

With gas and electricity prices rising and dark talk of power cuts during what is predicted to be a freezing winter, what has happened to Britain's energy policy? The Yorkshire Post mounts a week-long debate with a series of special articles.

Dan Lewis

BRITAIN'S current energy woes didn't start yesterday. They are a culmination of mistakes and missed opportunities over the last decade, if not longer. Dr Dieter Helm, of Oxford University, Britain's foremost energy-policy expert, calls this period one of "benign neglect". Yet others like myself are less kind. This might better be referred to as the decade of myopic bureaucratic inertia.

With energy policy, as in so many other areas of government, Labour arrived on the scene with a fairly rosy situation. Yet instead of making improvements, it created a giant bureaucracy, designed multiple targets, became obsessed over the detail and completely missed the big picture – security of energy supply trumps everything else, every time.

So how did this come about?

In 1997, Labour inherited a fairly stable energy outlook. Electricity prices were low and about to get lower. NETA, the New Electricity Trading Arrangement, which to its great credit, the Blair Government introduced in 1998, brought about greater competition between electricity producers, thus lowering prices to the consumer.

Britain could also call upon cheap and abundant gas reserves in the North Sea. Consequently, the gas network continued to be rolled out across the country, in what was known as the dash for gas.

Externally, the situation wasn't bad either. Apart from a low-level war in Iraq, peace looked feasible in the Middle East, Chinese manufacturing was not yet sucking up global commodities and the oil price – to which gas and hence electricity is closely linked – was \$10 a barrel and forecast to go even lower. This was the new energy economy. Good times were here to stay.

Then changes started to occur – some uncontrollable, such as the surge in global oil prices, but others through the Government's new focus on climate change and a taking for granted of existing conditions.

For a very long time, most policymakers had agreed that there were just three priorities to energy policy: it must be secure, clean and affordable.

No one, however – except Norway and Iceland with their huge reserves of hydro and geothermal power – had achieved all three. Nor was Britain ever going to do so in the short to medium term – the next 30 years or so.

Yet New Labour – with the full backing of received opinion – slowly started to add in more priorities. And ever so slightly, compounded over time, its eye went right off the ball.

While ignoring long-term strategic decisions on nuclear power and future gas imports, a new emphasis was put on defeating fuel poverty.

Energy policy was now to become an extension of the welfare system.

It was absurd to think that you could solve welfare problems with energy policies, but received opinion went along with it, inevitably raising the costs, for all of us, and further distracting the Government's attention.

Then came the groundbreaking and since much-derided target of achieving 10 per cent of electricity through renewables by 2010.

There are those who would argue that we don't want any renewables at all. I disagree.

Viewed from a rational economics perspective, if the price is right, we should be ready to say yes.

As I wrote in *Recharging The Nation – The Challenge and Cost of Increasing Renewable Electricity*, a 2003 publication for the Economic Research Council, windpower was the only renewable option available in scale and was by far the cheapest of the lot.

Indeed, if the existing 17,000MW of windfarms in planning were to be approved – and they won't be – then meeting the 2010 target becomes easy, at least by 2013.

The real question about windpower, however, is why do the producers need subsidies so high that the annual return is approaching 25 per cent?

Yet at the time and even more so with hindsight, what astonished me was how much government bureaucracy there was surrounding UK energy policy.

Take government departments, for example. As energy policy became indivisible from environmental policy under Tony Blair because of climate change, the Department of Trade and Industry and Defra found themselves fighting a turf war between each other.

Indeed, it has often been said that the two Ministries' civil servants are sometimes barely on speaking terms.

There were also other government outfits sprouting up, fighting smaller turf wars: quangos, both super and small, a complicated bureaucracy for renewables-obligation certificates, a regulator in Ofgem and multiple mirrored outfits on a "regional" level.

Here, the Government missed an opportunity to rationalise the lot and set up a single energy department.

Yet none of this bureaucracy, nor the renewables expansion, could prevent what was about to happen – the emerging energy gap.

It had been thought, in a report from the Cabinet Office in 2002, that retiring nuclear and coal plants could be replaced by a mixture of gas, renewables, and energy efficiency.

How wrong they were. Energy efficiency, in particular, is nonsense. Measured by economic output per tonne of oil equivalent, Britain is extraordinarily efficient.

Advocates of efficiency as a panacea fail to understand that energy and the underlying capital saved is merely spent somewhere else, which inevitably involves the consumption of energy. Somehow, the Government had failed to understand that, like all industries, the climate for energy has to be favourable to investment – for all types of energy.

Britain's policy framework had succeeded in bringing down prices for a while, by sweating the underused assets dating from the Sixties and Seventies. Yet there was no reward for the long-term investment that would be needed to replace existing coal and nuclear plants. Bizarrely, Peter Mandelson, when he was in charge of the DTI, imposed a moratorium on the construction of gas-electricity plants – quickly rescinded after he left.

All in all, in the last few years, the only new power stations that were being built were windfarms. And while they are part of the solution, no one seriously believes that these could be a full-scale replacement for all the nuclear and coal assets of this country in the timeframe required.

Meanwhile, today, we have been left over-exposed to gas, whose price per megawatt-hour is now not only more expensive than coal or nuclear, but even than a fully subsidised wind turbine.

The next 10 years promise to be the most difficult yet. Combining rising environmental goals, economic realities and ever increasing demand will never have been harder.

Dan Lewis is research director of the Economic Research Council and director of environmental affairs at the Stockholm Network.