

Energy Security Bill 2nd Reading House of Lords – 19.07.22

My Lords, I declare my interests as a former Secretary of State for Energy, former Minister of State for International Energy Security, ex-president of the Energy Industries Association and of the British Institute of Energy Economics, chair of the Windsor Energy Group, and an adviser to interested energy companies.

The stated aims of the Bill are to increase the resilience and reliability of our UK energy system, deliver commitments to climate change and reform the system in various ways. Since the first two of these three aims depend heavily on outside and international trends and conditions and on close co-operation with international partners, I was looking in the Bill for any powers, laws or strategies in the international arena, but they are quite hard to find. That makes it somewhat limited and, frankly, a little disappointing.

We are now in the midst of the worst energy crisis for half a century, with inflation being driven by stratospheric increases in all fossil fuels to dangerous levels in already fertile inflationary soil here in the UK—not the other way round, as the Governor of the Bank of England seems to think. Further disruption of Russian energy supplies to the European oil and gas markets, whether initiated by Russia or European states, will accelerate this inflation, invite recession, impose impossible further hardships on half the families in our nation, and force business shutdowns in large quantities. There is now talk of energy rationing this coming winter and possible supply interruptions, with the worst, we are told, yet likely to come.

This is not security; it is insecurity on a grand and cruel scale, begotten of dismal lack of preparedness and a stream of policy errors going back decades—not just in energy decisions but in economic and monetary responses. It is against this background that the Bill before us must be judged.

Before I come to what the Bill purports to achieve, let there be no doubt that well before the Ukraine invasion, the global energy system, of which we are and will remain an inextricable part, was under severe stress. Ukraine now pushes us into a new world energy order. We were, and are, engaged in a mission of global decarbonisation to prevent climate disasters, which requires, but frankly has completely lacked, the most careful synchronisation of evolving fuel supplies, needs and demands, and as great a transformation as in the Industrial Revolution of the end of the

18th century—in fact much greater, given that since then there has been a sevenfold increase in population in the world and in this country. That is what the Bill aims to assist now.

We have to ensure that creative policy-making in the present crisis can help rather than hinder tomorrow's transition. One of the most depressing features of the current debate is the utter inability of many of those with the loudest voices to distinguish between the absolute necessity now of immediate relief measures and the long-term climate priorities. What does the Bill do to unravel this muddle and tangle? In the short term, I am afraid, very little. It is all very well to give powers to the system operator and planning office and to renew the energy cap, which the Bill does, but how does that avoid repeating the appalling policy mess which bankrupted numerous small gas suppliers at a cost of £3.2 billion? We talk about billions; that is £3,200 million, which all then had to be dumped on already overwhelmed consumers.

To start with the immediate—the here and now—we have to understand that the very frightening inflation is an energy-driven phenomenon. Being told in a resigned way, “Oh well, it's external, it comes from the gods”—or, to quote a former Prime Minister whom I rather admired, Jim Callaghan, that we have been “blown off course”—and that there is not much to be done, except some cushioning of the impact, is never adequate in many people's eyes and it is frankly not much comfort.

What has happened to our famed diplomacy and influence in managing and containing international crises of this kind? Rather, we are sitting here at home, struggling as we can, introducing this Bill but in fact not tackling the real international roots of the crisis. Was it not striking and chilling—I suspect it was to many watchers—that when last Friday's panel of candidates was asked what more could be done to fend off the forecast of a “horrific” autumn that we have been promised, they all just sat there and were silent? They had nothing to add.

In fact, of course there is a great deal more we can do, but it is not much helped, I fear, by the Bill. It is meant to be about energy security, which starts now but projects into the future. If the name of the game is security of supply—not 10 years hence but now—and at affordable prices, a lot more can indeed be done. That is just what President Biden was trying to do over the weekend in Riyadh; obviously he found it a little awkward, but he was there aiming to meet essential needs and demand with more oil production. Far from staying silent, we should wish him good luck.

Whatever we do, oil and gas are going to be with us for decades. The International Energy Agency says that they will provide 28% of world

energy in 2045. The focus on what are called “core fuels” in the Bill, on which there is a whole part, reminds us of this basic fact. Eventually, of course, the energy gap will largely be filled not by the wind blowing—which it does for 60% of the time in the winter, and 25% in the summer—but by stored green hydrogen and ammonia, about which the noble Baroness, Lady Hayman, has just spoken. The powers, incentives and regulations—although, please, not too many—in the Bill will one day help us to get there. We are not there yet, but this is good; it is the right way to go, and we should back it in every way we can.

