PREM 19/1093

GAS AND ELECTRICITY PRICING POLICY

GAS AND ELECTRICITY INDUSTRIES EFLS

INDUSTRIAL ENERGY POLICY

PART 7.

NATIONALISED INDUSTRIES

PART 1: SEPT 1979

PART 7: OCT 1982

PREM 19/1093

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~15.10.82~~		~~5.1.83~~					
~~20.10.82~~		~~13.1.83~~					
~~22.10.82~~		~~14.1.83~~					
~~25.10.82~~		~~19.1.83~~					
~~28.10.82~~		~~25.1.83~~					
~~2.11.82~~		~~31.1.83~~					
~~4.11.82~~		~~3.2.83~~					
~~10.11.82~~		~~4.2.83~~					
~~17.11.82~~		~~10.2.83~~					
~~22.11.82~~		~~15.2.83~~					
2.12.82		~~21.2.83~~					
~~7.12.82~~		~~March 83~~					
~~10.12.82~~		~~10.3.83~~					
~~13.12.82~~		~~11.3.83~~					
~~14.12.82~~		~~18.3.83~~					
~~17.12.82~~		30.3.83					
21.12.82		- Pt Ends -					
~~29.12.82~~							

PART 7 ends:-

CST to S/S Scotland 30/3

PART 8 begins:-

Sparrow (CPRS) to S/S Scotland 5/4

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(82)75	22.11.82
E(NI)(82)31	30.11.82
E(NI)(82) 9th Meeting, Minutes	7.12.82
E(83)1	24.1.83
CC(83) 8th Conclusions, Minute 4	10.3.83

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OWayland Date 18 April 2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmnd. 8812: Monopolies and Mergers Commission: London Electricity Board HMSO, March 1983.

Signed R Wayland Date 18 April 2013

PREM Records Team

CONFIDENTIAL

c/ NO

Mat Ind

NBPM

MLS 31/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

30 March 1983

Dear George,

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

Thank you for your letter of 24 March 1983 to Geoffrey Howe enclosing draft objectives for the Scottish Electricity Boards. Subject to any comments from colleagues, I am content for these to be sent to the Chairman as you propose, but with one change.

While the activities suggested in paragraph 8 can certainly be encouraged, I think that it should be made clear that any expenditure must meet the Board's normal financial criteria. This would follow the apporach taken to combined heat and power in the Energy Bill.

We think that it is useful to make clear the timescale in which reports are needed. While it might stimulate an unnecessary degree of interest to specify a date for a report on the introduction of private capital in the published objectives, could you set a date privately (as was done in the case of the CEGB)?

I am copying this letter to members of E(NI), to Sir Robert Armstrong and to John Sparrow.

Yours,

Leon

LEON BRITTAN

CONFIDENTIAL

cc N.O.

SCOTTISH OFFICE
WHITEHALL. LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

24 March 1983

Dear Geoffrey,

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

I attach a draft of the objectives which I propose to set for the 2 Scottish Electricity Boards (SSEB and NSHEB). The draft takes account of the policy letters which Nigel Lawson has sent, or is proposing to send, to the Chairman of the CEGB and the Electricity Council, although there are a number of differences which reflect the different position of the electricity supply industry in Scotland.

As with previous drafts, the objectives are drawn up as a list applicable to both Board because the Boards plan their generating activities jointly and any objectives which have a bearing on generation planning need to be common to both. It is my intention that the objectives should apply to each Board as a whole and not merely to the respective Chairman. It is also my intention that the list as presently drafted should be published in due course, possibly along with the Boards' Annual Reports.

I had the opportunity to discuss the setting of objectives with each of the Boards' Chairmen last year prior to their appointments. I do not foresee any major difficulties in persuading the two Boards to accept the objectives as drafted, although they may raise detailed points, particularly on corporate planning. I will, however, write separately to each of them spelling out what we will require on that score as part of the new arrangements following the CPRS Report. I also intend that the more sensitive areas of UK procurement policy and of security and duration of fuel supplies should be dealt with orally.

Unless colleagues have any objections to my proposals I intend to write to both Boards setting out their objectives before the end of March.

I am copying this letter to members of E(NI), to Sir Robert Armstrong and John Sparrow.

Yours ever,

George.

Prime Minister 2

MES 25/3

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

WITHSTANDING STRIKES IN THE ELECTRICITY SUPPLY INDUSTRY

Nigel Lawson sent me a copy of his minute to you of 15 March about the scope for withstanding strikes in the electricity supply industry. I generally share his conclusions.

2. While the link with miners' pay is probably unavoidable, I hope we will not take too yielding a line towards pay in the ESI generally. Skilled power engineers may have a special position, but I see no particular reason why, for example, Electricity Board typists should be amongst the highest paid in the country.

3. Although I accept that they may not make much difference to withstanding strikes, I am looking forward to seeing Nigel's proposals on the future structure of the industry. He also mooted the possibility of some fiscal relief for industrial combined heat and power. I am not quite sure what he has in mind - new schemes are already eligible for the full range of capital allowances and, if coal-fired, for grants. When passed, the Energy Bill will give private generators of electricity some very important guarantees. I know that Nigel and his colleagues have been under pressure during the debate in the House, but to add yet more

/incentives would

incentives would seem unnecessary and liable to start distorting investment decisions.

4. I entirely agree with him, however, that we should keep the possibilities for withstanding strikes in this key industry very much under review.

5. I am sending copies of this minute to the Secretaries of State for Energy, Defence, Scotland, Industry, Transport, Employment and Trade and to Sir Robert Armstrong and Mr Sparrow.

G.H.
24 March 1983

CONFIDENTIAL

FROM: JOHN CAINES CB, DEPUTY HEAD, CENTRAL POLICY REVIEW STAFF

c/NO
Vol Ind

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7798

NBPM
MLS 18/3

Qc 080

18 March 1983

The Rt Hon Nigel Lawson MP
Department of Energy
Thames House South
Millbank
SW1P 4QJ

Dear Nigel

FINANCIAL TARGET AND PERFORMANCE AIM FOR THE ESI

In John Sparrow's absence I am writing to comment on the recent exchanges on this subject between you and the Chief Secretary. In the CPRS's view these raise some important issues. The two most immediate are the implications of the degree of overpricing revealed by the latest estimates and the appropriate division of the financial consequences between the Exchequer on the one hand and the industry and consumers on the other.

It seems to us that if a judgement can now be made on these points, it should be reflected in the new financial target. If not, the Government should set a financial target which does not compromise future decisions, whatever they may be, and which applies over the shortest practicable period. We suggest that this implies an unchanged real price in 1984/85 and a two year target. This should be accompanied by the maximum pressure on the industry to reduce costs.

It seems to us that there are four relevant considerations: marginal cost principles, accountancy results, the statutory break even obligations and a financial target assessed in terms of a return on net assets. The situation is not helped by the changing numbers from the industry and the difficulties in interpreting what constitutes marginal costs.

The case for marginal cost pricing is based on economic arguments. The CPRS report on Electricity Prices argues in favour of relating electricity prices to marginal costs. This ensures correct allocation of resources within the economy and, by implication, enables consumers to be the beneficiaries from improved performance by the industry in controlling its marginal costs. The Chief Secretary has, of course, to watch the public expenditure implications, through the industry's EFL, of pricing policies related to marginal costs especially if these produce loss on the Profit and Loss Account.

CONFIDENTIAL

The fact that loss on the Profit and Loss Account can arise with economic pricing poses questions for Ministers to settle. First: is the industry's current asset base correctly valued in a period of over capacity (ie when a sizeable proportion of the assets has no earning potential)? Secondly, should any loss (which results in part from the burden of past mistakes by the industry) be borne by the taxpayer through a higher EFL rather than by the industry (eg through smaller wage increases) and its customer (through "excess" pricing)? Thirdly, is it acceptable to interpret the statutory obligations as being fulfilled when the industry has a positive cash flow even if it has a loss on P & L account. This has particular significance at a time - like now - when investment expenditure is relatively low, and the industry can reduce its indebtedness.

Whatever decisions are made on the new financial target, we would like to stress the importance of using the period before the next financial target is to be set to resolve the various issues described in this letter and to press the industry to produce reliable data to enable this to be done.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, the Chief Secretary, the Secretary of State for Industry, the Secretary of State for Scotland and to Sir Robert Armstrong.

Yours sincerely

John Caines

JOHN CAINES

Nat Ind, Gas & Elect, pt 7

18 MAR 1983

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SECRET AND PERSONAL

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Prime Minister

Please see two John Vereker's minute (Flag A) and the summary at Flag B.

MLS 15/3

Prime Minister

WITHSTANDING STRIKES IN THE ELECTRICITY SUPPLY INDUSTRY

An inter-departmental group of officials (MISC 86) has reviewed the scope for withstanding strikes in the electricity supply industry (ESI). I enclose a copy of their report.

Although the ESI has been relatively free from industrial disputes over the past decade, the power of the workforce is considerable. On the other hand that very power produces its own inhibitions. The report concludes that the most sensible strategy is to continue, in a low profile way, to rest on this fact coupled with the ESI unions' tradition of seeking a settlement which is broadly comparable with that of the miners. This year, for example, despite the unhelpful water settlement, the ESI manuals' settlement - an increase in average earnings of 5.7% - was in fact less than the 6½% secured by the miners. For the future, the suggested strategy is thus to bear down on miners' pay and so, indirectly, on pay in the ESI.

The report discusses a number of other possible strategies and we shall want to keep all possibilities under review. I imagine the Secretary of State for Employment will be considering further the general question of avoiding strikes in essential industries. As regards the ESI itself, restructuring the industry along less centralised lines may tend to weaken the power of the unions, though the case for such re-organisation needs to be justified on its own merits - the promotion of competition and facilitating privatisation. The Energy Bill is aimed at encouraging private generation of electricity; I believe there is a case for reinforcing this encouragement by means of some fiscal relief for industrial combined heat and power. It would also be desirable to take any opportunities that may arise for securing the goodwill of the power engineers, a relatively small group whose co-operation would make a power strike very much less effective.

I am sending copies of the report to the Chancellor of the Exchequer, the Secretaries of State for Defence, Scotland, Industry, Transport, Employment, and Trade and to Sir Robert Armstrong and Mr Sparrow.

NL.

Secretary of State for Energy
15th March 1983

WITHSTANDING INDUSTRIAL ACTION IN THE ELECTRICITY SUPPLY INDUSTRY

Report by the Official Group on Electricity Supplies (MISC 86)

INTRODUCTION

1. This report considers the scope for withstanding industrial action in the electricity supply industry. It is arranged as follows:-

2. This report was substantially completed before the strike began in the water industry. When that strike is over and there has been an opportunity to assess the experience gained, some points may emerge which are of relevance to the electricity industry. If so MISC 86 will then prepare a further report.

SECTION I : THE STRUCTURE OF THE INDUSTRY

1.1 The Electricity Supply Industry (ESI) in England and Wales comprises the Central Electricity Generating Board (CEGB), responsible for main generation and high voltage transmission, and twelve Area Boards which are responsible for distribution to some 20 million customers. In Scotland there are two Boards, each of which deals with generation, transmission and distribution in their respective areas. The Electricity Council has a co-ordinating role in England and Wales; it is also responsible for pay negotiations for the industry as a whole, including Scotland.

1.2 The industrial relations machinery of the industry is arranged as follows:

a. the National Joint Industrial Council (NJIC) negotiates pay and conditions of service of the industry's 86,000 manual workers. The main union is the Electrical, Electronic, Telecommunications and Plumbing Union (EETPU) with 33,000 members in the industry. The General, Municipal, Boilermakers and Allied Trades Unions (GMBATU) has 20,000 members and the TGWU and AUEW most of the remainder. The settlement date is 17 March.

b. the National Joint Board (NJB) negotiates for the 26,000 technical staff. The Electrical Power Engineers Association (EPEA) is the sole union. Their settlement date is 1 February.

c. the National Joint Council (NJC) deals with 47,000 clerical and administrative workers of whom about half are members of NALGO, APEX, GMWU and TGWU. The settlement date is 1 May.

d. the National Joint Managerial and Higher Executive Committee (NJMC) covers 1700 managers and professionals, members of EPEA and NALGO. The settlement date is 1 April.

SECTION II : THE INDUSTRIAL RELATIONS BACKGROUND

2.1 There has been comparatively little industrial action in the ESI. The main occurrences over the last twenty years have been as follows:-

(a) March 1964: a work to rule and overtime ban by the manuals in a dispute over pay and conditions lasted eight days before it was called off following a decision by the then Government to appoint a Court of Inquiry;

(b) April 1970: the power engineers operated an overtime ban for ten days over the erosion of their differentials with the manual workers; the dispute was resolved following the appointment of a Court of Inquiry;

(c) December 1970: the manuals operated an overtime ban in a dispute over pay; the ban started on 7 December; a State of Emergency was declared on 12 December and the dispute was brought to an end on 14 December when a Court of Inquiry was appointed under Lord Wilberforce;

(d) Winter 1973/74: an overtime ban by the power engineers was overtaken by the separate miners' dispute;

(e) Autumn 1977: manual workers at a number of power stations mainly in Yorkshire took unofficial action over a long-standing dispute about travel allowances; this took the form of a forty-eight hour stoppage in September (whcih was supported by about one-third of the manual workforce) followed by a fifteen-day overtime ban and work to rule, at the end of which a compromise solution was successfully negotiated.

2.2 Thus, there has been no significant industrial action in the industry (with the exception of the unofficial action in 1977) since the early 1970s. Moreover, when industrial action has occurred it has taken the form of a work to rule and/or overtime ban rather than an all-out strike.

2.3 A number of reasons can be advanced for this:-

(a) The leaders of the two main unions involved - Mr Frank Chapple (EEPTU) and Mr John Lyons (EPEA) - have adopted a consistently moderate approach. Mr Chapple is to retire in the next few months, but his successor, Mr Eric Hammond is likely to adopt the same policies and general approach.

(b) The ESI has a highly organised and centralised negotiating structure which has kept main pay issues firmly in the hands of the national trade union officers.

(c) The workforce has consistently enjoyed a high place in the earnings league without the need for serious industrial action. Although the pay settlement date for the engineers falls first, the lead in the pay negotiations is generally taken by the manual workers, who have generally achieved settlements comparable with those secured by the miners; indeed the pay scales for the engineers and manuals are formally linked. Over the last few years the engineers have generally negotiated settlements which broadly matched those of the manual workers. There is thus little pressure on the engineers to take industrial action on their own behalf, unless problems arise with the differential between them and the manual workers as was the case in 1970 (see paragraph 2.1 above).

(d) Workers in the ESI tend not to be concentrated into close-knit communities or to come from families with a long tradition of industrial militancy. The only area where this tends not to be true is in South Yorkshire, where a substantial proportion of the power station manual workers are ex-miners, and where an unofficial shop stewards' movement, which has been dormant since 1977, remains in existence.

(e) Workers throughout the ESI are fully aware that an all-out strike or other major industrial action by the engineers and/or manual workers could quickly have a severe impact on the community and the economy, from which they and their families would not be immune. This knowledge is both a strength and a weakness. The trades unions undoubtedly feel themselves to be negotiating from a strong position; but the scale of the damage which serious industrial action could cause is bound to have some influence on the willingness of the trades unions to call for industrial action and their memberships to support it, although this clearly offers no guarantee against serious industrial action or its threat.

SECTION III : ISSUES LIKELY TO GIVE RISE TO INDUSTRIAL ACTION

3.1 Pay (including problems such as the compression of differentials) is the issue which is much the most likely to give rise to severe industrial action of the threat of this. The two main influences on the trades unions in framing their pay claim and negotiating tactics are likely to be the outcome of the pay negotiations in the Electrical Contracting Industry (ECI), for which the EEPTU has sole bargaining rights; and the settlement for the miners. As the following table shows the miners' settlement seems to be the predominating influence:-

	ESI manuals	NCB	ECI
1979-80	20%	18%	13% on 1 January 1980
1980-81	9¾%	9¾%	26% in September 1980
1981-82	7½%	7.4%	10% from April 1982
1982-83	[ ]	6½%	8% from April 1983

3.2 During the last few pay rounds the ESI has tended to settle at about the same level as the miners' settlement (expressed in terms of earnings rather than in terms of basic rates which has tended in recent years to be a higher figure). The trades union leaders in the ESI are however likely to have some regard to developments in the ECI. Although the patterns of percentage increases in the two industries have differed significantly, the average earnings of manual workers in each are very similar - in April 1982 the figures were £164 per week for the ESI and £169 per week for the ECI.

3.3 So long as pay settlements for the miners remain at the higher end of the public sector pay range the workforce in the ESI seem likely to be content to use the miners' settlement as their reference point. If the management are prepared to concede settlements around this level the risk of major industrial conflict over pay seems small. This seems likely. Labour costs constitute only 16 per cent of the ESI's total costs; and the trades unions are generally prepared to agree to improved productivity or manpower reductions.

3.4 As regards the 1983 negotiations, the trades unions have submitted a claim for a substantial though unquantified increase in pay, a reduction in hours and a number of other improvements in conditions including retirement at age 60. The Electricity Council's objective is a settlement rather below that of the miners i.e. around 6 per cent; their opening offer would increase earnings by 4½ per cent. The Council are in close touch with the Department of Energy on tactics.

3.5 The other issues which might be thought liable to lead to industrial action are closures and redundancies and the Government's wider policy objectives for the industry, particularly privatisation and reorganisation. Although the trades unions may raise strong objections of principle, particularly in relation to privatisation and reorganisation, there is a good chance, though no certainty, that major industrial trouble could be avoided, unless significant job losses were involved.

3.6 The CEGB has closed a number of old power stations over the last few years involving significant manpower reductions, and further closures are planned during the next few years. The job losses involved are likely to be accepted by the trades unions. Although the trades unions have given notice of their intention to challenge the CEGB's plans more closely in the future, it seems unlikely that either they or the CEGB would allow a major industrial dispute to arise on this issue.

3.7 Any plans for the closure of electricity showrooms of their privatisation in the light of the forthcoming report from the Monopolies and Mergers Commission might, however, prove more troublesome. Publication of the report is expected early in March.

SECTION IV : PROBABLE FORMS OF INDUSTRIAL ACTION

4.1 A large modern coal-fired power station typically employs 600-700 staff, as follows:-

managerial	2-4	
engineers	100	of which 20 might be power supply engineers 80 might be maintenance engineers
manual workers	500-600	
clerical	50	

Of these, only 120-150 are directly involved in controlling the operation of the power station; and 60 or so are employed in handling coal and ash stocks. The majority of the staff are engaged in routine maintenance or administration.

4.2 Control of the operation of a power station is generally organised in five shifts, each of 25 staff; of these four might be supervising engineers and the remainder manual workers. It is important to note that the manual workers undertake tasks in the control and generating rooms as well as dealing with jobs such as coal and ash movement and water treatment.

4.3 Slightly fewer staff tend to be employed in oil-fired (400-500) and nuclear (around 500) power stations, principally because fewer staff are required for fuel handling; apart from this the breakdown of staff is broadly as described above.

4.4 Thus, the only area where staff in one group might in principle substitute for another during industrial action is power engineers for manual workers engaged in control duties. Senior managers are too few in number to replace power engineers; and since maintenance engineers are members of the same trade union as the power engineers, it is most unlikely that they would be prepared to do so. This aspect is considered further in Section VI on the scope for mitigating the effects of industrial action. We consider below the form that any industrial action would probably take.

The likely formof industrial action

4.5 Past experience and the fact that the manual workers' pay negotiations tend to take place first, suggest that it is more likely that any industrial action would be initiated by the manual workers rather than by the engineers; the chances are that the engineers would take the lead in industrial action only if the issue involved were peculiar to them, for example concerning differentials.

4.6 It is likely that any industrial action, particularly over pay, would be official; the trades unions in the ESI exert a firm discipline over their members and over the handling of the pay negotiations. With only one exception all the industrial action which has taken placed over the last 20 years (see paragraph 2.1) has been official. Unofficial action cannot totally be ruled out.

If a significant section of the workforce were to become discontented with the trade union leadership's handling of a particular issue, unofficial industrial action might well arise. So far however the only sign of such a development is the emergence in 1977 of the unofficial Shop Stewards' Committee in South Yorkshire, which was referred to in paragraph 2.3 (c); although that organisation still exists, at present it appears to exert little or no influence on the pay negotiations and there is no sign of it spreading to other areas.

4.7 Any industrial action, whether official or unofficial, is most likely to be limited in form rather than to involve an all-out strike. The most likely tactics are a ban on overtime working and a work to rule, which in practice would mean that staff would refuse to work flexibly or to substitute for those absent because of sickness etc.

4.8 Another tactic which the trades unions have considered in the past but not so far employed would be to seek to put pressure on the Electricity Boards' costs without affecting electricity consumers by selectively closing down baseload power stations thus forcing the Electricity Boards to bring the much more expensive oil- and gas-fired stations into use in order to avoid power cuts. Action of this sort could take the form of strikes at selected power stations or other industrial action sufficient to reduce its output completely or very substantially. Only a proportion of the baseload stations would be affected at any one time in order to spread the loss of earnings equitably amongst the union membership.

4.9 The manual workers first seriously considered this tactic in May 1982, when their pay negotiations appeared to be deadlocked and industrial action was threatened. However, their knowledge of the technicalities of the electricity supply system is not extensive, and the manual workers were persuaded that a programme of selective closures of power stations could so destabilise the national grid as to make unplanned power cuts almost inevitable. However, given co-operation from the power engineers, the chances are that a successful programme of rolling power station closures could be devised which would not seriously affect consumers. The net additional cost of such a tactic to the Electricity Boards is estimated to be of the order of up to £50 million per week; the cost to the trades unions would be very small. The implications of this for future strategies towards pay and industrial action in the ESI are discussed in Section VII below.

SECTION V : THE EFFECTS OF INDUSTRIAL ACTION

5.1 The extent to which industrial action would disrupt electricity supplies depends principally on the degree of co-operation by the power engineers. It is likely that any unofficial action by the manuals would be limited to an overtime ban and work to rule, although an all-out strike cannot be ruled out. The extent to which electricity supplies could be maintained would depend on a variety of factors, principally the precise form of the manuals' industrial action, the time of year, since this is the major determinant of electricity demand, the strain on the engineers and the cumulative effects on the power stations of lack of maintenance.

5.2 The experience gained in 1977 suggests that the engineers could maintain supplies for at least 1-2 months if the manuals were to take only limited industrial action and for some weeks in the event of an all-out strike. Power cuts could well prove necessary at some stage, although it is impossible to guess when the need for them might arise; the determining factor would be the prevailing level of electricity demand. However, any necessary power cuts would not exceed 15-20 per cent. Power cuts of this level would involve either the equivalent of a 3-day working week for industry and commerce or rota cuts for domestic consumers consisting of 3 hours on and 3 hours off on 3 days of the week with much less severe restrictions during the remainder of the week. However, supplies to a wide range of essential users would be protected as far as possible, including: railways, major airports and hospitals; the ports, telecommunications; gas, water and sewage operations; coal mining; oil refineries and major oil pipelines; manufacturers of vital foods; and to a lesser extent continuous industrial processes. During the 1972 miners's strike rota cuts of this level were applied for domestic consumers for about 3 weeks. There is no experience of such a regime lasting longer than this. A 3-day working week was introduced for 10 weeks during the 1974 miners' strike and, although at the time this caused severe disruptions to normal working, in the event the long-term impact on the economy proved to be very slight. It is however impossible to predict whether this would again be the case; and there is no experience of the effects of restrictions of this nature over a longer period than 10 weeks.

5.3 If the manuals were to take official industrial action (which is the most probable scenario, see paragraph 4.6 above) it cannot be assumed that the engineers would be prepared to do more than their normal duties; the EPEA would certainly instruct its members not to. In these circumstances the chances are that power supplies might have to be reduced by up to 20 per cent very quickly, if the manuals' industrial action were limited, as expected, to a work to rule and overtime ban. If the manuals were to strike, power cuts of up to 60-70 per cent might be necessary almost immediately. There is no experience of sustained power cuts of more than 15 per cent, so an assessment of the consequences of power cuts of this level can only be speculative. Widespread disruption to normal life and working could clearly be involved. Even if the impact on the economy were eventually to prove modest, the perception at the time would most likely be of severe and lasting damage. The chances are, therefore, that pressure would build up from industry, commerce and the general public for an early end to the dispute.

5.4 Industrial action, whether official or unofficial, by the engineers is very unlikely. But were it to occur the engineers could control its effects very precisely; the spectrum of possible consequences would range from measures which increased operating costs without affecting consumers (see paragraphs 4.8 and 4.9) to the complete closure of the electricity supply system. The degree of co-operation from the manual workers would be irrelevant, since they neither have the necessary skills to substitute for the engineers nor could they acquire them quickly.

SECTION VI : MITIGATING THE EFFECTS OF INDUSTRIAL ACTION

6.1 The various measures that might be taken to mitigate the effects of industrial action can usefully be considered under four broad headings, viz:-

a. Stockbuilding.
b. The use of substitute labour, including Servicemen.
c. Alternative supplies.
d. Reductions in consumption.

Stockbuilding is not relevant in this context. The other measures are considered in the following paragraphs.

Substitute Labour

6.2 As discussed in paragraph 4.4, the only area where there might be scope during industrial action for one group of staff in the ESI to substitute for another is the replacement of certain manual workers by the power engineers.

6.3 The extent to which the power engineers might be able to cope in the event of industrial action by the manual workers is discussed in paragraphs 5.1-5.3 above. Only in the event of limited and unofficial industrial action by the manual workers could the power engineers cope for a substantial time while avoiding more than modest power cuts; in the face of an all-out unofficial strike by the manual workers, the engineers could only maintain supplies with great difficulty, and substantial power cuts could build up, possibly quite quickly; but if, as expected, any industrial action by the manual workers were to be official, the engineers would probably not be prepared to do more than their normal duties and the effects would therefore be felt by the public very quickly and probably quite severely.

6.4 The extent to which labour from outside the industry (principally contractors and Servicemen) might substitute for manual workers would depend on the degree of co-operation from the power engineers. In the event of official industrial action, the chances are that the engineers would not co-operate in supervising or training substitute labour. In these circumstances the effect on endurance of using substitute labour would probably be insignificant. Even in the event of unofficial industrial action by the manual workers, the engineers are unlikely to be immediately willing to co-operate in the use of outside labour. However, they might eventually be prepared to do so, depending on the strain on them involved in maintaining power supplies. Even with co-operation from the engineers, it is not clear that outside labour could successfully substitute over the whole range of the tasks carried out by manual workers; some of these tasks - for example in the generating and control rooms - are relatively skilled and would take some time to learn. Given the cost and complexity of the equipment and the safety risks involved, the Electricity Boards might well be most reluctant to agree that substitute labour should take on some of the most skilled manual workers' tasks. Substitute labour ought, however, to be readily able to take on the more routine manual operations, such as the handling of coal supplies and ash.

6.5 It is most unlikely that labour from outside the ESI could substitute for the power engineers. Servicemen certainly do not possess the necessary skills; and although there might be some engineers outside the ESI who do, it seems unlikely that the numbers would be sufficient to maintain a sufficient level of power supplies for a significant period.

Alternative Electricity Supplies

6.6 The four main sources of electricity supplies other than the national grid are:-

(i) private generation
(ii) standby generators
(iii) the interconnectors with the Scottish and French electricity systems
(iv) unconventional sources of supply.

(i) private generation

6.7 Private generating capacity can supply about 15 per cent of total industrial electricity demand. However, the available capacity is unevenly distributed; the four main sectors are chemicals and oil (35 per cent of total demand from private generation), paper and printing (25 per cent) transport (23 per cent) and engineering (13 per cent); other sectors generate privately less than 10 per cent of their total electricity demand. Moreover, even where substantial private generating capacity is available, supplies from the national grid are often required to meet peak demand.

6.8 The Energy Bill, which is now before Parliament, removes the existing statutory constraints on the development of private electricity generation. Its long-term impact is difficult to predict, but clearly in the short term the extent of private electricity generating capacity is unlikely to change significantly.

(ii) standby generators

6.9 Most key public services and utilities have substantial standby generating capacity including in particular, virtually all hospitals, fire service control centres, telephone exchanges, major postal sorting offices, major railway signal boxes, essential civil aviation operations and gas distribution operations. The only key public service which does not is the water and sewage industry, but this would be seriously affected only if electricity supplies were to be completely cut off; if, as is more likely, electricity supplies were to be periodically interrupted, water and sewage operations are unlikely to be significantly affected, since the Electricity Boards would seek to maintain supplies to them and to other key sectors for as long as possible (see paragraph 5.2).

6.10 ~~On average~~ industry and commerce has ~~sufficient standby generating equipment to meet about one quarter of total peak demand. Very little is known about the distribution of this as between the different industrial and commercial sectors.~~ A detailed survey, undertaken in 1975, of the availability of standby generating equipment to manufacturing industry disclosed that over 75 per cent of firms had no standby capacity and that those who did had capacity equivalent to only one quarter of their normal peak demand. More recent information is not available on any systematic basis, but consultations with two leading manufacturers of this equipment, undertaken very privately by the Department of Industry, suggest that the position has probably not improved much. Information about the position in commerce is also very sketchy, although the informal consultations referred to above gave some reason to believe that the position has improved in recent years particularly in relation to mutliple retailing and computer operations. For both sectors the objective seems generally to be to prevent damage to expensive machinery or goods rather than to maintain normal operations during interruptions in electricity supplies.

6.11 Overall, the position appears to be that a wide range of key sectors could be safeguarded during cuts in normal electricity supplies lasting for a few hours at a time; and that, since fuel supplies for standby generators are likely to be readily available, this position could be maintained almost indefinitely. However, standby generators are not designed for long periods of continuous running; using them in this way would quickly lead to breakdowns. They therefore offer little protection against very severe power cuts (say, over 50 per cent) or the complete breakdown of normal electricity supplies, if this continued for more than a few days at most.

