Will Labour’s energy price freezes put the lights out?

Submitted by: EDW Technology
Tuesday, 22 October 2013

Labour leader Ed Miliband may have scored plenty of points amongst an electorate concerned by rising energy bills with his promise to freeze prices if the Labour party takes charge of the country at the next general election. As a crowd pleaser, freezing energy prices was a sure-fire winner, especially as figures such as household savings of an average of £120 and an even more tempting £1,800 saving for businesses over the 20-month period were bandied about.

The party leader said that the proposal would cost the energy firms an estimated £4.5bn. But that’s a figure that the energy industry believes is a massive under-estimation.

While energy price freezes may find favour with voters, the idea certainly hasn’t had a warm reception from the suppliers, who say that the proposal is nonsense and could lead to increased pressure on an already overstretched system. Last winter Britain came within just three hours of running out of gas, as it only has storage facilities for 14 days supply. In Germany and France the capacity is around 90 days.

Making unsustainable promises to the ‘squeezed middle’

The result of Mr Miliband’s unscripted speech and has been a major slanging match between politicians and the Big Six, who say that while it’s nice to be able to promise price freezes to the ‘squeezed middle’, the truth is that those promises are being made on the flimsiest of evidence and do not take into account the genuine cost to the industry. The result, some fear, could be that the lights will actually start to go out if Labour gets in and has its way.

Miliband’s promise to curtail the power of the Big Six was met with counter-claims from within the industry that his policy would put at risk investment in new power stations, as well as delaying the move towards ‘green energy’ as an alternative to fossil fuels. British Gas parent company Centrica summed up the mood of the industry succinctly, and claimed that it may even be forced out of the UK market completely if a freeze was brought in. “If prices were to be controlled against a background of rising costs it would simply not be economically viable for Centrica, or indeed any other energy supplier, to continue to operate and far less to meet the sizeable investment challenge that the industry is facing,” Centrica said. “The impact of such a policy would be damaging for the country's long term prosperity and for our customers.”

Not thought this through…

The general consensus within the Big Six and with wholesale energy experts in general is that the Labour leader is writing election cheques that the country really can’t cash. “It’s nice to make these doorstep promises to your potential voters, but in this instance I and many others in the business believe that Ed Miliband really hasn’t thought this policy through,” comments Graham Paul, Service Delivery Director of electricity software providers and consultants EDW Technology Limited. “With capacity nearly at full stretch already and no room for manoeuvre, such a price freeze could effectively turn the lights out in the UK and put the breaks on future investment. Domestic prices are governed by the wholesale prices that the energy companies have to pay, and no amount of policy making is going to influence how much we have to pay our suppliers to ensure that the UK has enough gas and electricity to keep going," he adds.

While we're still a long way from the next general election, all major political parties are gearing up for a savage contest over the next 12-18 months that will focus on the cost of living for the average householder. Energy prices are, without doubt, going to be a part of that debate, but the industry currently feels that it's not getting a chance to put their side of the story across.

"Mr Miliband really needs to take his energy policies under advisement and sit down with the industry to find out what the real position is, and whether there may be a better way to keep retail prices manageable without putting the industry infrastructure under undue pressure," adds Graham Paul of EDW. "Only then will we be able to ensure that the future of the UK's energy industry, as well as the energy supply to the consumer, is guaranteed," he concludes.

The Government estimates that due to plant closures and the need to replace and upgrade the UK's electricity infrastructure, over the next decade the UK electricity sector will need around £110 billion of capital investment which will support up to 250,000 jobs up and down the supply-chain.

In reality, there are three main factors that influence prices - fixing inefficient housing stock, the investment required to replace the UK's energy infrastructure, and the cost of the buying energy on the global market.

Nearly £1billion was wiped off the value of energy giant Centrica, 24 hours after Ed Miliband's pledged. The proposed price freeze would harm Britain's competitiveness and put off investors at a time when the country had to show it was open for business and looking to attract a massive investment in the UK electricity infrastructure.

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About EDW:
EDW have a long history in developing, implementing and supporting best-of-breed software solutions for retail electricity quoting and customer management including their bespoke electricity pricing system – (Quote Lab (http://www.edwt.org/products/quote-lab)) for the industrial and commercial market sector.

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