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b.c.: Mr. Stowe
Mr. Wolfson
Mr. Ridley
Mr. Ryder

Paver

10 DOWNING STREET

From the Private Secretary

MR. VILE

CABINET OFFICE

ENERGY ISSUES

The Prime Minister has now considered Sir John Hunt's minute of 4 May on the above subject. She has made the following comments:

- (i) Under the heading of Oil Consumption, she has commented: "We must try to keep coal stocks at a high level. For 1979/80 that is more important than cutting oil consumption".
- (ii) The Prime Minister agrees that we must make every effort to close uneconomic pits.
- (iii) On fast breeder reactors, the Prime Minister has commented: "We are committed to an inquiry first. I hope it can be started soon".
- (iv) Under the heading of Electricity, the Prime Minister would like an early review from the Departments of Industry and Energy on the prospects, and scope for early rationalisation, of GEC and NEI (Parsons).
- (v) The Prime Minister agrees that we need an early review of BNOG. She has also noted that there appears to be some doubt about the legal validity of the existing participation agreements. She has questioned whether this is really so.
- (vi) On energy prices, she has commented that there should be no increase in gas prices (she made a similar comment on the Budget brief). In response to the statement in the brief that "both the coal and electricity industries will argue that they currently suffer unfair competition in their domestic sales from gas" the Prime Minister has commented: "Then let them improve their own efficiency". She has also commented on the electricity industry as follows: "There must be great potential for increased efficiency and competition in the electricity industry. Also improved research on the inefficient conversion factor and transmission losses".

The Prime Minister has noted Sir John Hunt's conclusions on these various issues, and I will be asking - on the Prime Minister's behalf - for a note from the Secretary of State for Energy setting

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out a full list of the main issues that need to be tackled, together with a timetable for bringing them forward. The Prime Minister proposes to visit the Department before Parliament rises for the Recess.

T. P. LANKESTER

8 May 1979