6.12 The question arises whether the Government should seek to encourage the development of private generating and standby capacity, for example, through some form of subsidy. We can see no case for doing so. It must be for industry itself to decide whether the risk of electricity supplies being seriously interrupted, and the costs of this, justify such an investment. The Government has played its part by removing the statutory obstacles to private generation through the Energy Bill. Moreover, any subsidy scheme would involve determining precisely which sectors ought to have standby or private generating capacity, and what would be the desirable minimum level of contingency provision; it is difficult to see how the Government could sensibly reach a view on these issues.

6.13 There is one specific issue in this connection of which Ministers should be aware. This is the proposal by London Transport (LT), who at present generate two-thirds of the Underground's supply, to close one of their two gas-fired private electricity generating stations for economic reasons in favour of taking supplies from the national grid. The station in question is Greenwich, which supplies the peaks and is nearly twice as expensive as the national grid. Because there is no change in prospect which is likely to alter the price differential in LT's favour, the London Transport Executive (LTE) is preparing proposals to close Greenwich in 1988. (It would otherwise become life expired in 2002). LT also envisage that their other station at Lots Road, which is slightly more expensive than the grid and supplies the base load, would also not be replaced, when it would become life expired in 1995. The Government cannot direct the LTE's decision on this, but Ministers will wish to consider whether there is a strong case for retaining a private source of electricity supply for LT and, therefore, for seeking to persuade the LTE to reconsider this proposal.

6.14 In the event of industrial action in the ESI leading eventually to power cuts, supplies to LT would be protected at least until the level of power cuts exceeded 25-30 per cent if the above power stations were to be closed. In the event of power cuts exceeding 25-30 per cent the disruption to life would be such that the maintenance of LT rail services (buses would not be affected) seems unlikely to be a critical factor in withstanding a strike in the ESI.

6.15 The LT stations are manned by members of EETPU, AUEW, and EPEA. National ESI agreements are followed, but since their application is a matter of local negotiation it seems quite possible that national industrial action in the ESI would <u>not</u> be applied in LT.

6.16 If the Government were to press for the power stations not to be closed, LTE would no doubt seek financial compensation. Figures at present available to the Department of Transport do not enable this to be quantified, but it could be substantial. More important, perhaps, the matter could become one of political controversy with GLC as LTE's present paymasters.

6.17 On balance, the disadvantages of closure do not seem serious. We therefore recommend that Ministers should not seek to influence the LTE's decision.

(iii) the interconnectors with Scotland and France

6.18 The existing interconnector between the British and French electricity grids is out of action and will not be repaired; it was in any case very small (160 mW). Construction of a new link of 2000 mW capacity is in hand with the first part (of 1000 mW capacity) intended for completion in 1985 and the second part a year later. The cost of this is estimated at £285 million at current prices. 2000 mW represents roughly 5 per cent of maximum electricity demand. The normal function of the interconnector is to allow two-way trading between the CEGB and their French counterparts. However, in the event of an industrial dispute the CEGB thinks that it would prove possible to negotiate a one-way flow from the Continent for a prolonged period. If this proved to be the case, the sustained use of the interconnector could ameliorate or possibly prevent power cuts in the event of limited industrial action by the manual workers.

6.19 The economically optimum level of interconnection between England and the Continent could be some 6000 mW, equivalent to around 15 per cent of winter peak demand. However, the CEGB would not envisage proposing a further inconnector before the present one is built and operating. There must be some doubt as to whether the French Government or unions would be prepared to allow the continual use of links of this overall capacity during an industrial dispute.

6.20 The interconnector between the English and Scottish systems is not relevant in the context of a dispute in the ESI, since any industrial action would extend to the Scottish Electricity Boards.

(iv) unconventional sources of supply

6.21 It has been suggested in another context that naval and jet engines might provide emergency electricity supplies. However, in practice the electricity generating capacity of ships and planes is insignificant in comparison with total demand. For example, even the largest aircraft carrier could generate sufficient power for only some 3000 houses. There are, moreover, technical problems in that power generated by ships could not directly be fed into the national grid. It therefore seems unlikely that this approach is worth pursuing, although the use of warships in particularly favourable circumstances to provide power to an especially important establishment should not be ruled out.

Reductions in Consumption

6.22 The need for various levels of electricity supply cuts, depending on the types of industrial action involved, and their probable effects are discussed fully in paragraphs 5.1-5.4. Very briefly the position is as follows:-

unofficial industrial action by the manuals	:	the power engineers could maintain supplies for a period varying probably from a few weeks (if the industrial action were very severe) to at least 1-2 months (for limited industrial action). Power cuts of up to 15-20 per cent might be necessary, although their timing is impossible to predict.
official limited industrial action by the manuals	:	power cuts of up to 20 per cent might be required very quickly.
official all-out strike by the manuals	:	power cuts of 60-70 per cent almost immediately.

As paragraph 5.2 describes, in the event of power cuts the Electricity Boards would seek to protect a wide range of essential users. There is no experience of power cuts in excess of some 15 per cent, but it seems likely that the immediate disruption caused by power cuts well in excess of this would be considerable; it is impossible to predict with any certainty what the economic effects might be in the long term.

General assessment

6.23 The general assessment must be that the scope for mitigating industrial action in the ESI is very limited. In the event of unofficial action by the manuals, there would be considerable scope for substitution by the engineers. In other circumstances the use of substitute labour is not feasible. Alternative supplies are helpful only at the margin. The Group does not see a case for subsidising the development of private generation and standby capacity which is best left to the judgement of the market, and recommends that the Government should not interfere with the LTE's decision to close their expensive gas-fired stations at Greenwich in 1988 and at Lots Road in 1995. Reductions in consumption in excess of 15 per cent would cause serious disruption to normal life and to the economy.

SECTION VII : POSSIBLE STRATEGIES

7.1 The problem outlined earlier in this report arises primarily from the fact that the trade unions in the ESI have monopoly power over a service which is vital to the life of the nation. In examining possible strategies for dealing with the problem the Group therefore considered whether there is action which the Government could take, apart from action concerned with restraining trade union power generally, to weaken the unions' monopoly power in this particular industry.

Regionalisation/privatisation

7.2 The Secretary of State for Energy is already examining the case for reorganising the ESI including, for example the creation of regional Electricity Boards, dealing with both electricity generation and supply, and is also exploring the scope for privatisation. The Group therefore considered how far these policies might, in addition to other policy objectives, contribute to a reduction of union power in the industry. If over a period of years the ESI were fragmented into a series of regional or local units, some at least under private ownership, it might be argued that the employees would become less willing to take part in concerted national action. These developments are however uncertain. The difficulty is that even if the ESI were to be reorganised into smaller units and some or all of these units were to become privately owned, the new organisations would continue to have a monopoly or near monopoly in the areas which they served. Moreover it could not be assumed that such a reorganisation, whether or not accompanied by privatisation, would necessarily lead to local wage bargaining or that this would be a desirable development. It seems likely that the trade unions would, because of the obvious advantages to them, succeed in preserving centralised pay negotiations, possibly supplemented by local productivity agreements. If they did not local pay bargaining could lead to leapfrogging in pay claims and settlements. The Group therefore concluded that regionalisation and privatisation, although they might be found to be desirable on other grounds, would be unlikely to contribute significantlv to solving the problem of union power in the ESI; it was noted also that organisational changes which appeared to be designed to diminish union power in the industry might in the short term provoke rather than deter industrial action.

7.3 Given the intrinsic difficulty of altering the balance of power vis-a-vis the trade unions in this industry, the Group next considered a range of strategies designed to reduce conflict with the workforce or key sections of it, ie a low-profile pay strategy and "no-strike" arrangements.

Low-profile pay strategy

7.4 Management could adopt a low-profile strategy towards pay in the ESI by tacitly accepting the existing de facto link with the miners' pay settlement. The aim would be to avoid conflict over pay in the ESI; and to rely on the success of the present efforts to restrain the miners' bargaining power to influence the level of pay settlements in the coal industry and thereby in the ESI. Such a strategy, whether conscious or not, has in practice been followed in recent years. The strategy would have to be reconsidered if the miners' pay settlements were to lose its key role in setting a marker for the upper end of the pay round in the public trading sector. The ESI pay settlement would then have to find its own level but the trade unions might nevertheless be content with a settlement a little above the general level for the public trading sector.

7.5 Such a strategy is however at best of limited value and is at worst vulnerable to circumstances beyond the Government and management's control. It imposes a considerable limitation on the freedom of action of Government and management in respect both of pay and of other issues which might give rise to industrial action. It is also dependent on the continuation of a measure of moderation and self-restraint on the part of trade union leadership in the industry and a continued willingness by the workforce to follow such leadership. There is no reason at present to contemplate a major change in union and workforce attitudes in the ESI but there is inevitably a risk for the future.

"No-strike" arrangements

7.6 The Group considered whether it would be a preferable strategy to come to terms more openly with union power in the industry with some form of "no-strike" arrangement.

7.7 One approach would be to seek to enter into a "no-strike" agreement. The main disadvantage is however that the price of such an agreement would probably be too high. The trade unions would almost certainly insist on some form of guaranteed comparability or indexation and perhaps on some commitment that a specially favourable position in the earnings league would be maintained. This might lead to higher settlements than those conceded under the low profile pay strategy described earlier. Even if it did not, it would have undesirable repercussive effects in encouraging other groups with strong bargaining power to press for "no-strike" agreements at a high price. The second disadvantage is that such an agreement could not guarantee that there would be no industrial action in the future, since there would be no means of compelling the workforce to abide by the terms of the agreement. The only sanction available to management would be to terminate the agreement.

7.8 The Group therefore concluded that, for the foreseeable future, a no-strike agreement would not have advantages over a low profile pay strategy.

7.9 It might be argued that a "no-strike" agreement would be more effective if it could be made legally enforceable. Such agreements could be concluded under existing legislation, but it seems highly improbable that any union would voluntarily agree that a "no-strike" agreement should be legally enforceable. An alternative would be to introduce legislation to provide that all "no-strike" agreements should be legally enforceable whether or not that was the intention of the parties to them. If so it is unlikely that unions would enter into "no-strike" agreements following the passage of the legislation and they would probably also terminate any existing "no-strike" agreements.

7.10 A further possibility would be the statutory prohibition of strikes in the ESI (or other public utilities) without the need for any agreement to this effect between the parties. Statutory restrictions on the taking of industrial action in the ESI would not be new. Until repealed by the Industrial Relations Act 1971, Section 4 of the Conspiracy and Protection of Property Act 1895 had from 1919 made it a criminal offence for employees of electricity undertakings wilfully and maliciously to break their contracts of service, having reasonable cause to believe that by doing so they would deprive consumers of their supply of electricity. There were no prosecutions. Under the 1895 Act no offence could arise if strike notice had been given and the employees worked out the periods of notice due under their contracts of employment. This recognised that it would not be acceptable - certainly in peacetime - to require individuals under threat of criminal sanctions to work in accord with a contract of employment which they had lawfully repudiated. This being so, it would not have been difficult for the organisers of a strike (particularly an official strike) to ensure that strikers stayed within the law by ensuring that due notice was always given. Additionally, experience has shown the immense practical difficulties of applying criminal sanctions to any large number of strikers. The Group, therefore, concluded that this would not be a promising approach.

Securing the co-operation of key workers

7.11 As a variation on the general strategies to reduce conflict the Group considered whether this approach could be applied selectively and targetted on those groups of workers within the ESI with the strongest bargaining power. As the analysis in Sections V and VI demonstrated, the full co-operation of the power engineers is crucial to withstanding serious industrial action in the ESI. There are a number of possible approaches which might be designed to ensure that co-operation, for example offering particularly advantageous pay arrangements; a no-strike agreement applying to the engineers alone; or a change in the engineers' pay date so as to break the link with the manuals' negotiations. However, the Group concluded that the disadvantages of this strategy substantially outweighed any advantages. The difficulties about maintaining a low profile pay strategy or seeking a no-strike agreement apply no less to the power engineers alone than to the ESI workforce as a whole. Changing the engineers' pay date could well prove counter-productive if the result of conducting separate pay negotiations with the engineers and manual workers were to be separate sets of industrial action at different times by each group. Moreover, to seek explicitly to secure the co-operation of the engineers would underline to them their key role in maintaining electricity supplies and therefore the strength of their bargaining position; it would be an invitation to blackmail and it would be likely to exacerbate relations with the manual workers who, although not so vital as the power engineers, nevertheless have the capacity to inflict serious damage.

7.12 The Group therefore concluded that, while it obviously made sense for the management to take such opportunities as presented themselves to reinforce the loyalty of the power engineers and to seek to avoid unnecessary conflict with them, it would be undesirable to pursue a deliberate and overt policy of favouring the power engineers as against other workers in the industry.

7.13 Similar considerations apply to the proposition that the power station workers (whether engineers, manuals or clerical and administrative), should be singled out within the ESI for special treatment. If however a no-strike agreement were to be contemplated in the ESI at some time in the future, notwithstanding the difficultes described in paragraph 7.7 above, it would be for consideration whether the agreement, and the specially favourable pay arrangements which would probably have to accompany it, should be confined to power station workers rather than extended to the ESI as a whole.

Deterrence through pressure of public opinion

7.14 Finally the Group recognised that the monopoly power of unions in this key industry was to some extent a two-edged weapon and considered how far Government and management could take advantage of this to deter and, should the need arise, more effectively endure industrial action. The power station workers are well aware of the serious consequences of their taking more than very limited industrial action. They are reluctant to take responsibility for action which would very quickly have serious effects on the lives of ordinary people, partly because of the pressure of public opinion and partly because they cannot isolate themselves and their families from the results of such action. As acknowledged in Section II, this has been one of the most important factors inhibiting indudstrial action in the ESI in recent years. Although this inhibition clearly offers no guarantee against serious industrial action it is important for the Government and management to reinforce it wherever possible.

7.15 Recently the manual workers have begun to explore ways in which industrial action might seriously increase the industry's costs without affecting consumers. As explained in paragraphs 4.8 and 4.9 above this can be done by selectively closing down coal-fired power stations and forcing the Electricity Boards to bring the more expensive oil and gas-fired stations into use. The power engineers are probably aware of the feasibility of this form of industrial action and have the technical skill to achieve it. Although power cuts would probably be avoided, the net increase in the ESI's costs would be up to some £50 million per week; and the trades unions could probably continue indefinitely with this sort of approach since the numbers involved in industrial action at any one time (and therefore the costs) would be quite small. When the manual workers explored the possibility of such action in May 1982 they were persuaded by the management that such a strategy would so destabilise the national grid that unplanned power cuts were inevitable. If however the power engineers were to see merit in such action and were prepared to co-operate with the manual workers, they would be unlikely to be persuaded by the management that it could not be done and might successfully achieve it.

7.16 In these circumstances the management would have two options. One option would be to attempt, despite the heavy cost to the industry and the small cost to the workforce, to sit out the action long enough to achieve a tolerable settlement. Another option would be to force the issue by ruling out this form of industrial action through management sanctions of various kinds. The unions would then have to choose again between very limited industrial action or action which would have serious effects on the community. The latter opinion is likely to be preferable, provided that the management can avoid the risk that responsibility for action seriously affecting the community is not publicly perceived as having shifted from the unions to the management. It would therefore have to be made clear in advance that the financial consequences to consumers could not be accepted by a responsible management and that, therefore, robust action was unavoidable.

General assessment

7.17 In general the Group concluded that the deterrent effect of the catastrophic consequences of industrial action by power station workers was in practice the most effective check on union monopoly power in the industry and that the management should maintain and develop strategies which took full advantage of it. In this connection the most careful attention must be paid to influencing public opinion in the development of a dispute so that it is the union rather than the Government and the management who are perceived as bringing about a situation which could threaten the life of the community. A low profile pay strategy, while of limited value in itself and vulnerable to changes in union and workforce attitudes, helps to reinforce the strategy of deterrence through public opinion. In practice these are the strategies which, whether consciously or not, Government and management have been following in recent years. The Group recommends no major change.

SECTION VIII : SUMMARY OF CONCLUSIONS

The Industrial Relations Background (Section II)

8.1 There has been no significant industrial action in the ESI (with the exception of unofficial action mainly in Yorkshire in 1977) since the early 1970s. When industrial action has occurred it has taken the form of a work to rule and/or overtime ban rather than an all-out strike. The main reasons for this have been: moderate trade union leadership; a centralised negotiating structure which has kept main pay issues in the hands of national trade union officers; pay settlements generally comparable with those of the miners; no significant tradition of militancy among the workforce; and awareness by unions and workforce that major industrial action would quickly have a severe impact on the community and the economy.

Issues likely to give rise to industrial action (Section III)

8.2 Pay is the issue most likely to give rise to industrial action. If however pay settlements continue to be conceded around the level of the miners' settlement, the risk of major industrial conflict over pay seems small; and this seems likely. There is a good chance that other issues (power station closures, privatisation, reorganisation) will not lead to difficulty, unless significant job losses were to be involved; significant job losses in the power stations are not foreseen.

Probable forms of industrial action (Section IV)

8.3 The most likely form of industrial action is official rather than unofficial, by the manuals rather than by the engineers, and an overtime ban and work to rule rather than any all-out strike. A selective close-down of coal-fired power stations, forcing the Electricity Boards to bring the more expensive oil- and gas-fired stations into use is a possibility but has not so far been attempted successfully.

The effects of industrial action (Section V)

8.4 In the event of unofficial industrial action by the manuals, and given co-operation by the engineers, power supplies might be maintained for between a few weeks and 1-2 months or maybe longer depending on the precise circumstances. Modest power cuts might be necessary, but their timing is impossible to predict.

If so, supplies to a wide range of essential users would be protected. In the more likely event of official action by the manuals, and on the assumption that the engineers were prepared to do no more than their normal duties, even an overtime ban or work to rule would after a few days result in power cuts much greater than previously experienced and widespread disruption to normal life and working. Industrial action by the engineers, which is unlikely, could, if they wished, have immediate catastrophic effects although they would be more likely to devise action which would increase costs to the Electricity Boards without harming the consumer.

The scope for mitigating the effects of industrial action (Section VI)

8.5 The scope for mitigating industrial action is very limited. The use of substitute labour is a possibility in only one scenario (substitution by the engineers for the manuals in the event of unofficial action by the latter). Alternative supplies (private generation, standby generators, the interconnector with France and unconventional sources of supply) are helpful only at the margin. The Group does not see a case for subsidising the development of private generation and standby capacity which is best left to the judgement of the market, and recommends that the Government should not interfere with the LTE's decision to close their expensive gas-fired stations at Greenwich in 1988 and at Lots Road in 1995. Reductions in consumption in excess of 15 per cent would cause serious disruption to normal life and to the economy.

Possible strategies (Section VII)

8.6 Against this background the most useful strategy for the Government and management is to continue to take full advantage of the inhibitions which the catastrophic effects of more than very limited industrial action place on the unions and workforce, and to ensure that, in the development of a dispute, it is the unions rather than the Government and the management who are perceived by public opinion as bringing about a situation which could threaten the life of the community. Particular care will be needed if the unions attempt action designed to impose costs on the Electricity Boards without affecting the consumer. In addition it would seem desirable to continue with the present low-profile pay strategy of allowing pay in the ESI to be settled at a level broadly comparable with the miners' settlement and to rely on success in bringing down the level of the miners' settlement to restrain pay in the ESI. If the miners' settlement were to lose its role in setting a marker for the public trading sector, the strategy would have to be to allow for a settlement in the ESI a little above the perceived level for the public trading sector.

Cabinet Office
17 February 1983

CQJX

Prime Minister 2

MES 15/3

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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01-211 6402

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

15th March 1983

Dear Leon

Your letter of 11 March gives me some difficulties. Since I made my proposals to you three weeks ago in my letter of 21 February, there has been mounting protest from the industry about the absence of a new target to underpin their current tariff proposals, due for implementation on 1 April and announcement this Thursday following the last meeting of the Electricity Council in this financial year. They are already complaining vehemently about the delay and are bound to react very unfavourably to new proposals at this late stage.

I cannot accept your proposition that the new target should be equivalent, allowing for the changes in asset base, to the old one. You say twice that there is room for debate on the right level of electricity prices but the Treasury, and the Government as a whole, have already accepted that electricity prices should not be increased in the year which begins in a fortnight's time. The old target produced price increases which we all accept should not occur in 1983/84, and there can be no question of going back on the price "freeze" for that year. Since that is presumably common ground, your proposals would require us to decide now that prices in 1984/85 should rise by 6%, or 2% more than under my proposal.

In this very difficult situation, I will do what I can to help. I must see the outgoing Chairman of the Council tomorrow. In the circumstances, the most I can do is to propose to him that the target should be 1.4% and the performance aim 4¼%, although I cannot believe that this will necessarily result in any further reduction in costs. I shall also have to say that progress towards achieving the performance aim in 1983/84 will to some extent mitigate the higher prices in 1984/85 implied by the new target.

I am copying this letter to the recipients of yours.

Yours ever
Nigel

NIGEL LAWSON

NAT. IND: Electricity Pricing policy : Pt 7

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cc JV

Prime Minister

W 11/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

11 March 1983

D Nigel,

Thank you for your letter of 21 February proposing a new financial target and performance aim for the electricity supply industry.

I am disappointed at your suggestion for a lower financial target of only 1.3 per cent return on net assets on the new definition (ie 1.5 per cent on the old). This compares with the existing target of 1.7 per cent and the forecast outturn against it of 2.2 per cent. Some £10 billion has been invested in the industry over the last 15 years, which was supposed to earn at least a 5 per cent real rate of return. It is therefore somewhat surprising that we should be budgeting for a falling return on assets. I also find it difficult to understand why you pressed me for a 3-year target for British Gas but want a 2-year one for electricity. There are always uncertainties, but the immediate future for electricity must surely be as predictable as that for BGC.

We are, however, entirely agreed upon the need to put more pressure on the industry to make real reductions in its costs. It is helpful that your Department has persuaded the ESI to increase the aim from the 3 per cent reduction in real controllable costs between 1982-83 and 1984-85 originally proposed to 4 per cent. But I hope that we can go further. I am advised, for example, that the industry's cost forecasts assume a real increase in salaries and associated costs per head, which has not been adequately explained. This was, of course, an area criticised by the Monopolies and Mergers Commission in their Report on the CEGB, which referred to "... labour costs rising more rapidly than the national average" (Para 10.68 of HC315). Given the ESI's leading position in public sector pay, it would be wrong to endorse an aim based on increasing real labour costs per head. Indeed, our assumption would be the reverse. On that basis, I suggest that the aim should be, say, 4½ per cent.

Turning to the financial target, you say that the rate of return proposed of 1.3 per cent would reflect economic pricing principles and that the industry's recovery of marginal costs in 1983-84 would imply an element of tax on the user. There is a great deal to debate here and I do not accept all you say. Financial targets should not be fixed mechanically, but should reflect a wide range of factors, which were listed in Paragraph 73 of Cmnd 7131. I also understand that the return suggested would drive the CEGB into a post interest loss rising to over £300m in 1984-85, which it seems difficult to reconcile with the Board's statutory breakeven obligation. Furthermore, on the details of your marginal cost calculation, it is unclear whether it is correct to exclude from the capacity charge any element for the capital cost of the national grid system. Nor is it self-evidently right for the industry's prices to reflect a discount to the NCB coal price simply because that is a feature of the somewhat artificial agreement reached between two state monopolies.

As I say, there is a lot to debate here. But I am conscious that you wish to settle the target quickly. I therefore suggest that we might proceed as follows. There should be a 4½ per cent performance aim and the financial target should be 1.5 per cent on the new definition, (ie the same as the existing 1.7 per cent on the old definition). As long as the agreed External Financing Requirement figures are safeguarded as you suggested and it is justified on economic pricing principles, I would be prepared for cost savings secured through achievement of the performance aim to be reflected in real reduction of prices up to that referred to in your letter. If you could agree to proceed in this way, I would be prepared to accept a 2 year target and aim.

This approach would, I think, give the Industry a real challenge and put it (rather than the Government) under maximum pressure to deliver the cost savings and lower prices.

On subsidiary points, I very much welcome your proposals for monitoring and publication of performance aims and financial targets. This seems to me entirely consistent with our drive for greater efficiency, and I hope that the new Chairman of the Electricity Council will be able to take a leading role here.

A copy of this letter goes to the Prime Minister; the Chancellor, the Secretary of State for Industry, the Secretary of State for Scotland, Sir Robert Armstrong and John Sparrow.

Yours
Leon

LEON BRITTAN

Nat Ind, Gas & Elect, Pt 7

CONFIDENTIAL

JH 143

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Secretary of State for Industry

9 March 1983

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
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Millbank
London SW1

Copies to:

PS/Ministers
PS/Secretary
Mr Gill
Mr Manzie, Mr Wright
Mr Sumner - MM
Mr Bryant - CTP
Mr Shepherd - EC1
Mr Duguid - PPU
Mr Hunt - CTP
Mr Avery - CTP
Mr Owen - ICA2 (with papers

Dear Nigel,

ELECTRICITY PRICES

I have been giving some consideration to the representations made by the CBI to us at our meeting on 17 February and I would like to put to you some proposals which would add up to a convincing response to the CBI points.

2 I am inclined to discount some of the complaints - those which have been largely met by the joint effects of your efforts on prices and of sterling's recent depreciation. But we have to recognise that there remain a group of high load factor users which are disadvantaged, by as much as 20%, in relation to their Continental competitors, which benefit from discounts or special tariffs. I well understand that we are constrained, or more accurately, we have chosen to constrain ourselves by not amending the ESI's statutory obligations with regard to undue preference and by deciding to adhere pretty closely to economic pricing, in contrast to our partners in Europe. This limits our room for manoeuvre but within those limits I think that it is absolutely vital that we do all we can. It would be a pity to lose this particular argument with industry, as we are in danger of doing, after the considerable efforts which have been made on electricity prices over the last two years. I have four proposals to make. They concern:

i) eliminating the existing overcharging element in the electricity industry's tariffs in 1984/85;

ii) intensified pressure to reduce the industry's costs;

iii) extension of load management terms to more users;

iv) direct dealing with the CEGB.

3 I have seen your letter of 21 February to Leon Brittan in which you draw attention to the degree of over-charging of at least £300m in 1983/84, in relation to economic pricing. I find it disappointing, to say the least, that after biting the bullet and accepting the principle of economic pricing for energy, we

have departed from this approach in the wrong direction, using electricity prices as a means of general taxation. It also seems odd, incidentally, to describe the average return on net assets of 1.3% as a reflection of economic pricing principles, if it results in the over-recovery of properly accounted marginal costs of electricity by as much as this - equivalent to approximately 4% on prices. The correction which you propose is equivalent to a 1½% real reduction in prices in 1984/85. I see no justification for not adjusting fully to economic pricing by 1984/85 and reducing prices relative to costs by 4% in real terms.

4 The performance aims which you propose for the industry are most welcome. I understand that the ESI's financial targets allow for increases in revenue expenditure cost per unit of electricity of 12.9% over the next two years and for increases in salary costs per employee of 16%. There would seem to be a strong case for setting the industry more ambitious targets than it has set itself. I would also urge you to use your best endeavours to secure a coal deal between the CEGB and the NCB next November which results in increases in coal prices well below the general rate of inflation. The removal of restrictions in the CEGB imports could be a material factor in securing this.

5 I think that it is important that we should begin thinking now how these three factors - the removal of the existing element of overcharging, improved performance by the industry, and better terms on coal - will translate into prices. The broad magnitude of these opportunities to reduce real electricity prices suggest to me that the price freeze could be extended through 1984/85, on a basis which would be economically justified. I consider that this is feasible and should be understood as an objective of energy policy.

6 Turning now to direct dealing with the CEGB, I would suggest that the CEGB be pressed to begin discussions with twenty or so large users, following the recent ICI precedent. Direct dealing would have a number of advantages, some economic, others presentational. Major users in particular resent being separated from their supplier by the Area Boards. As became clear at the CBI meeting, this arrangement leads to suspicions that major users are cross-subsidising domestic users' much higher unit distribution costs. It is also at odds with the general business practice for smaller buyers to use the distribution chain but for larger buyers to deal direct. Direct dealing would allow a fuller consideration of users' load characteristics and would remove the inevitable averaging process by which Area Boards translate the BST into tariffs. Direct dealing would, I appreciate, take the CEGB into what is for them new territory: it would have staffing implications and could at times involve the CEGB in difficult negotiations when confronted

by large customers in commercial difficulties. But this is an aspect of normal commercial life which confronts any large supplier and there is no reason to my mind why the CEGB should not have to face up to commercial realities.

7 Lastly, I hope that you will consider seriously my proposal for halving the qualifying threshold for the Consumer Contracted Loan from its present 6MW average winter load to 3MW. The CCL terms have been most useful to intensive users, but intensive users are not necessarily large users. According to the paper industry, there are an additional 17 paper producers which would qualify with the lower threshold and several would probably take advantage of CCL if they did: 6 out of 9 paper producers which already qualify have done so. I understand that there are some steel and chemical producers which might also apply. I am informed, however, that a 4MW threshold, which you mentioned at our meeting, would not attract any chemical producers.

8 I am copying this to Leon Brittan and George Younger.

Yours ever

Patrick

(A)

9

MR SCHOLAR

cc Mr Mount

WITHSTANDING INDUSTRIAL ACTION IN THE ELECTRICITY SUPPLY INDUSTRY

The report of the Official Group (MISC 86) which has been looking at this will be circulated by Mr Lawson shortly. When it arrives, I suggest that the Prime Minister need look only at Section VIII, the summary of conclusions which appears on the last two pages.

The scope for withstanding industrial action in the ESI is very limited indeed, and rests largely on ensuring that the power workers are aware of the immediately catastrophic effect that they could have: in this respect, their strength is their weakness. Even if only the manuals, rather than the engineers, were on strike, there is very little that can be done to extend endurance.

The report therefore correctly concludes that the present strategy of allowing pay in the ESI to be settled at a level broadly comparable with the miners is best: by bringing down the level of the miners' settlement, we restrain pay in the ESI. The report was of course completed before recent events in the water industry demonstrated that the miners' settlement will not always be the target for other public utilities, but I think it very unlikely that in future years the water workers will break loose again quite so dramatically.

