



CONFIDENTIAL

PRIME MINISTER

NORTHERN IRELAND ELECTRICITY SUBSIDY

You will recall that in your speech in Northern Ireland on 5 March you referred to 'the high tariffs of the last few years' for Northern Ireland electricity, and you went on to say that:

'The Government accepts that these tariffs are an unreasonable burden upon the Northern Ireland community and that they are a real obstacle to economic development. We have been examining the best way of tackling the problem. We have decided to bring Northern Ireland electricity tariffs more closely into line with those in England and Wales and to keep them there. The tariff increases due on 1 April will be reviewed in the light of this decision. Because of the importance of energy costs to the whole Northern Ireland economy, this is a major decision of principle.'

1 E(EA)(81) 7 ⁵⁰ MCG.

2 E(EA) Sub-Committee considered on 26 March, on the basis of papers by the Secretary of State for Northern Ireland (E(EA)(81)18) and by the Chief Secretary, Treasury (E(EA)(81)19), two alternative methods of meeting that commitment. We agreed

CONFIDENTIAL



CONFIDENTIAL

that the increases on 1 April should be such as to reduce Northern Ireland industrial tariffs forthwith to the level of the highest in England and Wales and domestic tariffs to 5% above the highest. The Sub-Committee could not, however, reach agreement on the extent to which the Secretary of State for Northern Ireland should commit the Government now to further reductions in future years. In view of this disagreement and of its relevance to the commitment in your speech, it was agreed that I should present the issues to you for decision.

The Secretary of State for Northern Ireland's Proposal

3 The Secretary of State recommends an approach whereby a subsidy would be paid to bring Northern Ireland electricity generating costs into line with the bulk supply tariff which the CEEB would charge in England and Wales for an area board with similar characteristics of demand to Northern Ireland. The ultimate tariff would then be derived by adding on the (unsubsidised) cost of distribution in Northern Ireland. The effect of this at present should be to bring overall tariffs in Northern Ireland down to the equivalent of the highest tariffs in England and Wales. The Secretary of State would like to implement this change in full over two years, or three if necessary, with an interim step in April 1981 as described in paragraph 2 above.

4 The Secretary of State regards it as essential that he should be able to announce, when the April 1981 tariffs are implemented, that further changes to bring Northern Ireland

CONFIDENTIAL



CONFIDENTIAL

tariffs down to the highest levels in England and Wales will be completed within a specified time. He judges that otherwise Mr Ian Paisley and others will claim that you and he are reneging on both the specific commitment quoted in paragraph 1 above and your frequently repeated undertakings that the people in Northern Ireland will be treated in the same way as those in the rest of the United Kingdom. The Secretary of State argues that his method would satisfy Northern Ireland consumers' opinion by putting them on the same footing as those in the rest of the United Kingdom where the CEGB and the Scottish Generating Boards give their Area Boards a standard supply tariff with the effect that consumers on the offshore islands are subsidised by main land consumers.

The Chief Secretary: Treasury's Proposals

5 The Chief Secretary agrees on the figures for the interim increases from 1 April 1981 but not on the method of determining the subsidy or on the terms of the longer term commitment. He recommends that the subsidy should be based on final supply tariffs, rather than bulk tariffs, and set so as to ensure that the industrial tariff in Northern Ireland is never higher than the maximum elsewhere in the UK and that for domestic tariffs the differential above the highest in England and Wales should not widen beyond the 5% following the 1981 changes. It would be announced that the differential would not be allowed to increase and that the possibility of further reductions would be kept under review.

CONFIDENTIAL



CONFIDENTIAL

6 The Chief Secretary argues that his approach, while allowing for a generous and continuing subsidy, avoids the unquantifiable and substantial commitment to public expenditure inherent in the Secretary of State for Northern Ireland's proposal and the possibility that, under the Secretary of State's method, Northern Ireland consumers could be subsidised to the extent that they would pay less than consumers in England and Wales.

The Views of E(EA)

7 All Members of the Sub-Committee supported the Chief Secretary's recommendations for the following main reasons:

- a Under the agreed interim increases from 1 April 1981 the subsidy to Northern Ireland consumers will increase from the present provision of £30 million to £76 million;
- b The increase in the subsidy of £46m is as much as the whole of the concession in the Budget to industrial users of electricity and they, and taxpayers in Great Britain generally, would be highly critical of any open-ended commitment to yet higher subsidies in later years; and
- c The Chief Secretary's approach could be presented as a prompt and generous fulfilment of your commitment of 5 March as distinct from interpretations which Paisley and others might choose to put on that commitment.

CONFIDENTIAL



CONFIDENTIAL

8 Nevertheless, the Secretary of State for Northern Ireland argued strongly that, in the unique circumstances of the Province, anything less than his proposal and an undertaking to bring Northern Ireland domestic tariffs down to the level of the highest in England and Wales over a specified period could be considered as a departure from your and his commitments.

9 In the meantime the Secretary of State for Northern Ireland has told the Northern Ireland Electricity Service to defer settling their tariffs for 1 April until a decision is reached. He will be discussing with the Chief Secretary how the additional finance needed for 1981-82 (£46 million) is to be found and he will also be considering urgently whether there is a possible alternative to a long-term subsidy, through the conversion of part of Northern Ireland generating capacity to coal, or through the creation of a physical electricity linkage with Scotland.

10 I am copying this to colleagues on E(EA) Committee, to Humphrey Atkins and to Sir Robert Armstrong.

KJ

K J

31 March 1981

CONFIDENTIAL