



Treasury Chambers, Parliament Street, SW1P 3AG

Dr W J Burroughs  
Private Secretary to the  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

*WJ Burroughs*

30 January 1980

*Dear Bill,*

ELECTRICITY COUNCIL'S EXTERNAL FINANCING LIMITS

A few words were omitted by accident from the fifth paragraph of the Chief Secretary's letter of 28 January to your Secretary of State.

I attach a revised version for ease of reference.

I am copying this to Tim Lankester, Ian Ellison, Godfrey Robson and David Wright.

*Yours sincerely  
A C Pirie*

A C PIRIE

Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

28 January 1980

*Dear David,*

ELECTRICITY COUNCIL'S EXTERNAL FINANCING LIMITS

Thank you for your letter of 24 January about the Electricity Council's response to our meeting with them on 21 January about the prospective breach of £300m in their external financing limit for this financial year.

Like you I find the remedial action discussed in Tombs' letter of 22 January inadequate and I am glad that you are pressing the industry for further measures including whether more can be found by deferring payments to the oil companies or deferring until next year some deliveries of oil due this year. Certainly the industry ought to try to prevent such discussions becoming public knowledge, but I agree with you that little, if any, harm would be done if the matter did leak. There have already been references in the newspapers to the industry's difficulties of keeping within its EFL. I also welcome your decision to seek further information from the industry on the scope for economies in next year's capital programme. If an excess like this occurs, the capital programme must be reviewed.

My reaction to the prospective breach in EFL is still to ask the industry to absorb the £300m excess within this year's EFL, either by genuine savings or deferment, and if they cannot manage this, to reduce next year's EFL by the amount of any increase necessary in this year's. I have noted your view that it would be imprudent to take any action which would result in approaching next winter, with its early NUM settlement date, with reduced fuel stocks. But I assume that you are not suggesting that we should therefore be prepared to increase this year's EFL by the amount of the increase in fuel stocks, some £210m. The industry themselves have put forward the possibility of deferring £75m of the cost of the increased stocks (£50m from the NCB and £25m from the oil companies) into next year and you have suggested that the industry should try to defer more payments in this way. Thus, on the basis of the proposals already made the cost this year of the higher stocks will be no more than £135m, and possibly a good deal less if your requests to the industry for further deferrals produces results.

I have also noted Tombs' comments about the industry's financial prospects for 1980-81. As you say, virtually all of the action suggested by the industry will have consequences for 1980-81, but I think that the industry should be under no illusion that there will be any increase in their EFL for that year to take account of expenditure deferred from this. Tombs hints in his letter that the industry will in any event need a higher and earlier second increase in tariffs than the 5 per cent proposed for October if it is to keep within its existing EFL. I should be grateful for your views on this.

So to sum up my views on the general question, the choice seems to be between asking the industry to absorb the £300m excess within this year's EFL and if they cannot do this, to reduce next year's EFL by the amount of the increase necessary in this year's EFL or to increase this year's EFL to cover part of the cost of increased stocks (ie by something less than £135m) and to maintain next year's EFL at its existing level. I should like to get this matter settled quickly so that we can make any announcement necessary well before the end of the financial year (though we shall need to consider the date carefully in relation to the steel strike). Could I therefore suggest that you press the industry further and let me have your proposals for dealing with the matter very shortly.

Turning to some other points raised by your letter:

- i) You ask about the possibility of adjusting the EFLs of the NCB and electricity supply industry in equal and opposite directions. I should be opposed to this. Our position must be that each industry must observe its own EFL.
- ii) I agree that there is little to add to what we said at the meeting with Tombs about the nature of the EFL. I agree with you that if there is a risk of a breach, Ministers must be informed immediately, and options for remedial action discussed. I am therefore glad that the Boards have now agreed to provide the Council with better and more frequent returns.
- iii) The prospective excess of £300m does not take account of the steel strike, the direct effects of which are worsening the industry's cash flow by about £4m a week. Although I well recognise the difficulties, I think that the Council ought to be asked to see what can be done to offset the financial effects of this.
- iv) Tombs dismisses the suggestion that we should consider re-introducing the fuel cost adjustments in quarterly tariffs. I recognise that there would be some opposition to this, but in a time of so much uncertainty about oil prices, it ought to be a means of going some way to protect the EFL in future years from unexpected increases in oil prices. I hope therefore that you will press the industry to give some further thought to this possibility and to let you have a more considered reaction.

Finally we should consider what further step we should take to demonstrate publicly the seriousness with which we regard this situation. I suggested in my letter of 15 January the possibility of having separate EFLs for the CEGB and the rest of the industry. I should welcome your views on this and any other ideas you may have for publicly underlining our dissatisfaction with the industry's financial management.

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

*Jans*

*John Biffen*

JOHN BIFFEN

130 JAN 1960

