

# Briefing Note

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## DOMESTIC GAS PRICES

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### Why is the price of domestic gas rising so fast ?

Because the last Labour Government held down the price of domestic gas for political reasons, the British Gas Corporation was, by 1979, being forced to sell gas to domestic consumers at a loss. A Price Commission report published in June 1979 estimated that domestic gas was about 30% underpriced. In order to restore the price of domestic gas to a level that would more accurately reflect the cost of supply, the Government decided that the price of gas should rise by 10% more than prices in general in each of the three years 1980 to 1982. The third of these increases is about to take place.

### But why should gas not be underpriced ?

The results of underpricing were:

(a) Domestic consumers of gas were benefiting at the expense of industrial consumers, who had to pay a higher price for their gas. The taxpayer, who is the ultimate 'shareholder' in the gas industry and beneficiary of its profits, also lost out. This was particularly hard on the 30% of householders, especially in rural areas, who did not have access to gas and who were forced to depend upon more expensive energy sources.

(b) There was a massive surge in the demand for gas from domestic users, owing to its low price, far outstripping the Gas Corporation's ability to supply. As a result many firms had to go without a supply of gas altogether. If domestic gas had continued to be underpriced, the imbalance between supply and demand would have been even greater, and the shortage of gas for industry even worse.

And over the longer term:

(c) If prices were not restored to a level that would enable BGC to break even on domestic sales, the disparity between the price of domestic gas and the increasing cost of supplying that gas would grow even larger. This would mean either that industry would suffer by being asked to pay even higher prices to subsidise domestic consumers, or losses on domestic sales would eventually wipe out the profits on industrial sales. In that case the loss of revenue would have to be made good either from higher taxation or from higher levels of public sector borrowing, and thus higher interest rates.

(d) We already import over 20% of our gas supplies and our reserves of natural gas are limited. If prices continued to be held down artificially, we would burn up those reserves too quickly and would hasten the day when we would have to turn to less secure, but more expensive alternatives.

### Important points to note

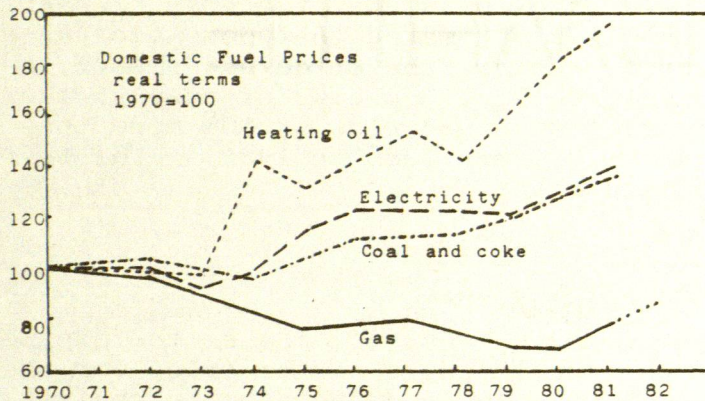
1. This year sees the final instalment of the "10% above-inflation" increases
2. Gas is still the cheapest fuel

Even after the price increases, gas will still be the cheapest domestic fuel, and prices will still be less in real terms than they were in 1970.

- Domestic consumers in France and Germany are paying at least half as much again for their gas as in the UK.

- The proportion of the average earnings of a family (with central heating) spent on heating and cooking by gas has fallen from 1/13th to 1/20th since 1968. The proportion of a retired married couple's state pension represented by the cost of 330 therms of gas (enough for a cooker and main room heater for a year) has fallen by half over the same period.

Since 1970, while the real price of gas has fallen, the real price of heating oil has doubled. In money terms, the increase in domestic prices since the second quarter of 1979, when the present Government took office, has been 65% for gas, compared with 92% for heating oil and 83% for petrol.



(Source: Department of Energy statistics)

3. The British Gas Corporation does not make profits on the sale of domestic gas, although it makes profits overall. As recently as 1977, domestic and non-domestic sales yielded broadly equal levels of profit, but today the domestic side of the business barely breaks even, despite recent price increases. In fact, industrial users of gas have subsidised the domestic market. A continuation of this situation would be undesirable since it would add to industry's costs and thereby jeopardise the recovery of output and employment. One of the important benefits of the recent increases in domestic gas prices is that the Government has been able to persuade BGC to freeze (to the end of March 1982) the price of industrial gas contracts for 15 months. The result is that (as shown in a recent NEDC report), British industry is now paying about the same for gas as its competitors abroad, and in many cases less; whereas at the beginning of 1981 it was paying more.

4. The Government is giving more in help with fuel bills than ever before. £250m is being spent this year to help people in low income groups who have special heating needs (e.g. the old, the sick and disabled, families with young children). This is much more in real terms than when Labour left Office, and about 2¼ million people are benefiting. This Government has ensured that households dependent on supplementary benefit will automatically receive the basic heating addition where the householder is over 70 or there is a young child under the age of 5. Heating additions have been increased well ahead of the increase in RPI. After the latest (November) increases, the basic heating addition amounts to £1.65 a week or £85.80 a year and can rise in special circumstances to £4.05 a week or £210.60 a year.

The Government is also increasing the help available under the Homes' Insulation Scheme for elderly people in receipt of certain benefits and the severely disabled on low incomes. Their grant covers 90 per cent of the cost (up to £90) of loft, pipe and tank insulation. (The normal grant covers two-thirds of the cost to a maximum of £65.)