Mr Gaffin
Mr Walters
Mr Wolfson
Mr Duguid

Prime Minister
This is an interim note on the NEDO Task Force on energy prices: their final report is likely to show some significant disparities on electricity and gas prices, and also some disparity now on heavy oil. As you know, the Chancellor is planning some help on energy prices in the budget, but it won't be enough to remove the disparities altogether.

PRIME MINISTER

ENERGY PRICES

You and other colleagues will wish to have an interim report on the work of the NEDO Task Force.

2 Detailed discussions between energy consumers and suppliers have been completed. The (esi) [electricity supply industry] and its customers have reached broad agreement on the facts. Less agreement has been achieved between BGC and its customers. Users of HFO and gas oil have been very critical of the oil industry for lack of competition in the oil market.

3 A first draft of the report was circulated to members of the Task Force on 19 February and considered on 20 February. The extracts from the draft which appeared in the Business Section of the "TIMES" on 20 February are inaccurate. The draft report accepts that our electricity prices for the vast majority of users are still in line with those in European countries and that gas prices were in line last summer. Nevertheless, the report has revealed some recent disparities for large electricity users and also for gas. These disparities, which to a large extent are accounted for by the strengthening of Sterling since last summer, are worrying and will certainly require action by the Government.

Heavy Fuel Oil

4 In the latter part of 1980 and very early 1981 UK Heavy Fuel Oil prices including duty were amongst the cheapest in Europe. Following the Bali decisions our oil companies raised their HFO prices by 13%, while oil prices in Europe moved much less. As you will see from the attached table, our pre-tax HFO prices are now in the middle of the range of EEC prices but again towards the top of the league post-tax. The two reasons advanced for the disparity are the HFO duty and the degree of competition in the UK oil product market. I am in touch with the Chancellor on the former and will again be pursuing the latter with the oil companies.

Electricity

5 The report confirms that for the vast majority of the esi's 185,000 industrial customers, UK electricity prices remain broadly in line with those on the Continent. But the Task Force's work has confirmed that in the case of a limited number of large and high load factor customers, notably in such industries as chemicals and steel, there now are significant disparities in prices. By far the most important cause of these disparities is the strengthening of Sterling. This has a direct impact on Continental electricity prices expressed in Sterling. The point is illustrated in the attached table covering the extreme case of the figures agreed between the esi and the Chemical Industries' Association for large high load chemical users at July 1980, 2 January 1981 and 29 January 1981 exchange rates. These show that, whereas the esi's prices were broadly in line with those in Germany at mid-1980 exchange rates, they are now markedly out of line. There are, of course, a number of other factors which account for the price disparities, notably the large nuclear and hydro component in French electricity costs (some 50% of the total).

Gas

6 The draft report confirms that BGC's gas prices were broadly in line with those in Europe in mid-1980, although the CBI representatives are still contesting this conclusion. But recently our renewal prices have moved above those in Europe, although the average price charged by BGC covering all its industrial customers (including ICI) is probably still broadly in line with those in Europe. Once again the strengthening of Sterling accounts for a significant proportion of the disparity, although the price increases decided by BGC last summer are also an important factor. Unless we take early action and/or Sterling falls significantly in the next few months these disparities will almost certainly persist.

Coal

7 Apart from the limited question of foundry coke, the Task Force has little to say about coal prices. It does, however, make the point that industry could do much to reduce its energy bills by replacing oil boilers with coal ones. Despite short payback periods (3-4 years)

industry is not making such investments now largely because of capital rationing. I have already written to the Chancellor on this subject as I believe that limited funds to encourage such boiler conversion will greatly help us both in respect of energy prices and in dealing with the miners.

Next Steps

8 I will send you and the recipients of this letter copies of the revised draft of the report of the Task Force as soon as it is ready - copies of the first draft (which will be extensively revised) have already been circulated to officials on the interdepartmental Working Group on Energy Prices.

9 I have already been in touch with the Chancellor in the Budget context about the package of measures which will be required in response to the Task Force's findings. We cannot, of course, hope to offset fully the impact of the strengthening of Sterling on comparative energy prices, which are still only causing serious problems for a limited number of companies. But we have accepted that where disparities exist and put our major companies at a competitive disadvantage we shall look sympathetically at their problems, as we did in the case of Bowaters. I will therefore be writing separately about the package which industry will require when the work of the Task Force is completed. One question to be decided is whether to announce such a package immediately after the Task Force's report is published on 4 March or, as the Chancellor of the Exchequer would prefer, in the course of his Budget Statement the following week.

10 I am sending copies of this letter of members of E, the Secretaries of State for Scotland and Wales, Sir Robert Armstrong and Mr Ibbs.

DH

Secretary of State for Energy
24 February 1981

ELECTRICITY PRICES: 2 JANUARY 1981

FOR LARGE HIGH LOAD FACTOR USERS IN THE CHEMICAL INDUSTRY

AT AVERAGE JULY 1980 EXCHANGE RATES: P/KWH

	LF	UK	FRANCE	FR GERMANY
	40	2.74	2.15	3.20
40	60	2.60	2.00	2.60
MW	80	2.53	1.85	2.30

AT 20 JANUARY 1981 EXCHANGE RATES: P/KWH

	LF	UK	FRANCE	FR GERMANY
	40	2.74	1.87	2.70
40	60	2.60	1.73	2.23
MW	80	2.53	1.61	1.94

AT AVERAGE 29 JANUARY 1981 EXCHANGE RATES: P/KWH

	LF	UK	FRANCE	FR GERMANY
	40	2.74	1.75	2.52
40	60	2.60	1.62	2.08
MW	80	2.53	1.50	1.81

HEAVY FUEL OIL PRICES OIL 57/138/1

16 FEBRUARY 1981

SOURCE : EEC REPORT-BACK TELEX

£1 tonne

	NET	DUTY	DUTY-INC	TREND IN NATIONAL CURRENCIES
BELGIUM	99.99	-	100.0	
DENMARK	97.13	26.37*	123.5*	-
GERMANY	88.72	2.96	91.7	-
FRANCE	96.25	0.07	96.3	
IRELAND	95.28	11.67	106.9	-
ITALY	90.79	0.42	91.2	
NETHERLANDS	92.25	2.74	95.0	-
UK	95.5	8.0	103.5	

*Duty in Denmark rebated to VAT-registered traders

Exchange rate : £1 = $2.2523