

MR. INGHAM

Electricity Prices

The attached papers about the next electricity price increase.

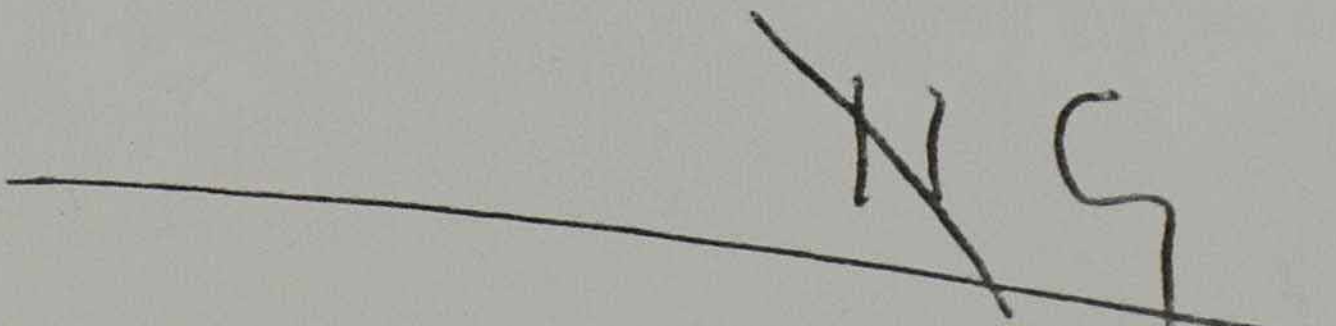
The essential problem is that prices will go up at an average of 10 per cent from 1 August rather than an expected 5 per cent in October. The news could start oozing out from next Monday, 12 May, when the first regional board (North East) meets its Consumer Council.

D/Energy is well geared up. Presentational elements likely to include:

- I. Statement from Electricity Council on 12 May explaining why increase necessary;
- II. D/Energy to announce that gas and electricity savings stamps will from now on be available from sub post offices (as well as show-rooms).
- III. D/Trade announcement of Monopolies Commission's reference to look at CEEB costs;
- IV. D/Energy Minister to speak in H/C on Private Member's Motion about fuel prices (thus giving opportunity to elaborate the whole of the defensive argument);
- V. D/Energy is providing PMG with draft defensive speaking note.

D/Energy will also explore possibility of co-ordinating counter-attacks by backbenchers as each regional board meets its consultative council; and repeating the counter-attack exercise when the new tariffs are advertised in local and regional papers later.

9 May, 1980


NEVILLE GAFFIN

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9 May 1980

Dear Richard,

ELECTRICITY PRICES

Further to my letter to you earlier today on electricity prices, I am now attaching a copy of the statement which the Electricity Council will be making on Monday.

I am also copying this letter with its attachment to Nick Sanders at No 10.

Yours ever,

Denis

Denis Walker
Private Secretary

PRESS STATEMENT - FOR ISSUE AT 12 NOON ON 12 MAY

Earlier this year it was announced that the Area Electricity Boards would arrange the increases in electricity prices that are needed this year in two stages: a 17% increase from 1 April with a further increase, possibly in October. Since costs are somewhat higher than anticipated earlier the Area Electricity Boards are considering increases in electricity tariffs in August. They will soon be discussing their proposals with the Area Electricity Consultative Councils. The tariff increases are likely to vary from Board to Board, but the national average increases will be about 10 per cent (including the expected effect of fuel cost adjustment which applies to monthly tariffs - applicable to larger industrial and commercial consumers).

The industry very much regrets the need for these increases, the main reason for which is the continuing rise in the cost of fuel used to generate electricity, which accounts for about half of the industry's total costs. During the last financial year, oil doubled in price and coal prices increased by 35 per cent. This means that substantial increases in electricity prices are required in 1980/81.

As well as the increased fuel costs, other costs such as capital charges, salaries, goods and services have risen in spite of very real economy efforts. The industry also has to have regard to the financial target agreed with the Government and to the need to keep within its borrowing limit for 1980/81.

On the basis of a 10 per cent increase in tariffs, the national average price for a unit of electricity from meter readings after

1 August will be 4.2 (domestic) and 3.0p (industrial). Domestic Economy 7 prices per unit, day rate, would be 4.5 and it is expected that the night rate, which is closely-related to fuel costs, will be 1.69p.

9 MAY 1980



Mr. Peter Rees: My right hon. Friend will be aware that the valuation officer is required by law to arrive at rating assessments in accordance with the relevant statutory provisions. It would not be appropriate for me to give him guidance as to how he should carry out these duties.

School Journey Costs (Value Added Tax)

Mr. Freud asked the Chancellor of the Exchequer whether a school journey to a youth hostel is or is not eligible for value added tax refund.

Mr. Peter Rees: I shall let the hon. Member have a reply as soon as possible.

