

SUBJECT.

cc: Mark



10 DOWNING STREET

cc:

HMT  
Chief Sec's Office

SO

CPRS

CO

bcc: J. Vorekas

From the Private Secretary

20 October, 1982

NAT. IND.

Dear Julian,

Electricity Prices

The Prime Minister held a discussion about electricity prices yesterday afternoon with your Secretary of State, the Chancellor of the Exchequer, the Chief Secretary, Treasury, the Secretary of State for Scotland and Mr. Sparrow. Mr. Gregson was also present.

Your Secretary of State said that it was agreed on all sides that, following the Coopers and Lybrands report, electricity prices were higher than would result from a proper application of economic principles. Insufficient account was being taken of substantial, and continuing, over-capacity: currently, charges contained an element related to the cost of building new power stations to meet growing demand, whereas no new stations were likely to be built for this purpose for many years to come. There was also no justification for the current CEGB practice of recovering all overhead costs through prices. He believed that there was a strong case for acting rapidly, and he proposed that there should be a price freeze next year in place of the increase of about 5 per cent which would be implied by the old basis of calculation. This would have an adverse effect on the industry's EFL, and hence on the PSBR, of some £350 million in 1983/84. Decisions were required by the end of this month, or by mid-November at the latest, so as to enable the industry to translate them into detailed tariff proposals for 1983/84.

The Chief Secretary said that he accepted in principle that current pricing policy needed amendment on the lines advocated by Cooper and Lybrands but the figures to which your Secretary of State referred had been available for only a few days, and he would wish to consider whether the full amounts of the EFL additions proposed by your Secretary of State could be validated. Wider public expenditure considerations

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pointed strongly towards a re-phasing of these amounts. He proposed that your Secretary of State should consider whether the EFL for 1982/83 for the electricity supply industry in England and Wales should be increased by £200 million, to allow the CEBG to bring forward as much expenditure as possible from 1983/84 into the current year. Depending upon the result of his consideration of the total increases which your Secretary of State had proposed, a further sum of up to £150 million could be added to the 1983/84 EFL figure later, after the public expenditure survey was completed. He made a similar and parallel proposal in respect of the Scottish electricity supply industry.

The Prime Minister said that it was agreed that the new basis of calculation should be applied to electricity prices forthwith, and that there should be a standstill in 1983/84. The Chief Secretary would consider urgently whether the additions to EFLs, which had been proposed, could be validated. The aim should be to bring forward as much expenditure from 1983/84 to 1982/83 as possible, say, £200 million for the electricity supply industry in England and Wales and £20 million for Scotland. The Chancellor of the Exchequer would consider with the other Ministers concerned the timing of the announcements: there would, on the one hand, be advantage in an early announcement, as proposed by the Secretary of State for Energy; but there should be no question, on the other hand, of a too hurried assessment of the figures, and public expenditure ceilings should not be breached by the additions proposed. Your Secretary of State should circulate to those present a note on how best to present these decisions: the justification for the change might very properly rest on the changed circumstances and the new management of the industry.

I am sending a copy of this letter to John Kerr (Treasury), John Gieve (Chief Secretary's Office), Muir Russell (Scottish Office), Gerry Spence (Central Policy Review Staff) and Richard Hatfield (Cabinet Office).

*Yours sincerely,*

*Michael Scholar*



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

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