

Surging heating costs and electricity rationing: Is this what the energy transition looks like?

[By Jeffrey Jones, business reporter, *Globe and Mail*, Oct 1, 2021](#)

Energy supply disruptions and price spikes around the world are fuelling worries about postpandemic runaway inflation and providing a glimpse into what could happen if traditional energy supplies dwindle before greener sources are ready to take their place.

Soaring natural-gas prices in Europe and North America, transportation fuel shortages in Britain and rolling blackouts in China are combining to keep consumers and governments on edge as the winter heating season approaches and affordability comes into question. Meanwhile, government budgets are stretched because of massive aid programs set up to deal with COVID-19, so their ability to provide relief is not endless.

All of this is playing out as a push for massive reductions in carbon emissions and broad adoption of cleaner energy sources gathers steam globally. The latest report by the UN Intergovernmental Panel on Climate Change, warning of dire consequences should the world fail to meet its emission-reduction targets, has only added immediacy to the need to act.

The current situation shows how difficult the task ahead is for countries rich and poor to end their reliance on fuel sources that have long been taken for granted.

“The transition towards carbon neutrality, it’s not going to be linear and it’s going to be messy,” said Erica Downs, a senior research scholar at the Center on Global Energy Policy at Columbia University.

Overall, the global oil and gas industry is struggling to replenish supplies after demand tumbled and prices cratered during the dark early months of the pandemic in 2020. Companies coped with the sudden loss of cash flow by slashing spending for maintaining and increasing production. Now, they are struggling to meet resurgent demand, and prices have jumped.

Bank of America predicts crude, now nearly US\$80 a barrel, could climb above US\$100 this winter for the first time since 2014. In oil-equivalent terms, natural gas in Europe and Asia is already selling for nearly twice that, according to Bloomberg.

Abhi Rajendran, director of research at Energy Intelligence in New York, said the pandemic put “a handcuff on the supply side” of conventional energy. Now, the demand rebound taking place exposes the limitation of renewable energy’s ability to step in and become the foundational baseload.

“It’s absolutely true that we should continue to plow ahead with the transition and investing in these things, but be realistic about where we are today and where we will be for the next couple of years,” Mr. Rajendran said.

“There have been a lot of agencies with reports saying that if we want to get to net zero by 2050, we have to reduce emissions every year. Where the disconnect is, is that as consumption comes back – and it’s going to be coming back over the next couple of years – you do have to think about resetting the base for emissions and supply.”

The share of renewables in global electricity generation, including hydro, wind, solar and biomass, hit nearly 28 per cent in the first quarter of 2020, according to the International Energy Agency, mainly nudging out coal and natural gas. However, those two sources still account for close to 60 per cent of the global power supply.

Now, weeks before world leaders meet in Glasgow, Scotland, for UN talks to hammer out the next steps in the fight against climate change, immediate energy needs are clashing with the imperative to slash emissions. The disruptions have many causes, none specifically tied to an over-reliance on renewables.

Gasoline stations have run dry in Britain, not because of a lack of fuel but a shortage of drivers for trucks to refill tanks at retail locations. It has fuelled panic buying as major oil companies BP PLC and Exxon Mobil Cor. have been forced to close some stations.

One reason cited is the exodus of European drivers that followed Brexit, something that Prime Minister Boris Johnson’s government, which completed the cutting of ties with the European Union, has played down. At the same time, the pandemic hit staffing levels, and made training for new drivers difficult. Lineups at the stations look similar to those during the energy crises of the 1970s.

In China, the crunch has not been in transport fuel, but electricity, much of which is still generated using coal, despite the country’s push for more renewable energy.

Last year, China’s leader, Xi Jinping, said the country – which is the world’s largest emitter of greenhouse gases – was aiming to achieve carbon neutrality before 2060. By then, it wants the share of coal-generated power on the grid to drop to just five per cent. But according to a recent IEA report, coal currently accounts for more than 60 per cent of power generation.

Now, though, China is short of coal supplies and prices have surged after it cut off purchases from Australia last year. Also, demand for power has increased, with factories ramping back up as the global economy recovers and exports surge. Shortages have led to rolling blackouts in some provinces and the closings of some power-intensive plants that make such products as steel and cement.

A disconnect between market coal prices and the low state-set electricity prices is also impacting the coal crunch, because power operators don’t want to operate at a loss, said Columbia’s Dr. Downs, who focuses on Chinese energy markets and geopolitics.

The government has tried to keep residents calm by saying it is confident they will be able to heat their homes as winter approaches. However, this week it directed state-owned companies to secure supplies at all costs, sending global crude prices higher.

“The winter heating season is on the horizon in China, and the government knows that they are not well-served by lots of people being left out – literally – in the cold due to coal or gas shortages,” Dr. Downs said. And in the face of an energy crisis, she said, the focus will be on keeping the lights on – even if that involves digging up and burning more coal in the short term.

Still, the energy transition continues. Governments, including Canada’s, are providing numerous incentives to stimulate the development and adoption of clean-energy technology and enacting legislation to speed efforts along. Such measures proved to be a big factor in last month’s federal election campaign.

And it’s not just public money. Private equity firms, including Brookfield Asset Management and TPG, have amassed billions of dollars to invest in companies promising to make impacts in dealing with climate change. Traditional energy companies, such as Suncor Energy Inc. and Enbridge Inc., are allocating increasing amounts of capital to both renewable energy and reducing the carbon footprints of their main operations.