

Old King Coal may be our saviour yet

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One good thing about the drop in house prices (after years of moaning that they were too high), the credit crunch (after years of moaning about over-use of credit cards) and the decline in retail sales (after much moaning about consumerism gone mad) is that these problems divert attention from the Government's somewhat incoherent energy policy, one important part of which is its effort to sell Britain's nuclear industry to a state-owned French company, EDF. If that sale is consummated, it would transfer to France's politicians power over the allocation of capital and other resources between the needs of French and British consumers. These are the same free-traders who decided that Danone yogurt is a key infrastructure company, not to be sold to foreigners.

There is worse. EDF would end up with a virtual monopoly of sites on which new nuclear plants can most easily be built, creating another nightmare for regulators already struggling to cope with a market in which integrated energy suppliers have every incentive to deny operators of wind farms and other independents access to their transmission facilities. So mourn not if this deal remains switched off, even though the Government announced on Monday that a sale to EDF is its preferred option.

Whatever finally happens in the negotiations with EDF is only one small part of the policy morass that the Government has created. To be fair, it should be noted

that Britain is not alone in finding it hard to come to grips with reconciling the need for energy to fuel economic growth with the emerging consensus that something must be done about global warming, while moving away from the dependence on oil. The Democratic-controlled Congress slunk out of Washington last week without even voting on the various policy proposals before it.

So be kind to your own politicians. Making energy policy is a tough job, made tougher by politicians' refusal to acknowledge facts. The most basic is that the promotion of nuclear, solar, wind and other forms will do nothing in the near or medium term to end reliance on oil to propel cars and lorries. For as far ahead as a planner should try to see, we will depend on oil to move ourselves and our products around the country.

You can't fill up at a wind machine or a nuclear plant – and won't be able to until the electric car becomes economic, and that is a long way off.

Which means that one ingredient of energy policy is the ability to defend oil supply routes, a job that the world has so far largely out-sourced to America. No good saying Britain has plenty of oil in the North Sea – which might prove to be the case if oil prices stay high enough to make development of smaller, more difficult-to-access fields profitable, and if the Government resists the siren call of windfall taxes. Oil markets are international, and if



The Government is refusing to recognise how expensive nuclear power is – and how little it will reduce our dependence on oil, says
Irwin Stelzer

the Iranians try to close the Straits of Hormuz, or the crazies take over Saudi Arabia, prices would reach levels that will have us pining for the good old days of \$150 oil. Which is why the Government's decision to go ahead with the construction of new aircraft carriers is a sensible form of energy policy, assuming it does not come out of an already stretched military budget.

The next reality check is to accept that nuclear power is far dearer than the Government is anticipating. The cost of a nuclear plant is now estimated to be significantly more than twice the figure put about by the industry

only five years ago – and rising. Many nuclear advocates have been pinning their hopes for cost reductions on the next-generation nuclear plant being built in Finland by Areva, a French company that Gordon Brown has announced might be allowed a monopoly of nuclear plant construction. The Finnish project is two years behind schedule and \$1.5 billion-plus over budget.

High construction costs mean that electricity from nuclear plants can be competitive with the output of fossil fuel plants only if the price of carbon emissions rises and if investors are somehow guaranteed that those prices will stay high for the 20- to 40-year life of the nuclear plants.

No such guarantee is possible, given the volatility of carbon markets, so pay no heed to industry promises that it will not seek subsidies.

Most likely, owners of the massive amounts of capital required to build these facilities will insist that they be guaranteed above-market prices for their power, a covert subsidy that will be hidden on electricity bills.

Nuclear's need for subsidies is not unique. Wind and solar, currently receiving large inflows of investment capital, also remain heavily dependent on subsidies. As does ethanol, part of the programme that has contributed to soaring food prices by giving farmers an incentive to transfer acreage to growing fuel.

Which leaves only natural gas, an efficient fuel, but one on which

western Europe is overly dependent, to Vladimir Putin's delight – and coal. The world has limitless supplies of coal, most located in nations friendly to the West. But coal is an abomination in the eyes of environmentalists because of its alleged contribution to global warming. Nevertheless, it will be a key ingredient in the world's energy future: India and China between them have 700 plants planned or under construction; the Government has sensibly authorised a new plant in Kent; and European countries plan to build 50 new coal stations in the next five years. That makes it important that energy policy focus on making coal cleaner.

In the end, Britain, like America, has an energy policy that depends on the Government to subsidise the technologies that politicians select as "winners". But there is a path not taken: tax carbon so as to force consumers to pay the environmental and security costs of burning fossil fuels, and refund the money to taxpayers by lowering taxes on incomes and jobs. That would allow the most efficient technologies to win the race to provide new sources of energy, and methods for cleaning up fossil fuels.

But ministers rarely cede power to markets. As I say in a longer piece soon to be published by the Hudson Institute, when it comes to energy policy, "Abandon hope all ye who enter here".

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