One thing we have learnt this week – cost of energy review

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The energy economist Dieter Helm was asked to lead a "cost of energy review" for the government. This has just been published. His terms of reference were to work out ways of decarbonising the energy system whilst having cheap energy.   This a few years ago looked like a contradiction in terms and indeed still maybe as I will come to later. He says that the cost of energy has fallen markedly over the last few years and we are not seeing the benefits of this. The reasons are; "*because of legacy costs, policies and regulation, and the continued exercise of market power.*" Legacy costs means things like the FIT and the renewable obligation. His solutions? "*The most efficient way to meet the CCA target and the carbon budget is to set a universal carbon price on a common basis across the whole economy, harmonising the multiple carbon taxes and prices currently in place. This price should vary so as to meet the carbon targets. It would be significantly lower than the cost of the current multiple interventions.*" There would be a border carbon price to cope with the fact that we had introduced such a thing unilaterally. The cost of energy review goes onto say that there should not be a price cap but standard variable tariffs should be done away with. The FIT should be phased out (I assume going forward rather than retrospectively). What was encouraging was the Professor Helm who used to be sniffy about renewables was very positive about them when interviewed on the radio about the cost of energy review report tonight. He thought electricity was going to be very cheap and was worried the current energy costs would put people off renewables. This is only true if we can meet the demand for electrifying the economy. Neil

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