Short-term Bonds

Mr. Chapman asked the Chancellor of the Exchequer, further to his Budget Statement, *Official Report*, 26 March, column 1481, whether a short-term bond proposal accepted by letter from an insurance company dated 25 March 1980 will be affected by the new life assurance premium proposals.

Mr. Peter Rees: I shall let my hon. Friend have a reply as soon as possible.

Coinage (Designation)

Mr. Wheeler asked the Chancellor of the Exchequer if, pursuant to his answer to the hon. Member of 24 May 1979, he has now had time to prepare the necessary legislation for the removal of the word "new" from the coinage as recommended in the report "Decimal Currency in the United Kingdom", Cmnd. 3164, 1966, paragraph 20.

Mr. Lawson: The necessary legislation will be introduced as soon as the parliamentary timetable permits.

British Gas Corporation

Mr. Skeet asked the Chancellor of the Exchequer why he decided not to impose a windfall profits tax on the future earnings of the British Gas Corporation; and if he will make a statement.

Mr. David Howell: The Government have decided in principle to impose a levy on the British Gas Corporation in respect of gas purchased from the United Kingdom continental shelf, and sold to the corporation under contracts not subject to petroleum revenue tax (PRT). The

corporation's financial target set for three years will be modified to compensate for it. The North Sea gas levy will therefore have no effect on gas prices during the target period.

This will mean that some of the financial benefits which would otherwise accrue to the corporation will be permanently transferred to the benefit of the nation as a whole.

Legislation will be required and this will be introduced as soon as possible.

INDUSTRY

Mr. Ian MacGregor

Mr. Dobson asked the Secretary of State for Industry (1) how much is to be paid to Russell Reynolds for helping recruit Mr. Ian MacGregor; and who will pay it;

(2) whether the payment or payments to Russell Reynolds for helping recruit Mr. Ian MacGregor will be related to his pay to the payments to be made to Lazard Frères, or to any other factors.

Sir Keith Joseph: Russell Reynolds Associates Inc. was engaged on standard terms, namely a fee calculated on the basis of a proportion of the first year's remuneration received by the new BSC chairman, if he was appointed with its assistance. Russell Reynolds is also being reimbursed for its expenses incurred during the search for a new chairman. The payments are made by the Department of Industry.

Mr. Dobson asked the Secretary of State for Industry how many people Russell Reynolds interviewed in the course of its efforts to recruit a new chairman of the British Steel Corporation.

Sir Keith Joseph: Russell Reynolds supplied a list of 31 people whom it had approached or considered for the BSC chairmanship.

Mr. Dobson asked the Secretary of State for Industry how many people Russell Reynolds recommended to him as possible candidates for chairmanship of the British Steel Corporation; and how many of them were British.

Sir Keith Joseph: Russell Reynolds presented seven possible candidates, of whom five were British.

Mr. Dobson asked the Secretary of State for Industry whether any inducements in the form of grants or to those outlined in the statement of 1 May, are to be made to Mr. McGregor.

Sir Keith Joseph: Mr. McGregor will serve as part-time chairman of the British Steel Corporation from 30 June at a salary of £48,500 per annum. From 1 July he will serve on the terms indicated in the statement of 1 May. No inducements of any kind are to be made to Mr. McGregor or to Mr. MacGregor. The £48,500 annual salary is the same as that stated in the statement, except for the £1,000 for travel, accommodation and other expenses appropriate to a chairman of BSC.

Mr. Dobson asked the Secretary of State for Industry whether the results achieved by the British Steel Corporation at the British Steel Conference that this United States delegation was involved in determining the output, productivity and other factors of the British Steel Corporation.

Sir Keith Joseph: The results achieved by the British Steel Corporation and other objectives set in consultation with the Government and the Corporation. The assessment of performance, in which the Government will be involved through the performance committee, will be done.

OVERSEAS

Aid

Mr. Cadbury asked the Secretary of State for Industry what is the total amount of aid; and what proportion of the purchase price of the services in the current year.

Mr. Neil Marten: The programme in 1980-81. It is not possible to say the proportion of the purchase price of the services because the amount varies from individual loan to individual loan.

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PRIME MINISTER

MS

THE PRICE OF FUEL

It is hoped that this brief will be of use to Members in the debate on the private member's motion on fuel prices on Monday 12th May 1980.

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Background

The issues surrounding the rising price of fuel have been well-rehearsed over recent months. The fundamental case is that:

- in future energy will be increasingly hard to win. Prices must reflect long-term replacement cost.
- massive investment in gas, coal and electricity, and in the longer term in alternatives, is needed. This investment must be serviced, again putting pressure on prices.
- subsidies to the old and to poor families are necessary, and a continuing element in the Government's energy policy. Wider subsidies would simply bear heavily on taxation, public borrowing and general inflation, and discourage investment of money and effort on conservation.