J.

23 February 1983

CONFIDENTIAL

O10 ✓ JV

② and Ind

Prime Minister

MES 21/2

01 211 6402

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

21st February 1983

Dear Leon

NEW FINANCIAL TARGET AND PERFORMANCE AIM FOR THE ELECTRICITY SUPPLY INDUSTRY (ENGLAND AND WALES)

In my announcement on 12 November last year of the electricity prices standstill in 1983/84, I said that I would announce as soon as possible a new financial target and performance aim for the industry, agreed with them, which would take full account of the conclusions the industry and I had reached on economic pricing.

Following further discussions with the industry and with your officials, I should now like to propose a financial target for the years 1983/84 and 1984/85 of an average return on average net assets of 1.3% (CEGB capital work in progress would be included within the asset base, but MWCA would continue to be excluded from the calculation of profit). This rate of return reflects the economic pricing principles which Ministers collectively agreed at the end of last year, together with further work on the application of those principles. As the note at the annex shows, this work has confirmed that a zero increase in prices in 1983/84 represents an adjustment which is at the lower end of what is required. There is strong evidence that the industry will over-recover its marginal costs in 1983/84 by at least £300 million even on the most conservative estimate. This implies that electricity prices still contain an element of tax on the user which cannot be justified in the circumstances of the present recession. I shall be examining this further, with the industry, on the basis of Coopers' investigation last year.

The target I am proposing implies a small further correction of over-pricing in 1984/85; prices are expected to increase in that year by approximately 1½ percentage points below the rate of general inflation. However, I should not wish to set a three year target, thus effectively determining the level of prices in 1985/86. In any case, in view of current uncertainties over, for example, the level of future coal prices to the CEGB, I very much doubt if we should be able to sustain a target for three years without amending it (as we have been under pressure to do for the present three year target). I should emphasise that my proposal fully conforms with the EFL we have already agreed

CONFIDENTIAL

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for 1983/84 and with the agreed EFR for 1984/85. No additional calls on public expenditure are involved - although as you know we are under considerable pressure from the CBI to reduce electricity prices further for certain specific industries.

My proposals for a performance aim have also been thoroughly discussed between our officials and with the industry. I propose that the industry should aim to reduce its controllable costs by 4% over the period of the financial target (ie a 2% per annum reduction). I believe that, given the poor prospects for growth in sales of electricity, this is the most demanding aim which could be set while leaving the industry with some prospect of achieving it - a necessary condition if proper motivation and incentive to management is to be maintained. It will require cost savings beyond those already contained in the financial target assumptions. As it is, the projections on which it, and the financial target, are based include sales forecasts which are already beginning to look rather optimistic. Controllable costs for the purpose of the performance aim are defined as costs per unit sold (excluding the effect of fuel price changes, depreciation, rates and general inflation), so that a short-fall in sales will automatically increase costs per unit in the short term. We have agreed with the industry that the overall performance aim will be reflected by the Electricity Council in aims for each of the Area Boards and the CEGB. The Council and the Department will monitor performance against the aims and an account of progress will be included each year in the Annual Report.

A performance aim for the esi has not been set before and while I am satisfied that the present definition of controllable cost will provide an effective incentive to management, it is possible that in the light of experience we may be able to propose refinements. Taking this factor, together with the uncertainty in costs and sales movement over two years ahead into account, I do not think it would be right to set an aim for more than two years in the first instance. I do however attach considerable importance to the performance aim as a discipline on the industry and it would certainly be my intention that a new aim should be set to follow the first one.

I am under considerable pressure to set and announce a target quickly. I hope therefore that you will be able to accept these proposals.

I am copying this letter to the Prime Minister, the Chancellor, the Secretary of State for Industry, the Secretary of State for Scotland and John Sparrow.

Yours
Nigel

NIGEL LAWSON

ANNEX

MARGINAL COST PRICING OF ELECTRICITY

The Secretary of State for Energy's minute tothe Prime Minister of 18 October 1982 advised that, in the light of studies carried out by the consultants Coopers and Lybrand and by Government, current electricity prices were found to be higher than would result from a proper application of economic principles. Criticism focussed particularly on the capacity charge (representing about 20% of the esi's revenue recovery). it was generally agreed that in present circumstances of over-capacity in the industry, this should not contain cost elements related to construction of new capacity but should be based on the cost of retaining existing capacity. It was also proposed that prices should only reflect those overhead cost elements which are marginal, ie those which increase in porportion to increases in demand.

2. In subsequent discussions with theCEGB officials established that the 1983/84 Bulk Supply Tariff (BST) has in fact been constructed in the following way:

(i) The unit rates (which recover some 80% of the esi's revenue), calculated on a marginal cost basis, will recover some £5600 million;

(ii) The capacity charge related to the cost of retaining existing plant will recovery some £890 million, comprising some £470 million of plant related costs and some £520 million of overheads;

(iii) CEGB overheads amount in total to £810 million. To recover these in full, the balance of £390 million has been added into the capacity charge. An additional £480 million has been included, to bring the CEGB's profit up to about £300 million giving total revenue recovery of £7260 million which is consistent with a price standstill.

3. A marginal cost based tariff would raise £5600 million through unit rates and £890 million through the capacity charge. To this could be added whatever proportion of the £390 million balance of overheads was judged to be marginal in future. The Coopers Report, with which the Department agree, expressed strong doubts about this. However, even if the whole of this item were judged to be marginal, prices next year will be pitched almost £500 million above the level which could be justified by marginal cost pricing; even if it were thought necessary for accounting reasons for the CEGB to break even before interest this would still put 1983/84 prices some £300 million above economically justifiable levels.

COAL

4. AsCoopers and Lybrand, and the CPRS in their report on electricity pricing recognised, correct coal pricing must be an important part of correct electricity pricing. The 18 October 1982 minute to the Prime Minister indicated that

desirable changes in coal pricing policy could also lead to further reductions in electricity prices. Coal pricing policy is currently under review; in the meantime the CEGB are in 1983/84 continuing their past practice by assuming for electricity pricing purposes that the resource cost of coal at the margin is 95% of its average actual cost. In fact, under the agreement with the NCB concluded in November the discount offered by the NCB for the marginal tonne of coal is not 5% but 11%. Given present low world market prices for coal, it would be hard tojustify an electricity pricing policy which assumed that the marginal tonne of coal had the same resource cost as the average price charged by the NCB. If however the CEGB's energy rates were to be based on 100% of the financial costs of coal (rather than 95%), this would raise at most an additional £200 million in revenue. This would still leave 1983/84 prices substantially above those indicated by marginal cost calculations.

1984/85

5. Marginal costs and average costs are expected to move broadly in step. It follows that unless prices rise more slowly than unit costs, they are likely to remain significantly above the levels indicated by marginal cost pricing. The financial target proposals in fact envisage a small additional correction of under-pricing in 1984/85, equivalent to revenue of less than £100 million.

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Nat Ind

cc JU

Prime Minister (2)

MJS 15/2

From the Secretary of State

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

15 February 1983

Dear Nigel,

CEGB RESPONSE TO THE MMC REPORT

Thank you for your letter of 8 February.

I understand that neither you nor David Howell intend to intervene in the matter of the exclusive agreement between the CEGB and British Rail for the carriage of coal to power stations. I do not think we should lose sight of the respective MMC recommendation, since the agreement is clearly a major restriction on competition from other forms of transport, but I accept that for the purposes of this statement you should not go into the competition aspects.

I also agree with Leon Brittan that the reference to a further look by the MMC should be made more explicit, particularly in view of the need to make clear the regularity of the system of Competition Act references. I would have preferred a formulation which followed our announced policy that industries should be referred at least every four years, that is to substitute 'at least' for 'approximately' in the fifth line of paragraph 1 of your revised text. But if Leon wishes particularly to retain the form of words suggested in his letter of 10 February, I would not object.

In addition, with respect to our stance on the Parliamentary Control of Expenditure (Reform) Bill, I wonder if you could not welcome the MMC's report as a comprehensive and valuable contribution to the oversight of nationalised industries?

Finally, should not line 7 of paragraph 2 read "respect" and not "report"?

I am copying this letter to the recipients of yours.

Yours ever,

LORD COCKFIELD

Not Ind,
Gov e Elect,
Pt 7

Nat
Ind

01 211 6402

MANAGEMENT IN CONFIDENCE

The Rt Hon the Lord Cockfield, PC
Secretary of State for Trade
Department of Trade
1 Victoria Street
London
SW1H OET

15th February 1983

Dear Secretary of State

GAS AND ELECTRICITY LEGAL METROLOGY WORK

I have seen your letter of 19 January to Janet Young on this subject and also the Private Secretary letter of 31 January from the Prime Minister.

I do not wish to dispute that the metrology work of the Gas Standards Branch and the Electricity Meter Examining Service can perfectly well remain with my Department, although I believe that transfer to yours would have brought some real advantages. However I remain of the view that the Health and Safety Executive should assume the responsibilities for gas safety, including the regime for gas installers, as proposed in my letter of 4 August last. The Prime Minister has now agreed that this change should be made. Work on this is proceeding accordingly.

I am copying this letter to the Prime Minister, Janet Young, Norman Tebbit, Patrick Jenkin and Nicholas Ridley.

Yours sincerely

pp NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

Nat Ind, Gen Elect, Pt 7

CCJV.

Prime Minister (2)

MCS 11/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

MT

10 February 1983

Dear Nigel

STATEMENT ON CEGB'S RESPONSE TO THE MMC REPORT

Thank you for sending me a copy of your letter of 8 February and the revised statement on publication of the CEGB's response to the MMC Report on the Board.

I am grateful to you for taking account of most of the drafting comments in my letter of 11 January. But the statement still does not reflect the point, which both Arthur Cockfield and I made, that it should be made explicit that we are expecting to ask the MMC to look at this Board again in two or three years' time. With this in mind, I suggested that the following could be added at the end of the answer:

> "I anticipate that My Rt Hon Friend the Secretary of State for Trade will wish to refer the efficiency and costs of the CEGB to the Monopolies and Mergers Commission again in 2-3 years' time."

I very much hope that you can include this in your answer. The CEGB are more likely to implement the agreed reforms with vigour if it has been made clear to them that another MMC investigation is to take place within a defined period of time. Moreover, the more the impression that Government can give that the MMC mechanism provides a regular and systematic means for investigating nationalised industry efficiency, the better our case in resisting the C & AG Bill. I naturally attach particular importance to the latter point at the moment.

I am sending a copy of this letter to the Prime Minister, other Members of E(NI), Sir Robert Armstrong and John Sparrow.

LEON BRITTAN

Prime Minister (2)

MWD 8/2

01 211 6402

The Rt Hon Lord Cockfield
Secretary of State for Trade
1 Victoria Street
London
SW1H OET

8th February 1983

Dear Arthur

Thank you for your letter of 12 January about my proposed statement on publication of CEGB's response to the MMC report on the Board.

will request if required.

I have taken into account your comments together with those of Leon Brittan, David Howell and Norman Lamont, in the revised text attached. I propose to publish this by way of written answer next week.

In the light of the Prime Minister's comments (her Private Secretary's letters of 24 December and 28 January) I have reconsidered whether simultaneously to publish my letter to Sir Walter Marshall setting out his objectives as CEGB Chairman. I do not think that publication would be embarrassing but, as I mentioned in my letter of 22 December, there could be difficulties for the NCB if it resulted in pressure for publication of my similar letter to Norman Siddall. The NCB's current plan is to publish that letter in its Annual Report in July and I have therefore decided to treat Walter Marshall's letter in the same say.

Copies of this go to the Prime Minister, other members of E(NI), Sir Robert Armstrong and John Sparrow.

Yours
Nigel

NIGEL LAWSON

GOVERNMENT STATEMENT ON CEGB'S RESPONSE TO THE REPORT OF THE MONOPOLIES AND MERGERS COMMISSION

1. I have now received the response of the Central Electricity Generating Board to the 1981 Report of the Monopolies and Mergers Commission. This report was part of the Government's policy whereby the activities of the CEGB in common with those of each major nationalised industry will be scrutinised by the MMC approximately every four years. I am placing copies of the Board's response in the Library of the House. This gives the Board's comments on the MMC's findings and describes the actions which they have since taken to meet the Commission's recommendations.

2. The Commission found that in most of the areas within its Terms of Reference, particularly those relating to cost control, the management of plant maintenance, and management information systems, the CEGB's practices were broadly satisfactory. A number of fields were identified where improvements could be made, and in one area, namely the appraisal of new investments, the Commission found that the Board showed serious weaknesses; in this report its conduct operated against the public interest. The most important part of the CEGB's response is therefore addressed to this finding.

3. Against the background of my statutory responsibility to approve the Board's investment programmes, my Department has had discussions with the Board about its approach to investment appraisal, paying particular attention to methodology and the assumption employed. The Board in its response confirms that it has now adopted techniques whereby new investment is assessed against a wide range of possible economic futures, and against similarly wide ranges of assumptions. They have also amended their practices in determining for investment purposes all the central estimates of the cost and performance factors which are relevant to major capital projects. Their Statement of Case for Sizewell B reflects this approach. I consider that the Board's appraisal practices should benefit considerably from the changes they have introduced in order to meet the Commission's criticisms. Accordingly I do not propose to issue a direction under Section 12 of the Competition Act.

4. Nevertheless my Department will continue to explore with the Board its development of investment appraisal techniques, and to scrutinise carefully their application to particular projects, within the framework of my responsibility generally to monitor the performance of the CEGB and the Electricity Supply Industry. We shall also continue to set the Board demanding financial targets, external financing limits and performance aims. I look to the industry to continue to improve the efficiency with which it uses its capital and manpower resources, and generally to reduce its costs so that electricity prices to consumers can be kept as low as possible.

5. The Board's response also covers a number of areas such as demand forecasting, quality assurance, stock control, manning levels for engineering and management staff and power station construction to which the Commission drew attention and where they considered the Board's policies and procedures could profitably be reassessed. The Commission also commented on the Board's Bulk Supply Tariff which has since been the subject of a review by the industry and on which I made an earlier statement to the House on 12 November.

6. Parts of the Commission's report were addressed to the CEGB's relationship with various public sector trading bodies. In particular, the Commission criticised the basis of the Joint Understanding between the CEGB and NCB, under which, in return for guaranteed quantities being taken by the CEGB, the NCB undertook to maintain its price increases at no more than the inflation rate. The new coal supplies arrangement negotiated between the two Boards last month reflects the continuing development of their commercial relationship.

7. The Commission also saw defects in the present trading arrangements between CEGB and British Nuclear Fuels Limited. They noted that the relationship was predominantly of monopoly supplier and purchaser and were concerned that the Terms of Trading might not sufficiently promote efficiency. This matter is being studied urgently in the re-negotiation of the Terms of Trading between the two organisations.

8. The Commission criticised the agreement between CEGB and British Rail for the carriage of coal to power stations. This can be pursued through the normal channels of commercial negotiation between the two Boards but the Government is keen to ensure that here, as in other fields, there is increased efficiency and cost cutting.

9. The Board's detailed response to the MMC Report reflects the importance which the new CEGB Chairman, Sir Walter Marshall, attaches to the issues raised by the Monopolies Commission. He and I regard as particularly important the CEGB's responsibility for the timely and successful completion of major construction projects, and I note with approval the strenuous efforts the Board has been making to improve performance at its construction sites and the management of its major projects.

not Ind,
Gary e elect, p47

- 8 FEB 1983

P.0958

PRIME MINISTER

Gas Appliance Retailing:
E(83)1

BACKGROUND

Although the British Gas Corporation (BGC) has no statutory monopoly over the retail sale of gas appliances, it has a dominant market share. In a report published in July 1980, the Monopolies and Mergers Commission (MMC) concluded that this acted against the public interest. The MMC said that BGC was able to demand advantageous terms from suppliers; that it subsidised sales of appliances from sales of gas, thus inhibiting competition; and that the close relationship between the BGC and the appliance manufacturers had reduced competitive pressures on the latter to increase efficiency.

2. The Ministerial Sub-Committee on the Disposal of Public Sector Assets (E(DL)) accepted the MMC's analysis and discussed two main ways of opening up the selling of gas appliances to private sector competition:

(i) require the BGC to withdraw from gas appliance retailing and to dispose of its showrooms over a period of five years;

(ii) hive off retail sales of gas appliances into a separate subsidiary; this could be sold to the private sector if it developed into a viable business.

3. Views in E(DL) were divided; and the matter was referred to the Ministerial Committee on Economic Strategy. This decided in favour of requiring withdrawal over a period of five years (E(81)21st Meeting, Item 1). The decision was announced on 8 July 1981.

4. When the decision was taken it was recognised that new statutory provisions would be required both to enforce disposal and to strengthen the safety requirements on installers of gas appliances. Because of pressure on the

1981-82 legislative programme, the Cabinet decided not to promote such provisions in full (CC(81)32nd Conclusions, Minute 5); but powers were taken in the Oil and Gas (Enterprise) Act to enforce disposal.

5. In his memorandum E(83)1 the Secretary of State for Energy argues that it is not realistic to proceed, at this stage in the life of the present Parliament, with the 1981 decision. Instead, he proposes that the Government should welcome proposals which the BGC has put forward for separating the appliance business in the Corporation's accounts from other business. Any showrooms shown by the new accounting procedures to be uneconomic would be closed. The BGC would make its services and spare parts available to the private sector on the same terms as to its own retailing business. It would undertake not to indulge in unfair competitive practices. The Government would review the position in the next Parliament in the light of progress. By implication, it would reserve the right to revert to the course announced in July 1981. It might alternatively decide to privatise the new separate business.

6. A number of your colleagues have expressed reservations about these proposals. In particular, the Chancellor of the Exchequer (letter of 8 December) has suggested that they are an inadequate response to the MMC recommendations; that private sector retailers would be unwilling to rely on the BGC for important supplies and services and would therefore be unwilling to enter the market; and that the possibility of eventual privatisation is at best uncertain, and could even be reduced by the Secretary of State for Energy's proposals.

7. Mr Sparrow (letter of 3 February) has written, in principle supporting the proposals in E(83)1, but suggesting that the accounting methods for the separate appliance business should be agreed in advance with the Secretary of State.

MAIN ISSUES

8. The main issues before the Committee are as follows:

(i) Should the 1981 decision be reaffirmed; the proposals in E(83)1 be accepted; or some alternative be adopted?

(ii) Does the decision under (i) above require any further work to be done?

(iii) Is any announcement on the Government's decision required?

The decision of substance

9. The main arguments for and against the varios possibilities are set out in paragraph 4 of E(83)1. There are, however, some additional points which you may wish the Committee to consider:

(a) The difference between course 4(d), which the Secretary of State for Energy favours and course 4(c), which he regards as unacceptable, is that the BGC's proposals are presented as a possible step on the way to implementation of the Government's original 1981 proposals. As he says: "We should review the position in the next Parliament when the increased opportunities for competition have had a chance to have effect; with privatisation, preferably in the form of the flotation or sale of one or more going concerns as an important option". If this is brought out strongly (as it will need to be if the Government is not to appear to have climbed down), is the Secretary of State satisfied that there will nevertheless be much less risk of controversy and trouble than would be involved in pressing ahead now with the original proposals?

(b) How likely is it, under the BGC's proposals, that private sector retailers will enter the market? To the extent that the private sector retailers expect BGC to remain active in appliance retailing they may be deterred by the costs of entry. To the extent that they expect privatisation they may prefer to wait and try to buy BGC's established business rather than take the risk of creating new competition.

Further work

10. It may be necessary to commission further work, depending on the main decisions taken by the Committee:

(a) If the Committee accepts the proposals in E(83)1, it may be necessary to give further consideration to the basis on which the separate retailing business is established. Mr Sparrow's letter of 3 February indicates one area where further thought may be required (accounting methods). Are there others: in particular, are there any ways in which private sector involvement could be encouraged?

(b) If the Committee reaffirms the 1981 decision, is any further work needed on safety requirements? These are mentioned in paragraph 2 of E(83)1; they were also a prime cause of concern to consumer interests and others during the discussion of the original MMC report.

If further work is needed, it will probably be appropriate to invite the Secretary of State for Energy to undertake it, consulting other Ministers as appropriate, and to report the results to the Committee.

Announcements

11. If the Committee decides to change the 1981 decision a public announcement to that effect will presumably be required. If the 1981 decision is reaffirmed there is no formal need for a public announcement; but it would be necessary to convey the Government's decision to the BGC, and the matter would become public. In either event therefore an announcement would be desirable. You will probably wish to invite the Secretary of State for Energy to circulate any text in draft to the Committee.

HANDLING

12. You will wish to invite the Secretary of State for Energy to introduce his memorandum. The Secretary of State for Trade (because of his interest in the MMC) and the Chief Secretary, Treasury (because of the Treasury's

general interest in the disposal programme) will wish to contribute to the discussion. Other colleagues will also wish to speak, either from the standpoint of their own disposal programmes or because of the general political and public interest in the disposal of gas showrooms. Mr Sparrow may wish to elaborate the ideas in his letter of 3 February.

CONCLUSIONS

13. You will wish the Committee to reach conclusions on:

(i) whether it accepts the proposals in E(83)1, or favours one of the alternatives described in paragraph 4 of that memorandum;

(ii) whether any further work is needed; and

(iii) any announcements of the Government's decision.

PG

P L GREGSON
Cabinet Office.
8th February 1983

for E folder

MLS 4/2

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JU818
Secretary of State for Industry

4 February 1983

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

GAS APPLIANCE RETAILING

I have seen a copy of Nigel Lawson's letter to you of 5 January on this subject, together with the earlier correspondence. You invited views and I am writing with these in anticipation of the E Committee meeting next Thursday.

2 On industrial grounds there are very good reasons for favouring progress towards the appliance retailing changes we all desire. However, some parts of the gas appliance industry are fearful that too precipitate a change from their dependence on British Gas retailing outlets, together with British Gas marketing, spares and service back-up, will lead to a collapse of the market and open up opportunities for imported appliances to gain market share at the expense of UK manufacturers. Although there are real risks, I believe that this is altogether too negative a reaction. The more forward looking members of the industry acknowledge the stultifying effect of the over-close relationship with BGC. Spurred by genuine competition to undertake more design and marketing themselves, the industry may at last be able to make some impact in export markets as well as hold on to sales at home.

3 That is why John MacGregor suggested a compromise proposal at E Committee of a fairly rapid disposal of the majority of the BGC showrooms whilst allowing them to retain a presence in the market for the time being.

4 Provided that there were proper safeguards to ensure continuity of installation, spares and service I believe that the Society of British Gas Industries, despite the widespread concern in the Industry, would still welcome a shift away from the over dependence on BGC if a reasonable transition period were proposed for this change-over.

Nat Ind, Gas & Elect, pt 7

5 Whilst our objective, therefore, should remain as the transfer of British Gas retailing activities to the private sector, we have to recognise the practical problems at the moment, especially those of timing. The consumer organisations and many other bodies have all made known their opposition to British Gas being forced to stop retailing. As Nigel Lawson points out, the forced early closure of showrooms by reluctant BGC, with the possibility of industrial action, may not be the most attractive and timely thing to do at this precise moment, given the amount of public and Parliamentary criticism which would inevitably be generated during a run-up to the election. I therefore conclude that it is better to welcome the BGC proposals as a modest, but interim, step in the right direction by BGC.

6 We must make it clear, however, that it is acceptable only as an interim solution. Therefore, whilst we welcome the proposals we should make it clear that we have not accepted them as the full answer to the Monopolies and Mergers Commission criticisms. In this way we reserve our options for more radical action at a later date.

7 British Gas Corporation will have every incentive to make their proposals work. Meanwhile the private sector can go on enlarging its stake in gas appliances sales and the appliance industry continue to reduce its dependence on British Gas, without too sudden changes which might adversely affect the manufacturers.

8 I am copying this letter to the Prime Minister, to Members of E Committee and to Sir Robert Armstrong.

Yours ever

Patrick

CONFIDENTIAL

for E folder

Prime Minister

Mcs 3/2

The fact is that there is a lot of oppn. from our side of the House. M.T.

PRIME MINISTER

POLICY UNIT
3 February 1983

cc Mr Walters

E, 10 FEBRUARY: GAS APPLIANCE RETAILING

We are surprised that Nigel Lawson comes down so firmly against pressing ahead with the July 1981 decision of E to begin forced sale or closure of the gas showrooms. The BGC proposals would leave BGC in a dominant position in the retail trade, with a potential for great influence over the manufacturers; and we do not believe that what they propose provides a stepping stone towards a more radical approach. It is more likely that going down the BGC route will be held to be a reason for not adopting the policy which we have already decided is right.

You may want to remind your colleagues of two crucial points:

(i) Gas appliance retailing provides a unique physical manifestation of what this Government is in business to get rid of: unnecessary state monopoly. If we do not implement our strategy here, what hope is there in less clear cut cases;

(ii) Far too many decisions are now being postponed until after the election. It is wrong to assume that courses of action against which there seem to be overwhelming objections now will suddenly become straightforward in the post-election period.

We think you should also challenge Mr Lawson on his three objections:

(i) That sale or closure would be a lengthy process, which could not be completed before the election. That is a reason for starting now, not later; and completion before the election is not as important as starting before then;

(ii) That there would be widespread public and Parliamentary criticism, on both sides of the House. We do not see why this should be so. People are well accustomed to buying major electrical appliances from private firms without the slightest anxiety about safety. And the vast majority of our supporters in the House will welcome a move in the direction of reduced state monopoly;

(iii) That there would be a possibility of industrial action in the gas industry. This certainly needs to be considered, particularly since David Basnett has made it clear that he would be prepared to try it. But if we wait until the present pay negotiations are concluded, which is a matter of weeks rather than months, we doubt if showroom closures would prove a sufficiently provocative issue to give rise to serious industrial action.

FM

FERDINAND MOUNT

for 'E' folder

MCS 4/2

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

cc J.VI
Nat. Ind.

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765
From: John Sparrow

Qa 06248

CONFIDENTIAL

3 February 1983

The Rt Hon Nigel Lawson MP
Department of Energy
Thames House South
SW1

Dear Nigel,

Gas Appliance Retailing (E(83)1)

In principle, as you are aware from our work on the State Monopolies, the CPRS favours removing competitive activities from monopoly nationalised industries. In the case of gas showrooms there is evidence of inefficiency and losses subsidised by profits earned from the monopoly supply of gas. But for the reasons given in your paper, I agree that option (d) is the best course to follow at present, and I support your recommendation.

However, it occurs to me that there might be some difficulty in practice with BGC's first proposal (your paragraph 3(i)). This provides that "costs and revenues would be fairly allocated and subject to scrutiny by their auditors". The interpretation of what is fair leaves a great deal of room for manoeuvre; auditors come to the view that financial results do not show a true and fair view only after a great deal of soul searching and only if a course of action is plainly outside a wide band of acceptability.

I suspect that the reported results of the appliance retailing business will be significantly affected by the accounting bases on which costs and revenues are allocated, and services rendered, such as the collection of gas bills, are charged.

Acc. matters.

If there is a potential problem here, it would be better to sort it out at the conceptual stage, when accounting methods are determined, than when the first set of accounts is produced on whatever basis has been chosen. Instead of leaving BGC to determine these matters with the auditors (who, after all, are <u>your</u> auditors, not BGC's - under the statute their job is to report to you on the Board's stewardship of the business), it might be better for BGC to determine the basis it proposes to adopt and for this to be reviewed, by the auditors (or by independent consultants) in a detailed report to you. You can then be satisfied that the proposed bases are acceptable, before accounts are prepared.

I am sending copies of this letter to the Prime Minister, the other members of E and Sir Robert Armstrong.

Yours sincerely,

John.

John Sparrow

Not Ind

RM

10 DOWNING STREET

From the Private Secretary

31 January, 1983

Dear Caroline,

The Prime Minister has seen a copy of your Secretary of State's letter of 11 October to the Lord Privy Seal, which records Ministers' agreement, subject to her approval, that the responsibilities at present exercised by the Department's Gas Safety Branch should be transferred to the Health and Safety Executive.

The Prime Minister agrees that this change should be made. She understands that the Health and Safety Commission and its Executive will report to your Secretary of State on the discharge of these responsibilities. She also believes that the new function of controlling gas appliance installers should be discharged by the HSE on the same basis.

The Prime Minister notes that the question what form the controls should take is still unresolved. She agrees with your Secretary of State that it is presentationally important to demonstrate that the Government is introducing an adequate safety regime to maintain and perhaps improve gas safety standards when the arrangements for gas appliance retailing are liberalised. But she does not think that demonstration of this fact necessarily rests upon the introduction of an exhaustive licensing system. She believes that the aim should be to ensure a control regime that is as unbureaucratic, cheap and unburdensome to industry as is commensurate with effective regulation; the views of the Health and Safety Commission and its Executive, as the experts in the operation of such controls, should be given due weight.

The Prime Minister also notes that the question of a transfer of responsibilities for some aspects of legal metrology from the Secretary of State for Energy to the Secretary of State for Trade is outstanding. She believes that, in principle, such a transfer is desirable, and that bringing together the main responsibilities for legal metrology in the National Weights and Measures Laboratory should benefit the services offered and lead to a more economical use of resources in the longer term. She hopes that the outstanding

/points

CONFIDENTIAL

points of detail can be settled quickly, so that work on re-allocating your Department's Gas Safety Branch and Electricity Metering Examination Service can proceed.

I am copying this letter to Felicity Everiss (Department of Employment), John Whitlock (Department of Trade), Caroline Varley (Department of Industry), Paul Cann (Lord Privy Seal's Office), Jane Swift (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Yours ever,

Tim Flesher

(Timothy Flesher)

Miss C.E. Brooks,
Department of Energy

CONFIDENTIAL

GP

PSE type as in RTA minute

Ref. A083/0319

MR FLESHER

The Prime Minister has now agreed that the responsibilities at present exercised by the Department of Energy's Gas Safety Branch should be transferred to the Health and Safety Executive.

2. This clears the way for you to write to the Private Secretary to the Secretary of State for Energy on the lines of the draft attached to my minute of 2 November.

