

010

Prime Minister ① cc JV

Agree, subject to colleagues' views?

Yes not MUs 1/10

PRIME MINISTER

STANDING CHARGES FOR DOMESTIC CONSUMERS: GAS AND ELECTRICITY

As you know, I have been reviewing the impact of gas and electricity standing charges.

Despite their undoubted unpopularity, I am satisfied that the principle of standing charges should remain. A two part tariff in which those costs which do not vary with the amount of fuel consumed are covered to a large extent by a fixed charge, reflects the principles of economic pricing and has the full support of the Gas and Electricity Consumer Councils. Moreover, if the standing charge were to be abolished, gas and electricity prices would have to rise by about 15 per cent. This would be particularly hard on low income families - which is why the child poverty lobby, for example, also supports the present two-tier system and would strongly oppose its disappearance.

However, while the principle of standing charges is justified, I remain to be satisfied that they have not now reached too high a level. In other words, it is possible either that the industries have gone beyond the inclusion of genuinely fixed costs, or that they have not made sufficient effort to cut those costs, or both. At my request therefore, the industries have agreed to commission Price Waterhouse and Deloitte to examine the level of standing charges, the scope for cost-saving on the relevant operations, and whether all these costs are properly recoverable through standing charges. They are due to report on this by the end of the year. There will be no further increase in standing charges at least until these reports have been fully evaluated and acted upon.

At the same time, I would like to find a way of helping the very small consumer who pays more each quarter for his or her standing charge than for the gas or electricity actually consumed. There are  $\frac{3}{4}$ m electricity and over one million gas consumers in this position, of whom about half a million are pensioners, and their grievance is constantly highlighted in the press and elsewhere. I have therefore asked the industries to consider instituting a rule by which no standing charge would exceed 50% of any bill. This would have only a very small effect on the overall revenues of the gas and electricity industries, which could be made good without a significant increase in tariffs. But it would remove this particularly well-publicised grievance. So far, the





industries have been reluctant to accept this suggestion. I therefore intend to announce, at the same time as the Price Waterhouse/Deloittes investigations, that I have asked them to consider this proposal, thereby increasing the pressure on them and making clear where the Government stands on the issue. (I am advised that I cannot direct them to adopt it).

I propose to make both announcements at the Party Conference next week, when I reply to the debate on energy prices. Good. MB

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Environment, Scotland, Wales, Industry and Social Services, and to Sir Robert Armstrong.

J.P. Am...

CONQUEROR

Y/ Secretary of State for Energy  
1 October 1982

(Approved by the Secretary of State and signed in his absence)

LONDON





Secretary of State for Industry

3 pps      *ck sv*

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8 October 1982

Jeremy Clayton Esq  
Private Secretary to the  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1P 4QJ

Prime Minister <sup>(2)</sup>

*MUS 11/10*

*Dear Jeremy*

## STANDING CHARGES FOR DOMESTIC CONSUMERS

Your Secretary of State copied to mine his minute to the Prime Minister suggesting that he would announce at the Party Conference that he had commissioned Price Waterhouse and Delottes to review the level of standing charges in the gas and electricity industries, and that he had asked the consultants to consider a proposal that no standing charge would exceed 50% of any bill.

2 My Secretary of State is concerned that the proposal to substantially reduce standing charges would be at the expense of heavy energy users in industry who are already suffering from a competitive disadvantage imposed by high energy charges. Moreover, there could be unwelcome repercussions for BT. Mr Lawson will remember that under pressure from this Department BT agreed to introduce a concession for very small telephone users in the form of a rebate related to the number of units charged in any quarter. This would have had the effect of reducing the total bill for eligible subscribers (the concession has been postponed as it was part of the package of increased charges which BT postponed from 1 November). My Secretary of State fears that if BT came under pressure from Parliament to adopt Mr Lawson's "50%" formula, it could prove very costly for BT. Tariffs on heavier users would have to be increased and the concession could prejudice a successful flotation.

3 These issues should be taken into account before any particular course of action on standing charges is finally agreed.

4 I am sending copies of this letter to Michael Scholar (No





10), Margaret O'Mara (HM Treasury), John Gieve (Chief Secretary's Office), John Lyon (Northern Ireland Office), David Edmonds (Department of the Environment), Muir Russell (Scottish Office), Adam Peat (Welsh Office), David Clark (Department of Health and Social Security) and Richard Hatfield (Cabinet Office).

*Yours sincerely*  
*David Saunders*

DAVID SAUNDERS  
Private Secretary

1-1-1982



Not Incl

Gas & Elec





nat- Ind  
SC 3V

Prime Minister (2)

Mus 7/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1P 4QJ

6 October 1982

Dear Secretary of State

MF

STANDING CHARGES FOR DOMESTIC CONSUMERS: GAS AND ELECTRICITY

Thank you for sending me a copy of your minute of 1 October to the Prime Minister on this subject.

I recognise the force of the considerable campaign which has been mounted against standing charges and the pressure in the press and elsewhere on this subject. I therefore welcome your initiative in asking the gas and electricity industries to commission consultants to examine the level of standing charges, the scope for cost saving on the relevant operations and whether all the costs are properly recoverable through standing charges.

I can see the attraction also in a rule that no standing charge should exceed 50 per cent of any bill. However I should make clear now that I do see some drawbacks which would need to be considered before we took a final decision on this. First it is not clear that it would be of greatest benefit to those in need; second homes, for example, would benefit greatly. Second, the rule might create difficulty for other industries like British Telecom and the water authorities. Thirdly, of course, there would be a significant cost. I assume that you intend, if your suggestion is implemented, that each industry's loss of revenue would be made good by off-setting tariff increases so that there would be no effect on their external financing requirements.

I am sending a copy of this letter to the Prime Minister, the Secretaries of State for Energy, Northern Ireland, Environment, Scotland, Wales, Industry and Social Services and to Robert Armstrong.

Yours sincerely

J.A. G. G. G.

LEON BRITTAN

[Approved by the Chief Secretary  
and signed in his absence]



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Gas & Elec

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FILE  
DSS  
Newline  
bcc: John Vereker.

10 DOWNING STREET

From the Private Secretary

4 October 1982

Dear Julian,

STANDING CHARGES FOR DOMESTIC CONSUMERS: GAS AND ELECTRICITY

The Prime Minister was grateful for your Secretary of State's minute of 1 October about his review of the impact of gas and electricity standing charges.

The Prime Minister is pleased to know that Mr. Lawson has arranged for Price Waterhouse/Deloittes to examine the level of standing charges, and that there will be no further increases at least until these reports have been acted upon; she is also glad to know that he is asking the industries to consider instituting a rule by which no standing charge will exceed 50% of any bill; and that he will be making announcements to this effect this week.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), John Gieve (Chief Secretary's Office), John Lyon (Northern Ireland Office), David Edmonds (Department of the Environment), Muir Russell (Scottish Office), Adam Peat (Welsh Office), Jonathan Spencer (Department of Industry), David Clark (Department of Health and Social Security) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholten

J. D. West, Esq.,  
Department of Energy.

AW