

## **The Energy Crisis and Likely Consequences**

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Some issues seem to emerge with speed leaving everyone, including government, struggling to keep up. The crisis, caused by the wholesale price of gas having increased by 70% since August which, though significant, is dwarfed by the utterly whopping 250% compared to January, is producing a number of consequences.

In markets, increasing in demand or a fall in supply normally results in the price of a commodity. However, when both simultaneously occur, as has occurred recently with respect to gas, it's hardly surprising that its price has spiked.

Looking at the graph showing the international wholesale price of gas for the last five years demonstrates that, with the usual fluctuations that are expected between summer and winter, there's been relative stability.

That was, until this year when the upward slope in the price of gas become almost vertical.

Little wonder that the market for energy providers in the UK which, prior to the current crisis, consisted of about 30 companies (it was as high as 70 in 2018) is expected to be even more diminished by smaller operators, who've not sufficiently 'hedged' against price increases and don't possess adequate financial resources to survive, go out of business.

As well as causing distress to customers who, under Ofgem, the Office of Gas and Electricity Markets, the government regulator for the electricity and downstream natural gas markets in Great Britain, are automatically moved to alternative suppliers, will mean far fewer competitors.

Some commentators reckon that there may be as few as ten providers when the crisis abates. Some pessimistically predict the energy crisis may be so severe as to result in only the 'big six' dominating the market and, as was the case previously, maintained higher prices than has been the case in recent years. According to Bill, Hill and Atzori (2021) the 'big six' supplied 99.5% of the domestic energy market in the U.K at the end 2010. By the end of June this year, these six providers' share had fallen to 69.1%.

As always in any crisis, warning signs apparent for those knowing what to look for. However, the government claims it, like the majority of us, were blindsided. This has been proven to be untrue.

During a debate on the energy crisis in Parliament on Thursday, former Labour Leader Ed Miliband, the Shadow Business Secretary, accused Kwasi Kwarteng, Secretary of State for Business, Energy and Industrial Strategy of complacency and, in particular, ignoring an explicit warning to him in March 2020.

Miliband pointed out that a letter sent to Kwarteng on 26th March last year by Ofgem's Chief Executive, Jonathon Brearley, warned of "systemic risk to energy suppliers" and that urgent intervention was needed need to achieve greater stability. As recent days are proving, this warning was not heeded.

Undoubtedly that this letter coincided with the commencement of the pandemic and the first 'lockdown' announced by PM Boris Johnson on 23rd March did not help. However, what's become all too apparent is the lack of resilience in the way that energy provision is achieved in this country

and which is resulting in the price customers will have to for gas and electricity (a proportion of which is generated by gas) to increase dramatically.

Significantly, Kwasi Kwarteng in a response to Labour's Matt Western in Parliament, who asked why current UK storage capacity for gas is 2% of annual demand rather than the 25% average for Europe, appeared not in the least contrite in having ignored the warning received over 18 months ago:

*"Only yesterday, there was a conference of EU energy ministers to discuss this very problem. It is not a function of storage to be able to mitigate a quadrupling of the gas price. This is a complete red herring. And one of the reasons why we have less storage is because we have a greater diversity of energy supply. That is a strength, not a weakness."*

This is all very well but does not answer the question of how the current crisis will be resolved? As we're discovering to our collective cost, diversity is fine until vital parts do not work as intended. For starters wind generated electricity, seen by Boris Johnson as vital for future provision, relies on it being windy. We've had a summer that's been the least windy since 1961 meaning a drop in electricity generated.

Add in a fire in the cable connecting us to supply from France last and there has been even less electricity available than normal. Having reduced storage capacity in gas, used to generate electricity when needed, because it was colder than normal last winter, has meant we are in a precarious situation and at the mercy of the international market.

The sense that this is a government seems increasingly accident prone is gaining currency. Indeed, that carbon dioxide is essential to so many sectors inter alia, slaughter of animals, food preparation, fizzy drinks, transportation of chilled and frozen foodstuff, particular types of surgery and to keep nuclear power stations sufficiently cool, has probably come as a surprise to many.

It should not come as a surprise to any government elected to protect our interests.