Approved by
ROBERT ARMSTRONG
and signed in his absence.

28 January 1983

CONFIDENTIAL

HMT D/M da
DOE DOT
SO
D/Ind CO
MOT CPRS.
CSO

10 DOWNING STREET

From the Private Secretary

28 January 1983

CEGB Response to the MMC Report

I wrote to you on 24 December, recording the Prime Minister's views about the publication of Mr. Lawson's objectives letter to Sir W. Marshall.

I should like to confirm, lest there is misunderstanding on the matter, that the Prime Minister recognises that the Government is committed to publishing some statement of objectives for each nationalised industry. She remains content with the three-tiered approach suggested by your Secretary of State in his minute of 27 July.

Her reservations, however, were about the publication of your Secretary of State's letter to Sir Walter Marshall. She hoped that, because this would be the first such letter to be published, that you would take particular care to ensure that what was published would not be embarrassing or set unwelcome precedents.

I am sending copies of this letter to the Private Secretaries to other members of E(NI), Sir Robert Armstrong and John Sparrow.

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

CONFIDENTIAL

Qa 06230

To: MR SCHOLAR

From: JOHN SPARROW

26 January 1983

CEGB Response to the MMC Report

1. As you know there has been some misunderstanding (particularly in the Department of Energy) about your letter of 24 December. I attach a short note that you might like to send out just to set the record straight. The key point is, of course, that the Prime Minister remains committed in principle to the publication of objectives (Willie Rickett's letter of 9 August). But in the case of the CEGB letter, attached to the Secretary of State for Energy's letter of 22 December, she was unhappy about some parts of the text.

2. You might consider expanding the third paragraph of the attached note to show the kind of change the Prime Minister required.

JS.

Att

CONFIDENTIAL

Pl type

CONFIDENTIAL

Draft Letter from Michael Scholar to ~~Jonathan~~ Julian West

MES 26/1

CEGB Response to the MMC Report

~~I am writing to clear up a misunderstanding that may have arisen as a result of an apparent conflict between my letter~~

I wrote to you ~~of~~ on 24 December, recording the Prime Minister's views ~~and Willie Rickett's of 9 August~~ about the publication of Mr Lawson's objectives letter to Sir W Marshall ~~Nationalised Industry Policy letter or Objectives.~~

I should like to confirm, lest there is misunderstanding on the matter, that the Prime Minister recognises that the Government is committed to publishing some statement of objectives for each nationalised industry. She remains content with the three-tiered approach suggested by your Secretary of State in his minute of 27 July.

~~She had~~ Her reservations, however, were about the publication in full of your Secretary of State's letter to Sir Walter Marshall. ~~[In her view some at least of the objectives should be paraphrased - for example ....]~~

She preferred that, in this instance, a special letter be published recording pass guidance to Sir W Marshall.

I am sending copies of this letter to the Private Secretaries to other members of E(NI), Sir Robert Armstrong and John Sparrow.

Not Ind
Case Filed
PA7

CONFIDENTIAL

✓JV

Prime Minister (4)

MLS 25/1

01 211 6402

CONFIDENTIAL

John Sparrow Esq
Central Policy Review Staff
70 Whitehall
London
SW1A 2AS

25th January 1983

Dear John

CPRS REPORT ON ELECTRICITY PRICES

Thank you for your letter of 17 September. I do indeed agree with the main thrust of the conclusions and recommendations in the CPRS report. Your analysis of the impact of electricity prices on British industry was particularly valuable.

Taking the report's recommendations as you have listed them:

a. I agree that more of our electricity should be generated by nuclear power but, for the moment, we must await the outcome of the Sizewell inquiry;

b. I am discussing with the CEGB and NCB proposals to relate the price charged for coal more closely to import prices;

c. I recognise the case for a longer term scheme for load management. The Electricity Council is already considering what should replace the present scheme when it expires in March 1985, taking account of developing technology;

d. The present Area Board "flexibility" arrangements were introduced less than two years ago, to help intensive electricity users face overseas competition. However, the successor to the present load management scheme might replace them in due course;

e. I am discussing the possibilities for more sophisticated tariffs with the industry;

f. I agree that the terms for the transfer of electricity between private generators and the esi should encourage competition, though without subsidy on either side. This principle is reflected in the Energy Bill which is now in Committee;

g. I agree that the case for the sale or lease of CEGB plant to customers should be explored and applications considered on a case by case basis. However, your report says, except perhaps in a small number of cases, it is doubtful whether the sale of CEGB plant on economic terms would be attractive to industry and there is no case for a sale on subsidised terms.

I am sending copies of this letter to recipients of yours.

Yours ever
Nigel

NIGEL LAWSON

2 pp/s

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
SW1P 4QJ

24 January 1983

Dear Nigel

I have seen your letter of 22 December and Leon Brittan's and Arthur Cockfield's comments.

Like Arthur Cockfield I am not clear what is implied by the wording of paragraph 5 of the draft Government response to the MCC report on the CEGB. If the agreement between the CEGB and BR is not to remain a commercial matter between the two Boards as it is now then I would be grateful to know what changes you have in mind to make.

I am copying this letter to the Prime Minister, the other members of E(NI), Sir Robert Armstrong, and John Sparrow.

Yours ever

David

DAVID HOWELL

Nat Ind
Gas + Elec Pricing Policy Pt 7

27 JAN 1983

Nat- Ind

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

~~cc~~ J.V.

From the Secretary of State

NBPM
MES 19/1

The Rt Hon Baroness Young
Lord Privy Seal
Management and Personnel Office
Whitehall
London
SW1A 2AZ

19th January 1983

Dear Janet,

GAS AND ELECTRICITY LEGAL METROLOGY WORK

I have now received and considered the further report on this subject which I commissioned in the Autumn for the reason set out in my letter of 24 August to you. I understand that your officials and Nigel Lawson's have already seen a copy.

Pt 6

It is clear from this report that the issues involved are less simple than appeared to be the case during the preliminary examination by the inter-Departmental Working Group which reported earlier in the year on such a possible transfer in the context of the gas safety considerations.

There may be some theoretical advantage in the idea of bringing together in one Department the legal metrology work of the National Weights and Measures Laboratory and of the Gas Standards Branch and the Electricity Meter Examining Service. But there will unquestionably be no operational or cost advantage from such a move. There are also continuing management problems associated with the work which make the transfer of departmental responsibility so soon after major reductions in the complement - of the Gas Standards Branch in particular - unattractive. Those problems were clearly set out in David Howell's paper to E(EA) in June 1981 (E(EA)(81)24) when his proposal was to transfer the work to a new non-departmental body and are covered again by the report I commissioned.

From the Secretary of State

Because of these factors I do not accept that there would be any net benefit from the proposed change. Although I fully appreciate Nigel Lawson's position I do not therefore think it would be appropriate to have this work transferred to my Department. Reorganisation for its own sake, or simply to satisfy theoretical concepts of tidiness, always proves in practice to be wrong.

I am copying this letter to the Prime Minister, Nigel Lawson, Norman Tebbit, Patrick Jenkin and Nicholas Ridley.

Yours,
Arthur

LORD COCKFIELD

Nat. Ind: Gas + Elec Pt 7

Nat Grid

Prime Minister (2)

MCS 14/1

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the Minister of State

Norman Lamont MP

The Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

14 January 1983

Dear Nigel

CEGB RESPONSE TO THE MMC REPORT

You invited with PM agreement to your proposals to publish the CEGB's response to the Monopolies and Mergers Commission's report on the CEGB's operations. I am replying as Patrick is in the Far East.

I am content that the CEGB's response be published as soon as possible. It is overdue and, as you say, would now be timely in view of the Sizewell inquiry. I have one observation to make on the draft answer with which you propose to announce the response. For all that the response says about the CEGB's agreement to review and improve its methods of investment appraisal it does not actually offer any reworked calculations which meet the point made at paragraph 5.171 in the report, which is evidently uppermost in the minds of those hostile to the CEGB proceeding with the PWR at Sizewell. namely that "the Board must demonstrate that there is a strong possibility that the central estimate of Net Economic Cost of nuclear plant will be less than the expected net annual cost of maintaining or refurbishing coal-fired plants."

I am aware that the MMC report is about the methods of operation of the CEGB, not about particular investment decisions, and that therefore it is reasonable for the CEGB to restrict itself to commenting on its methods in its response. However, in view of the current public interest in the PWR, the response is not adequate on its own and needs, I think, to be linked with the CEGB's Statement of Case to the Sizewell inquiry in your written answer.

I am copying this to the Prime Minister, other members of E(NI) Committee, Sir Robert Armstrong and John Sparrow.

Yours

Norman

NORMAN LAMONT

Nat Ind,
Gas & Elect, Pt 7

14 JAN 1983

BGG

CG/JV.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

NBPM

MUS14/1

My ref: H/PSO/19031/82

Your ref:

13 January 1983

Dear Nigel,

TPM.

Thank you for sending me a copy of your letter of 22 December to Lord Cockfield enclosing the proposed statement on the CEGB's response to the Report of the Monopolies and Mergers Commission.

I have no comments to make on the statement, nor on its possible effect on the Sizewell inquiry, beyond agreeing that it would be prudent to have it published as soon as possible, given that the main hearing began on the 11th of this month. I note that your Department will continue to explore with the Board its development of investment appraisal techniques, and no doubt your officials will continue to keep in touch with mine on aspects in which my Department has an interest.

I am copying this letter to the recipients of yours.

Tom

TOM KING

The Rt Hon Nigel Lawson MP

CONFIDENTIAL

CE JV

2pps

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

ABPM
MLS 14/1

13 January 1983

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

Dear Nigel

GAS APPLIANCE RETAILING

Thank you for your letter of 5 January. You have also seen Arthur Cockfield's letter to me of 7 December and Michael Heseltine's of 29 December.

I note your arguments about the political dimension of this issue. I believe that the most appropriate course is for the subject now to be discussed in E(DL). I should be grateful if the Cabinet Office would take the necessary steps to arrange this.

I am copying this letter to the Prime Minister, to other colleagues on E Committee and to Sir Robert Armstrong.

GEOFFREY HOWE

CONFIDENTIAL

14 JAN 1983

CONFIDENTIAL

cc JV

Prime Minister

The Chief Secretary suggests:

(a) we should not suggest the Government is satisfied entirely with the performance of the CEGB;

letter from me?

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

(b) the CEGB should be referred to the MMC again in 2-3 years; and

(c) that Nigel Lawson should publish his letter to Sir Walter Marshall.

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

11 January 1983

WR 12/1

c) Surely we can summarise the contents of the letter without publishing it. MT

CEGB RESPONSE TO THE MMC REPORT

I have seen your letter to Arthur Cockfield of 22 December enclosing the draft of a written answer on the CEGB's response to the Report by the MMC on the Board's efficiency.

(a) While the CEGB seem to have accepted most of the criticisms made, particularly over their investment appraisal techniques, I think it would be unwise to suggest that the Government is yet entirely satisfied with the performance of this Industry. The new Chairman has been in post for a few months only; reforms of a very large organisation of this kind are bound to take time; and, as you well know, we face continued criticism about their costs and, hence, prices to industrial consumers. We should also bear in mind, I suggest, the possibility that we might wish to make changes to the structure of the industry in due course.

With this in mind I propose that your draft answer be amended as follows:

(a) paragraph 2 include new sentence on the following lines

"A number of other areas were identified where improvements in the Board's practices could be made.

(b) paragraph 4 add to the last sentence:

"; and generally to reduce its costs so that electricity prices to consumers can be kept as low as possible".

(b) I think that it would also be useful to say explicitly that we are expecting to ask the MMC to look at this Board again in a few years time, in line with the 4-year cycle for major references of nationalised industries. Subject to Arthur Cockfield's agreement, you could add to the end of your answer:

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"I anticipate that my Rt Hon Friend the Secretary of State for Trade will wish to refer the efficiency and costs of the CEGB to the Monopolies and Mergers Commission again in 2-3 years time"

(c) You said in your letter that you were still undecided about whether to publish with the answer your letter to Sir Walter Marshall on the objectives for the CEGB. I understand the delicacy of the current position over the NCB, but I do hope that you will feel able to take a slight risk and publish this letter. The letter to Mr Siddall was drafted specifically so that it could be published without causing too many difficulties. The letter to Sir Walter Marshall includes a number of points - such as on electricity prices for industry and cost-control - where it would be useful for the Government to be seen to be taking a firm line with the Industry. The judgement on timing of publication is for you, but clearly the longer the delay the less the impact.

I am copying this letter to the Prime Minister and other members of E(NI) Sir Robert Armstrong and John Sparrow.

Leon

LEON BRITTAN

Nat Ind

Gas & elec

Nat. Ind. EXJV

Prime Minister (2)

Mrs 6/1

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1

5 January 1983

Dear Chancellor,

mr

GAS APPLIANCE RETAILING

Thank you for your letter of 8 December.

My letter of 25 November did not recommend that we "accept" BGC's proposals - which have been extracted from them only with very considerable difficulty - as being an adequate response to the MMC report, merely that we should welcome them as making commercial sense and constituting a step in the right direction. We would not therefore be reversing the policy announced to Parliament, but in effect deferring a decision to implement it until the next Parliament. Although I accept Arthur Cockfield's point, in his letter to you of 7 December, that our public presentation of this would need careful consideration, I do not believe it presents an insurmountable problem.

If the Government is not prepared to welcome BGC's proposals as making commercial sense, then we must consider the alternatives:

(1) We could press ahead with the decision announced in July 1981. We would need to decide whether BGC should be required to sell their appliance retailing activities as going concerns or to dispose of some or all the showrooms, and then to consult BGC on the form of the necessary Direction. There would be widespread public and Parliamentary criticism, on both sides of the House, as well as the possibility of industrial action in the gas industry. The forced sale or closure of showrooms would be a further lengthy process. In short, this is not a realistic or politically intelligent option: we could not achieve our objective before the Election and we would simply be inviting adverse publicity and creating divisions within the Party during the crucial pre-election period.

(2) We could do nothing. BGC might or might not wish to implement their proposals anyway and I could not prevent them from doing so. The Government would still be faced with the presentation problem of continuing to delay implementation of the decision announced in July 1981 and if BGC were to make public their proposals it would be very difficult not to endorse them as being commercially sensible.

On the substance of BGC's proposals, restructuring the Appliance Retailing Account based on twelve regional profit centres will provide a statement of revenue costs and profits which will enable us to make the comparisons with private businesses suggested by the MMC. On the whole, I do not believe it would be sensible to set profit levels in advance but we would of course be able to monitor the profitability of the activity.

The MMC's requirements in relation to buying prices would be met in full and BGC have also agreed that their buying arrangements with the manufacturers would be open to scrutiny by the OFT.

You suggested that BGC would be unlikely to close or dispose of their town-centre showrooms. There is, of course, no suggestion in the MMC Report that BGC should be obliged to close or dispose of showrooms according to their location - the criterion for closure would be profitability.

Thus BGC's proposals do not fall short of the MMC's less radical option. If they are implemented properly, and I have an assurance from the Corporation's external part time members that they would be, BGC's dominance in the market should be reduced. My discussions with the leading private retailers do not bear out your suggestion that it would be implausible to expect them to make the necessary investment. Indeed they have indicated to me that they would welcome the proposed measures.

I strongly believe that the only sensible way forward at this stage is to welcome the BGC proposals as a step in the right direction, leaving the way clear to take action in the next Parliament. If the proposals are implemented and BGC achieves profitability at a significantly reduced market share this opens up the possibility of floating a company or companies and privatising the showrooms that way. Hitherto, we have been unwilling to consider this option, despite its manifest advantages, since so long as BGC have a monopoly of appliance retailing it would mean replacing a public sector monopoly by a private sector monopoly, which is unacceptable.

I am copying this letter to the Prime Minister and in view of the wider implications of the issues, to other colleagues on E Committee (together with the previous correspondence to those who have not seenit) as well as to Sir Robert Armstrong.

Yours sincerely,

C E Brooks

pp NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

Nat. Ind: Gas Electric Part 7

5 JAN 1983

Nat Ind
2

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211 6402

Prime Minister:

Michael Scholar commissioned this for Energy after your conversation with him about capacity in the electricity industry

JJ 29/12

Michael Scholar Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

29th December 1982

Dear Mr Scholar

ELECTRICITY PRICES

You asked last month for additional clarification of the reasons for the electricity price standstill next year.

This was discussed in my Secretary of State's minute to the Prime Minister on 18 October; and the issues summarised in paragraph 5 of the note by officials attached to John Gieve's letter to you of the same date.

One important element in the standstill is a real reduction in the CEGB's capacity charge (which accounts for about 16% of retail prices), to reflect the fact that in present circumstances of over capacity in the industry, an increase in demand would not require the bringing forward of new capacity but only deferment of retirement of existing stations - a lower cost.

The CEGB's case for ordering Sizewell PWR does not rest on the need for new capacity but primarily on the potential for cost saving through displacement of existing more expensive plant. In that sense, Sizewell will be ordered ahead, and independently, of growth in demand. Sizewell costs should not and do not therefore feature in electricity prices which are related to the cost of the marginal unit of demand.

As Mr Lawson noted in his 12 November statement, the other important factor underlying the price standstill is improved thermal efficiency resulting from improvements in CEGB plant performance.

Yours sincerely

pp MISS C E BROOKS
Private Secretary

1 DEC 1982

Gas & Elec Pricing Policy: Nat Ind Pt 7

DM

CONFIDENTIAL

2

2 MARSHAM STREET
LONDON SW1P 3EB

Nat Ind
Gas
Pt 7

My ref: H/PSO/18596/82

Your ref:

29 DEC 82

Prime Minister

MT

30/12

Dear Geoffrey

GAS APPLIANCE RETAILING

I have seen Nigel Lawson's letter to you of 25 November, and your reply of 8 December.

Like you, I think that the BGC's proposals for a reorganisation of their system of retailing gas appliances is an unsatisfactory substitute for the privatisation of these operations, which we agreed should be done at E Committee nearly 18 months ago and have publicly announced.

If we change our policy now, in response to pressure from BGC and the unions, we shall endanger other parts of our privatisation programme, and weaken our efforts to bring the nationalised industries under control. I therefore think that we should reject the BGC's proposals; but if Nigel Lawson wants to press, I suggest they should be examined at E again.

I am copying this letter to the Prime Minister, members of E(DL), and Sir Robert Armstrong.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

30 DEC 1982

tmp

c. HMT
DOE
SO
D/IND
TRADE
TRANSPORT
CS, HMT
D/M
CO
John Sparrow

bc JV

10 DOWNING STREET

From the Private Secretary 24 December 1982

Dear Julian,

CEGB RESPONSE TO THE MMC REPORT

Your Secretary of State sent to the Prime Minister a copy of his letter of 22 December on this subject addressed to Lord Cockfield.

The Prime Minister has commented that she does not think that Mr. Lawson's letter to Sir Walter Marshall setting out his objectives as Chairman of the CEGB should be published, in case it leads to demands for the publication of other such letters. The Prime Minister thinks that if need be, Mr. Lawson might publish a special letter which recorded past guidance to Sir Walter Marshall.

I am sending copies of this letter to the Private Secretaries to the other Members of E(NI), Sir Robert Armstrong and John Sparrow.

Yours sincerely,

Michael Scholar

J.D. West, Esq.,
Department of Energy.

Gas + Elec Prices Nat Ind

Prime Minister (2)

MLS 23/12

Do not publish the letter in case it leads to demands for others.
If need be write a special letter recording present guidance
MT

01 211 6402

The Rt Hon Lord Cockfield
Secretary of State for Trade
1 Victoria Street
London
SW1H OET

22 December 1982

Dear Secretary of State,

CEGB RESPONSE TO THE MMC REPORT

I attach a copy of the CEGB's long-awaited response to the Monopolies and Mergers Commission's 1981 Report on the Board.

The response is principally concerned with the MMC's criticism that, in some respects, the Board's approach to investment appraisal operated against the public interest. The consequential changes made to its investment appraisal methodology have been incorporated in the documentation published in support of the Board's case for building a PWR at Sizewell.

The main hearing of the public inquiry into the Board's application for Sizewell opens on 11 January. In the light of the importance of the MMC's "public interest" finding and the implications of this for the Sizewell Inquiry I would like to publish this response as soon as possible after the Christmas recess. Accordingly, I enclose a draft written answer I propose to give. In the light of its obvious relevance to the MMC's critique, I am also considering publication at the same time of my letter to Sir Walter Marshall (on which colleagues were consulted) setting out his objectives as Chairman of the CEGB. However, there could be difficulties for the NCB if it resulted in pressure for publication of my similar letter to Norman Siddall, and I shall defer a final decision until nearer the time.

I should be grateful for your early comments, and those of other colleagues, on the draft statement. I am copying this letter to the Prime Minister, other members of E(NI) Committee, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

pp NIGEL LAWSON
(Approved by the Secretary of State and signed in his absence)

DRAFT GOVERNMENT STATEMENT ON CEGB'S RESPONSES TO THE REPORT OF THE MONOPOLIES AND MERGERS COMMISSION

1. I have now received the response of the Central Electricity Generating Board to the 1981 Report of the Monoplies and Mergers Commission. I am placing copies of the Board's response in the Library of the House. This gives the Board's comments on the MMC's findings and describes the actions which they have since taken to meet the Commission's recommendations.

2. The Commission found that in most of the areas within its Terms of Reference, particularly those relating to cost control, the management of plant maintenance, and management information systems, the CEGB's practices were broadly satisfactory. However in one area, namely the appraisal of new investments, the Commission found that the Board showed serious weaknesses and that in this respect its conduct operated against the public interest. The most important part of the CEGB's response is therefore addressed to this finding.

3. Against the background of my statutory responsibility to approve the Board's investment programmes, my Department has had discussions with the Board about its approach to investment appraisal, paying particular attention to methodology and the assumptions employed. The Board in its response confirms that it has now adopted techniques whereby new investment is assessed against a wide range of possible economic futures, and against similarly wide ranges of assumptions. They have also amended their practices in determining for investment purposes all the central estimates of the cost and performance factors which are relevant to major capital projects. I consider that the Board's appraisal practices should benefit considerably from the changes they have introduced in order to meet the Commission's criticisms. Accordingly I do not propose to issue a direction under Section 12 of the Competition Act.

4. Nevertheless my Department will continue to explore with the Board its development of investment appraisal techniques, and to scrutinise carefully their application to particular projects, within the framework of my responsibility generally to monitor the performance of the CEGB and the Electricity Supply Industry. We

shall also continue to set the Board demanding financial targets, external financing limits and performance aims. I look to the Industry to continue to improve the efficiency with which it uses its capital and manpower resources.

5. The Board's response also covers a number of areas such as demand forecasting, quality assurance, stock control, manning levels for engineering and management staff and power station construction to which the Commission drew attention and where they considered the Board's policies and procedures could profitably be reassessed. The Commission also commented on the Board's Bulk Supply Tariff which has since been the subject of a review by the industry and on which I made an earlier statement to the House on 12 November.

6. Parts of the Commission's report were addressed to the CEGB's relationship with various public sector trading bodies. In particular, the Commission criticised the basis of the Joint Understanding between the CEGB and NCB, under which, in return for guaranteed quantities being taken by the CEGB, the NCB undertook to maintain its price increases at no more than the inflation rate. The new coal supplies arrangement negotiated between the two Boards last month reflects the continuing development of their commercial relationship.

7. The Commission also saw defects in the present trading arrangements between CEGB and British Nuclear Fuels Limited. They noted that the relationship was predominantly of monopoly supplier and purchaser and were concerned that the Terms of Trading might not sufficiently promote efficiency. This matter is being studied urgently in the renegotiations of the Terms of Trading between the two organisations.

8. The Commission criticised the agreement between CEGB and British Rail for the carriage of coal to power stations. The Government will be keen to ensure that here, as in other fields, there is scope for competition, increased efficiency and cost reduction.

9. The Board's detailed response to the MMC Report reflects the importance which the new CEGB Chairman, Sir Walter Marshall, attaches to the issues raised by the Monopolies Commission. [I have also placed in the Library of the House a copy

of a letter of guidance I have given him.] He and I regard as particularly important the CEGB's responsibility for the timely and successful completion of major construction projects, and I note with approval the strenuous efforts the Board has been making to improve performance at its construction sites and the management of its major projects.

[ ] to be included if circumstances permit.

KJV

Prime Minister (2)

MLS 22/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

21 December 1982

MT

Dear Nigel

E(NI) DISCUSSION OF THE REVIEW OF THE BRITISH GAS GAS CORPORATION'S PERFORMANCE AND CORPORATE PLAN

Thank you for your letter of 15 December. I agree that the submission by you of a paper early in the New Year on the outcome of the Deloittes study of BGC's efficiency was not explicitly discussed by E(NI) at its meeting on 7 December. But you will recall that strong criticism was expressed by a number of Ministers at that meeting of the fact that virtually nothing was said about BGC's performance in the attachment to your paper E(NI)(82)31, in striking contrast to the detailed examination which E(NI) has conducted recently of, in particular, the BAA. The point was also made in E(NI) that such data as were included on present performance in your paper suggested that there might be cause for concern. It seemed to me, therefore, that the sense of E(NI)'s discussion was indeed that colleagues wished to consider in detail BGC's present performance, and that the most sensible approach would be to do so, once the Deloittes' study had been submitted, on the basis of a paper to E(NI) by you. I said as much in my summing up.

2. I accept that your paper should concentrate on the Government's response to the Deloittes' efficiency study rather than on the detailed history of the Corporation's recent performance which your officials have already prepared. You will see that John Sparrow has made a similar suggestion in his letter to me of 17 December. But I am sure from the interest shown at the recent meeting that colleagues would welcome an annex which summarised the comprehensive review of BGC's performance which has been made available to the Treasury and CPRS. If any colleague wanted to see the detailed document, no doubt it could be made available to him.

3. I understand that Deloittes' report should be submitted shortly. I suggest therefore that you should circulate your paper to colleagues by the end of February. It may be that it will be possible for it to be agreed in correspondence.

Nat Ind, Gas & Elect, Pt 7

CHANCELLOR OF THE EXCHEQUER

4. I am sending a copy of this letter to the Prime Minister, the other members of E(NI), John Sparrow and Sir Robert Armstrong.

GEOFFREY HOWE

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

fe. JV

Prime Minister (2)

MES 20/12

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 06193

CONFIDENTIAL

17 December 1982

The Rt Hon Nigel Lawson MP
Department of Energy
Thames House South
S W 1

Dear Nigel,

CPRS Report on Electricity Prices

At the meeting which the Prime Minister held on 2 December to discuss electricity prices, you said that you agreed with the main thrust of the conclusions and recommendations of the CPRS report; but the meeting did not have the opportunity to discuss the CPRS report fully. The main recommendations which remain outstanding are that:

(a) every effort should be made to ensure a nuclear programme which will substantially increase the contribution of nuclear plant to electricity generation by the end of the century;

(b) NCB coal prices to the CEGB should be set on economic energy pricing criteria related to import prices;

(c) in due course a permanent, cost reflective load management scheme should be devised;

(d) the 3 per cent flexibility allowance should be phased out in due course;

(e) more sophisticated terms should be offered in tariffs and contracts;

(f) the terms for the transfer of electricity between private generators and the electricity supply industry should be such as to stimulate competition with the electricity industry; and

(g) the case for the sale or lease of CEGB plant should be explored and applications from industry considered on a case-by-case basis (agreed for ICI only at this stage).

I would be grateful to learn in due course how you view these recommendations and what action you might take.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Patrick Jenkin, George Younger, Leon Brittan, Robert Armstrong and Peter Gregson.

Yours sincerely,

John.

John Sparrow

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

A. J.

2 PS 1

NBPM

MLS 20/12

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06194

From: John Sparrow

CONFIDENTIAL

17 December 1982

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
SW1

Dear Geoffrey,

E(NI) Discussion of the Review of the British Gas Corporation Performance and Corporate Plan

I have seen a copy of Nigel Lawson's letter to you of 15 December 1982 requesting that conclusion 3(iii) of the minutes of the E(NI) discussion on 7 December should be deleted.

The Department of Energy did in fact produce a very thorough and comprehensive Review of BGC Performance and Corporate Plan. Although only a summary of this Review was discussed at E(NI), I see no need for a further Performance Review when the efficiency study is available, although I would not like the summary treatment to be accepted as an unquestioned precedent for BGC next year or for other industries.

However I suggest that it might be helpful for E(NI) colleagues to discuss the recommendations of the efficiency study at an appropriate opportunity. The study ought to be of considerable assistance not only in improving BGC's planning operations but also in the Department of Energy's assessment of structure and privatisation prospects.

I am sending a copy of this letter to the Prime Minister and other members of E(NI) and also to Sir Robert Armstrong.

Yours sincerely,

John.

John Sparrow

ec JV

(2)

Prime Minister

MR 15/12

01 211 6402

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London
SW1

15th December 1982

E(NI) DISCUSSION OF THE REVIEW OF THE BRITISH GAS CORPORATIONS PERFORMANCE AND CORPORATE PLAN

I have just read the minutes of our discussions on BGC's Performance and Corporate Plan Review at E(NI) on 7 December. They contain one serious inaccuracy.

Conclusion 3(iii) commits me to producing a paper on British Gas' present performance in the light of the forthcoming report on the Corporation's efficiency. I did not agree to this, nor do I recall it even being mentioned, let alone discussed. As I have made clear this Department has already prepared a comprehensive review of BGC's performance, which was made available to the Treasury and CPRS, and will do so again for next year's Performance and Corporate Plan Review. This will need to take account of the Efficiency Study and I see little point in our considering another Performance Review between then and now. I hope you will agree, therefore, that conclusion 3(iii) should be deleted.

I am copying this to our colleagues in E(NI), John Sparrow and to Sir Robert Armstrong.

