

Imports and green energy will drive power prices sky high

As millions of us settled down over the Christmas break with cups of tea to watch the re-runs on telly, we should spare a thought for all the energy that is being used. If the government has its way, the festive season could have become very expensive indeed.

Barely a week goes by without headlines on grim predictions of power cuts over the winter, but the real story is not about blackouts. It is that electricity and gas could soon become very pricey.

Wholesale electricity prices have been rising and this has convinced many power companies to bring mothballed plants back on stream. So there will not be a shortage of supply. But Britain is on the verge of changing the way it gets its energy, and this is what will lead to bigger bills.

Stephen Timms, the energy minister, has been in the job only a few months but can already see this. "The whole shape of energy generation will change so there are big implications for infrastructure. We are not going to be self-sufficient in energy and we need to deal with that. We are going to be vigilant on the price front but there will be pressure on prices," he said. There are two principal issues. First, Britain's North Sea oil and gas are running out and, while smaller exploration firms are doing their best to extend the lives of fields, the huge finds of yesteryear are over. Timms said a new gas pipeline will connect Britain to Norway and, from 2006, it could supply up to 20% of the country's gas. Russia could also become a supplier one day. "The key thing on gas is that we have a diversity of sources of supply," he said.

Changes in the way Britain obtains its energy could drive up wholesale prices by 80%.

An even greater influence on the future cost of energy is the government's desire to fulfil its obligations under the Kyoto agreement on climate change. It has demanded that generators take 10% of their power from renewable sources by 2010. The intention is to raise this to 20% by 2020.

To achieve this, a "carrot and stick" arrangement has been put in place, including caps on emissions from big business, through carbon-emissions trading, to encourage generators and companies to back green energy schemes.

Only last week Timms announced the biggest expansion of green energy anywhere in the world with the second phase of offshore wind farms. More needs to be done. Developers looking to build wind farms in Scotland — which is among the windiest parts of the country, have been angered by attempts to get generators in remote areas to pay more

to transmit their power. They claim such an imposition could scupper a significant number of renewable-energy projects being planned by Scottish Power, among others.

Early estimates suggest that connecting this vast array of new projects to the national grid will cost about £3 billion. That figure does not include the billions of pounds that will need to be spent on building renewable-energy projects in the first place — and it will be the taxpayer who eventually picks up the bill. While nobody would argue against the government's sentiments, big business is already up in arms about the potential cost. In a letter sent last month to chancellor Gordon Brown, the Energy Intensive Users Group, which represents large manufacturers, said: "The greatest worry is over the likely impact on electricity prices. You will be aware of the various estimates of possible price impacts in circulation, some suggesting increases in wholesale power prices of up to 80% on average across the EU.

Such an outcome, if not also experienced by our competitors, would critically damage the competitiveness of energy-intensive manufacturing in the UK and simply result in a transfer of industrial emissions to other parts of the world, not in their reduction."



And what if the rest of the EU does not follow suit? While the EU has trumpeted Kyoto, alarmingly, doubts have started to creep in that it not will stick to the pact if Russia does not sign up too.

At present, Russia, like America, has resisted the agreement because it would stunt its economic growth. Loyola de Palacio, EU energy commissioner, was reported to have said earlier this month that it would be "suicide" for the EU to sign up without Russia being on board as well.

This, of course, says nothing about the effects on ordinary consumers, who have already seen their bills rise in the past few months as wholesale prices have gone up. While manufacturing will take the brunt of the price increases, consumers will feel the heat of bigger bills and many are already wondering how much the government will want to push up bills as it heads towards the next election, which could come in 2005.