

Oil, gas and energy pricing: additional material

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I posted a thread on energy pricing on Twitter yesterday [and shared it here](#). At the time of writing, this has been viewed by more than 1 million Twitter readers, has had more than 10,000 likes and more than 5,000 retweets. Over a thousand people have followed me on Twitter. Many of them have asked questions. I can't answer them all, so I posted this new thread in response to questions this morning. It has to be read [as an addition to yesterday's thread](#):

ADDITIONAL MATERIAL ON SUNDAY 13 MARCH. Thanks to so many who have read this thread. I can't answer all the questions individually so I am doing to post some additions to the thread to clarify some issues.

First, to all those asking about the extra standing charges they are paying, which are often double this year to what they were last. I can't see how these can be justified. In my calculation, I assume they should be fixed.

If standing charges have increased for a reason then the energy companies need to say why, and precisely what and who is to blame. If it is Brexit, say so. If it's poor regulation, say that too. But explain it so we know who to demand change from.

Second, it's been suggested I do not appreciate the split between energy creation / generation and energy distribution companies. I am confused by this claim. I thought it obvious from what I have done that I have made this split.

I have done a bit more checking though and think that I was, maybe, generous in assuming 10% profit in oil companies. Some don't make that. But all that means is that their profit increase is even bigger. The logic remains intact, in other words.

Third, some say I am ignoring the economics of scarcity here, and that the price rises are justified that there may be 11% less oil and gas supply in the world if Russia is cut off from supplying that oil and gas to Europe and beyond.

I have several responses. One is I guess I know some economics or I would not have been a professor of political economy for five years. Two, theories of economics are just that i.e. they're theories about how pure markets work.

Pure markets say scarcity increases prices. Political economy says something different. It says that those with power can influence markets, for better or worse. In other words, what economic theory says can be changed in reality, but it takes the powerful to do so.

Right now the powerful in this game appear to be the oil companies. They are exploiting us all to make exceptional profits. That's what my evidence shows. However you play with the numbers the answer will always be the same: they're exploiting this situation.

My answer to that is that for well over a century governments have challenged the power of those exploiting markets and the power they give to large companies to make profit at the expense of everyone else. This is a process that began in the US, surprisingly.

In the US they have what are called Antitrust Laws whose whole purpose is to prevent the exploitation of consumers by companies in the marketplace. My argument implicit in this thread is that this is what governments around the world need to be doing now.

More than that, I'm suggesting that if we want to stop Putin winning by making sure millions of people don't demand the end of sanctions on him because those sanctions lead to them being exploited by energy companies then we need cooperation now to end international exploitation.

Political economy says we can do that. We can reallocate energy supplies between nation states to stop the risk of energy rationing in some. We can use international tax laws - including some I helped create - to track down the profits of energy companies and tax them.

And we can also impose taxes on energy companies at home. There is a straightforward case for a massive increase in taxes on energy companies right now - to be applied to their excess profits, but nothing more.

But more than that, there is something else the government can do. Ofgem, a UK government regulator, does in effect set UK electricity prices. And it, in effect, prices that energy at the cost of the highest component element in the energy mix - which is gas.

What this means is that even though most electricity is not generated from gas in the UK, we pay for it as if it all is. So the price has skyrocketed even though we all know that the cost of creating renewables, nuclear, hydro and even coal power has not changed.

The government could change that regulation now and bring down electricity prices overnight. France provides evidence that this is possible.

Just as the government could also keep green levies fixed (but very definitely keep them, please). It could also cut the rate of VAT so that it takes no more money from us now.

However, none of these things, all of which are possible in the political economy, are happening. So there is a failure of our politicians to stand up to the power of energy companies here, nationally and internationally. And I am calling that out.

Finally as an addition, I know - and said - that the numbers may be a little simplified, but not much. But I would add, that's just fine. I am showing what can and cannot be controlled, and by who, and I am showing who is exploiting us. And that is deliberate.

This thread is in itself an exercise in political economy. Using the power of logic - and everything I have argued is logical and subject to minor simplifications likely to be as close to the truth as is needed to prove a point - I can show we're being exploited.

That's my aim. I want to use the power of Twitter to say that something different to what we are told is inevitable is in fact possible.

What could be different:

- ~~1) VAT could be cut~~
- ~~2) Excess profits could be taxed~~
- 3) The pricing formula used by Ofgem could be changed and the price of electricity could be cut, a lot
- ~~4) Standing charge increases can be challenged~~
- 5) International cooperation is possible.

What can you do? First, share this.

Second, write to your MP and ask them:

- 1) Why the govt can't cut the rate of VAT on domestic energy to control prices, when Brexit permits this;
- 2) Ask why we can't have an excess profits tax on energy companies;
- 3) Ask why Ofgem can't change its electricity pricing formula.

Third, tell your energy company you are not happy. Ask them what they are going to do about this. Post the answers on Twitter.

Exploitation is not acceptable is the message we need to deliver. And right now we are being exploited.