NIGEL LAWSON

File

Nat Ind

JR

c/c D/N
Ind
CST
CPRS
HMT
Cab office
Scot

10 DOWNING STREET

THE PRIME MINISTER

14 December 1982

Dear Robin,

Thank you for your letter of 22 October. The Government has, as you know, recently undertaken a thorough study of electricity pricing, in which we have paid particular attention to the position of large and electricity-intensive processes such as ICI's chlorine manufacturing operations at Runcorn. Against this background we have examined very carefully the case you put. We concluded, however, that the price currently paid by ICI Runcorn leaves little or no room for further reduction unless compensating reductions in the electricity supply industry's costs could be found. A subsidy, at the expense of other consumers or the taxpayer, would be unacceptable.

Nevertheless, I understand that Nigel Lawson has suggested to you that modest but worth-while cost advantages might result if new arrangements, justified by the very large scale of electricity demand at Runcorn, and involving either the direct supply of electricity or possibly the sale or lease of a power station, could be agreed directly between the CEGB and ICI. I understand you are already in touch with the CEGB about this. A direct supply arrangement would, of course, formally require the Secretary of State's authorisation.

I very much hope that arrangements along these lines, offering some assistance to your Runcorn operations, can be agreed.

Yours sincerely

Margaret Thatcher

Sir Robin Ibbs

c/c JV

Nat Ind

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Michael Scholar Esq
10 Downing Street
LONDON
SW1

13 December 1982

Dear Michael,

ELECTRICITY PRICES

As requested in your letter of 2 December, I attach a draft reply to Sir Robin Ibbs' letter of 22 October. This has been drafted in consultation with the other departments concerned.

Last week, my Secretary of State explained to Sir Robin and to Sir Walter Marshall the conclusions reached by Ministers at their meeting on 2 December, and ICI and the CEGB have begun discussions. Both accepted that the discussions should be kept confidential at this stage but, if a direct supply is authorised, it will inevitably become public knowledge.

Copies of this letter and enclosure go to the recipients of yours.

Yours ever

Jim Clayton

pp JULIAN WEST
Private Secretary

Pl type for PM
MCS 13/12

Sir Robin Ibbs
ICI
Imperial Chemical House
Millbank
LONDON
SW1P 3JF

December 1982

ELECTRICITY PRICES

Thank you for your letter of 22 October. The Government has, as you know, recently undertaken a thorough study of electricity pricing, in which we have paid particular attention to the position of large and electricity-intensive processes such as ICI's chlorine manufacturing operations at Runcorn. Against this background we have examined very carefully the case you put. We concluded however that the price currently paid by ICI Runcorn leaves little or no room for further reduction unless compensating reductions in the electricity supply industry's costs could be found. A subsidy, at the expense of other consumers or the taxpayer, would be unacceptable.

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I very much hope that arrangements along these lines, offering some assistance to your Runcorn operations, can be agreed.

Nat Ind

Gas & Elec

3 DEC 1982

NAT IND cc/JV

Prime Minister (2)

[initials] 8/12

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 December 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
SW1P 4QJ

Dear Nigel

GAS APPLIANCE RETAILING

Thank you for your letter of 25 November.

If we accepted BGC's proposal, we would in effect reverse the conclusions reached in E Committee in June 1981 and the policy announced to Parliament by Sally Oppenheim in the following month. Furthermore, the Corporation's proposal hardly seems an adequate response to the Monopolies Commission's strong criticism of the Corporation's trading practices.

Indeed, the response falls short in a number of respects of the less radical of the two options put forward by the Monopolies Commission. For example, there is nothing to stop BGC setting low profit targets for the retail business; there is nothing to stop manufacturers, who value their relationship with the dominant retailer, from offering favourable terms to BGC; and BGC is most unlikely to close or dispose of its town-centre showrooms, except in rural areas where the private sector would be unwilling to step in.

But, more fundamentally, BGC would remain the dominant retailer with the potential for great influence over the manufacturers and with the power to change its policy with respect to competing retailers if it felt it could get away with it. Reliance on BGC for wholesaling services could not give them much confidence. In these circumstances, it surely is implausible to expect the private sector retailers to invest the quite substantial sums required for premises and stocks needed to remove BGC's market dominance against such an uncertain future.

For all these reasons, although BGC's proposal could look like a stepping stone to divestment in the future, I still have doubts whether it should be accepted even on that basis. To accept them today might even weaken the case for eventual divestment; and it would not meet the criticisms of the Monopolies Commission. I recognise the political and industrial relations arguments but I am not convinced they are a sufficient reason for us to avoid dealing with the abuse of monopoly which the Commission found. I think that we have a reasonable case to make on the maintenance of safety in the light of recent work on setting standards for gas installers. You have also obtained powers to oblige BGC to divest itself of the showrooms in the Oil and Gas (Enterprise) Act.

I should be glad to have your further views and those of colleagues.

I am copying this to the Prime Minister, members of E(DL) and to Sir Robert Armstrong.

GEOFFREY HOWE

Nationalised Ind
&
JV

→ TF

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

JK
15/12

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
London
SW1H 9NF

10th December 1982

Dear Secretary of State

GAS SAFETY ETC

Thank you for your letter of 15 November about the regulation of gas installers and transfer of gas safety functions.

I have now written to Geoffrey Howe bringing colleagues up to date on the position on the general question of BGC's appliance retailing (a copy of my letter of 25 November is attached for your information). In view of the nature of the proposals and the fact that the effects will take some time to percolate through the BGC system, I have concluded that there is no reason why a decision should not be taken on the main issue before a decision is taken in principle on the control of gas installers.

For the same reasons I am satisfied that we do not need to decide on the safety aspect before BGC have announced their proposals on appliance retailing. On the basis that colleagues agree to my proposals, I would, if questioned about the safety implications of BGC's announcement, say that the Government stood by its commitment on safety and was working on detailed proposals prior to consultation.

However it is still important to press ahead towards a decision on a safety regime with the aim of ensuring that, in line with the Government's commitment, there will be no lowering of safety standards once BGC's dominance of the gas appliance market is broken. I am convinced that some form of licensing of installers will be essential if the public's present belief that BGC are safer than the private sector is to be changed and competition enabled to flourish. My officials are therefore looking forward to receiving HSE's paper on options.

The transfer of gas safety functions generally to HSE is still subject to the Prime Minister's approval. However, my officials are working towards effecting the transfer by 1 April 1983 and, while there are a number of administrative points (including manpower and financial transfers) still to be resolved between my officials and yours, I understand that these should not prolong this timetable.

Copies of this letter go to the Prime Minister, Janet Young, Arthur Cockfield, Patrick Jenkin and Nicholas Ridley.

Yours sincerely

NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

Nat Ind

Gas & Elec

Pt 7

10 DEC 1982

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Prime Minister

(2)

From the Secretary of State

MJS 8/12

The Chancellor of the Exchequer
H MTreasury
London
SW1

7 December 1982

Dear Geoffrey,

GAS APPLIANCE RETAILING

I have seen a copy of Nigel Lawson's letter to you of 25 November.

If one is seriously interested in privatisation then privatising the gas showrooms would be an obvious priority.

Leaving this on one side the proposals set out in Nigel Lawson's letter represent a complete change from the decision which we took in E last year, and which Sally Oppenheim announced in her statement to Parliament on 8 July 1981; and we shall all need to consider how to justify the Government's stance if the Government were to welcome proposals so very different from those we had previously decided upon.

For my part, I shall need time to consider the BGC's proposals in much more detail than is given in Nigel Lawson's letter. Given the provisions of the Fair Trading Act, there is an essential question for us to consider before giving any agreement to the BGC's proposals. It is whether the proposals can be said to represent a remedy to the adverse effects on the public interest (affecting both consumers and the appliance industry) which the MMC identified as consequences of the BGC's monopoly of gas appliance retailing. More widely, I shall also need to consider whether the BGC's proposals would help or hinder me in taking measures

From the Secretary of State

on the adverse effects of the gas appliance manufacturers' monopolies identified by the Commission. I am therefore asking my officials to take up these questions with Nigel Lawson's, so that I can have a full picture.

In the meanwhile, I think that the Government must rigorously avoid giving any impression to the BGC that we accept their proposals. The proposals as they stand, would, after all, leave BGC with a substantial monopoly of the supply of gas appliances - moreover a monopoly which is exceptional in being a retailing monopoly and unique in being a public sector retailing monopoly, as well as having been found to be against the public interest. We should consider our stance very carefully before lightly reversing our earlier policy and acquiescing in the monopoly continuing.

I am copying this letter to the Prime Minister, Members of E(DL) and to Sir Robert Armstrong.

Yours,

Arthur

LORD COCKFIELD

Nat Ind. Cons e Elect, Pt 7

-8 DEC 1982

ACTION

Restricted

National Economic Development Council

NEDC(82)61 (Cover Note)

NOTE BY THE SECRETARY TO THE COUNCIL

ELECTRICITY PRICING

The attached paper by the Secretary of State for Energy is a cover note for the memorandum by officials of the Department of Energy already circulated as NEDC(82)61.

P V Dixon

7 December 1982

Restricted

National Economic Development Council

ELECTRICITY PRICING NEDC(82)61

Memorandum by the Secretary of State for Energy

1. The Government has now completed the review of electricity pricing policy to which I referred at the Council meeting in March. The results were reflected in my announcement of 12 November; I have agreed with the electricity supply industry that there should be no increase in the average level of electricity prices next year. I shall be announcing as soon as possible a new financial target and performance aim, agreed with the Industry, to follow the present target. This will also take full account of the conclusions we have reached in our studies of economic pricing over the past year, as well as encouraging cost-conscious management in the industry.

2. In carrying out those studies (summarised in NEDC(82)61 circulated on 3 December), my Department has been greatly helped by the thoughtful papers received, and the detailed discussions held with industrial consumers and their representatives. It has also benefited from the valuable assistance of the independent consultants, Coopers and Lybrand.

3. The studies reaffirm the importance which the Government continues to attach to the correct pricing of energy. For primary fuels, the world market price gives an indication of true value. For electricity, in which there is little or no international trade, the economic price must depend on the marginal cost of generation in the UK, as successive Governments have accepted.

4. The Electricity Council's review of the CEGB's Bulk Supply Tariff, which I made available early this year, was also based on this approach. In our further studies , however, I have paid particular attention to the way in which these economic pricing principles are applied in practice. Both Government and the electricity supply industry have looked especially at the effect of the continuing recession on demand forecasts. The fact that demand is now expected to grow at a slower rate than was previously forecast means that the present over capacity in the industry is likely to last for longer.

5. A normal commercial response to stagnant demand and excess capacity would be for the supplying industry to reduce prices. Economic principles point in the same direction; the cost to the supply industry of meeting an increment to demand (its marginal cost) will be lower over the next few years since demand can be met from the capacity already on the system and expected to come on stream. The present BST already reflects this situation to some extent; I have however now agreed with the Industry that against this background there should be no increase in the average level of prices next year.

6. This does not mean the present tariff structure will be frozen - my Department's review showed that some changes would be necessary, and the Industry are currently working out the details. What it does mean is that although there will be variations in the level of final prices paid by different consumers, on average and taking the country as a whole, prices will not increase in 1983/84.

7. The Government also examined the BST very carefully in the light of views expressed to us that existing tariff structures are biassed against large or continuous load electricity users. Our studies do not bear out these criticisms. The broad principles that electricity should be priced more highly at peak times, and that all consumers taking electricity at those times should contribute equally to the costs of meeting peak demand, are both economically sound and equitable.

8. It is however important that the supply industry and its major customers should continue to examine possibilities for load management or other mutually advantageous arrangements. It is also essential that the supply industry should do all possible to contain and reduce the costs of electricity generation. Significant improvements in operating efficency have in fact been achieved over the past year - another factor underlying next year's price standstill. For the future, the level of fuel, and particularly coal, costs will be especially important

in determining the course of electricity prices. It is vital that the NCB should contain costs and continue to increase efficiency. Increased competition will also help and a Bill to encourage the private generation of electricity is currently before Parliament. This will make it easier for industry to pursue cost-saving electricity projects itself, for example through combined heat and power schemes.

9. I recognise the difficulties some large consumers of electricity continue to face, even though the new load management arrangements announced in this year's Budget have brought welcome relief to a number of hard-pressed companies. Next year's price standstill should help to narrow international disparities, subject to exchange rate movements. However genuine international cost differences, such as those due to France's high proportion of nuclear and hydro-electric generating capacity, cannot be wished out of existence. To fix UK prices according to electricity costs in <u>other</u> countries, or to attempt to match price subsidies overseas with subsidies at home, could only be done by passing costs on to the taxpayer, other sectors of industry, or energy consumers generally.

10. Over the long term, UK electricity costs <u>will</u> come down if we are able to reduce our dependence on relatively high cost fossil fuel and if new power stations , in particular nuclear power stations, can be successfully built to time and cost. I am confident that, with the support of all sides of industry, progress can be made on both counts. Meanwhile, there can be no doubt that our action on electricity prices next year will be of benefit to commerce and industry, as to all users of electricity.

6 December 1982

CONFIDENTIAL

FILE

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SUBJECT cc Master

PS Nat. Ind.

10 DOWNING STREET

From the Private Secretary

2 December 1982

Dear Julian,

The Prime Minister held a discussion this morning about electricity prices for industry. Apart from your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Industry and Scotland, the Chief Secretary to the Treasury, Sir Robert Armstrong, Mr. Sparrow and Mr. Gregson were also present.

Your Secretary of State said that the CPRS study was a good one, and that he agreed with the main thrust of its conclusions and recommendations. In particular, it was important that electricity prices in the UK should be properly based on economic prices, without any subsidy from the taxpayer or cross-subsidy from other consumers (paragraph 6.29 of the report). He agreed that the bulk of international price differences for electricity were cost-based, and that there was no systematic bias against heavy users of electricity in the United Kingdom. The CPRS had identified only one case in which an international electricity price disadvantage put at risk the continuation of a significant industrial activity with a long term future in the United Kingdom - the production of chlorine. Accordingly he had looked again, in the light of Sir Robin Ibbs' letter of 22 October to the Prime Minister, at what could be done to help ICI's chlorine operation at Runcorn. He proposed that he should use Section 2(6) of the 1957 Electricity Act to authorise the CEGB to give Runcorn a direct supply, as they already did for Anglesey Aluminium. These two plants were by far the largest private sector electricity consumers in the UK: they both consumed almost 1½ TWh hours per annum, so that a sound ring fence could be built around them, given that each of the next six largest industrial users consumed between 0.5 and 0.7 TWh hours per annum. ICI already paid, because of the Bulk Supply Tariff, 35% less for its electricity than the average price paid by industrial users. This concession would reduce their price a further 5%, and would cost around £1½ million a year. The CEGB would absorb this cost within their existing External Finance Limit. ICI would, thus, be paying little more than the fuel cost of their electricity. The recent depreciation of sterling (6% against the deutschmark over the past fortnight), and the prospect of the Government's general standstill in electricity prices compared to the increases to be expected elsewhere next year, would together reduce the gap between ICI's

/costs

CONFIDENTIAL

costs and their competitors' by a further 10% or so. Any wider help for Runcorn, or for any other energy intensive industry, would be a reversal of the Government's economic pricing policy, would involve either cross-subsidisation or an increase in taxation or public borrowing, and would require primary legislation to amend the existing statutes on undue preference. This would expose electricity pricing to a flood of special pleading.

In discussion it was noted that the change in pricing policy which was being proposed would result in an electricity price still very much higher than what would have been necessary to keep the aluminium smelter at Invergordon going; the assistance which the Government had offered to potential purchasers of the Invergordon smelter was far in excess of the benefit which the proposed new pricing policy would confer upon Runcorn. It would be essential, if the Energy Secretary's proposal were agreed, not to extend this pricing policy to the smaller chlorine producers, since such action would destroy the ring fence. It was noted that the only other comparably heavy user of electricity, British Rail, already had an arrangement, laid down by statute, to purchase its electricity direct from the CEGB. The case for amending the existing statutory provisions on undue preference was that some electricity boards were applying this principle too rigidly. But the objections to amending these provisions were formidable and the right way of dealing with excessive rigidity in their interpretation was to urge the boards concerned to act in a more commercial way.

In further discussion, the Secretary of State for Industry said that ICI presented an exceptional case, because of the size of its operation, fierceness of the competition in Europe, and the fact that their plant at Wilhelmshaven gave them a yardstick against which to measure the burden of their UK electricity price. They estimated that their costs were some 25% out of line with those of their competitors. He feared that the changes in their situation which the Energy Secretary had listed would not be sufficient to persuade them to retain their plant in the UK. In discussion it was agreed that there could be no question of paying an operating subsidy to ICI under the Industry Act. The root of the problem was the excessive price for coal, which led directly to excessive electricity prices. ICI had suggested (it was not clear how seriously) that they might lease or buy a coal-fired power station, and make a contract with the NCB for the purchase of coal. There could be no question of requiring the NCB to provide them with coal for such a power station at the export price. But there would be no objection to their pursuing with the CEGB the proposal for a lease or purchase of a power station; and they were free, as things stood, to buy coal from any source that they chose, at whatever price it was on offer.

Summing up the discussion, the Prime Minister said that the main thrust of the CPRS report's conclusions and recommendations were accepted. There should be no departure from the general principle that electricity prices should be properly based on economic prices, without any subsidy from the taxpayer or cross-subsidy from other consumers. Electricity prices were, however,

/systematically

systematically too high, because coal prices were too high. So far as the difficulties for ICI were concerned, the Secretary of State for Energy was authorised to use the 1957 Electricity Act as he proposed to permit the CEGB to give Runcorn a direct supply. This was on the basis that there would be no change to the CEGB's External Finance Limit. ICI could also be told that there was no obstacle to their approaching the CEGB with a view to leasing or buying a power station; but it should be made clear to them that there was no question of any subsidy either for this, or for the purchase of coal. The Secretaries of State for Energy and Industry should agree, in the light of these conclusions, the line they would take with ICI.

I would be grateful if you could let me have as soon as possible the draft reply for the Prime Minister's signature to Sir Robin Ibbs' letter to her of 22 October.

I am sending a copy of this letter to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), Muir Russell (Scottish Office), John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office), Gerry Spence (CPRS) and Peter Gregson (Cabinet Office).

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

Prime Minister

The key papers are

(1) Nigel Lawson's minute (flag A)

(2) Robin Ibbs letter (flag B)

(3) CPRS Report (flag C)

MCS 1/12

CONFIDENTIAL

P.0904

PRIME MINISTER

Electricity Prices for Industry

BACKGROUND

You are to hold a meeting at 12 o'clock tomorrow with the Ministers most closely concerned to discuss electricity prices. There has been extensive Ministerial and other correspondence on the subject, including a report by the Central Policy Review Staff (circulated as E(82)75) and a letter of 22 October from Sir Robin Ibbs highlighting the problems presented to ICI's operations by differences between electricity tariffs in this country and West Germany. Mr Scholar's letter of 28 October said that you would wish to discuss the issues after the public expenditure announcements had been made (as, of course, they now have).

2. The minute of 30 November from the Secretary of State for Energy argues that it would be wrong to give special help to energy-intensive industries; that electricity pricing should be based on economic criteria; and that if assistance is to be given to electricity-intensive industries it should be given directly. It does, however, suggest that the Central Electricity Generating Board should be authorised to supply the ICI chlorine plant at Runcorn directly; it estimates that this could produce a benefit to ICI of about £1½ million.

MAIN ISSUES

3. It is unlikely that any of the Ministers present will question the central argument of the CPRS report: that there should be no general subsidy of industry by charging uneconomic prices for electricity. Such a course would have damaging affects on the PSBR, would lead to misallocation of resources, and almost certainly would not be cost-effective. Your colleagues are likely also to be sceptical about proposals to help particular industries: they would be hard to confine; and they would

risk committing this country to supporting indefinitely industries, such as aluminium smelting, in which we are unlikely to be able to compete in the longer term.

4. Nevertheless, it seems clear from the correspondence that some Ministers feel uneasy. Questions that are raised implicitly or explicitly are:

(i) Electricity undertakings in competitor countries (including West Germany, not usually thought of as given to indiscriminate subsidy) seem to be better able to give preference to industrial users than electricity undertakings here. Is this impression fair? If it is, does it reflect greater efficiency, better investment decisions in the past, or a policy of subsidising industry? Are there any useful lessons for us?

(ii) If competitor countries distort their electricity tariffs in order to favour particular industries, is it sufficient for us to refuse to copy them, relying on superior resource allocation ultimately to see us through; or should we take more positive action?

(iii) The conventional wisdom (which has much in its favour) is that if the Government wishes to subsidise industry it should do so overtly. But overt subsidies are much more likely to be condemned by the European Commission. Is this an argument for using less direct methods?

(iv) Is it necessary to treat as sacrosanct the existing statutory prohibition on showing undue preference to different classes of electricity consumer?

5. However natural these questions may be, it is important to bear in mind that the direction in which they tend has serious dangers. It would

be all too easy to start out trying to make limited concessions to a few industries with a particularly strong case, and end up moving away from economic pricing, at great cost, and with a public row with the Commission if we were not successful in disguising what we were doing.

Future Action

6. It may well be that the meeting will conclude that it would be a mistake to go further than is proposed in the Secretary of State for Energy's minute of 30 November. If so, the electricity departments and the Treasury can be left to work out with the industry the details of tariff structure, financial targets, and so on.

7. But it is possible that the meeting will not be able to resolve all the issues. If the balance of opinion is that there is at least something worth further consideration, you may wish to set up a small group of Ministers to look at the issues. The Chancellor of the Exchequer would be a natural candidate for chairman (assuming that you did not wish to take it on yourself), with the Secretaries of State for Scotland, Industry and Energy, and the Chief Secretary, Treasury among the members. We can offer you further advice if you favour this approach in principle.

PLG

P L GREGSON
Cabinet Office.
1 December 1982

CONFIDENTIAL

PRIME MINISTER

ELECTRICITY PRICES FOR INDUSTRY

We are to discuss the CPRS Report on this subject on 2 December.

The CPRS study was initiated by Ministers, meeting earlier this year under the chairmanship of the Chancellor, in order to carry out a fundamental examination of this long-standing industrial complaint and to make recommendations.

This remit has been carried out with commendable thoroughness, and I agree with the main thrust of the Report's conclusions and recommendations, which are summarised in Chapter 6.

In particular, it seems to me important:

a. that "electricity prices in the United Kingdom should be properly based on economic prices, without any subsidy from the taxpayer or cross subsidy from other consumers" (para. 6.29); and

b. that "if Government wished as a long term policy to assist firms which are adversely affected by electricity price differentials, this would represent an aspect of industrial policy, and that the aid should be given directly, not through distortion of the electricity pricing system" (para. 6.26).

The CPRS identified only one case in which an international electricity price disadvantage put at risk the continuation of a significant industrial activity with a long term future in the UK. This is the production of chlorine. Accordingly, in the light of Sir Robin Ibbs' representations, I have looked again at what could be done to help ICI's chlorine operation at Runcorn. I propose that I should use section 2(6) of the 1957 Electricity Act to authorise the CEGB to give Runcorn a direct supply, as they do already to Anglesey Aluminium. These two plants are by far the largest private sector electricity consumers in the UK and the size of their consumption could be held to justify

CONFIDENTIAL

their receiving direct supplies.

Direct supply would not make a substantial difference in the price paid by ICI Runcorn for its electricity - it would mean a reduction of perhaps 5 per cent or so, at a cost of about £1½ million. But, together with the recent fall in the pound against the deutschmark (6 per cent over the past fortnight) and the prospect of our general standstill in electricity prices compared to the increases to be expected elsewhere next year, this additional help would not be insignificant. And, of course, the price ICI pays for its electricity at Runcorn is already 35 per cent below the average for industrial consumers as a result of the general structure of the BST and the special load management arrangements in the last two Budgets.

To engage in any wider help for energy intensive industries would:

a. be a complete reversal of our economic pricing policies;

b. require either an increase in electricity prices for other consumers, including many hard-pressed sectors of industry as well as domestic consumers, or else a significant increase in public expenditure;

c. require primary legislation to amend the existing statutory provisions on undue preference which, as the CPRS point out (para. 6.24), would "expose electricity pricing to a flood of special pleading - and it would run the very real risk that in due course industry would find itself subsidising domestic consumers".

For these reasons, it would be wrong to pursue industrial policy objectives through electricity prices.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Industry, Sir Robert Armstrong and John Sparrow.

Secretary of State for Energy
30 November 1982

CONFIDENTIAL

their remaining [illegible].

Direct subsidy would not have a significant [illegible] ICI Runcorn for its electricity - it would [illegible] at a cost of [illegible]. [illegible] present [illegible] (the [illegible]) and the payment of the general [illegible] electricity [illegible] help would not be insignificant. And, of course, the price ICI pays for its electricity at Runcorn is already [illegible] per cent below the average for industrial consumers as a result of the [illegible] and the special load management arrangements in the last two years.

To change [illegible] for help for energy intensive industries would:

a. [illegible] reversal of our [illegible] pricing policies;

b. require either an increase in electricity prices for other consumers, including many [illegible] sectors of industry as well as domestic consumers, or else a significant increase in public expenditure;

c. require primary legislation to amend the existing statutory provisions [illegible] it would run the very real risk [illegible] industries would [illegible] consumers.

For these reasons, it would be wrong to pursue [illegible] policy objectives through electricity prices.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Industry, [illegible] and John [illegible].

Secretary of State for Energy

[illegible] December

CONFIDENTIAL

Not until we've done elec pt?

Vc JV

(2)

Prime Minister

MCS 25/11

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

25th November 1982

Dear Geoffrey

GAS APPLIANCE RETAILING

I am writing to bring colleagues up to date on progress in tackling the problems identified in the MMC Report on gas appliance retailing.

Following our decision (E(81)21st meeting) that BGC should be required to withdraw from gas appliance retailing and to dispose of their showrooms, we agreed (CC(81)32nd Conclusions Minute 5) to defer action because of severe congestion in the legislative programme for 1981/82 and our concern about the level of support for such action among Government supporters. We nevertheless agreed to take powers enabling us to direct BGC to dispose of <u>inter alia</u>, their gas appliance retailing activity and their showrooms in the Oil and Gas (Enterprise) Act.

The delay also allowed time for careful consideration of the safety issues which was essential if we were to fulfil our commitment that safety standards would be maintained. This has been a difficult and complex task, and consultations with colleagues on appropriate legislative measures are not yet complete.

In the meantime, and in response to sustained pressure, BGC have at last submitted proposals for changing their gas appliance retailing business to meet the criticisms in the MMC Report. They propose that:-

(i) BGC's appliance retailing business would be separate and clearly identifiable both managerially and financially. Separate appliance retailing profit centres would be established for each Region, costs and revenues would be fairly allocated and subject to scrutiny by their auditors - Audited Regional appliance retailing accounts would be made available to the Government and the Audited National appliance retailing account would be shown separately in the Corporation's Annual Report and Accounts.

(ii) BGC would close those showrooms which the revised accounting procedures showed to be uneconomic.

(iii) BGC would make available to the private sector, on comparable terms to those available to their own appliance retailing business, both their wholesaling service covering appliances and spare parts, and their comprehensive installation and contracting service.

(iv) BGC would seek to encourage competition in appliance purchasing and manufacturing by undertaking not to indulge in any unfair competitive practices. (Their performance and any formal arrangements with the appliance manufacturers would be subject to scrutiny by the OFT).

Clearly BGC's proposals, on which they are anxious to begin early consultations with their unions, are sensible from their commercial viewpoint. The external part-time members (including my three most recent appointments) support them and intend to ensure that they are implemented rigorously. Provided they are indeed implemented properly (and I will monitor this carefully) they should provide an opportunity for market forces to work. This is likely to reduce BGC's dominance in the market. Indeed there has already been a substantial change in the market following the MMC inquiry. The number of private outlets retailing gas appliances has risen from 530 in 1978 to 2,270 in 1982, and BGC's market share has fallen in the case of gas fires, for example, from 78% in 1977/8 to 66% in 1981/2. My contacts with the private retailing sector indicate that the measures proposed will be welcomed by them and will help to carry this process further. Competition will also be helped by the steps to be taken to remove the public's perception that BGC are safer than the private sector. It is therefore important to press ahead with a safety regime which will ensure that safety standards are maintained once BGC's dominance of the gas appliance market is broken.

BGC's proposals clearly differ from the approach announced by Sally Oppenheim in July 1981. If implemented properly however they should constitute an important step in the right direction. In my view, it would be sensible to give these proposals a chance to work, given the powerful political reasons for not forcing the issue further for the time being. It would not be sensible in the run up to the General Election to direct BGC to dispose of their showrooms. Experience shows that we would meet strong opposition from among our own supporters, both inside and outside Parliament, (particularly in rural areas where the gap left by the withdrawal of BGC from appliance retailing would probably not be filled by the private sector), as well as from consumer representatives and the public in general. We would also run a serious risk of industrial action (there was a one-day strike involving 95% of BGC's workforce after Sally announced our decision in July 1981).

In the meantime, however, BGC must start to run their appliance retailing business commercially as soon as possible. I therefore propose that:-

a) when BGC announce their intention to implement their proposals the Government should welcome them as an important step towards introducing full and fair competition to the market;

b) the Government should allow time for the changes to have an effect on competition and on BGC's dominance of the market (provided that BGC are seen to be implementing the proposals properly - I would make it clear to BGC that implementation was being carefully monitored); and

c) the Government should review the position when the increased opportunities for competition have had a chance to have effect.

All this would of course, leave us entirely free to take any further action that seemed appropriate in the next Parliament.

I am copying this to the Prime Minister, members of E(DL), and to Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

JH 243

Prime Minister (2)

MS 25/11

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

23 November 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

Dear Nigel,

STANDING CHARGES

My Private Secretary's letter of 8 October was one of a number of letters to which you responded trenchantly in your letter of 11 November to Leon Brittan.

2 I support you strongly in your main thesis, namely that the nationalised fuel industries should look carefully at their image and not treat their customers with arrogance. It seems to me that the arguments you have used to justify your proposal are very similar to those used by electricity-intensive industries in seeking further concessions. Their dissatisfaction too would have been met by any competitive private sector supplier tempering his pricing principles to what his customers could afford - at least temporarily. And if we are to secure confidence in the principle of pricing energy in relation to costs, some departure from rigid pricing principles seems necessary for industry too. You point out that the cost to the energy supply industries of the concession for domestic customers would be very small - only £26m per annum. This is very similar to the £20m more ICI pay for electricity for chlorine production than their European counterparts.

