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Transition Wonderland

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""Curiouser and curiouser!" cried Alice (she was so much surprised, that for the moment she quite forgot how to speak good English)."

Alice got quite a lot of surprises in Wonderland. Wonderland, in fact, would be a fitting name for the world envisioned by climate change-first politicians who tirelessly keep amazing us with their ideas.

The British have been particularly inventive lately. First, net zero minister Ed Miliband proposed storing excess wind and solar energy in giant flywheels set in "frictionless vacuum" to avoid energy losses during the storage periods. Flywheels are expensive machinery, and they can only store energy for very short periods of time. Yet this doesn't seem to matter in the quest for a green future.

The Starmer government is not stopping there. Now, it wants to divide the national wholesale electricity market into separate segments — based on prices. Regions with more abundant electricity output and less demand would enjoy lower prices and those unfortunate enough to live in a place with lower output and higher demand would pay more.

As the FT reports, "Proponents argue this could make the market more efficient and keep system costs down by encouraging consumers to use electricity when it is abundant nearby, rather than letting it go to waste, as frequently happens."

So it won't be just based on regions but on demand patterns, too, meaning those patterns would need to change in response to changing supply levels because wind and solar cannot deliver on demand.

Alas, someone is doubting the market split is a good idea and that someone is in fact multiple someones from four industry associations, namely UK Steel, Make UK, RenewableUK and the Global Infrastructure Investor Association. They argue that the idea, if implemented, would actually sap investments in new wind and solar.

Decline in Renewable Investments is the new boogeyman and business associations are putting it to good use. It is apparently the only thing that could scare certain governments into not pursuing destructive policies. Just tell them policy X will discourage investments in the transition and watch them cave. Then there are the practical implications of such a

change.

“A miles-wide steel plant simply cannot up and leave to get access to lower power prices elsewhere,” the climate policy director of UK Steel said in comments on the market segmentation idea. He added the “billions invested in operations, let alone the workers who could get left behind.”

You’d think all this is obvious. Yet it isn’t, just like the actual cost of the energy transition in Europe. According to new comments from business leaders, European governments would need to cough up hundreds of billions of euros in fresh subsidies to make it all happen. “I don’t think European governments have woken up at all to the realisation of just how expensive this will all be,” one such business leader told the FT.

While the business world waits for governments to wake up and smell the money, one supermajor did something completely unexpected—for those getting all their transition information from the IEA. BP this month announced it will not be cutting oil and gas production in the next six years.

Per plans announced in 2020, it was going to reduce oil and gas output by a whopping 40% by 2030. Then, last year, BP reduced that target to 25% citing resilient demand. Now, it’s doing away with the target completely, “as investors focused on near-term returns rather than the energy transition,” as Reuters put it.

The idea that the energy transition should be front and centre in everyone’s mind has pervaded the whole energy narrative. This has been the case regardless of things like costs, unforeseen – but perfectly foreseeable – circumstances such as negative electricity prices, and purely physical constraints, not to mention the possibility that this massive push may not have much, if any, effect on the planet’s climate.

Meanwhile, costs have been soaring higher and higher, the unforeseen circumstances have started to bite, shattering the story of cheap wind and solar, and physical constraints have really become obvious – think those grid upgrades that are a must or the transition doesn’t happen.

Yet the narrative continues unobstructed, with the IEA reporting that wind and solar deployment continues strong and the share of the two in the global energy mix is going to hit 50% in 2030. Not a word about what this deployment would do to wholesale electricity prices on sunny and windy days. Not a word about the risks wind and solar developers face with regard to profitability.

Perhaps, indeed quite likely, governments are assumed to take care of that with more subsidies. We don't know where these subsidies would come from but come they will because there is no other way to build Transition Wonderland. It's too bad that unlike the fictional kingdom that Alice visited, on planet Earth the laws of physics and the laws of the market still hold.

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