In the meantime, there is a crisis at the forecourt spreading through transport costs and affecting the price of everything. How do we stop that happening again? How do we convince ourselves that we are providing the security of the future unless we can answer that question?

First, the Gulf-state members of OPEC, whom we often describe as our friends, could be induced by the right approach to pump at least another half a million barrels a day right now. Although they have at last moved a little way towards that, they could quite easily do a lot more with their remaining spare capacity, although some of them deny that it exists. Also, the gas producers could ship more gas.

Secondly, Iran could put another million barrels a day into the market, if only the US Congress would let up and move to the nuclear agreement we once had. Perhaps we should point that out to our American allies.

Thirdly, we must encourage a crash programme of refinery-capacity building and resetting, which I do not see all that much of in the Bill. This is often said to be holding up supplies of petrol and diesel products and pushing up oil prices. Powers to rebuild the gas storage that we once had and should never have been allowed to run down—I do not know why it was—are also one of the immediate needs, and the present Bill helps there a bit.

Fourthly, of course, as many others have said in many debates, we need a constant increase in user efficiency and home insulation and a decline in oil intensity—that is, using less oil per unit of output.

Our UK net-zero goal, which is very much in evidence in the Bill, is admirable but everyone knows that it is not nearly enough. It has to be asked whether we, the British, with all our skills, are making the best contribution in the right way to rescuing the situation. Is the prioritising of a rather modest 1% reduction in global emissions, which is what we would achieve if we got to net zero, anything like adequate? Of course it is not. We proclaim climate leadership, but this has to be through a vast uplift in

carbon capture and recovery from the atmosphere to prevent the world boiling. This requires us to raise our sights from narrow insularity to accelerated international action everywhere we can, working with like-minded friendly nations.

Greenhouse gases will not stop at the white cliffs of Dover just because we have done quite well with our net zero so far. Somehow we must be at the forefront in off-setting the millions of tonnes of carbon which the thousands of coal-fired stations across Asia and Africa are continuing to puff into the atmosphere, with more stations being added and old ones renewed.

The twin challenges of security now and tomorrow and freedom from appalling and crushing volatility and inflation, and at the same time finding an honest and effective way forward on climate change—the path we are not now on—are right before us, staring us in the face, and they are inextricable; they cannot be separated. I agree that many proposals in this Bill are needed and overdue, from opening the way back to a realistic nuclear replacement programme, to encouraging heat networks—I think that is a grandchild of what we used to call combined heat and power, like on the famous Pimlico estate—and to halting the huge scams associated with carbon offsetting arrangements. Anything that speeds up heat pump installations and makes them cheaper is very welcome: at 600,000 houses a year, which is the proposed aim, it will take four decades to retrofit 24 million homes, and goodness knows how many hundreds of billions of pounds.

All this amounts to only a tiny fraction of what is needed. For example, the whole nuclear replacement programme is on very shaky foundations. The current proposal is to build eight more large-scale replicas of Hinkley, or similar. The one now being constructed by the French and Chinese at Hinkley is already 10 years behind time, well above budget and facing component problems to boot. I know about these sorts of initiatives and the inevitable decades-long delays which ensue, having myself launched, in the other place in 1979, a programme of eight new pressurised water reactors, of which only one ever got built, and that took 15 years.

A secure nuclear future has got to rely on much smaller 300MW to 400MW reactors which can be built quickly and which are privately financeable, a prospect now made easier by the sensible EU decision to register nuclear and gas investment as ESG approved; that is, labelled as green energy sources. Does the Bill open up that pathway, or take account of the international dimension? The Bill has also given a helping hand to fusion, which is good, but of course that is still years ahead and is again a completely international project.

Finally, unless we embark on new initiatives in almost every area of our current energy and climate policies, I see insecurity and failure ahead on all three counts: failure of reliability and security; more failure of affordability than now, and we could not go much further than now; and failing to combat the much hotter, much colder and much wetter climate violence ahead. Instead, we should now be learning the lessons and building and adapting better, far better, for ourselves, for our children's children and for the whole planet. That is what I would like to see a really focused energy security Bill do. This one, frankly, is only a start.