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PRIME MINISTER

PUBLIC EXPENDITURE: ENERGY INDUSTRIES

As you know, MISC 99 agreed substantial savings on these industries. Two of their recommendations are that domestic gas prices should be increased by 5 per cent in January 1984 and that electricity prices should rise 3 per cent in April 1984. Alick Buchanan-Smith has however told me, and I believe Willie Whitelaw, that his soundings suggest that there will be serious difficulty in securing the agreement of the two industries to these increases.

2. On gas, Denis Rooke's attitude apparently is that he will only increase prices by 5 per cent if we set a financial target covering the years 1983-84 to 1986-87. As you know, I have not been in favour of setting such a target until we had an agreed pricing policy for gas: Andrew Turnbull's letter of 19 October recorded that you shared this view. But Alick accepts that any financial target set now would have to be provisional and subject to revision in the light of whatever we finally agree on gas prices. He undertakes to ensure that our options are left open. On that basis, I have told him that I would be content for him to offer Rooke a provisional target covering the years in question, if this should indeed prove necessary to secure the 5 per cent price increase in January. Rooke's agreement apparently has to be secured by 17 November if we are not to forego January implementation.



3. On electricity, the problem is rather greater, for the Electricity Council apparently now oppose any price increases in 1984-85. They maintain that they can meet this financial target without an increase, and Alick believes that this is correct, and that it will be very difficult indeed to get them to swallow one.

4. This is highly unsatisfactory, for we cannot afford to lose the £210 million 1984-85 public expenditure saving from the higher price. Alick is however confident that he could produce efficiency savings which would enable him to deliver the MISC 99 savings without an electricity price increase in 1984, particularly if he could have flexibility to fill part of the gap from other energy industries.

5. I am not happy about this, and would prefer the MISC 99 package. I told Alick that I was sure that he must push for the 3 per cent price increase. But I did indicate that I thought compensating efficiency savings (provided that the bulk of them came from electricity) would be a less unsatisfactory fall-back than losing the MISC 99 saving as well as MISC 99's proposals for securing them. The savings would of course have to be real and deliverable, not just vague hopes.

6. I wanted you to know of these developments in advance of tomorrow's Cabinet. We could talk about them when we meet at 10 tomorrow morning.

N.L.

N.L.
9 November 1983