3 Perhaps the sensible course would be to let the accountants' survey take its course and then to look at the matter with an open mind.

4 So far as telephones are concerned there is a similar fairly delicate balance to be drawn between attachment to appropriate pricing principles and sensitivity to particular groups of customers. British Telecom have been raising their rentals but they are intending to introduce next Spring a modest but imaginative rental rebate scheme which will offer limited relief to the two million customers who make least use of the telephone.

5 I am copying this letter to the recipients of yours.

Yours ever
Patrick

Nat Ind. Gas & Elect, Pt 7

cc SV
Nat Ind

(2)

Prime Minister

MS 19/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

19 November 1982

Dear Secretary of State

Thank you for your letter of 11 November about the external financing of the electricity supply industry and their new financial target.

First, the 1982-83 EFL. Since the industry's financing requirements still appear to be falling back against their present EFL, I agree that it would be sensible to wait until the New Year to see whether any relaxation will actually be required.

The additional bids implicit in the new 1984-85 and 1985-86 figures are an improvement on the provisional bids put to Cabinet. These can be included in the White Paper totals. I hope that further improvements can be identified for next year's IFR, eg as a result of a demanding performance aim.

I also hope that the work can be completed so that we can announce a new target and a performance aim early in the New Year. There is clearly a good deal of ground to be covered.

You say that you would be surprised if it proved necessary for Treasury officials to involve themselves in direct discussion with the industry about the financial target. I do not want to make an issue of this. But I think that generally the Treasury ought to have the opportunity to discuss important matters like this with the industry, if they think it necessary, with your Department in the lead and chairing the discussions. Indeed the work on the financial target will surely go forward more quickly if Treasury officials are involved directly in discussions with the industry. It would be a great pity if our aim of an early announcement was confounded by any delay as a result of your officials having to go backwards and forwards to the industry to get information on points raised by the Treasury. We shall be pressing ahead in parallel with similar discussions for the Scottish Electricity Boards, where it is already accepted that it could be useful for there to be a joint meeting with the industry, involving the Treasury.

A copy of this letter goes to the Prime Minister, George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely

JSt. Gieve

for LEON BRITTAN

[Approved by the Chief Secretary]

We must have a brief discussion about this. I have no confidence in the H&SE.

Note:
Prime Minister discussed with Sir Robert Armstrong at Business Meeting on 28.1 and agreed that the Transfer to Health and Safety Executive should go ahead. FERB 31.1.83

Ref. AO82/0168

MR FLESHER

Prime Minister:
You asked if there were any alternatives to the proposal in Sir Robert Armstrong's minute (flag A) that the HSC should take on responsibility for gas safety. This minute explains the background. If you agree a draft minute is at flag B. 19/11

Gas Safety Etc.

In your minute of 9th November, you said that the Prime Minister would like to know if there were any possible alternatives to the proposal in Sir Robert Armstrong's minute of 2nd November that responsibility for Gas Safety should be transferred from the Department of Energy to the Health and Safety Commission (HSC) and its Executive (HSE).

2. The issue arose because of the need, if the British Gas Corporation's showroom network is to be privatised, to introduce a regime of licensing of installation of gas appliances. This called into question the existing safety and metrological work of the Department of Energy's Gas Standards Branch. Four options were identified for the organisation of the safety work:

a. in-house by the Gas Standards Branch of the Department of Energy;

b. by HSE, reporting through the HSC to the Secretary of State for Energy,

c. a new non-departmental public body (quango); or

d. contracting the work out to the private sector.

3. Options c and d would avoid the need to employ civil servants on this work. It would require legislation to put the work out to the private sector, in effect to an expanded Council for Registration of Gas Installers (CORGI). That would mean putting extensive regulatory and prosecuting powers, which could include depriving people of their livelihood, completely outside Government. A basically self-regulatory arrangement of this nature might not command sufficient public or parliamentary confidence. It would certainly be necessary to divorce CORGI from BGC, on which it is at the moment heavily dependent. The industry is itself known to favour Government regulation.

4. A new quango would certainly have been possible, and had some attraction in that the staff would then be outside the Civil Service manpower count. But it would require legislation, and it is Government policy to avoid setting up new non-departmental public bodies where there are existing bodies which can equally well do the work.

5. The clinching argument for putting this work with HSC and HSE was one of efficiency. ? It was clear that the work could be integrated into HSE's existing field organisation in a way which, while employing the necessary specialists, would avoid the need to set up a separate inspection force and the overhead costs in managing and servicing them. Further, HSE's existing computer installation could take the licensing of installation firms (though probably not of individual operatives) in its stride. The new work would also benefit from HSE's general expertise in safety work. Thus the net use of resources would be minimised by giving this task to HSC and HSE. Another and by no means negligible advantage was that the powers in the Health and Safety at Work Act could be used to introduce the new regime if it was enforced by civil servants, thus avoiding the need for further legislation.

6. On the question of legal metrology, I understand that the Secretary of State for Trade is still studying the organisational and staffing implications of taking on gas and electricity meter work, and also the future location of the National Weights and Measures Laboratory, the lease on whose existing premises expires in March 1984. One promising option is to co-locate it at Teddington with the National Physical Laboratory, thus achieving most of the advantages of common management without the disadvantages which had been identified earlier.

R P HATFIELD

18th November 1982

Nat Ind:

Gas & Elec

Nat Ind cc JV

JU175

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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Secretary of State for Industry

17 November 1982

Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank SW1

Prime Minister 2

Mr Jenkin wants to help ICI etc through lower electricity or coal prices.

MCS 17/11

Dear Nigel,

CPRS REPORT ON ELECTRICITY PRICES FOR INDUSTRY

Thank you for your letter of 2 November.

2 I think we are all agreed that ICI and others face a real and serious problem and are likely to continue to do so even after the adjustments which you have announced come into effect in April of next year. I will not reiterate here the reasons why I believe we should help them, but instead I would like to comment on your points about the choice of mechanism.

3 We have to face the fact that any action is likely to be counter to the strict requirements of the European Communities. Our partners - Italy, France and the Netherlands - do not allow this to deter them and nor should we. But if we are to take this approach it is important to avoid highlighting what we are doing. The Industry Act could be used, but we would have to make that use public and probably have to secure Parliamentary approval In those circumstances we would have little choice but to pre-notify the Commission of our intention to grant a state aid, pinning our hopes on the very slim prospect of securing Commission approval.

4 By contrast, reducing electricity costs to a handful of large users with unusual load characteristics could be done in a less public manner and in such a way that it would be more difficult for others to determine the amount of subsidy. If, for example, ICI were to enter into a contract directly with the CEGB, as British Rail and BNFL do, or alternatively if ICI were to lease a CEGB power station and were able to negotiate a coal deal with the NCB on terms which reflect the NCB's alternative netbacks from export contracts over the next few years, it would be very much harder for the Commission to demonstrate that a subsidy was involved. There would be no need, I take it, for us to isolate

these effects publicly in the adjustments which would be necessary to the financial targets for the public sector industries concerned. And there would be no need to pre-notify any state aid.

5 There is another reason why I am most reluctant to use the Industry Act. Our policy is only to use the Act to provide subsidies for investment in capital or R&D, and I do not believe that this Administration has ever used the Act to provide an operating subsidy. To do so now would set a most unfortunate precedent, which industry at large would seize upon to justify similar compensation for international disparities on any of their costs. I am most reluctant to go down that road, which would make it difficult for us to confine the problem to where it really lies: the electricity prices paid by the most intensive users.

6 I think that expenditure considerations are neutral as between the two mechanisms. If the Industry Act were to be used, I would be looking for an increase in the existing PES provisions.

7 I am, of course, aware of the legal difficulties unearthed in 1980 and 1981 when we were examining particular electricity schemes, but I have yet to be convinced that we cannot get round these difficulties. The CPRS argue that some of the existing load management schemes go beyond what is economically justifiable, yet no legal challenge has been mounted by the Commission on anyone else in respect to electricity prices. The NCB seems to be showing an undue preference to overseas customers in selling them coal below the prices charged here, but as far as I know this has not been challenged in the courts either. If colleagues do not wish to help ICI with their electricity costs, we will have to face the consequences, but it would be premature to conclude that no way can be found to do this until we have had the further examination by officials which I have suggested.

8 I am copying this to the Prime Minister, Sir Geoffrey Howe, Leon Brittain, George Younger, Sir Robert Armstrong and John Sparrow.

Yours ever

Patrick

Op

CABINET OFFICE

With the compliments of

M. S. BUCKLEY

70 Whitehall, London SW1A 2AS
Telephone 01 233 7029

Mr Scholar COPY

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01- 233 7029

CONFIDENTIAL

16 November 1982

Reference No: E 0176

Jeremy Clayton Esq,
Department of Energy,
Thames House South,
Millbank SW1P 4QJ

Dear Jeremy,

ELECTRICITY PRICES

We have spoken a couple of times on the telephone about the arrangements for Ministerial discussion of the CPRS report on electricity prices. Following Michael Scholar's letter of 28 October, it has been agreed that the matter should come to E Committee; and there is a convenient slot on Thursday 2 December. This would presumably fit in well with your Secretary of State's need to deal with the subject at a meeting of the NEDC on 8 December.

2. I am, however, concerned that your Secretary of State apparently does not intend to put a paper to E, but to rest on the CPRS report and the existing Ministerial correspondence. First, experience suggests strongly that Ministerial committees - particularly large committees like E - operate better on the basis of a single document setting out the responsible Minister's views on the full range of issues. Secondly, I would have thought that your Secretary of State would wish to indicate to his colleagues the line he proposes to take on 8 December.

3. These considerations point strongly in favour of your Secretary of State circulating a paper (which need not, of course, be very long) for the meeting of E on 2 December. I have consulted Sir Robert Armstrong's office, and they share this view.

4. I am sending copies of this letter to Michael Scholar at No 10 and to Richard Hatfield here.

Yours sincerely,

Michael Buckley

M S BUCKLEY

ks

E/JV

NBPM

MUS 15/11

Caxton House Tothill Street London SW1H 9NXF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
SW1P 4QJ

15 November 1982

D Nigel,

GAS SAFETY ETC

Part 6

In your letter of 11 October 1982 to Janet Young you said you would prefer to see the consultation by the Health and Safety Commission, which I had proposed as the means of helping us decide how best to regulate gas installation work, take place after we have reached a decision in principle on some form of control.

I doubt if there is any need for us to reach hasty conclusions which would pre-empt the Commission giving us their recommendations about the several options available. I understand HSE officials have already been in touch with yours both on the issue of regulation of gas installers and to begin planning the transfer of gas safety functions. A paper on the options for controlling gas installation work is well advanced and I am told it will be discussed with your people in the next two or three weeks.

I fully take your point about needing to avoid triggering a campaign by the gas unions before you are able to put forward your proposals on BGC's gas appliance retailing. I do not agree, however, that our commitment to maintain safety standards requires us to decide about controlling gas installers before you can make progress on the broader issues. All the options being considered are based firmly on that premise. The solution seems to lie in holding back consultation on gas installers until you are ready to announce the general proposals.

In the meantime, I do not think we should confuse the particular issue of gas installation with the transfer of gas safety functions generally to HSE which we have already agreed in principle; and for planning purposes it would seem wise to aim at effecting the transfer of functions by about next April.

My officials and the HSE stand ready to meet yours if that would speed progress on either of these issues.

Copies of this go to the Prime Minister, Janet Young, Arthur Cockfield, Patrick Jenkin and Nicholas Ridley.

Gas & Electricity Pricing in Nat Ind: Pt 7

cc J V
BI

Prime Minister (2)

FERS 11/11

Treasury Chambers, Parliament Street, SW1P 3AG

Julian West Esq
Private Secretary to the
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

11 November 1982

Dear Julian

ELECTRICITY PRICES 1983-84: PRESENTATION

The Chief Secretary is generally content with the draft Answer attached to your Secretary of State's letter to the Chancellor of 10 November, but he thinks it most important that the Answer should make clear that the price freeze will be accommodated within the industry's EFL, which was announced on Monday. This could be done by including at the end of the first sentence of the first paragraph, the following:-

will repeat if required.

"This will be accommodated within the industry's EFL of -£300 million for 1983-84 which has already been announced."

The Chief Secretary also thinks it important to make clear that we will soon be announcing a performance aim for the industry as well as a new financial target. This point could be included by inserting the words "and a performance aim" after "financial target" in the first line of the fourth paragraph of the draft text.

Finally, the Chief Secretary thinks that it would be worthwhile if your officials could give a technical briefing to a few journalists so as to explain to them in broad terms the economics which underlie the announcement, concentrating in particular on the "NAC" versus "NEC" approach. This might help defuse any criticism that the standstill could not be justified in economic terms but had been introduced as a short-term political expedient.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland and Industry, Mr Sparrow and Sir Robert Armstrong.

Yours sincerely

John Gieve

JOHN GIEVE
Private Secretary

CONFIDENTIAL

NATIONALISED IND: GAS AND ELECTRICITY PRICING POLICY PT 7.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

Prime Minister ②

A robust defence of Mr Lawson's standing charges proposal.

MEG 11/11

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

11th November 1982

Dear Leon

STANDING CHARGES

Thank you for your letter of 6 October. I have also seen the letters of 8 October from Patrick Jenkin's Private Secretary, of 15 October from Tom King, and George Younger's minute of 21 October. This letter responds to some of the points which have been made on the proposal that standing charges for gas and electricity should not exceed 50% of any bill.

First, I should make it clear that this proposal is not designed as a DHSS measure, but to take the heat out of the worst area of resentment about standing charges. It is a commonsense political and commercial judgement in the face of sustained Parliamentary and public pressure. In my view that judgement has already been justified by the positive response my proposal has evoked. And this of course affects our image as a Government, as well as that of the nationalised industries concerned.

There is little doubt that, were the nationalised fuel industries in the private competitive sector, and compelled to look more carefully at their image than they do, and to behave with less arrogance towards their customers, this concession would have been introduced long ago. Indeed, it is inconceivable that any competitive private sector corporation would have allowed customer dissatisfaction on this scale to have arisen in the first place. It is also in my view a necessary step if we are to retain any public confidence in the principle of standing charges, a principle which, as you know, I accept.

I am therefore pressing and will continue to press the industries to respond positively to the proposal I made at Brighton.

I am surprised at the suggestion that my proposal causes difficulties because it might embarrass other nationalised industries. I do not accept that I should be inhibited from seeking to make the electricity and gas industries more responsive to their consumers by some spurious concept of nationalised industry solidarity.

Finally, I do not think colleagues need be concerned by the impact of my proposal on industrial or any other energy bills. The estimated cost to the industries of around £20 million for gas and £6 million for electricity is de minimis in the context of the industries' turnover. The impact on other consumers' bills will be insignificant, nor would I expect there to be any implication for EFLs.

I am copying this letter as before.

Yours
Nigel

NIGEL LAWSON

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

Prime Minister (2)

MLJ 12/11

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

11th November 1982

Dear Chief Secretary

EFL FOR ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES FOR 1983/84 AND FIGURES FOR LATER YEARS

Thank you for your letter of 28 October, and for your agreement to the 83/84 EFL of - £300 million.

The Industry advise that in order to achieve the 1983/84 EFL, payments of between £100m and £155m overall (including those mentioned in my letter to you of 18 October) will need to be transferred into 1982/83. The consequences for the 1982/83 EFL are not yet clear and the Industry have not yet ~~requested~~ attached a relaxation. Present indications are that a relaxation of up to £40m might be necessary, but I should prefer to defer a decision until the New Year, when firmer figures should be available.

For 1984/85 and 1985/86, the latest advice from the Industry indicates EFLs of - £260m and - £450m (an improvement in both years on the provisional figures in your Public Expenditure Cabinet Paper). While these figures too are provisional, pending financial target discussions, we are unlikely to be able to refine them further before publication of the Public Expenditure White Paper.

I agree that our officials should now take these discussions forward as rapidly as possible, since I want to announce a new target early in the New Year. Expected movements in costs, sales, and profitability, as well as methodological changes in the light of the Coopers' report, will of course be relevant. The Industry will provide my Department with information under these heads, and I expect this to be fully discussed with Treasury officials. I should however be surprised if it proved necessary for Treasury officials, in addition, to involve themselves in direct discussion with the Industry.

I am sending a copy of this letter to thé Prime Minister, George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely

NIGEL LAWSON

(Approved by the Secretary of State
and signed in his absence)

Nat Ind, Gas & Elect, Pt 7

/Not Ind

JV

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Prime Minister (2)

MES 17/11

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
LONDON
SW1P 4PJ

10 November 1982

Dear Nigel,

CPRS REPORT ON ELECTRICITY PRICES FOR INDUSTRY

Patrick Jenkin's letter of 27 October to you details some of the problems being faced by our electricity intensive users and the difficulties we face trying to overcome those problems.

With my responsibilities for industry in Scotland I fully support Patrick's views that we should be doing more to help our industry at a time when electricity boards have considerable excess capacity and when our major competitors have held down their electricity prices to intensive users by fair means or foul. At the same time my electricity responsibilities enable me to understand the concern expressed in your letter of 2 November about the difficulties of finding a remedy through electricity prices.

The time may therefore be ripe for a radical look at the statutory obligations of undue preference and break even requirements, even though the former would create many problems for the industry and Ministers in deciding individual cases. On the latter point I realise that our aim should be [illegible] the industries to avoid making losses over lengthy periods but the electricity supply industry is in a peculiar situation and it may be some time before demand and capacity can be satisfactorily adjusted to one another. In any event I agree with Patrick that we should ask officials to look closely at what can be done to allow the electricity industry to act more commercially when dealing with industries that are in difficulty. I would of course want my own offiicals to be closely involved with these studies.

I am copying this letter to the Prime Minister, Sir Geoffrey Howe, Patrick Jenkin, Sir Robert Armstrong and John Sparrow.

Yours ever,

George.

Nat Ind, Gas & Elect, Pt 7

Not 3rd Sm & Elect

✓ CWR
BT

S/C IV

(1)

Prime Minister

Agree to the terms of this announcement?

MCS 10/11

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

10th November 1982

Dear Chancellor

ELECTRICITY PRICES 1983/84: PRESENTATION

At the Prime Minister's meeting on 19 October, I agreed to circulate a note on the presentation of the decision that there should be a price standstill in 1983/84.

Effect on Different Consumer Categories

It needs to be made clear that this involves an average price increase of zero and not a freeze on each and every tariff. While all consumers will benefit, there may be small differences in the level of benefits to different classes of consumer and, as is usual, to customers of different Area Boards, who will formulate their retail tariffs by mid-January. The tariffs will be formally announced around the beginning of March.

The standstill will not remove the disparities with Europe forced by some large consumers & some of them may in fact benefit slightly less than the average consumer. However, industry in general will benefit and this will not be lost on the CBI.

Timing

I am under mounting pressure for an early statement; reports of varying degrees of accuracy are increasingly appearing in the Press. I believe it is essential, therefore to make an announcement this week. With your agreement and that of colleagues, I propose to do so on Friday, by means of a written answer. I attach a draft text and would be grateful for any comments today, as I need to have the question tabled tomorrow.

I am copying this to the Prime Minister, Leon Brittan, George Younger, Patrick Jenkin, John Sparrow and Sir Robert Armstrong.

Yours sincerely

NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

ELECTRICITY PRICES

On 8 February, I informed the House that I had received from the Electricity Council their review of the Bulk Supply Tariff, commissioned by my predecessor in 1980. The Bulk Supply Tariff determines the price which the Area Electricity Boards pay to the Central Electricity Generating Board for their supplies, and accounts for around 80% of the price of electricity to the user. I asked the Council to make the review available and invited comments on it from consumers. I also engaged the consultants, Coopers and Lybrands, to assist my Department in assessing the important issues raised. My statement today follows careful consideration of these issues in the light of the advice and comments received.

The fundamental basis of the Government's electricity pricing policy, that prices should be properly related to economic costs, remains unchanged. However, since the announcement in January 1980 of the industry's present financial target, which expires in March 1983, a number of developments have occurred. It is now clear that the level of demand for electricity is and will remain lower than was foreseen. Present and expected capacity in the Industry is more than adequate to meet forecast demand over the next few years at least. The cost to the Industry of meeting marginal increases in demand is thus likely to be lower than was expected. More efficient fuel use has also helped.

In these circumstances, and in the light of my consideration of the Bulk Supply Tariff Review, I have agreed with the electricity supply industry that there should be no increase in the average level of electricity prices next year. Details of the tariffs which will apply from next April will be announced by the Industry in due course.

I shall announce as soon as possible a new financial target, agreed with the Industry, to follow the present target. This will take full account of the conclusions the industry and I have reached on economic pricing.

Nat Ind:

Gas a Elec:

Pt 7

Nat-Ind

cc J.V.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Copy to → C.B.T

NBPM

MCS 11/11

The Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

10 November 1982

Dear Nigel,

ELECTRICITY PRICES 1983/84: PRESENTATION

Thank you for sending me a copy of your letter of 10 November to Geoffrey Howe asking for comments on the draft text of a written answer announcing an average electricity price increase of zero for next year. I have no comments on the draft of your announcement but consider that I must make a similar announcement at the same time. Unless I hear anything to the contrary by noon tomorrow I propose to table the attached written answer on Friday.

I am copying this to the Prime Minister, Geoffrey Howe, Leon Brittan, Patrick Jenkin, John Sparrow and Sir Robert Armstrong.

Yours ever,

George

ELECTRICITY PRICES

My rt hon Friend, the Secretary of State for Energy, has announced today that he has agreed with the electricity supply industry in England and Wales that there should be no increase in the average level of electricity prices next year. As similar factors apply in Scotland I have asked the Scottish Electricity Boards to follow suit and they have agreed not to increase their average level of prices next year. Details of the tariffs which will apply from 1 April 1983 will be announced by the Boards in due course.

I shall be discussing the implications of this announcement with the Boards and shall announce a financial target for the Boards as soon as possible.

Nat Ind, Gas & Elect. Pt 7

£5

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765
From: John Sparrow

NBPM

MLS 11/11

CONFIDENTIAL

Qa 06137

10 November 1982

The Rt Hon Nigel Lawson MP
Department of Energy
THAMES HOUSE SOUTH
LONDON S W 1

Dear Nigel,

Electricity Prices 1983/84: Presentation

with mcs?

Thank you for sending me a copy of your letter of 10 November to Geoffrey Howe enclosing a draft written answer on electricity prices in 1983/84.

Although the draft answer is, of course, perfectly accurate in stating that there should be no increase in the average level of electricity prices next year, I am worried that this might be taken by some to mean that there will be a freeze for everyone, which could lead to trouble later. It might be safer to insert, say before the final sentence of your draft, words on these lines: "For many consumers prices in 1983/84 are likely to be the same as or lower than they are now: for others they will be a little higher."

I am sending copies of this to the recipients of your letter.

Yours sincerely,

John

John Sparrow

CONFIDENTIAL

Nat Ind, Gas e Elect, Pt 7

CONFIDENTIAL

6 Nat Fut

B/F

10 DOWNING STREET

From the Private Secretary

MR HATFIELD

Gas Safety, etc

The Prime Minister has now seen Sir Robert Armstrong's minute, reference AO9943, about the transfer of responsibility for gas safety functions. Before agreeing to Sir Robert's proposal, the Prime Minister would like to know if there are any possible alternatives to the arrangements proposed by Sir Robert and, if so, what considerations led to the recommendation that the Health and Safety Commission and its executive should exercise those functions. I should be grateful if you could arrange for this to be done.

B/F

T. FLESHER

9 November 1982

CONFIDENTIAL

ℰ JV

Prime Minister ②

MES 9/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
L23 Victoria Street
London SW1E 6RB

8 November 1982

Dear Patrick,

CPRS REPORT ON ELECTRICITY PRICES FOR INDUSTRY

Thank you for sending me a copy of your letter of 27 October to Nigel Lawson about this report. I see from the NO.10 letter of 28 October that we are to discuss it collectively, but I write now with some preliminary views.

As you know, we have agreed EFLs for the English and Scottish Electricity Boards which would permit a standstill, on average, for electricity prices for 1983-84. This reflects the recommendation in the Coopers report that electricity prices in England and Wales should be based on a revised interpretation of marginal costs. It is important to bear in mind here that Coopers' definition of marginal costs, which we have broadly adopted, is made up of the net avoidable costs (NAC) of running a power station, energy charges (fuel costs) and relevant overheads. Following Coopers' work and our decision for a price standstill, electricity prices for both industry and domestic consumers ought now to be broadly moving to a level which reflects the costs imposed on the system by the consumers concerned.

You suggest that we should go further since industries in the private sector do not normally price according to marginal costs but according to what the market will bear. Some private sector firms are forced to do the latter even when it is lower than the former as a short-term expedient when trading conditions are poor. But no firm can make this a regular feature of its trading policy. If it does not cover its costs, it will become bankrupt. The protection of the Exchequer would prevent this in the case of a nationalised industry. But this ought not to be a reason for encouraging the industries to adopt uncommercial trading practices.

Some particular comments on your letter.

(i) You say that as a matter of principle you do not believe we should allow private manufacturing companies to be penalised for the past mistakes of the nationalised energy utilities. I agree.

But is is not clear what you have in mind here. As I explain above, the system of marginal costs which would underlie the prices, ought not to include any element for past mistakes. There is no suggestion in a marginal cost tariff that prices should include an element for the sunk costs of unsuccessful investment.

You may be suggesting that pricing should be made on the basis of an "optimal plant mix"; ie, one which assumed that the electricity industry and successive Governments had made with the benefit of hindsight all the right decisions about the mix, size, location etc of plant. But the CPRS discuss that argument in paragraph 3.16 of their Report. They point out that for the United Kingdom to price on the basis of an optimal plant mix would not give consumers the right signals about price. The timescale involved in the move to an optimal plant mix is too protracted for the signals to be relevant. The plain fact is that given the size and speed of our prospective nuclear programme, we could not be justified in basing the electricity tariff on low nuclear costs.

(ii) You suggest that one possibility might be for the sale of lease of power stations to interested companies. This is certainly something that might be considered, but paragraphs 3.17-3.18 of the CPRS Report are relevant here. The CPRS pointed out that for industrialists on load management terms, current prices are lower than would flow from the full cost of allocated coal plant. This would not be true for dedicated nuclear plant, where costs would be lower. The CPRS go on to point out that plant dedication can prove to be very risky for the user. In any event, if low cost plant is dedicated to individual consumers, either other consumers would have to bear the cost of the more expensive electricity coming from the less efficient plants, or the Exchequer would have to subsidise the difference.

(iii) Discussions last year in MISC 56 showed the problems of devising schemes to help certain categories of electricity users with their bills. Further discussions between Departments may be more successful. But we must try to avoid any scheme which is tailored specifically to benefit either one firm or a small number of firms. The "Mossmorran amendment" shows the pitfalls of this route.

(iv) An important conclusion of the CPRS Report is that exchange rate movements account for much of the changing disparities between United Kingdom and European electricity prices over recent years, reflecting our general loss of competitiveness. Although the excchange rate factor may not account for all of ICI's problems, it has some relevance. One of our prime aims is to help British industry to restore its competitiveness, but we will need to think very carefully before doing this by devices such as electricity prices below cost.

As I say, these are first reactions. I agree there are real problems here which we must discuss. The basis questions at issue are whether we should take measures to provide in effect a semi-permanent operating subsidy to some of our electricity intensive industries;

whether this should be done through the electricity supply industry and if so whether at the expense of the taxpayer or other electricity consumers. It would in my view be a mistake to think that there are more palatable alternatives which would really deal with the problem.

I am sending a copy of this letter to the Prime Minister, George Younger, Nigel Lawson, Sir Robert Armstrong and John Sparrow.

Leon

LEON BRITTAN

Nat Ind

Gas & Elec

8 NOV 1982

fc SV 1

Why don't we look at the alternatives before we decide?

Prime Minister
Agree Sir Robert's proposals at X, Y and Z? If you do, a draft letter is attached reflecting this. T 4/11

Ref. A09943

PRIME MINISTER

Gas Safety, Etc

I have seen the Secretary of State for Energy's letter of 11 October to the Lord Privy Seal, which was copied to you. In it he notes that his colleagues have agreed, subject to your approval, that the responsibilities for gas safety at present exercised by his Department's Gas Safety Branch should be transferred to the Health and Safety Commission and its Executive (HSC/HSE), reporting to him.

2. This proposal results from a report of a working group of officials under the Chairmanship of MPO's Machinery of Government Division, which examined responsibilities for existing gas safety functions, for the new function of controlling gas installers that will need to be discharged when the Government's proposals for gas appliance retailing are implemented, and for the legal metrology functions discharged by the Department of Energy. The report recommended that HSC/HSE, reporting to the Secretary of State for Energy, should take on both the existing gas safety functions and the new work of controlling gas installers. It also recommended that the Secretary of State for Energy's legal metrology functions, at present discharged by the Gas Safety Branch and the Electricity Meter Examination Service, should be transferred to the Secretary of State for Trade and be linked organisationally with the work of his National Weights and Measures Laboratory.

X 3. I recommend that you should approve the allocation of both the existing and the new gas safety functions to HSC/HSE. These arrangements would link gas safety organisationally with related safety functions, in an organisation which is well equipped to discharge them effectively and economically, and with minimum delay in putting a new system of controls over installers into operation. No legislation would be needed to give effect to the proposals; the Health and Safety Commission and its Executive have ample powers to do the new work on behalf of the Secretary of State, and there is no change of final Ministerial responsibility for the existing work.

