

CONFIDENTIAL

Prime Minister

✓ P. 1233.



N.I. and Treasury have now agreed how the N.I. electricity subsidy will be financed this year; later years will be dealt with in the PESC round. Mr Atkins would like to announce by

PRIME MINISTER

MT

NORTHERN IRELAND ELECTRICITY TARIFFS

1. When you and the Chief Secretary and I met on 3 April ^{written} to discuss tariff policy for Northern Ireland electricity, we agreed the way ahead on tariff levels, and that funding arrangements should be settled between the Chief Secretary ^{Answer tomorrow (Friday).} and myself.
2. This has not been easy for either of us. I have, however, now agreed with the Chief Secretary that, of the total of £87.4m in cash terms which it was estimated would be required ^{Content with debt (Flight)?} in 1981-82 to achieve the first step in bringing Northern Ireland domestic and industrial tariffs into line with highest England and Wales tariffs, £44.9m will be found from the Contingency Reserve, and I will contribute £10m in addition to £32.5m which is already provided for Electricity in my existing PES allocation. ^{12. 1/1-}
3. I have also agreed with the Chief Secretary that if, in the event, the cash cost of the subsidy to the NI Electricity Service in 1981-82 is less than the anticipated £87.4m, then the drawing on the Contingency Reserve will be correspondingly reduced. If it proves greater than anticipated, there will be further discussion between myself and the Chief Secretary.
4. It has also been agreed that funding of the agreed tariff policy for 1982-83 and beyond should be settled in the context of the 1981 Public Expenditure Survey. Firm PES provision for electricity for 1982-83 and 1983-84 at present stands at £10m (at October 1980 prices). The Chief Secretary is aware that I shall be making an additional bid in the Public Expenditure Survey for whatever is required over and above the £10m.

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5. I am confident that the terms of the announcement whichI enclose (in the form of an arranged PQ and answer) are consistent with the agreement which I reached with the Chief Secretary. I am sending a copy of this minute and enclosure to him, and subject to his agreement tomorrow (he is heavily engaged on the Finance Bill tonight), I propose to announce the decision on Friday. This will be in time for a Northern Ireland Electricity Service Board Meeting on that day - further delay would add to the costs and I am anxious at this time of tension to remind the Province of the Government's commitment on electricity.

6. I am also taking advantage of the announcement on tariffs to announce the decision not to complete Phase II of the Kilroot Power Station. There has been very considerable public interest in Northern Ireland in the future of Phase II as well as in the tariff question and I consider that on balance it would be better to round off all the major outstanding electricity issues together.

7. I am copying this minute to all members of E(EA) and to Sir Robert Armstrong.

pp

H.A.

(Signed on behalf of the
Secretary of State in
his absence)

6 May 1981

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Q. To ask the Secretary of State for Northern Ireland if he will make a statement clarifying the outcome of the review of electricity policy in Northern Ireland having regard to the Prime Minister's commitment of 5 March to bring Northern Ireland electricity charges more closely into line with those in England and Wales and to keep them there.

A. Mr rt hon Friend the Prime Minister indicated in Belfast on 5 March that the Government has accepted, in the light of its review of electricity policy, that the present differentials in electricity tariffs between Northern Ireland and England and Wales constitute an unreasonable burden on the Northern Ireland community and that tariffs in Northern Ireland should be brought more closely into line with those in England and Wales and kept there. Without assistance from public funds a tariff increase of the order of 35% would have been required on 1 April.

In fulfilment of this undertaking I have asked the Northern Ireland Electricity Service to limit this year's tariff increases to produce the following results:-

- (a) Charges to industrial consumers to be on a par with the highest in England and Wales;
- (b) Charges to domestic consumers (last year some 14% above the highest in England and Wales) to be not more than 5% above *the highest in England and Wales.*

From 1 April 1982 the remaining differential of 5% in domestic tariffs will be totally eliminated. These relationships will be maintained thereafter.

It is estimated that the support required for the NIES in 1981-82 from public funds will be some £88m at outturn prices. £32½m is already provided in Northern Ireland's PES, the Contingency Reserve will contribute an additional £44.9m and the balance can be made available from the existing NI Programme (eg because of revised requirements for demand-determined services and the identification of additional receipts) without reducing the level of other services.

In the light of the review of electricity policy I have concluded that there would be no justification for completing the second stage of Kilroot power station as an oil-fired plant nor for incurring the additional costs which would be involved in its conversion to coal-firing. I have, however, asked the NIES to undertake, in conjunction with my officials, a comprehensive re-evaluation of its future policy on generating plant, consulting as appropriate the electricity supply industry in England and Wales and Scotland and other relevant energy interests such as the National Coal Board.