Equally, that over 60% of a carbon dioxide which, until this crisis, was demonised because of its effect on the climate, is produced as a by-product of the manufacture of fertiliser by one American company, CF Industries, should have been something the government were aware of. Because the increased wholesale price of gas has made production of fertiliser a loss-making activity (see Dempsey and Terazono, 2021), has meant CF Industries decided to halt production, effectively cutting off supply of CO<sub>2</sub>.

In order to avert the current energy crisis becoming one in which food runs out, has forced the government to intervene to subsidise CF Industries' increased fuel costs, something it signally refuses to do to save small energy providers. It's estimated this will cost the taxpayer £50 million (Allegretti, 2021). As Ziady reports for CNN News, without such intervention, we'd experience food shortages within two weeks ((2021).

There are already predictions that the increased cost in CO<sub>2</sub> will cause food prices to rise. Ominously, the cost of fertiliser will rise making crops more expensive to grow. The price at which farmers can sell is determined by international market rates and unless these rates are raised next year there's a distinct possibility some farmers, possibly already suffering from problems caused by the pandemic, may be forced into bankruptcy.

If the overall situation were not bad enough, there's a warning that unless more Heavy Goods Vehicle drivers are urgently recruited by, for example, recruiting them from Europe, there will be

panic buying of food making Christmas much less festive than normal (Makortoff, 2021; Willems, 2021).

As Millard reports in the Telegraph, oil giant BP is already rationing fuel deliveries to some of its petrol stations because of inability to employ drivers to achieve sufficient deliveries to all its forecourts. Additionally, drivers of council refuse trucks may be tempted to leave by high wages offered elsewhere potentially creating a public health crisis if waste is not collected.

One wonders what will go wrong next.

Crucially, this is a government which achieved power promising to 'get Brexit done'. It achieved this objective on the basis of the hardest of deals possible apart from, of course, leaving with no deal. Falling out with your neighbours when you need them most is not usually sensible.

Beyond the simplicity of soundbite political messages from the Prime Minister and allusion to Kermit the Frog at the United Nations to exhort more action on climate change in advance of the Cop26 Conference, taking place in Glasgow in early November (Peat, 2021), there's little of substance.

For many, perhaps millions, there's the distinct possibility of having to choose between food and heat this winter. Those on fixed income will be hardest pressed. Families losing the £20 universal credit pandemic uplift will be especially hard pressed.

Such dilemmas become real and present for those affected and promises of 'jam tomorrow' are meaningless.

Though concern about fossil fuel emissions may be driving the 'green revolution', significant and radical transition will inevitably take many years. There can be no quick fix to this problem.

Ironically, as well as increased use of coal-fired power as a short-term solution, the high price of gas may drive exploration of the North Sea which become economically viable. This would contribute to increased burning of fossil fuels.

As Taylor (2021), reports, Will Webster, energy policy manager of OGUK (Oil & Gas UK) informed CNBC by email that "OGUK predicts that UK North Sea output will roughly halve by 2027 unless new fields are opened, making the U.K. even more reliant on imports."

Dealing with the current energy crisis will remain the greatest immediate challenge though the conundrum of resilience won't be solved anytime. There's a danger cognisance of the exigencies of addressing climate change may be sacrificed.

For UK citizens, however, the immediate concern is more pressing and there is an expectation of assistance to avoid a massive increase in 'fuel poverty' and use of foodbanks. Poverty is bound to rise with the consequential impact on the most vulnerable.

Unsurprisingly, the current government's fanbase is declining in inverse proportion to the price of gas and not just among those immediately affected.

In a leading article in this week's Spectator (2021) which Boris Johnson used to edit, there's an excoriating critique of the government's energy policy. The final line of this article eaves no doubt it is not impressed that though reductions of greenhouse gas emission should remain a legitimate objective, energy security and economic growth must be the "first priorities":

“As things stand, they are treated as an afterthought. We have caught a glimpse of the results this week. The Prime Minister has high hopes for the COP26 summit but he should be prepared for other countries to see, in his energy policy, an example of what not to do.”

One suspects the pressures of being PM are going to become even more intense for Boris Johnson in coming months and that vague promises to ‘level up’ will no longer be sufficiently seductive to ensure voters maintain their trust in him or his government.

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