

Price Cap, Price Control and Income Distribution: The New Energy Bill

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The 2009-2010 Energy Bill contains some of the things we knew it would, such as a tax on suppliers to pay for CCS demonstration projects.

It also contains price control powers that are fundamentally anti-market, permit a high degree of government control and go *far* beyond what we might expect from any government, let alone one needing large-scale investment by energy companies:

- ◆ suppliers will be obliged to fund the government's various fuel poverty schemes in ways, amounts and times government dictates;
- ◆ government will be able to amend supply prices ; and
- ◆ certain generator profits can be prevented.

The powers sought really are quite as extraordinary as this itemisation indicates they may be.

Fuel Poverty Schemes

Suppliers voluntarily participate in the current fuel poverty scheme and provide £150m to those who spend 10%+ of their income on energy.

New schemes will oblige suppliers to participate. These schemes will be flexible about the amount of any benefit (there isn't a cap on scheme values), its form and how it is provided. The government is looking forward awarding pretty substantial price rebates to consumers.

A particular option foreseen is a scheme in which the fuel poor pay a lower price than others, so others are forced to subsidise them.

This amounts to the right to tax the energy consumer by whatever amount seems to government to be desirable. Further, the tax trigger is fuel poverty, whose level is raised or lowered by government actions.

Price Setting

The second provision involves a different form of price setting, activated where prices to consumers are at different levels. Where a supplier charges *non-discriminatory* different prices to

end-users - because some customers buy electricity, some gas and some both gas and electricity and the prices for each are different - the government may set aside the prices and impose its own.

This amounts to the power for government to impose its own view of the right price.

Preventing Excessive Profits

The third form of price control is aimed at preventing generators earning 'excessive benefits'. When will this happen? When generators choose which plant to run to achieve profits from either bids or offers or make bids to benefit from being a sole provider in an export constraint situation.

In such a circumstance, new licence conditions will be introduced to prohibit this form of bid.

What is an excessive benefit here? We haven't been told; it has been left for government to determine.

One obvious question to ask at this juncture is whether there is any prospect that this Bill, which has just had its second reading, will become law. There are fifteen pieces of legislation to be dealt with before the latest date Parliament can dissolve (22 May). Of these, three are carried over from the last session and *must* be dealt with; six others have more obvious electoral importance and there are at most 71 days to achieve this.

Although it cannot be probable the Bill will become law, it is possible.

There are signs the Tories will retain legislation providing them with fiscal tools (they indicate that law they would not introduce they will use because it's there).

The contradictory nature of the Bill and its investment unintelligence should not lead us to be complacent and assume it *could not* become law. It could; and it could be hard to get rid of.