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Mr.

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

10 August 1979

Dear Sir,

WORK ON ENERGY POLICIES

Thank you for your letter of 20 July in which you refer to a number of issues in the energy field. These matters are, of course, being studied in my Department and I welcome your further proposals although I do have some detailed comments. Perhaps I could take them in turn.

Supply in the Medium and Longer Term

We have, of course, already done a lot of the work you suggest as part of the Coal Review and the inter-relationship between all the various fuels, not just coal and nuclear, as an essential element of my Department's energy forecasts. I agree however that it would be useful for our officials to prepare for us a report as a basis for the investment decisions we shall need to take. My officials have established a Working Group with the composition you suggested, and a first meeting has already taken place.

I am however concerned that the review by officials should not hold up necessary decisions. I know that this is not your intention, but I doubt if we can afford to wait, as you suggest, for officials' report until the New Year. I would certainly hope that as a result of the extensive work already done, we can take in the early Autumn decisions on coal investment extending at least to 1982/3. You will have also seen from my minute of 10 August to the Prime Minister that we need, as a matter of urgency, to strengthen the nuclear industry and that this requires a firm Government commitment to nuclear power.

Preliminary discussions with the CEGB lead me to believe that we could in September take decisions, with minimum financial risk, on a basic nuclear programme embracing some commitment to orders in earlier years together with a clear statement of the longer term need. We would



also need to be satisfied that the proposed coal investment and a minimum nuclear programme did not involve unacceptable financial risks. In practice I believe we could establish fairly quickly that the proposed investments were robust and entailed very little risk indeed. I hope therefore that we can reach decisions in these areas well before the New Year.

I suggest that we ask officials to complete their work as soon as possible. If they cannot let us have a full report by the Autumn an interim report could be requested which would cover the more immediate investment decisions. We will need in any case to give in the Autumn to the nationalised industries approvals for their investment programmes on the usual percentage basis.

You also mention that the Group should cover the future of the National Nuclear Corporation. I take it that you are referring here to the possible future load on the nuclear industry. The question of how best to reorganise the industry to meet the load is a quite separate subject which is also covered in my minute to the Prime Minister.

Energy Pricing

Work is, as you know, already in hand on energy pricing and medium term financial targets for the two industries for completion in Autumn. In parallel with this we need to study both the possibility of ending BGC's monopsony position and of a Gas Tax. The first in particular raises important considerations in relation to the development of our gas resources in the UKCS and these need to be properly evaluated in an overall energy context. I would prefer my Department to be in the lead on these aspects also although I am of course content that the Treasury should take the initiative in examining possible tax implications and also the application of extra revenue and associated questions of public presentation. We can leave the co-ordination of the work in these areas and the question of whether the results should be combined to officials.

It is also very much in my mind, as no doubt in yours, that the sooner we can clarify BGC's future trading and pricing arrangements, the sooner we can consider ways of attracting private capital into the Corporation.

Short Term Matters

I shall be letting colleagues know of our contingency plans for dealing with the possibility of serious oil shortages this winter and will be circulating a report during September.

You mentioned also the possibility of increasing Government take from the UKCS which we discussed briefly in Cabinet. I agree it might be useful for our officials to study this further and I may wish to contribute some suggestions on this front.

I shall also have some further thoughts to offer on petrol duty (I have already written to you on diesel duty) and on the interaction of fiscal measures and energy policy more generally, since while I realise that Treasury Ministers were under enormous time pressure in the



the run-up to the last Budget, I think we are all agreed that in more normal circumstances somewhat further consultation can only be to the benefit of Government policy overall.

I am copying this letter to the Prime Minister, the Foreign Secretary and the Secretaries of State for Scotland, Industry and the Environment, and to Sir John Hunt and Sir Kenneth Berrill.

Yours ever

David

D A R Howell



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