

Why is electricity a rip-off?

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The UK has some of the highest electricity prices in Europe — and it's not because energy is scarce.

In this video, I explain how electricity pricing actually works, why gas prices set the cost for everything, and how a flawed system is forcing households and businesses to pay far more than necessary.

This is not an accident. It is a policy choice — and it could be changed.

(And note that I was delighted to hear Zack Polanski talk about this issue in his recent speech to the Green Party)

https://www.youtube.com/watch?v=F_lu4-Vdrds?si=WBSLPM9E7iZ_l8ar

This is the audio version:

https://www.podbean.com/player-v2/?i=gbmqm-1a775aa-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

We have an electricity price crisis in the UK right now, and what we know is it's going to get much worse. The war in the Middle East guarantees that.

We have a problem, that we pay the highest prices for electricity in Europe in this country, and that's crippling our households, it's damaging our industry, it's holding us back, and it's ridiculous because the government could change the rules on electricity pricing, and it won't, and that is their fault, and no one's talking about it, so I will.

Let's talk about how electricity prices in this country are set. This is a difficult subject. Let's be clear about it. Nothing that follows from this is going to be immediately obvious, so please bear with me.

What we have are a range of producers of electricity in the UK: wind power, solar power, nuclear power, we used to have coal power, but we don't anymore. We do have hydropower and we do, of course, have gas-fired power stations.

Now, at any point in time, our regulators require that electricity be bought from all these producers to ensure that the supply to you and me, industry, and everyone else is going to be met. So what do they do? They go out into the market, and they look at who is offering them electricity at a price at a point of time. That price does vary almost by the minute, by the way, because it depends upon how much is being produced from which source, whether the sun is shining, whether the wind is blowing, and so on.

So they have to make a decision as to what they're going to buy, and they do. They buy the cheapest power first. They go into the market and say, "Let's buy some wind. Let's buy some solar. Let's buy some hydro. Let's buy some nuclear, because the government wants them to, let's buy some gas-fired electricity as well." The point is that it's almost invariably that last supply, which is the most expensive. Gas-fired electricity is really expensive to produce in the UK right now because we're importing most of the gas, we pay international prices for it, and as we know, international prices have been very high.

So what we know is the regulator buys electricity at lots of different prices, and each of those prices is enough for the generators of electricity to make a profit. If it wasn't, they wouldn't be trying to sell it. So you would then expect that the regulator would put all this electricity, bought at different prices, into a pot, mix together the sources, and come up with an average price across the whole range, which they would charge to us for the electricity that they are making available. That would make sense, wouldn't it? Every single generator would get a profit. We would get the lowest price possible.

That is not what happens. I could go into the theory that explains all of this, but it is a bit tedious. It's all based upon the microeconomic theory of the firm, and it assumes that every single firm in a market is the same, even though, as I've just explained, in electricity, that is not the case at all. But because the regulator assumes that all firms in the market are the same, and they assume that the last person they buy electricity from is the person who sets the price, they charge us the price for the most expensive electricity they buy.

In other words, we have to suffer the cost of gas-generated electricity, even though most of what we use comes from solar power, wind power, hydropower, or nuclear power.

Now, the point is we therefore pay the maximum price and not the minimum price we could pay for electricity, and the government has chosen to do this.

What's more, it's chosen to do this even though the government has already guaranteed the price to solar power operators, to wind power operators and to nuclear power operators, because all of those generators require a guaranteed price to encourage them to come into the market in the first place.

Therefore, the lower prices that they charge than gas are the ones that are known to be available. That price could be passed on, and it would be fair. But no, that's not what happens. The regulator charges us the price of gas-powered electricity production, and that makes no sense at all. We are literally being taken to the cleaners for the sake of a failed regulatory system here, which charges the maximum price and not the minimum price possible.

Why are our politicians not talking about this? That is a really important question. They assume that there is this competitive market. All our politicians for the last 45 years have been neoliberals. All of them assume there are competitive markets, but in this case, the facts fly in the face of that. Let's be honest, there is no competitive market in electricity at all. The electricity system doesn't in any way resemble the assumptions of the model on which the pricing is based. We should instead be looking at what's actually going on, including these guaranteed government prices paid for electricity from solar, wind, and nuclear, and the fact that we don't need to price electricity at the price of gas-fired power station-generated power because that is only a small part of the market. On average, less than a third most of the time.

So what could we do?

The point is this: we could be doing something very different.

We could have the government change the regulations. Yet again, what we're suffering is failed regulation here.

They could decide that we should be in the situation where electricity prices will be based upon the average cost of generating the electricity used at a moment, rather than the maximum cost of electricity generation at a moment. In that way, we would get the gains instead of electricity companies getting the gains.

The whole system is rigged in favour of either the government or the electricity companies in this case, and the result is that public trust in the energy system is falling, and public trust in the green transition, which is an essential part of this process, is also

falling, and we're all facing household and business costs, which are far too high.

It's time to throw out this stupid microeconomic theory that is imposing this cost upon us.

It's time to have an effective regulator.

It's time for the government to get off its butt and do something about this.

It's time for electricity prices to fall.

How much could they fall by? Oh, 20% to 25% would be easily possible. In this case, there would be no net cost in most cases because the government would simply not make the difference between the excess price that we are being charged and the price they guaranteed to the producers of solar, of wind and nuclear. All of it would give rise to a public benefit, and the government would be winning in popularity, but it won't.

This makes no sense at all.

We are suffering from a bad policy choice. Changing that policy choice would allow us to have cheap, renewable electricity now at lower prices.

This is, to me, the core decision the government has got to take with regard to energy policy at present.

It isn't what makes power that matters at the moment. It's the pricing system that is imposing the whole penalty upon us. We have to have a new pricing system for electricity that reflects the reality of the world we live in.

Why won't our ministers see that? I don't know. Write to them. Tell them you are angry. Tell them to charge the average price of electricity production to us, the consumer, because we get a better deal as a result. Do it and let us know what you think in the comments below. Tell us what you think about this video. Please share it. Please subscribe to this channel. Get the debate going. Tell ministers it's time for a change.