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PRIME MINISTER

ELECTRICITY CONTRACTS

You have already seen during the last few months various papers from John Wakeham setting out key proposals for the new contracts and pricing arrangements in the privatised electricity industry. He has now sent in the attached further note bringing together the outstanding issues.

Other Ministers have not yet had a chance to comment, but you may wish to glance at this over the holiday period.

As before John Wakeham's proposals represent a delicate balance between the various conflicting objectives. My impression is that he has secured an acceptable way forward. In particular the arrangements would be designed to avoid price increases for large industrial customers significantly higher than the RPI plus 5 per cent.

Another important part of the package would be pitching prices and revenue for Nuclear Electric at the lower end of the possible range, giving a nuclear levy of 11 per cent; you had already commented that you thought a figure at about this level was appropriate.

The package involves various administrative constraints on the immediate operation of free competitive forces. But this seems inevitable if the timetable and other constraints are to be met.

Content for John Wakeham to finalise a package along these lines in consultation with the Chancellor, Nick Ridley and Malcolm Rifkind?

Rec.

Paul Gray
December
22 November 1989

c: electricity

Yes - I think he has done a superb job

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