Gas prices

The Price Commission report (June 1979) showed domestic gas to be 30% underpriced. The price had been falling in real terms under Labour (Govt. interference) and extraction costs had been rising.

The new financial target of 9% pa. return on real assets (ave. for 3 years) implies a 10% pa. real price increase for domestic gas. (Recent estimates of a 130% increase over three years, made by the Southern Gas Consumers Council, conceal ridiculous assumptions on the level of future inflation).

The BGC would have preferred a 10% increase this year, but smaller increases in subsequent years. They accepted the Price Commission figure of 30% underpricing but felt that since this was a result of Labour's interference, the consumer should not have to catch up too quickly. The Government felt 3 years was a reasonable period for the adjustment, balancing the interests of the gas consumer on the one hand with those of the taxpayer on the other.

BGC does not make 'huge profits'. Domestic gas broke even in 1979-80 and would have moved into deficit thereafter, had the price remained unchanged. (Price Commission - June 1979). The 1979/80 profit derived exclusively from sales to industry at oil related prices.

In any case, BGC is a huge monopoly; it has £3 billion assets and the 1979/80 profit represented a return of less than 5% on these.

The new target (9% pa.) used to be of the order routinely achieved throughout British industry. Recently few companies can perform so well, but then BGC has the advantages of being a monopoly buyer and seller of gas.

Even after the three years period, gas will still be the cheapest fuel in the UK, and cheaper here than anywhere else in Europe.

BGC's profits go to the Exchequer, thereby relieving pressure on the PSBR and hence on the general level of inflation. At present BGC has first call on these funds. A levy is under consideration which would convert some of the surplus into general Exchequer revenue (without affecting prices).

Electricity prices

Electricity is a secondary fuel, and therefore prices are greatly influenced by the movement in oil and coal prices.

The target set for the industry is 1.8% pa. return on assets at current cost.

The implication is that, over the next three years, prices will rise by about 5% more than the industry's own costs.

Price increases announced in April 1980 relate entirely to increases in the cost of fuel bought by the industry. They had nothing to do with the abnormally low demand experienced last winter.

Falling demand does put pressure on prices in the short term - power stations still have to be maintained and repaired. However in the longer term consumers can only benefit from reduced demand;

- a) their own bills are lower.
- b) future overheads for the industry are lower.

There is no desire on the part of the Government to tamper with prices so that electricity competes more readily with gas. Each fuel is priced at a level consistent with the continuing cost of its supply.

Coal prices

The Government is investing heavily in new and highly productive coal capacity in order to keep future prices down. Further, the new Coal Bill would allow deferred payment of interest so that the cash-flow of the industry is not prejudiced before the investment starts to bring a return. This will help keep prices down.

The industry will, however, be required to operate within a sound financial framework. Grants to fund deficits are to be phased out over the next three years. This is entirely consistent with the Government's intention that consumers should pay the true price of the fuel they use.

Help with fuel bills

Worthwhile help has been concentrated on those recipients of supplementary benefit who have special heating needs (the old, the sick, and those with young children) and on the working poor (FIS recipients).

All supplementary benefit recipients over 70 now receive heating additions, and these have recently been increased. Levels paid are £1.40 per week (basic) and £3.40 at the higher level.

FIS was increased by £1 in November 1979, and a further £1 in November 1980, in order to keep pace with rising fuel costs.

Increased grants are now available to help poor pensioners with home insulation - they need only make a very modest contribution themselves to the cost.

We are spending £85 million on this package in 1980/81. Had we retained Labour's Electricity Discount Scheme the cost would have been only £50 million. Our scheme includes those using fuels other than electricity - they would largely have fallen outside Labour's scheme. Our scheme excludes housing allowance beneficiaries. This is a matter of priority. These are not the poorest section of the community. It is preferred to concentrate help where it is most needed.

Conservation

Increased efficiency in fuel use is essential, particularly in industry where price competitiveness is all-important. Realistic pricing is the key.

Since 1973, consumption of fuel has fallen only when real prices have been rising. In the 1975-8 period of Labour's 'Save it' campaign, real prices were falling and this prejudiced the success of the campaign. Consumption rose until prices again started to rise in the wake of the Iranian Revolution.

Price is one aspect of the Government's conservation policy. Expenditure on advice and information has been increased from £2½ million to £3½ million this year, and the expected demand for home insulation grants (now available to tenants of local authorities and housing associations) will be met. £200 million was spent on home insulation last year. The Government will not duplicate the conservation programmes run by the energy supply industries; nor will it spend taxpayers' money helping those able to help themselves, to their own financial advantage. The commitment to conservation remains strong, and the programme is working.

In the last quarter of 1979, petrol consumption was down by 5%, as prices started to rise. Mr. John Moore, Under Secretary of State with responsibility for conservation, has pointed out that this success "baffles the critics who think that nothing can work unless it involves state spending and more officialdom". (1.4.80).