) are struggling with their bills. It not just the price of energy that has soared but also food as well. For millions of people the price of energy is too expensive. Despite this I'm worried. My concerns about this policy are as follows;

- The big six will push up prices more in the next two years if they think labour can win. This will clearly undo the good the policy is meant to do. There is little the Labour government could do about this except legislate for a price cut? There is a danger at the end of the 20 month period that prices could increase dramatically, although the idea is to use this period to tighten the regulation when the freeze is over so that price increases are smaller and more in line with costs.
- Related to this what if there is a big increase in the wholesale gas price over this 20 month period? Ed Milliband is reported as saying today that the companies would be allowed to increase their prices if this happened.
- There are all sorts of dire warnings about companies leaving these shores and the lights going out etc. due to this policy. These can be ignored. In fact two of the big six have cheekily started offering price freeze deals until 2017 today! One put their advert thus "Don't wait for Ed... ". Just slightly undermining their arguments. If there are blackouts in this period its because of what's happening now. At the moment companies are closing coal fired plant and not investing in enough new capacity. There is distinct reluctance to build gas storage (two schemes dropped this week) and invest in any new gas powered generation (not a dramatic endorsement of shale gas). Companies are desperate not to use gas to generate electricity since its too expensive. Hence a big increase in imported coal from the US and electricity from Europe over the last year. On-shore wind is getting so much resistance in planning that very little is being built. OFGEM have already warned that the lights may go out. However, anything that creates uncertainty for long term energy investment cannot be welcomed. This may make the lights more likely to go out *after* 2017.
- We need to de-carbonise our economy for both climate and energy security reasons. How does fit in with a price freeze? Labour say almost half of new energy investment is not from the big six and in any case the present governments guaranteed prices "contracts for difference" will give certainty on investment decisions. (This is

certainly true of PV which is booming judging by the first six months figures for 2013.) It seems to me that this would introduce more uncertainty though and hence reduce investment in renewables.

- What about energy efficiency? There is only one way to get people to conserve and that is higher prices. We badly need a huge programme of home insulation etc. At the moment renewables are becoming more and more viable as their prices fall and energy prices rise. Freezing or lowering prices will make this trend slower.
- Its missing the point. The days of cheap energy are behind us permanently. Governments, consumers, business and energy companies have yet to accept this, much less come up with a solution. There are a number available but the best way of protecting the poorest is in our view is the introduction of Tradable energy quotas (or TEQ's). This is described in some detail in our book but in my view this (or something like it) will have to be introduced.
- This investment uncertainty will be heightened by part of Milliband's announcement that has been almost completely ignored. However, this is something I think is essential- that is breaking the big six up. At the moment all them generate electricity and then sell it to themselves then us (this is less true of gas). I'm with one of the 80 tiny energy suppliers but their billing is handled by one of the big six, according to this big six supplier via my bill, they only make a 3% profit on their electricity. However, this ignores the generation profits. Separating the two sides of their business would introduce competition and transparency and would in my view lead to modest falls in prices (or at least slower increases). It would also allow new entrants to the market (the other 80) to get their hands on gas and electricity at reasonable rates and grow.

Does this mean there is no need for our book. By no means. The energy crisis also involves transport, food and materials. The price of these is rising and will be unaffected by any price freeze on electricity or gas. To summarise I can understand the reasoning but think this policy idea is not going to achieve what its meant to and is bypassing the issue. Could be good politics in the short term though... * gas rates were always more complicated because there were several rates depending on how much you used. Neil

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