

PRIME MINISTER

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<sup>NAT. IND</sup>  
Mr Howell's supplementaries  
are attached at B. 31  
I have sidelined a few  
passages  
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Mr. Howell's Statement on gas and electricity prices

Mr. Howell scored an honourable draw this afternoon. The atmosphere was calm and pretty well-mannered; there was a great deal of emphasis from the Opposition side on the plight of the poorest consumers, and there was some criticism from Government backbenchers of the decisions which were being announced, but Mr. Howell steered a skilful way through the cross-examination and made a number of telling points. I do not think that there was ever much chance of coming out clear winners, so I count it a reasonably successful afternoon.

Dr. Owen said that the Opposition could not possibly accept price increases on the scale proposed without generous help for poor consumers and described the abolition of the Electricity Discount Scheme as "appalling economic meanness". Mr. Howell said that it was important to concentrate help on those who needed it most, and that it was silly to seek to help the poor by holding down prices. All that did was to help rich and poor alike. He said several times that the needs of the poor and old would be recognised in Government social policies.

Enoch Powell asked why we should conserve resources for future generations. Mr. Howell said that there were strategic and patriotic considerations in postponing as long as possible the day when we should again be dependent on politically unstable sources of supply for our energy.

Peter Emery said that a 9% rate of return was higher than that justified by long run marginal cost pricing. He suggested that the 27% increase should be spread over a longer period. Mr. Howell said that it was not the Government's policy to move away from long run marginal cost pricing. The BGC could not rely on gas from the Southern basin at 2p per therm. It was already having to pay 14p per therm for Frigg gas. To replace cheap sources of gas would require vast investment.

/Arthur Lewis

Arthur Lewis said that the aged, sick, infirm, blind and bedridden were being cut off enthusiastically by the Boards. Mr. Howell said that there was an independent review of the code of conduct and he accepted that this was a very important subject.

Mr. Howell said that the average domestic quarterly gas bill was now £29.00. In a year's time it would be £7.00 greater.

Sir Bernard Braine said that many people would be mystified by the size of the increases in gas prices. Mr. Howell said that it was not true that the gas industry was competing for customers. In fact, customers were competing for gas. A failure to go to economic pricing would lead to arbitrary rationing and shortages.

Mr. Benn accused Mr. Howell of imposing a savage attack on the poorest consumers. He said that the increase in industrial costs would further weaken British manufacturing industry. Mr. Howell said that industry was clamouring for more gas at present prices.

Sam Silkin asked whether the Secretary of State had legislative authority for his proposals. Mr. Howell dodged this, but we will find out the answer before tomorrow's Questions.

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Mr. McCrindle urged an early announcement on an improved fuel discount scheme. Mr. Howell said that these new prices would have their impact next winter but that he would draw the point to Mr. Jenkin's attention. Jock Bruce-Gardyne suggested that there should be private enterprise competition with the BGC. Mr. Howell said that was an interesting suggestion. Freddie Burden asked whether the British Gas Corporation had themselves asked for price increases as large as the Government was now proposing. Mr. Howell said that he would be candid, and that the Government's targets were higher than the BGC had wanted. The Government had to take into account the needs of national energy policy and to ensure that our gas reserves were not burned up too quickly. Mr. Harvey Proctor said that the BGC had indicated to the

/National

National Consumers' Council that price increases on this scale could not be justified on commercial grounds. He hoped that the surplus generated would not be used to subsidise inefficient nationalised industries. Mr. Howell said that the Government were committed to market pricing and were moving in that direction. It was rubbish to say that the surpluses would be used as a subsidy to loss-making industries. They would be used for various purposes, including the reduction of the PSBR. This is a somewhat fine distinction.

Various Members on the Government side suggested that there should be a gas tax. Mr. Howell said that this was an interesting idea which he had noted.

Finally, Dr. Owen asked what price the Chairman of BGC had said was justified, and how much extra profit would be generated by the difference between that price and the price that was now going to be charged. Mr. Howell said that something like £200-300 million would be generated. The BGC had agreed with the Government's aim and objective, but had wished to see a somewhat lower price increase.

MS

16 January 1980