

WHISTLING IN THE DARK

by Jeremy Leggett

NO ELECTRICITY WHEN YOU FLIP THE LIGHT SWITCH, AND NO PETROL WHEN YOU WANT TO FILL YOUR TANK? BOTH ARE ON THE CARDS BY THE MIDDLE OF THE DECADE, ACCORDING TO RECENT WARNINGS FROM THE HEART OF THE ESTABLISHMENT

In the first week of February, the electricity and gas regulator Ofgem broke wholly new ground with a strident warning that lights will go off and fuel poverty will rise still further unless there is firm action and strong leadership from government. A week later, the UK Industry Taskforce on Peak Oil and Energy Security – a body I convened – turned the spotlight on oil, predicting a global and national oil crisis within five years at most.

DRIVING OFGEM'S NEW PESSIMISM ON ELECTRICITY ARE VARIOUS regulatory requirements – European and British – to retire old coal and nuclear power plants. To replace them, and meet increasing demand, energy companies will need to invest £200bn in essential new generation, and energy bills will have to rise appreciably to pay for this, no matter what source of energy is used. Many will be unable to afford to heat homes as a consequence. Moreover, Ofgem doubts energy companies will invest enough as things stand, meaning that even if people can afford the electricity, it may not be there when they flip the switch.

Clearly reform is urgently needed. Deregulation has failed, Ofgem says. A free-market approach is 'no longer an option'. Obligations to supply may be required of energy companies. Nationalisation of power may be necessary, with the creation of a central buyer for energy.

This last option is almost incredible: a former champion of deregulation now advocates a return to some kind of socialism. Ofgem once enthusiastically backed the break-up of the nationalised energy industries, and the stripping away of regulation. But the financial crisis has changed regulator Alistair Buchanan's mind. As Andrew Watkin, a prominent property consultant, puts it: 'A centralised renewables market might sound Stalinesque, but it may be what is required to bring a structure and concerted strategy to the major campaign of the coming years – creating energy and protecting its supply.'

Ofgem's forecasts could mean average annual household energy bills of more than £2,000 by 2020. The consumer group uSwitch says the figure could reach £4,000 if events conspire against the markets. Currently, a shameful 4.6m of UK households are in fuel poverty (defined as spending more than 10% of income on energy).



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Adding oil to the equation deepens the crisis and makes the middle of the decade look like a very stressful time indeed. This is how the CEOs and chairmen of the companies involved in the UK Industry Taskforce on Peak Oil and Energy – Richard Branson of Virgin, Ian Marchant of Scottish and Southern, Brian Souter of Stagecoach, Phillip Dilley of Arup and myself – describe the situation in the foreword of our second annual report. 'The next five years will see us face another crunch – the oil crunch. This time, we do have the chance to prepare. The challenge is to use that time well ... Our message to government and businesses is clear: act. Don't let the oil crunch catch us out in the way the credit crunch did.'

IN THE REPORT, WE PRODUCE DATA THAT SUGGEST A PEAK OF GLOBAL OIL production at less than 95m barrels a day, up from some 85m now, and we summarise fears that could result in a peak of less than 92m, plus a steep fall beyond the peak, all at a time when demand is rising well in excess of 100m barrels a day. This is a loud blast of the whistle, then, from a fairly broad group of companies. Neither are we alone

on this side of the 'premature peak oil' debate. The CEO of Total is on record as saying the world will never produce more than 89m barrels a day, and the IEA has warned of an oil-supply shock within five years.

Those on the other side – led by BP, Exxon and others – offer a much more comforting narrative: forty years of supply at least, and no chance of global oil supply dropping before demand does. Theirs is the view that is favoured by most governments, and in boardrooms, often implicitly. I know of no company that views premature peak oil as a serious risk issue.

All this may soon change. The UK government had historically echoed the BP line, until our report was published. Senior government officials had told taskforce members

that they saw no risk of premature peak oil, and declined the invitation of the companies to convene a government-plus-industry taskforce. But at the press conference at the Royal Society, where the taskforce released the report, it became clear that the UK government response had changed. They were no longer certain who was right. The head of international energy security at DECC, Chris Barton, said: 'We need to work together with industry to do more – for example, to consider recommendations in the report that we're not currently acting on.' DECC will set up a forum for doing this.

Those of us who aspire to leadership need to enjoy some success here. Otherwise, at best, a lot of very cold old grannies are going to be sitting in the dark, with rationed fuel for any vehicles that carers might want to use to ferry them to safety. At worst, social cohesion will come under grave pressure. ■

A CENTRALISED RENEWABLES MARKET MIGHT SOUND STALINESQUE, BUT IT MAY BE WHAT IS REQUIRED TO BRING A STRUCTURE AND CONCERTED STRATEGY TO THE MAJOR CAMPAIGN OF THE COMING YEARS – CREATING ENERGY AND PROTECTING ITS SUPPLY

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