

OPINION

There's More to Inflation Than Supply and Demand

Electric energy more than doubled in Andover

Ken Wells, Andover

Prices for gasoline, food, building materials, electricity, and all sorts of consumer products have climbed steeply for more than a year. Why? Economists say “the law of supply and demand” determines prices of all ordinary goods on the market.

“Supply” depends on how much merchandise is produced and can reach the market. “Demand” is a little more complicated, but depends on people’s needs or desires. To understand why it’s complicated to predict, compare demand for “needed” clothing versus demand for those “desirable” Beanie Babies that were trending a few years ago.

Prices go up whenever Supply falls. Supply falls when producers make less product, or when the supply chain can’t get it to market. Shelves become empty, and prices soar.

Prices also go up when Demand rises. Heating oil prices go higher in winter because demand for fuel goes up. Demand rises when there is real or perceived need. For example, toilet paper sells out when there is the possibility of snow in the forecast, whether it actually snows or not.

To say that our government sets the prices is incorrect – that’s not how capitalism works. In our free market system, prices for ordinary goods are supposedly set by supply and demand on an open market.

But many important goods don’t seem to follow supply and demand, and are not sold to us through a free market. Gasoline and electricity are two such things, and they both represent energy. Who sets their prices?

The demand for gasoline (and diesel, heating oil, natural gas and similar fuels) is “inelastic,” meaning that even if the price rises steeply, people will keep buying about the same amount because they have to get to work, etc. It just isn’t an optional purchase, so we pay for it and grumble, then buy more.

The producers have us over the proverbial barrel because we can’t cut back our demand to zero. They want more money from us for less product, so they reduce production, or impede distribution, or sell the product in another market so less is available here. (Consider our situation with the European Union following Russia’s invasion of Ukraine.) Exxon-Mobil recently reported their largest profits in 40 years.

In Andover, the price of electric energy more than doubled in the past month, from about 9 cents to 19 cents/kWh, plus other fees. Electricity prices

follow the price for natural gas, because nowadays much more than half the electricity in New Hampshire is made by burning natural gas. Natural gas prices have about tripled since August two years ago, long before Putin’s invasion started, because gas wells were capped and production slowed.

Electric prices across New England are negotiated in an open market auction every 10 minutes by the Independent System Operator of New England, because the amount of electricity generated has to exactly match the amount demanded at that moment. We’ll fry equipment if too much electricity is produced, or we’ll get “brownouts” when producing too little to meet demand.

The grid today has very little capacity to store excess energy for later when demand is high, so some generators just idle for most of the year when demand is low, then jump into action during the hottest days of the year when air conditioning loads peak just as folks start to prepare dinner, turn on the TV, lights, etc. Not an efficient system!

These so-called natural gas “peaker plants” sell their juice at the highest prices seen all year, because demand is so high, and every other generator gets paid that same high price at that time. It’s not efficient, but if you are selling the same product at a higher price, why worry about that? Profit!

The government of New Hampshire gets into the price-setting game when it regulates industries that have a monopoly, such as the electric utilities. Because you can’t easily shop around and connect the wires leading into your home to a different company, it’s a geographic monopoly.

The New Hampshire Public Utilities Commission (PUC) supervises the sale of electricity and will not allow rate increases without its permission – a very long and complicated legal process for the utilities. However, if the price of fuel increases, the utilities are allowed to pass that increase on to customers. That’s what just happened to your electric bill. But why did the fuel prices rise?

Electric rates just doubled because natural gas has nearly tripled since August 2020. So who controls the price of natural gas? And what else does this “gas company” make?

Koch Industries, the largest corporation in the nation, collects \$115 billion annual income – or about \$350 per year from every person in the United States! It extracts and pipes natural gas to New Hampshire from Texas and Pennsylvania, makes gasoline from Canadian tar sand crude, makes plywood from yel-

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