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10 DOWNING STREET

From the Private Secretary

3 November 1980

Dear Julia,

The Prime Minister was grateful for your Secretary of State's minute of 31 October on industrial energy pricing. She considers this to be a much more convincing analysis of the pricing issue, and she is content for the minute, together with Mr. Howell's earlier paper - E(80)120 - to be taken in E Committee this coming Wednesday.

In advance of that meeting, you may wish to be aware of the Prime Minister's comments on some individual points in the minute.

The Prime Minister believes the crucial, and most difficult, issue which has to be tackled is the industries' inefficiency and cost-plus mentality. On this point, she has queried the assertion in paragraph 2 that for the coal industries "a decent return on assets offers the best hope of escaping from the cost-plus mentality which can otherwise bedevil them": it seems to her that the coal industries' approach is cost-plus.

In addition, on paragraph 3, she does not regard the current EFL for the NCB as an "extremely tight financial discipline"; she agrees that it is vital that these industries should be set performance indicators which put pressure on them to improve efficiency rather than put up their prices in order to achieve their financial targets; and on the question of the 15 GW nuclear programme, she has commented that we need an organisation that is capable of seeing that the investment is cost-efficient and completed on time. On the question of competition, she has commented that the lifting of restrictions on private electricity generation ought to be more widely known and we ought to do something to encourage private sector investment.

On the question of the CEB/NCB agreement, the Prime Minister has commented that the CEB should be aiming to negotiate for a price equivalent to the international coal price. Lastly, in regard to paragraph 14, she doubts the assertion that "we would disastrously delay the vast process of re-tooling and new investment" if energy prices do not go up further. In her view, prices are already high enough to encourage this.

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I am sending copies of this letter to Peter Jenkins (HM Treasury), Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

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Tim Laker.

Julian West, Esq.,
Department of Energy.

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