

Rising energy costs

Centrica have rounded off the season for the Big six energy companies to increase prices with a substantial inflation busting rise of its own. This is bad news for consumers, and will sustain a higher inflation rate than is welcome for a bit longer following the impact of higher oil prices on our inflation earlier this year.

There is general agreement amongst political parties that these increases are undesirable. There is also some measure of agreement that the companies need to be made to try harder to keep the costs under control, with continuing discussion of regulatory action to sharpen competition or to broaden the scope of price controls or caps.

What is less discussed by the politicians is the impact of their own policies and actions on domestic energy bills. The main rises this year have come on the electricity part of dual fuel bills. According to Ofgem 14.9% of the typical electricity bill is now to pay for environmental and social costs imposed by the EU and UK government. There is the renewables obligation, the energy Green deal, EU targets, the carbon floor, the Warm homes scheme, feed in tariffs and smart meter promotion costs, adding up to a substantial sum. As more and more of our power is generated from renewables with the necessary back up we should also expect wholesale electricity prices to rise.

The government has passed the issue over to the Regulator, pointing out that they have powers to control prices or stimulate competition. The Regulator has rightly warned that introducing a general price cap might lead to a reduction in investment at a time when we need to expand our potential electricity capacity. Threats of price caps tend to encourage companies to raise their prices as much as possible in advance of the imposition of one, and have led to sharp increases in prices in some countries that have tried them when they have been removed.

The new team at the Energy and climate change department need to think through with the electricity industry our needs and the impact of both government and company policies on prices. As readers of this site will know I want to see more and cheaper energy, both for domestic consumers and for industry. The most important thing the government could do for an Industrial strategy would be to pursue a policy of cheaper energy that requires rethinking much of the present complex energy policy, which contains so many interventions, some now seeking to offset other interventions.