A. Duguid

CONFIDENTIAL

Qa 05367 13 May 1981

To: MR LANKESTER

From: J R IBBS

CF pls inform CPRS that Chancellor will be chairing this mtg tomorrow

INDUSTRIAL ENERGY AND ELECTRICITY PRICES

1. In MISC 56(81)3 the Secretary of State for Energy proposes, as part of a package of measures, a scheme of the kind recommended by officials in MISC 56(81)4; broadly equivalent to pricing electricity down to short-run marginal costs for the largest consumers. Mr Howell's paper underlines the problems inherent in such a scheme; there will be criticism from those who do not benefit, and equally criticism from those who do qualify but for whom the benefits have only a small impact on the overall price disadvantage they face; in addition there are possible legal and EEC complications.

2. However, in the view of the CPRS the economic implications of energy price levels are more far-reaching than the immediate difficulties in constructing a scheme. The fundamental issue at stake is whether there is a case for keeping energy intensive industries based on electricity in the UK. If not, then assistance on prices should not be given.

3. If Ministers do believe that such industries should be retained, then clearly a temporary scheme having only a fairly modest effect on the energy price handicap would not encourage investment and keep such industries in the UK. On the other hand, more long lasting substantial discounts could be justified economically only as a bridge until electricity costs are brought down to a competitive level. At the previous meeting of MISC 56 the Secretary of State for Energy was invited to circulate as soon as possible a memorandum on the longer-term prospects for reducing the cost of electricity. If Ministers are attracted to a scheme along the lines suggested by Mr Howell, the CPRS recommends that they defer a final decision on implementation until they have discussed the prospects for low cost coal and a more rapid nuclear programme. However, Ministers should be aware that a necessary consequence of pricing

down to short-run marginal costs is that the energy intensive industries would, by definition, be making no direct contribution to the investment in new efficient generating capacity from which they will ultimately benefit.

4. Mr Howell implies in his conclusions that Ministers should be looking at ways other than lower electricity prices if they wish to assist industry. It is important that Ministers should realise from the outset that to have significant impact such alternatives are likely to entail large sums of money, and will not lend to the retention in this country of energy intensive industries based on electricity.

5. I am sending a copy of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

JK