4. One issue has arisen which prevents immediate allocation of responsibilities for controlling gas installers. This is the question of the form which the controls should take, referred to by the Secretary of State for Energy in his letter. The Secretary of State wants an exhaustive licensing regime, not least to demonstrate that the Government takes seriously its commitment to maintain gas safety standards when the arrangements for gas appliance retailing are liberalised. The Health and Safety Commission and Executive, supported by the Secretary of State for Employment, believe that more effective results could be achieved by other means of control at the disposal of the HSE, and that licensing of individual installers would be excessive and expensive. Other Ministers concerned are fairly agnostic, but would not wish to see extensive controls that might deter competition and entry to the market, or which would prove costly. My own view is that, if the Health and Safety Executive, as the experts on safety regimes and the people who will have to operate the controls to the Secretary of State's satisfaction, believe that they can do so with something other than a full licensing system, weight should be attached to their views. The Secretary of State has proposed further study by officials. You might like to suggest that the time has come to steer those concerned in the direction of a rapid resolution of the disagreement, and against any presupposition that licensing is the only form of control that is acceptable in both practical and political terms.

Y

5. The question of responsibilities for legal metrology work at present done by the Department of Energy is also still not resolved, as the Secretary of State for Trade wished the organisational and staffing implications to be studied further before he agreed to take on the work. The proposed transfer, which would bring together all the main responsibilities for legal metrology and should permit a more economical use of resources in the longer term, seems sensible and you may want to indicate your approval in principle. But you may be pressed by the Secretary of State for Industry to consider that question together with your final decision on where responsibility for standards should lie. A proposal that the Secretary of

Z

State for Trade's metrology functions exercised by the National Weights and Measures Laboratory should be transferred to the Secretary of State for Industry was a subordinate consideration in the standards issue.

6. If you are content to proceed as I have suggested, I attach a draft of a minute which your Private Secretary might send in response to the letter from the Secretary of State for Energy.

RtA

ROBERT ARMSTRONG

2 November 1982

(B)

DRAFT MINUTE FROM THE PRIVATE SECRETARY, NO 10 TO THE PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR ENERGY

Gas Safety, Etc

The Prime Minister has seen a copy of your Secretary of State's letter of 11 October to the Lord Privy Seal, which records Ministers' agreement, subject to her approval, that the responsibilities at present exercised by the Department's Gas Safety Branch should be transferred to the Health and Safety Executive.

2. The Prime Minister agrees that this change should be made. She understands that the Health and Safety Commission and its Executive will report to your Secretary of State on the discharge of these responsibilities. She also believes that the new function of controlling gas appliance installers should be discharged by the HSE on the same basis.

3. The Prime Minister notes that the question what form the controls should take is still unresolved. She agrees with your Secretary of State that it is presentationally important to demonstrate that the Government is introducing an adequate safety regime to maintain and perhaps improve gas safety standards when the arrangements for gas appliance retailing are liberalised. But she does not think that demonstration of this fact necessarily rests upon the introduction of an exhaustive licensing system. She believes that the aim should be to ensure a control regime that

is as unbureaucratic, cheap and unburdensome to industry as is commensurate with effective regulation; the views of the Health and Safety Commission and its Executive, as the experts in the operation of such controls, should be given due weight.

4. The Prime Minister also notes that the question of a transfer of responsibilities for some aspects of legal metrology from the Secretary of State for Energy to the Secretary of State for Trade is outstanding. She believes that, in principle, such a transfer is desirable, and that bringing together the main responsibilities for legal metrology in the National Weights and Measures Laboratory should benefit the services offered and lead to a more economical use of resources in the longer term. She hopes that the outstanding points of detail can be settled quickly, so that work on re-allocating your Department's Gas Safety Branch and Electricity Metering Examination Service can proceed.

5. I am copying this minute to the Private Secretaries to the Secretary of State for Employment, for Trade and for Industry, the Lord Privy Seal and the Chief Secretary, Treasury, and to Sir Robert Armstrong.

Nat. Ind

Gas & Elec Pricing Pt 7

RESTRICTED

Nat Ind

2 ppks

c/c JV

(2)

Prime Minister

MDS 2/11

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
SW1

2 November 1982

Dear Chancellor,

BGC PAY NEGOTIATIONS

At a meeting on 28 October the British Gas Corporation reached a settlement in their pay negotiations with their Higher Management. The negotiations had been virtually in suspense pending the outcome of the Gas Staffs and Senior Officers' (GSSO) settlement, reported in my letter of 25 October.

The Higher Management will receive an across the board increase of 7¾% on basic salaries with effect from 1 June. There are no other items in the deal. Since there are several allowances which remain unchanged the settlement will increase average earnings by 7½%. The increase on basic salaries is slightly above the 7.55% agreed for the most senior GSSO grades but the latter package did, of course, also include an extra day's holiday.

I am copying this letter to the Prime Minister, other members of 'E' Committee, George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely

J.P. Cent

NIGEL LAWSON

pp

(Approved by the Secretary of State and signed in his absence)

Nat Ind

Gas & Elec

CONFIDENTIAL

cc JL

Prime Minister (2)

Energy attempting to limit the area for discussion at your electricity CPRS meeting

MES 4/11

01 211 6402

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
Victoria Street
LONDON SW1

2nd November 1982

Dear Patrick

CPRS REPORT ON ELECTRICITY PRICES FOR INDUSTRY

Thank you for your letter of 27 October.

The Prime Minister has said it would be useful to discuss the CPRS report and the specific problems highlighted in Robin Ibbs' letter of 22 October. Such a discussion is clearly the best first step towards finding a solution to the important policy issue raised by Robin Ibbs.

I was surprised that in your letter you should have reverted to the idea of dealing with the problems of some large intensive users of electricity through changes in the pricing of electricity. This idea was examined in considerable detail by officials in 1980 and 1981 and the difficulties they saw in the way of providing operating subsidies through electricity prices were recognised by Ministers. This was one of the factors which led us to invite the CPRS to examine the general question. The CPRS have concluded that "electricity prices in the United Kingdom should be properly based on economic prices, without any subsidy from the taxpayer or cost subsidy from other consumers". Our freedom to depart from this position, assuming we wished to do so, is limited.

The difficulties of finding a remedy through electricity prices are no less significant today. Nor do they seem to me less important than those in the way of providing general operating subsidies through use of the Industry Act.

I am copying this letter to the Prime Minister and the other recipients of your letter of 27 October.

Yours

Nigel

NIGEL LAWSON

Nat Ind, Gas & Elect, Pt 7

PA

MRS 13/12

MR. SCHOLAR

ELECTRICITY PRICES: SIR ROBIN IBBS' LETTER OF 22 OCTOBER

I think Robin Ibbs has a substantive point in his complaint about British electricity prices compared with those on the Continent. There is some plasticity in the price comparison caused by exchange rate variations, which Robin Ibbs does not mention. But I do not think this much mitigates the thrust of his argument.

One of the main culprits is the coal industry. This is indeed a prime example of an industry sheltering behind import restrictions and charging a high price for its coal. (At the same time, it also draws substantial subsidies from the Treasury.) Once protection is ceded, then the distortions spread like cancer throughout the whole of the economy. And we get constant appeals to shelter industries and consumers from the ravages wrought by the protected miners. So we are induced to subsidise to mitigate the original folly of protection. Folly is heaped on folly - and good money chases bad.

I agree, however, that in this case there is another major culprit, the electricity generating industry. Again, it is an industry protected by natural barriers as well as our own legislative restrictions on entry and competition.

However, beginning from where we are now, I would argue that there is a very strong case for promising future reductions in the price of electricity. In part, these would arise from using an "inverse elasticity rule" (or to use the railway jargon, charging what the traffic will bear). Thus, since the elasticity of demand for electricity for some industrial processes like chlorine generation is very high indeed, we should levy charges only just above the short-run marginal cost, while there is considerable spare capacity available. Secondly, we ought to reduce the costs of electricity supply mainly by reducing the costs of coal and improving the performance of the electricity generating operation. But this is a long run business.

I cannot, however, see that it is wise for us to enter into a contract for five years or more for a fixed nominal price, as Robin Ibbs suggests the Germans do. I would be rather surprised if there were not suitable variation clauses in that contract which,

/for example,

for example, waive the terms of it under conditions where there was an explosion in the price of energy. But an appropriately-worded contract is by no means infeasible or undesirable.

AH

1 November 1982

ALAN WALTERS

cc JV

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

Mr Younger brought forward £25m not £20m. Good!
MCS 2/11

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1 November 1982

Dear Leon,

Following our meeting with the Prime Minister last month to consider electricity pricing my officials have had urgent discussions with the Scottish Electricity Boards to reassess their EFLs; the aim being to bring forward as much expenditure from 1983-84 into 1982-83 as possible ie around the £20m agreed at the meeting.

A complete standstill on prices for 1983-84 was estimated to cause an addition to the combined EFL of some £65m in 1983-84 but the Boards can absorb £5m of this. The Boards have been persuaded to bring forward some £25m expenditure into 1982-83 though they are very concerned about the implications of this. They both propose to bring forward payments for fuel though in the case of NSHEB this will involve advancing payments for gas to be burned at Peterhead from March and this in turn depends on the availability of plant. Also, the SSEB may be able to bring forward some contract payments on Torness. Both Boards feel that their auditors may comment adversely on these advance payments.

The new EFLs for 1983-84 are therefore:-

	SSEB £m	NSHEB £m
Previously agreed EFL	256	NIL
Increase for standstill in prices	48	12.5
Less amount brought forward into 1982-83	20	5
New EFL	284	7.5

My officials will be continuing their discussions with the Boards and your officials to set the Boards' EFLs for 1984-85 and 1985-86. We have some concern that in these years the Boards may move into loss and not meet their statutory duty to break even taking one year with another. This and other similar subjects such as revised financial targets and performance aims will be discussed separately.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, John Sparrow and Sir Robert Armstrong.

Yours ever,

George

Nat Trad Gas & Elec Pricing Pt 7

cc J.V

Prime Minister (2)

To note

MS 28/10

CONFIDENTIAL

Qa 06120

To: PRIME MINISTER

From: JOHN SPARROW

28 October 1982

Electricity Prices

1. I have seen a copy of Robin Ibbs's letter to you on the impact of electricity prices on ICI's operations, and Michael Scholar's minutes of 22 and 25 October.

2. The points raised by Robin Ibbs were all covered in the CPRS report on Electricity Prices. The letter is consistent with the facts given in that report and confirms our view that ICI might well withdraw from at least part of the chlorine-based sector in the United Kingdom (with up to 4,000 ICI job losses) if the prices currently paid by ICI in the UK and in Germany do not come closer together. We considered that the scale of the problem would reduce as German contracts come up for renegotiation, and that there were other strategic reasons which would affect ICI's decisions on withdrawal. The letter contains one new piece of information, which as we explained ICI had not made available to us - that ICI's German contract is firm for a further five years. But the fact remains that if ICI wanted to shift their chlorine production from the UK to Germany it would require additional electricity supply arrangements, almost certainly on less favourable terms.

3. In deciding what needs to be done it is relevant to consider the reasons for the disparity, and prospects not only for ICI but also its competitors. The majority of German contracts will be renegotiated on to cost reflective terms. There are only two examples of special contracts of which we are aware which appear to include subsidies by local government for industrial policy reasons - the Reynolds aluminium contract in Hamburg and the ICI contract at Wilhelmshaven. It is reasonable to assume that Dow Chemicals who are located in the Wilhelmshaven region have a similar contract. However, we believe that these contracts containing industrial subsidies are not widespread and that although a few of ICI's competitors may still enjoy subsidised contracts in the future, the main reasons for future price differentials are likely to be cost differences in electricity generation.

4. Our report also showed that ICI's chlorine business is the one major industrial sector critically threatened by electricity prices. We recommended that if selective assistance is considered appropriate for ICI then this should be given directly and not through electricity prices, to avoid distorting the tariffs for industrial and other users.

5. In view of all this I would like to suggest that the analysis and conclusions of the CPRS report should be discussed by those Ministers concerned before a reply to Robin Ibbs is drafted. This should also enable the broader issues of electricity pricing for industry arising out of the recommendations made by Coopers and Lybrand to be taken into account in considering your reply.

I have now indicated your wish for a discussion MLS

6. I am sending a copy of this minute to the Secretaries of State for Energy and Industry, and to Sir Robert Armstrong. You will recall that copies of the CPRS report also went to the Chancellor and to the Secretaries of State for Scotland and Wales.

B.

Nat. Ind: Gas + Elect. Pricing Pt. 7

FILE CONFIDENTIAL bc: JV

da

Nat. Ind

10 DOWNING STREET

From the Private Secretary 28 October 1982

Dear Julian,

Electricity Prices

The Prime Minister has seen a copy of the Secretary of State for Industry's letter to your Secretary of State of 27 October about the CPRS Report on electricity prices for industry and the more specific problems highlighted in Sir Robin Ibbs' letter to the Prime Minister of 22 October.

The Prime Minister thinks it would be useful to discuss the CPRS Report and these other issues after the public expenditure announcements have been made.

I am sending a copy of this to Margaret O'Mara (HM Treasury), John Gieve (HM Treasury), Muir Russell (Scottish Office), Jonathan Spencer (Department of Industry), Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

da

JH 168

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

27 October 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Thames House South
Millbank
London SW1

Prime Minister

Industry and Energy are likely to be at loggerheads on these issues, with Energy arguing it was all settled at your meeting last week. Agree a meeting, after Nov 2, to discuss CPRS Report and these issues, including pk 6 ICI?

MCS 27/10

Dear Nigel,

Yes

CPRS REPORT ON ELECTRICITY PRICES FOR INDUSTRY

I have seen a copy of the Report circulated on 8 October. The industrial analysis contained in the report is excellent and a number of its recommendations - particularly those relating to coal - are most welcome. However, I am most concerned about the implications of the Report's conclusions for electricity-intensive users in general and for ICI in particular. None of these recommendations, nor the findings of Cooper and Lybrand about the capacity charge, are likely to provide enough relief for the electricity-intensive users who are suffering the most severe competitive disadvantage. I note that the Prime Minister raised the problem of ICI in a recent discussion on electricity prices which you had with Treasury Ministers last week. I understand that at the Prime Minister's meeting, it was agreed that there should be a standstill on electricity prices in 1983/84 together with adjustments to the EFLs for the ESI in 1982/83 and 1983/84. I hope that we shall be able to consider the detailed implications of these decisions for possible further adjustments to the tariffs for industrial electricity prices, and in particular for electricity-intensive users, prior to an early collective discussion of the CPRS report. In the meantime I thought I should let you know both my immediate reactions to the general issues raised in the CPRS report and the more specific problems highlighted in Sir Robin Ibbs' letter to the Prime Minister of 22 October.

2 The CPRS Report confirms once more that electricity-intensive users enjoy significantly lower prices abroad, not only because of cost advantages in some countries but also because of different tariff structures, Government subsidies and special deals. Three points are especially worth focusing on:

i) the extent to which (para 3.38) local industrial policy in Germany can add to the favourable deals negotiable through the German system. We cannot be certain that renegotiation of contracts will reduce the German price advantage significantly;

ii) the decision by the Dutch Government as recently as July 1982 to reduce prices paid by large consumers with high load factors;

iii) the extent to which the French prices, held down to meet the objectives of the Government's counter-inflation policy, have benefited French industry.

The key question is whether we should introduce further measures to compensate for these distortions, thereby enabling our industries to compete on a fair basis.

3 The CPRS is probably right in questioning whether the aluminium smelting industry is likely to be competitive in the UK in the longer term. But we should not write off the other electricity-intensive sectors which, for example, supply local markets with goods which are expensive to transport, or which exploit a technological leadership. They do have a prospect of survival here and we can improve that prospect by helping to match distortions in other countries' electricity pricing.

4 The CPRS recognise that lower electricity prices could make a significant difference to ICI's chlorine related activities. They estimate that output of up to £250 million per annum could be at stake, representing up to 4000 jobs at Runcorn and elsewhere. Sir Robin Ibbs and some of his ICI colleagues called to see me yesterday and gave me a very similar and realistic assessment of the action they would have to take over the next three to four years, if adequate relief is not forthcoming. 4000 jobs would be lost directly. If more substantial closures of chlorine capacity were to take place there would inevitably be knock-on effects on other parts of ICI's system with up to a total of 12,000 jobs and output worth over £700 million per annum at risk. The problems facing the company's petrochemical activities on Teesside would be further aggravated since closures in the chlorine-related activities would be likely to cut ICI's internal demand for ethylene by some 20 per cent. None of these figures take any account of local or national multiplier effects.

5 As far as other chemicals, steel, textiles and paper are concerned, the CPRS are of course right to say that electricity is only one of several problems, but nevertheless, it is a significant problem for them all, particularly near the low point of the economic cycle. These industries are doing what they can, in very difficult circumstances, to improve their competitiveness often by taking very unpalatable decisions. We

should not dismiss the idea of helping with electricity costs (where we are in a position to help) merely because they face other problems (where we often cannot help).

6 There are a number of useful recommendations in the Report, on nuclear power, world market-related coal prices, greater sophistication of the tariff, direct dealing with the CEGB, private sector generation and sale or lease of CEGB plant. The finding by Cooper & Lybrand that capacity charges have been set at excessive levels is particularly important and I warmly support the decision to implement this for the benefit of the generality of British industry. My fear, however, is that none of these measures would provide much relief for electricity-intensive industry in the short term, although it would be useful to have an assessment from your Department.

7 In these circumstances I do not believe there can be any question of withdrawing the 3 per cent flexibility allowance. Likewise, we need a permanent load management scheme, with a lower qualifying threshold, at least as generous as the existing Contracted Customer Load Scheme.

8 However, I am convinced we must do more - particularly for ICI's chlorine operation and perhaps for some of the other sectors too. I do not agree with the CPRS that the appropriate route for such assistance is through industrial policy aids. I would be most reluctant to use the Industry Act, even if such highly visible action escaped challenge in the European Community, because of the precedent this could set for industry to seek operating subsidies in respect of other costs.

9 I am not entirely persuaded by the thesis underlying the Report that present pricing policies may be expected to secure the optimum allocation of resources and are thus economically desirable. There are a number of reasons for thinking that this is not so: the under-pricing of electricity overseas to which I have already referred; the fact that industries in the private sector (whether in manufacturing or as energy producers) do not normally price according to marginal cost but according to what the market will bear; and the inclusion in the ESI's cost structure of the effect of past mistakes which it could not hope to pass on if it did not enjoy a monopoly position. As a matter of principle I do not believe we should allow private manufacturing companies to be penalised for the past mistakes of the nationalised energy utilities.

10 We all know that the problem stems from electricity prices and the ways other countries have found to distort these prices.

Surely we can find a way to compensate for those distortions? I am well aware of the problems over undue preference, but believe that officials of our two Departments should be asked once again to look, with the electricity supply industry, at what more can be done. One possibility might be to arrange for the sale or lease of power stations to interested companies, and ICI are very ready to give this idea further consideration. The CPRS support the idea on a fair economic basis, and I would not necessarily wish to press for a subsidised lease. But I think there may be an argument for combining leasing with the supply of NCB coal at a price linked to the export price, since this would be the best price that could be obtained for the coal if for example, ICI closed a significant part of its chlorine operation and the CEGB's requirement for coal fell accordingly. (It is perhaps relevant that the European competition facing ICI itself depends in part on UK coal exported to, eg German power utilities at "export" prices.)

11 Many of these points are relevant to the reply which the Prime Minister wishes to send to Sir Robin Ibbs, on which our Departments have been asked to advise.

12 I am copying this letter to the Prime Minister, Sir Geoffrey Howe, George Younger, Sir Robert Armstrong and John Sparrow.

Yours ever

Patrick

MCS Seen

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

October 1982

Dear Nigel,

EFL FOR ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES FOR 1983-84 AND FIGURES FOR LATER YEARS

Thank you for your letter of 26 October in which you report that you have obtained the industry's commitment to use their best endeavours to meet a 1983-84 EFL of -£300 million. I accept that and am extremely grateful for the great amount of work which you and your officials have put in with the industry to bring this about. I agree to this outcome.

I note that you will be writing to me again about the likely size of the consequent transfer of payments between this year and next and of any consequences for the industry's 1982-83 EFL. You will appreciate why the Treasury needs to know this as soon as possible. I hope therefore that you can write very quickly. Finally on the 1982-83 and 1983-84 EFLs, let me say that I fully recognise the industry's concern about the effectiveness of the EFL as a discipline within the industry. It is certainly not in our interest to undermine that. But as I am sure you have already explained to the industry, your proposal for a price standstill posed particular problems for 1983-84.

Now that the public expenditure consequences for 1983-84 of an electricity price freeze have been agreed, the next step is for there to be a proper study of the quantification of the CEGB's response to Coopers' criticism so that we can see whether this can provide the basis for a medium-term target and performance aim for the industry. Ian Byatt is already in touch with your people about the details of the figures and I hope that they can let us have a full report on them and the industry's methodology when they have carried out a thorough study. I hope that you can agree that if they think it necessary, Treasury officials should be able to discuss the figures with the industry.

Our officials have not yet been able to settle final figures for the two later years. The figures in my Cabinet paper should therefore be regarded as provisional. I understand that more information is needed from the industry before the later years' figures can be decided and it is hoped that these should be available by the end of next week. I hope that we can quickly settle this unfinished business.

I am sending a copy of this letter to the Prime Minister, George Younger, John Sparrow and Sir Robert Armstrong.

Leon

LEON BRITTAN

8/ JV

Nat Ind. Pt 7

Prime Minister (2)

01 211 6402

MLS 26/10

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1

21 October 1982

Dear Leon

At our meeting with the Prime Minister last ~~Tuesday~~ 19 Oct we agreed to examine the financing of the electricity price standstill in 1983/84.

I have discussed this further with the industry and have now obtained their commitment to use their best endeavours to meet a 1983/84 EFL of -£300m. This assumes an average level of inflation in that year of 6%.

Part of the cost of the prices standstill will be met through a transfer of payments between this year and next. I will write to you again about the likely size of this and any consequences for the industry's 1982/83 EFL. The industry have however emphasized their concern for the effectiveness of the EFL as a discipline within the industry. That being so, they believe that there are limits to 'shunting' which it would be imprudent to exceed. Taking this, and other improvements in 1983/84 into account, I consider that an EFL of -£300m in 1983/84, is the best that can be achieved. I trust you are able to accept this figure, which represents an improvement of £288 million over the figure I quoted in my minute to the Prime Minister of 18 October.

I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger, John Sparrow and Sir Robert Armstrong.

Yours ever

NIGEL LAWSON

Nat Ind

Gas & Elec

CONFIDENTIAL

JU

Prime Minister (2)

MS 26/10

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

25 October 1982

Dear Chancellor,

BGC PAY NEGOTIATIONS

In my letter of 11 October I told you that the Gas Staffs and Senior Officers (GSSO) had given the British Gas Corporation notice of their intention to refer their current pay claim to conciliation and/or arbitration and I mentioned that BGC would be prepared marginally to improve their offer during conciliation in order to secure agreement.

BGC and the unions attended exploratory talks at ACAS on 18 October and as a result of proposals put forward by the management during those discussions a settlement has now been reached. The agreement, which is effective from 1 June, provides for an increase of 5.5% for junior staff (unchanged from the previous offer) and increases for clerical grades and above ranging from 6.8% to 7.55% (compared with the previous offer of 6.5% to 7.4%). All grades will receive an extra day's holiday. BGC have advised us that the package will increase average earnings by just over 7%, and the wage bill by 7.4%. (The fact that the average earnings figure is unchanged from that in my last letter arises from a recalculation by BGC of their previous offer).

BGC's Higher Management, whose settlement date is also 1 June, rejected an offer of 7% in June and have been awaiting the GSSO settlement. These negotiations are expected to resume on 28 October. BGC have not yet formulated a revised offer but it is likely to be very close to the increase of 7½% agreed at the top end of the GSSO range.

I am copying this letter to the Prime Minister, other members of 'E' Committee, George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely

J.P. Chown

pp NIGEL LAWSON

(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

Nat Ind

File 2S

10 DOWNING STREET

From the Private Secretary

25 October 1982

ELECTRICITY PRICES

I wrote to you on 22 October about the letter the Prime Minister has received from Sir Robin Ibbs about electricity prices for the production of chlorine.

The Prime Minister saw Sir Robin's letter over the weekend. She commented that she raised this very point at the discussion of electricity prices with your Secretary of State and Treasury Ministers last week. She has further commented that ICI's case is powerful, and that the Government must find a way to meet it.

I would be grateful if you would take account of these comments in preparing your draft reply for the Prime Minister's signature.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry) and John Sparrow (CPRS, Cabinet Office).

M. C. SCHOLAR

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

FILE

COMMERCIAL IN CONFIDENCE

da

10 DOWNING STREET

From the Private Secretary

22 October 1982

Dear Julian,

I enclose a copy of a letter which the Prime Minister has received from Sir Robin Ibbs about the price of electricity for chlorine plant.

I would be grateful if you, in consultation with Jonathan Spencer (Department of Industry) and John Sparrow (CPRS) to whom I am copying this letter, would let me have a draft reply for the Prime Minister's signature by 2 November. I believe that the Prime Minister will look particularly for some commentary on the point made at the top of page 2 of the letter, that the gap between German and UK prices is only a temporary phenomenon.

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

COMMERCIAL IN CONFIDENCE

Imperial Chemical Industries PLC

Imperial Chemical House
Millbank London SW1P 3JF

Telephone 01-834 4444

From Sir Robin Ibbs

Prime Minister

Robin Ibbs telephoned and I encouraged him to write this to you. The point at X seems particularly significant. I have asked for a draft reply.

MCS 22/10

22 October 1982

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP
Prime Minister
10 Downing Street
LONDON, SW1

Dear Prime Minister,

ELECTRICITY PRICES

ICI has for some time been providing through the Department of Industry information for a CPRS study on electricity prices. I have not been directly involved but I now find that the information asked for has entailed such a plethora of detail that I am concerned that the simple heart of the matter is likely to have been overlooked. I have therefore myself intervened with officials in the Department of Industry and have arranged to meet Patrick Jenkin next week. But this is a matter of such importance to ICI that I am also writing direct to you.

The essential facts are that ICI has £600 million of capital (CCA) invested in the UK in the production of chlorine and associated products by the electrolysis of brine. Although the age and design of the plant varies, the overall operation is efficient and we are world leaders in this technology. However, we make no CCA return on the investment; the best we can do is to break even. This means that the business is not generating the cash required to update and replace the assets. As a result it will progressively decline unless we find a way of making a reasonable profit.

In producing chlorine, 80% of the variable cost (and 50% of the total cost) is electricity. Our competitors in Europe pay on average one third less for electricity than we do. Indeed we ourselves in Germany pay about £16/MWH compared with about £24/MWH in the UK. The result is that compared with Continental operations we have a burden from purchased electricity of about 25% additional variable cost (and of about 12% additional total cost) in a highly competitive business. It is not surprising that the best we can do is break even.

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I have heard it suggested that this may be only a temporary problem because it is alleged that German utilities are renegotiating contracts and raising prices. The fact is that our contract in Germany is firm for a further five years. It is unlikely to be unique and others are probably just as well placed. Furthermore the general trend in Europe does not appear to be towards increasing significantly the price to large users. For example, in Holland the price has recently been cut by 30% on a "temporary" basis through to 1986.

Experience makes me doubt whether a way out of this problem of uncompetitive electricity price can be found within the present constraints of "showing no undue preference between consumers." The practical question for Ministers may therefore be whether they regard the prospect of a progressively declining chlorine-based sector of industry, and the wider consequences of this, as being preferable to easing the pricing arrangements to an extent comparable to that in competitor European countries. The sum of money involved in closing the gap is £20 million per annum.

If the basic manufacture of chlorine is unable to generate the funds needed to invest and keep the assets up to date, there is no doubt that we shall have to eliminate in stages the weaker part of this business. And as the overall size decreases, the long term viability of what is left in the UK will become increasingly questionable. A likely pattern of events is that over the next three or four years the plant on Teesside, the plant in Northwich and part of the capacity at Runcorn will in turn be closed. (This will amount to a reduction of 400,000 tons per annum of chlorine capacity). There would be corresponding contraction downstream and we estimate that 4,000 jobs would be lost in ICI and its immediate customers, and a further 8,000 jobs in the surrounding communities. The balance of payments loss is estimated to be about £200 million. On the other hand, competitive electricity prices would enable us to generate the cash needed to convert the Teesside plant to flexible load operation and to implement further technological development of the Runcorn chlorine capacity. With competitive electricity we would thus be exploiting our world lead in chlorine technology from a long term competitive UK manufacturing base.

You will appreciate that I am not crudely threatening closure of chlorine plants if we do not have competitive electricity. We shall do our utmost to use our ingenuity to preserve our business; it is just that if assets do not generate cash for their replacement a good businessman has to close them down, and the pressure to do so is that much greater when he can develop the business perfectly satisfactorily in another country. I should add that interdependence of our downstream operations is such that at some point reduced UK manufacture

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of our intermediate EDC (which takes ethylene as well as chlorine and which it has been suggested we might import) would lead to such a reduction in the ethylene load on our Wilton cracker that this would cease to be viable and so put at risk much of our Wilton Site - always supposing that has not already happened for other reasons related to ethylene feedstock that I forebear to mention!

As you know I have always believed there would be little point in having lower priced electricity unless in the longer term we are going to have lower cost electricity. With Walter Marshall at the CEGB this seems a much more realistic objective. In these circumstances it would be a pity if failure to provide the price adjustment needed now resulted in progressive disappearance of the UK chlorine industry so that it is no longer around when electricity generation becomes more efficient.

Yours sincerely,

da

10 DOWNING STREET

From the Private Secretary 22 October 1982

Dear Robin,

I am writing on behalf of the Prime Minister to thank you for your letter of 22 October. I will place this before her, and you will be sent a reply as soon as possible.

Yours ever,

Michael Scholar

Sir Robin Ibbs

COMMERCIAL IN CONFIDENCE

Imperial Chemical Industries PLC

Imperial Chemical House
Millbank London SW1P 3JF

From Sir Robin Ibbs

Telephone 01-834 4444

Prime Minister

Robin Ibbs telephoned and I encouraged him to write this to you.

The point at X seems particularly significant. I have asked for a draft reply.

