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From the Principal Private Secretary

7 November 1984

PUBLIC EXPENDITURE: GAS AND ELECTRICITY EFLs

The Prime Minister had a discussion with your Secretary of State this evening about the EFL bids of the gas and electricity industries. Your Secretary of State's proposals as set out in C(84)32 would have resulted in the following net changes to the baseline:

	£m		
	1985/86	1986/87	1987/88
	-62	-85	+215

Your Secretary of State explained that a development had arisen which would make it possible to bring the combined EFL bids back to baseline in 1987/88. Then the run of figures would be:

	£m		
	1985/86	1986/87	1987/88
	-62	-85	nil

The total reductions in the combined EFL bids over the three years would then be increased from £1609 million to £1824 million.

The reason for the change was that the electricity industry's corporation tax bill in 1987/88 was likely to be at least £200 million less than had previously been thought following advice from Peat Marwick about the likely outcome of negotiations with the Inland Revenue. Your Secretary of State made it clear however that even if the reduced corporation tax liability did not materialise he would expect the electricity industry to meet the EFL for 1987/88 now agreed (ie nil change on baseline) by savings from some

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other source, for example increased efficiency.

After consultation with the Chancellor of the Exchequer and the Lord President the Prime Minister told your Secretary of State that the gas and electricity industries could be reported to the Cabinet as an agreed programme on the basis of your Secretary of State's revised proposals as set out in the second paragraph of his letter and the understanding recorded in the third paragraph of this letter.

I am sending copies of this letter to the Private Secretaries of the Lord President, the Chancellor of the Exchequer, members of MISC 106 and to Peter Gregson and Richard Hatfield (Cabinet Office).

FERB

Michael Reidy Esq  
Department of Energy