MCS 22/10

22 October 1982

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP
Prime Minister
10 Downing Street
LONDON, SW1

I raised this very point when we discussed these matters. ICI's case is powerful. We must find a way to meet it

Dear Prime Minister,

ELECTRICITY PRICES

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If the basic manufacture of chlorine is unable to generate the funds needed to invest and keep the assets up to date, there is no doubt that we shall have to eliminate in stages the weaker part of this business. And as the overall size decreases, the long term viability of what is left in the UK will become increasingly questionable. A likely pattern of events is that over the next three or four years the plant on Teesside, the plant in Northwich and part of the capacity at Runcorn will in turn be closed. (This will amount to a reduction of 400,000 tons per annum of chlorine capacity). There would be corresponding contraction downstream and we estimate that 4,000 jobs would be lost in ICI and its immediate customers, and a further 8,000 jobs in the surrounding communities. The balance of payments loss is estimated to be about £200 million. On the other hand, competitive electricity prices would enable us to generate the cash needed to convert the Teesside plant to flexible load operation and to implement further technological development of the Runcorn chlorine capacity. With competitive electricity we would thus be exploiting our world lead in chlorine technology from a long term competitive UK manufacturing base.

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Yours sincerely,

fc. JV.

8

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

SIR DONALD MAITLAND GCMG OBE
PERMANENT UNDER SECRETARY OF STATE

22 October 1982

SECRET AND PERSONAL

Dear Robert,

WITHSTANDING A STRIKE IN THE ELECTRICITY SUPPLY INDUSTRY

You sent me a copy of your letter of 14 October to Douglas Wass about the above study.

Clearly, the Department of Energy will have an important part to play in this study. I am however somewhat concerned about the implications for our resources, especially as many of those involved could in the next few months be dealing with the consequences of an adverse vote at the end of the NUM ballot.

We will nonetheless do our best to participate fully in the study. I should like to nominate Ivor Manley as our Departmental representative. He will be assisted by David Metz, the Assistant Secretary in the Electricity Division concerned with such issues; it would be helpful if he too could be regarded as a full member of the Group.

I am sending copies of this letter to Douglas Wass and the other recipients of your letter.

Yours ever,

Donald

Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON SW1A 2AS

22 OCT 1982

Robin Butler Esq

With

the Compliments of

Sir Frank Cooper, G.C.B., C.M.G.

Permanent Under-Secretary of State

MINISTRY OF DEFENCE
SW1A 2HB

SECRET PERSONAL

7a

SECRET AND PERSONAL

MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2193 (Direct Dialling)

01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE

SIR FRANK COOPER GCB CMG

PUS/82/1271

Sir Robert Armstrong KCB CVO
Cabinet Office
Whitehall
SW1

21 October 1982

Dear Robert

You kindly sent me a copy of your letter to Douglas Wass of 14 October in which you asked for nominations to the newly formed MISC 86.

2. In our case there is a good deal of practical value in having the same person representing MOD on all the inter-departmental groups which are or will shortly be conducting parallel studies of how to withstand strike action in industries where essential supplies and services would be at risk. I should therefore like Barry Miller, Head of DS6, to be our representative on MISC 86.

3. I am sending copies of this letter to the other recipients of yours.

Yours ever

Frank Cooper

FRANK COOPER

SECRET AND PERSONAL

SECRET PERSONAL

D10

SECRET 7

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3785
SWITCHBOARD 01 215 7877

From the Permanent Secretary
M. D. M. Franklin, CB CMG

NO 10 OF 11

R Hatfield Esq
PS/Sir R Armstrong KCB CVO
Cabinet Office
Whitehall
London SW1

21 October 1982

Dear Richard,

MISC '86

Michael Franklin's nomination to MISC 86 is Alec Berry, Assistant Secretary on the domestic side of our Western European and General Division (215 3020).

Copies of this letter go to Private Secretaries to the recipients of Sir Robert Armstrong's letter of 14 October.

Yours sincerely,

pp ROBERT P MADELIN
Private Secretary

Nat Ind, Case Elect, P47

JV

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

To note.

MCS 21/10

PRIME MINISTER

STANDING CHARGES FOR GAS AND ELECTRICITY

As you know the gas and electricity industries have agreed to Nigel Lawson's request to commission an independent study of the level of standing charges and the reason for this level. My officials were not extensively involved in his Department's review of the impact of standing charges but were in agreement with the conclusions reached.

There has been less controversy about standing charges for electricity in Scotland than in England and Wales. This may be partly because the South of Scotland Electricity Board does not have a standing charge as such, but a higher unit rate for the initial block of units coupled with a minimum charge. A study by the Scottish Boards would probably follow closely the lines adopted in England and Wales and the findings would be unlikely to be very different. In addition, the last element of the proposed terms of reference for the study overlaps considerably with certain aspects of the efficiency audits of the Scottish Boards which are currently nearing completion.

For these reasons we decided not to initiate a parallel study in Scotland. My officials have instead asked the Scottish Boards for a detailed analysis of the structure of their charges to small consumers and that any increase in standing charges be postponed until the results of the England and Wales study are available. The Scottish Consultative Councils have also been asked for their views. We shall then be in a position to consider, when the report of the study becomes available, what changes, if any, are desirable in Scotland. I should, however, record that an initial reaction from the North of Scotland Hydro-Electric Board supports the point made by Leon Brittan in his letter of 6 October to Nigel Lawson; namely that the proposal to limit standing charges to 50% of any individual account will be of greatest benefit to those with seasonally-used premises such as holiday homes.

I am copying this minute to the Chief Secretary, the Secretaries of State for Energy, Northern Ireland, Environment, Wales, Industry and Social Services and to Sir Robert Armstrong.

G.Y.

G.Y.

21 October 1982

Nat Ind: Gas & Elec Prices Pt 7

SUBJECT.
cc Master

FILE

SW

cc: HMT.
Chief Sec's Office
SO
CPRS
CO
bcc: J. Vereker.

10 DOWNING STREET

From the Private Secretary

20 October, 1982

NAT. IND.

Dear Julian,

Electricity Prices

The Prime Minister held a discussion about electricity prices yesterday afternoon with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary, Treasury, the Secretary of State for Scotland and Mr. Sparrow. Mr. Gregson was also present.

Your Secretary of State said that it was agreed on all sides that, following the Coopers and Lybrands report, electricity prices were higher than would result from a proper application of economic principles. Insufficient account was being taken of substantial, and continuing, over-capacity: currently, charges contained an element related to the cost of building new power stations to meet growing demand, whereas no new stations were likely to be built for this purpose for many years to come. There was also no justification for the current CEGB practice of recovering all overhead costs through prices. He believed that there was a strong case for acting rapidly, and he proposed that there should be a price freeze next year in place of the increase of about 5 per cent which would be implied by the old basis of calculation. This would have an adverse effect on the industry's EFL, and hence on the PSBR, of some £350 million in 1983/84. Decisions were required by the end of this month, or by mid-November at the latest, so as to enable the industry to translate them into detailed tariff proposals for 1983/84.

The Chief Secretary said that he accepted in principle that current pricing policy needed amendment on the lines advocated by Cooper and Lybrands but the figures to which your Secretary of State referred had been available for only a few days, and he would wish to consider whether the full amounts of the EFL additions proposed by your Secretary of State could be validated. Wider public expenditure considerations

/pointed

SW

pointed strongly towards a re-phasing of these amounts. He proposed that your Secretary of State should consider whether the EFL for 1982/83 for the electricity supply industry in England and Wales should be increased by £200 million, to allow the CEGB to bring forward as much expenditure as possible from 1983/84 into the current year. Depending upon the result of his consideration of the total increases which your Secretary of State had proposed, a further sum of up to £150 million could be added to the 1983/84 EFL figure later, after the public expenditure survey was completed. He made a similar and parallel proposal in respect of the Scottish electricity supply industry.

The Prime Minister said that it was agreed that the new basis of calculation should be applied to electricity prices forthwith, and that there should be a standstill in 1983/84. The Chief Secretary would consider urgently whether the additions to EFLs, which had been proposed, could be validated. The aim should be to bring forward as much expenditure from 1983/84 to 1982/83 as possible, say, £200 million for the electricity supply industry in England and Wales and £20 million for Scotland. The Chancellor of the Exchequer would consider with the other Ministers concerned the timing of the announcements: there would, on the one hand, be advantage in an early announcement, as proposed by the Secretary of State for Energy; but there should be no question, on the other hand, of a too hurried assessment of the figures, and public expenditure ceilings should not be breached by the additions proposed. Your Secretary of State should circulate to those present a note on how best to present these decisions: the justification for the change might very properly rest on the changed circumstances and the new management of the industry.

I am sending a copy of this letter to John Kerr (Treasury), John Gieve (Chief Secretary's Office), Muir Russell (Scottish Office), Gerry Spence (Central Policy Review Staff) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

J. D. West, Esq.,
Department of Energy

With the Compliments

of

The Permanent Secretary

Department of Transport

2 Marsham Street London SW1P 3EB

Telephone 01-212 4581

Pl. file

6

SECRET AND PERSONAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 4581

THE PERMANENT SECRETARY
SIR PETER BALDWIN, KCB

Richard Hatfield Esq
Private Secretary to
Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

19 October 1982

Dear Richard,

WITHSTANDING A STRIKE IN THE ELECTRICITY SUPPLY INDUSTRY

Sir Peter Baldwin was grateful for his copy of Sir Robert Armstrong's letter of 14 October to Sir Douglas Wass about the establishment of a new Official Group on Electricity Supplies. He would like to nominate Mr John Palmer, who is shortly to take up his appointment as Deputy Secretary Transport Industries, as our representative on the Group.

I am copying this letter to the Private Secretaries to recipients of Sir Robert Armstrong's letter.

Yours,

Nicholas Kroll

N J KROLL
Private Secretary

Copy no 9 of 15

Pl. file.

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SECRET & PERSONAL

Sir Peter Carey GCB
Permanent Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7003
SWITCHBOARD 01-212 7676

19 October 1982

Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

Dear Robert,

Thank you for sending me a copy of your letter of 14 October to Douglas Wass about withstanding a strike in the electricity supply industry.

Jack Leeming will represent this Department on the study as he has on the other similar studies that are in hand.

I am sending copies of this letter to those who received yours.

Yours ever

Peter

Peter Carey

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

M Scholar Esq
Private Secretary
No 10 Downing Street
London SW1A 2AL

18 October 1982

Dear Michael,

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

I attach a paper by officials which can serve as the basis for discussion at the Prime Minister's meeting tomorrow. It has been agreed with Department of Energy and the Scottish Office.

Copies go to John Kerr here and to Julian West, Muir Russell, John Sparrow and Richard Hatfield.

yours sincerely

for JOHN GIEVE

PUBLIC EXPENDITURE AND ELECTRICITY PRICES 1983-84 TO 1985-86
(Paper by Department of Energy, Scottish Office and Treasury Officials)

There is an unresolved issue on the public expenditure figure for the electricity supply industry in England and Wales. This is essentially concerned with future levels of electricity prices.

Current additional bid for the electricity supply industry in England and Wales (ESI)

2. The baseline provision in this year's Investment and Financing Review is:

	1983-84	1984-85	£m cash 1985-86
Line 1 Baseline	-462	-543	-565

The present additional bid by the Secretary of State for Energy, which has been accepted by the Chief Secretary, is:-

Line 2 Current Additional bid	+100	- 82	-340

-362

The bid in line 2 for 1983-84 reflects the cost of continuing the scheme of assistance for major industrial users introduced in the 1982 Budget.

3. The present bid assumes that inflation and price increases will be as follows:-

Table A	1983-84	1984-85	1985-86
Inflation	7	6	5
Price	5	6	5

4. The figures above are based on a continuation of the present methods of determining electricity prices. It is now accepted in principle by the Treasury and the Department of Energy, on the advice of Coopers and Lybrand, that these methods do not correctly reflect economic pricing principles.

Since the 1960s, the aim has been to set electricity prices equal to long run marginal cost (ie. to reflect in today's prices the long term consequences of a change in demand for electricity). One element in costs - representing about 16 per cent of them - has been the cost of the additional plant needed to meet an increase in demand. But because the industry will continue to have substantial overcapacity, it is not planning to build new power stations for the foreseeable future (other than nuclear stations which are justified on cost-saving rather than capacity grounds). The plant element in marginal costs should thus reflect, not a new station (as in the present approach) but the much lower cost of deferring the retirement of an existing station. Coopers also suggested a new approach to other elements of cost, particularly overheads. Overall it was suggested that current prices were significantly higher than would result from a proper application of economic pricing principles, although Coopers did not quantify the difference.

6. The Department and the Treasury accept in principle that the optimum basis for prices is application of marginal cost principles. This could result, however, in a significant additional public expenditure requirement*. The effect on the finances of the industry also has to be taken into account. Without other cost savings a significant moderation in electricity prices could leave the industry with only a small pre-interest profit of very roughly ½ per cent in 1983-84 (compared with the target set for the industry over the last three years of 1.7 per cent on average). There would be a post-interest loss, although taking one year with another there should not be a breach in the industry's statutory duty to breakeven. The Treasury believes that the extent and phasing of correction to prices needs to be considered in the light of the Government's public expenditure and PSBR policies.

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* The approximate cost of each one per cent reduction in prices in April 1983 would be:

	1983-84	1984-85	1985-86
± 1% price change in April 1983 (E&W)	± 70	±100	±110

7. The electricity supply system in Scotland is separate from that in England and Wales. Prices to all classes of consumer, apart from the largest industrial users, are generally lower there. In part this reflects the different structure and level of costs either side of the border.

8. The Coopers' report did not cover Scotland where methods of price determination are somewhat different; and entirely fresh calculations would need to be made of the effect of applying the approach they suggested to the Scottish electricity system.* The external financing limit for 1983-84 agreed by the Secretary of State for Scotland and the Chief Secretary is £256m cash (this is £26m over baseline, due to rephasing of capital expenditure).

Beneficiaries

9. Detailed tariff prospects will need to be worked out by the industry in the light of the Government's decision on their future external funding and financial targets. Broadly, the benefits of price moderation would be spread across all existing consumers; the rough proportions would be domestic (40%), commercial (25%), and industry (35%). The recent CPRS Report shows that electricity prices were not crucial to other than a few sectors of British industry. These are generally benefiting already from the price reduction scheme introduced in the 1982 Budget. While any measure of relief would be welcomed by all consumers - and this is an area in which the Government is seen to be responsible for prices - there would be unlikely to be significant effects on the economy as a whole in the short term. In the longer term, by moving towards prices at the proper economic rate, consumers would be encouraged to make the correct decision on whether to invest in electricity or in other sources of energy; this should give longer term gains in overall economic efficiency.

* The approximate cost of each 1% reduction in prices in April 1983 would be:

	1983-84	1984-85	1985-86
	£m cash		
1% price change in April 1983	±10	±15	±16

Position of the Secretary of State for Energy

10. The Secretary of State for Energy considers in the circumstances that there is no case for increasing prices in 1983-84. This would increase the additional bid in line 2 above to:-

			£m cash
	1983-84	1984-85	1985-86
Line 3	+450	+420	+210

He is amplifying his position in a separate note.

The Position of the Treasury

11. The Treasury has long argued that nationalised industry prices should reflect marginal costs. They agree with the Department that some real reduction in electricity prices is merited in 1983-84. But they argue that alignment of prices with marginal costs needs to take account of public expenditure consequences, which in this case are potentially substantial. On Friday the Department of Energy provided figures on elements in the industry's marginal costs and the Treasury will now wish to consider these in detail with the Department and the industry in view of the substantial sums involved. This can be done quickly. A similar exercise needs to take place in Scotland. The Treasury believe that some phasing of real reductions in electricity prices may be needed for public expenditure reasons. In any event, the industry should be pressed further to absorb the loss of revenue, in addition to the savings already made, so as to minimise the increase in public expenditure.

12. The timing of an announcement also needs to be considered. One possibility is for an announcement in the Budget. This timetable would not prevent theSecretary of State from making positive statements in the meantime (eg to the December NEDC) to the effect that electricity prices will be below the rate of inflation next year.

Conclusions

13. The issues for discussion are:

a) the phasing of the reduction and how the public expenditure consequences should be dealt with;

b) the timing for final decisions and announcement.

cc JS

PRIME MINISTER

ELECTRICITY PRICES

It is now clear that the current level of electricity prices cannot be justified, and that corrective action should be taken as soon as possible. In practice this means that, at the very least, prices should not increase at all next year, whereas on the old basis there would be an increase of about 5%.

The Government have repeatedly stressed the importance of proper economic pricing in the monopoly nationalised industries, not least in the energy sector. We have stuck to those principles - that prices should reflect marginal costs - in the face of considerable unpopularity in the case of gas, the price of which to the domestic consumer has risen by 10% in real terms over each of the past three years. Electricity prices too have been rising in real terms since we came to office.

The Chief Secretary and I are at one in believing we must continue to stick to this approach. We also agree, as do our economic advisers, that in the light of studies on electricity prices over the past months, current prices have been found to be higher than would result from a proper application of economic principles. A report which, with the agreement of the Chancellor, I commissioned earlier this year from Coopers and Lybrands on the CEGB Bulk Supply Tariff (BST), has demonstrated that insufficient account is being taken of substantial, and continuing, over-capacity; currently, charges contain an element related to the cost of building new power stations to meet growing demand, whereas no new stations are likely to be built for this purpose for many years to come. (Nuclear stations are needed on solely strategic and cost-saving grounds). Coopers also criticised the CEGB's practice of recovering all overhead costs through prices, whereas on economic grounds only those elements which are marginal should be included.

Charges are thus too high. I cannot continue to defend them, to the CBI, NEDC or anyone else. To achieve a defensible position, we must interpret long run marginal costs in a way that takes fully into account the realities of lower demand and excess capacity. The resulting change in price levels would of course also accord with a normal commercial response to such a situation. Coopers reported in July, since when my officials have kept the Treasury constantly in touch with progress. I have also discussed the key issues, summarised in the Annex, with the Chairmen of the CEGB and the Electricity Council. I am satisfied that we now have a responsible and quantified view from them on Coopers' main criticisms, which relate to the calculation of capacity charges and overheads. In their report Coopers did not quantify the effect on prices of appropriate corrective action on capacity charges but accept that, broadly, it would be to reduce prices by 5-10%. The CPRS agree (para 6.7 of their Report on Electricity Prices for Industry).

Coopers also suggested that electricity prices should reflect the true price of coal as a traded commodity. The CPRS have also argued that coal prices to the CEGB should be related to import prices. The Treasury agree in principle. I do not believe that we need to take a view on this aspect of the matter now, but it is clear that any move in this direction would imply a still greater reduction in electricity prices.

The standstill I am proposing is thus in itself at the low end of the range of adjustment indicated. To do still less and phase it over more than one year could not be defended. Moreover, our review of electricity prices is public knowledge, and to continue the present over-pricing would be totally inconsistent with the Government's economic pricing policy.

This proposal would, of course, have an adverse effect on the industry's EFL and hence on the PSBR. This has been quantified in the note by officials at some £350 m in 1983/84. The resulting EFLs for the ESI would be:

	1983/84	1984/85	1985/86
£m	-12	-123	-355

However, the officials' note leaves out of account the £150 m p.a reduction in public sector costs, not to mention the 0.2% reduction in the RPI which would flow from a 5% reduction in electricity bills. In any case, the public expenditure consequences are properly seen as the cost of abolishing a surcharge which has unintentionally arisen through the financial target set three years ago. Since 1979, the industry's demand estimates have been revised downwards substantially and recovery from recession has been delayed. In other words, what I propose is akin to a reduction in taxation.

We need to reach decisions by the end of this month for the industry to translate them into detailed tariff proposals for 1983/84.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Scotland, the Chief Secretary to the Treasury and to Sir Robert Armstrong.

B.D

pp. Secretary of State for Energy
18 October 1982

(signed in the Secretary of State's absence, but approved by him)

ANNEX

QUANTIFICATION OF PRICING PROPOSALS

The CEGB recovers its costs through a combination of capacity charges (about 20% of its total revenue) and unit rates. The Coopers Report focussed primarily on capacity charges. The basic capacity charge at present reflects a combination of new plant costs, and the costs of maintaining old plant on the system, together with some "balancing" overhead costs which are not included in any of the specific elements in charges. This package is intended to reflect the capacity cost to the CEGB of meeting a permanent increment to demand. The element appropriate for inclusion in today's price is obtained through an annuitised approach to costs extending 30 years into the future.

Coopers' key criticisms of this approach were:

(i) The cost of new plant is not relevant to today's prices. It will not become relevant for a number of years, because of over-capacity in the industry.

(ii) There is no case for anticipating future costs in today's prices as many as 30 years ahead - 15 years should be the maximum.

(iii) Prices should only reflect those overhead cost elements which are marginal, ie those which increase in proportion to increase in demand.

The CEGB have advised as following on these points:

(i) They accept that the capacity charge should reflect only the cost of maintaining old plant on the system. In 1983/84 the cost would be £22/KW, as compared with £28/KW on the old basis reflecting a combination of new plant and old plant costs.

(ii) They would expect the £22/KW number to remain constant in real terms for several years ahead, so that the question of anticipating future changes does not yet arise.

(iii) They believe that some 25% of overhead costs could be regarded as non-marginal, but there are considerable uncertainties and caution suggests that they should set prices next year to reflect only half of this reduction.

The BST accounts for 80% of prices to the final consumer. On the old basis it would have increased by 4-5% next year. On the new basis it would (depending on final details on unit rates) remain level or fall by up to 1%. Area Board charges make up the remainder of prices. These were not investigated by Coopers. The Electricity Council advise that on average Area Board charges will rise by around 3% or less. This would produce an effect of between 0 and 0.75% on average retail prices but with the normal variation between the 12 Area Boards of ± 2%. Set against the BST proposals, it indicates that prices should overall and on average maintain their 1982/83 levels in 1983/84.

The EFL cost in 1983/84 would be about £350m, of which something over half can be attributed to the exclusion of new plant costs (para 3 (i)) and the balance to the reduction in overhead charges (para 3 (iii)).

Prices in later years might be expected to rise broadly in line with the industry's own costs, on the same pattern as in current forecasts. The EFL cost in 84/85 and 85/86 would therefore be limited to the carry-over effect of the lower prices set in 83/84. The cost would be about £500m in 84/85 and £550m in 85/86 (greater than the cost in 1983/84 because the bill-paying cycle limits the cash effect of price changes in the first year), which would be offset (in PSBR terms) by the saving on public sector electricity costs of £150m a year.

CONFIDENTIAL

MCS Seen

01 211 6402

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

18 October 1982

Dear Chief Secretary,

At our meeting on 15 October you asked me to consider the possibility of further savings in 1983/84 to reduce the industry's additional bid against the White Paper baseline from £245m to £100m.

In the time available it has not been possible to secure from the industry specific undertaking to make savings in particular areas. However, taking account of the latest view of electricity sales next year (somewhat improved), the prospect that coal stocks may in fact rise by less than 4m tonnes, and the possibility that some payments to suppliers could be advanced from 1983/84 to 1982/83 without prejudicing the 1982/83 EFL, I conclude that there is likely to be scope for savings of the order which you have proposed. I would be prepared, accordingly, to ask the industry to use its best endeavours to achieve such savings within the EFL for 1983/84 when we come to set it.

Yours sincerely

J.P. Clark

pp NIGEL LAWSON

(Approved by the Secretary of State and signed in his absence)

CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

SECRET AND PERSONAL

4 File

Nat Ind

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 06096

15 October 1982

Sir Robert Armstrong KCB CVO
Cabinet Office
S W 1

Dear Robert,

Withstanding a Strike in the Electricity Supply Industry

I would like to nominate Graham Hart as the CPRS representative on MISC 86.

I am sending copies of this to recipients of your letter to Douglas Wass of 14 October.

Yours sincerely,

John

John Sparrow

SECRET AND PERSONAL

010

SECRET AND PERSONAL

Department of Employment
Caxton House Tothill Street
London SW1H 9NF
Telephone Direct Line 01-213 3000

Sir Kenneth Barnes
Permanent Secretary

File 3

15 October 1982

Dear Richard

WITHSTANDING A STRIKE IN THE ELECTRICITY SUPPLY INDUSTRY

Sir Kenneth Barnes' nomination to MISC 86 is Matt Wake, Under Secretary in charge of our Industrial Relations Division II. His telephone number is 213-4409.

Copies of this letter go to private secretaries to the recipients of Sir Robert Armstrong's letter of 14 October.

Yours ever

Peter McCarthy-Ward

PETER McCARTHY WARD

R Hatfield Esq
PS Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON SW1

SECRET AND PERSONAL File

BM

2

SIR ROBERT ARMSTRONG

Withstanding a Strike in the
ELEctricity Supply Industry

Thank you for copying me your letter of 14 October (A09758) to Douglas Wass on this subject.

May I nominate John Vereker as the representative from No. 10 on Peter Gregson's group.

FERB

15 October 1982

SECRET AND PERSONAL

Pl. may
I have the
previous paper.
TERB
14.10.

CABINET OFFICE

F E R ~~Butler~~ Esq

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

dk IV

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet. Sir Robert Armstrong KCB, CVO

Ref. A09758 14th October 1982

Withstanding a Strike in the Electricity Supply Industry

PF2

As you know, the Prime Minister agreed earlier this year (Mr Scholar's minute to me of 5th May 1982) that there should be a study of how to withstand a strike in the electricity supply industry. The Official Group on Electricity Supplies (MISC 86) has now been established for this purpose, under Peter Gregson's chairmanship. I am writing to invite nominations to it from you and copy addressees, preferably at Deputy or Under Secretary level.

The Group clearly ought to aim to complete its work before the opening of the pay negotiations in the electricity supply industry, and I expect that Peter Gregson will therefore wish to convene an early first meeting. I should therefore be grateful to have the names of departmental nominees as soon as possible.

I am sending copies of this letter to Ken Barnes, Peter Carey, Peter Baldwin, Frank Cooper, Donald Maitland, Kerr Fraser, Michael Franklin, Robin Butler and John Sparrow.

ROBERT ARMSTRONG

Sir Douglas Wass, GCB

Gov Mach

CCU

Pt 3

PART 6 ends:-

S/S Energy to LPS 11.10.82

PART 7 begins:-

RTA to Sir J. Watt 14.10.82

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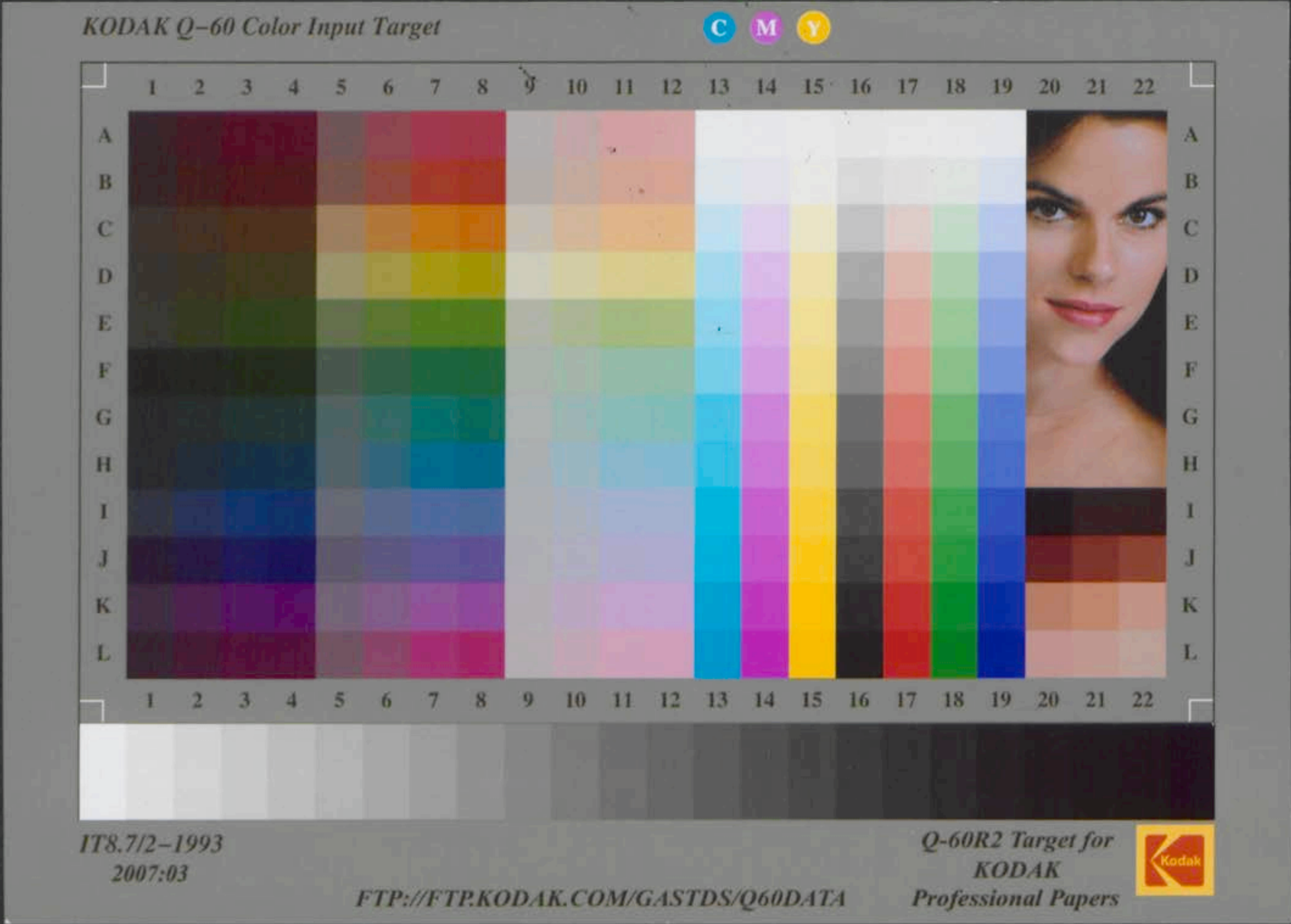
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