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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Prime Minister

Agree to the

terms of this announcement?

MUS 10/11

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

10th November 1982

[Handwritten mark]

Dear Chancellor

ELECTRICITY PRICES 1983/84: PRESENTATION

At the Prime Minister's meeting on 19 October, I agreed to circulate a note on the presentation of the decision that there should be a price standstill in 1983/84.

Effect on Different Consumer Categories

It needs to be made clear that this involves an average price increase of zero and not a freeze on each and every tariff. While all consumers will benefit, there may be small differences in the level of benefits to different classes of consumer and, as is usual, to customers of different Area Boards, who will formulate their retail tariffs by mid-January. The tariffs will be formally announced around the beginning of March.

The standstill will not remove the disparities with Europe forced by some large consumers & some of them may in fact benefit slightly less than the average consumer. However, industry in general will benefit and this will not be lost on the CBI.

Timing

I am under mounting pressure for an early statement; reports of varying degrees of accuracy are increasingly appearing in the Press. I believe it is essential, therefore to make an announcement this week. With your agreement and that of colleagues, I propose to do so on Friday, by means of a written answer. I attach a draft text and would be grateful for any comments today, as I need to have the question tabled tomorrow.

I am copying this to the Prime Minister, Leon Brittan, George Younger, Patrick Jenkin, John Sparrow and Sir Robert Armstrong.

Yours sincerely
[Signature]

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



ELECTRICITY PRICES

On 8 February, I informed the House that I had received from the Electricity Council their review of the Bulk Supply Tariff, commissioned by my predecessor in 1980. The Bulk Supply Tariff determines the price which the Area Electricity Boards pay to the Central Electricity Generating Board for their supplies, and accounts for around 80% of the price of electricity to the user. I asked the Council to make the review available and invited comments on it from consumers. I also engaged the consultants, Coopers and Lybrand, to assist my Department in assessing the important issues raised. My statement today follows careful consideration of these issues in the light of the advice and comments received.

The fundamental basis of the Government's electricity pricing policy, that prices should be properly related to economic costs, remains unchanged. However, since the announcement in January 1980 of the industry's present financial target, which expires in March 1983, a number of developments have occurred. It is now clear that the level of demand for electricity is and will remain lower than was foreseen. Present and expected capacity in the Industry is more than adequate to meet forecast demand over the next few years at least. The cost to the Industry of meeting marginal increases in demand is thus likely to be lower than was expected. More efficient fuel use has also helped.

In these circumstances, and in the light of my consideration of the Bulk Supply Tariff Review, I have agreed with the electricity supply industry that there should be no increase in the average level of electricity prices next year. Details of the tariffs which will apply from next April will be announced by the Industry in due course.



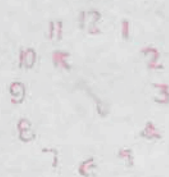
I shall announce as soon as possible a new financial target, agreed with the Industry, to follow the present target. This will take full account of the conclusions the industry and I have reached on economic pricing.

Nat Ind:

Gas a Elec:

PF 7

10 NOV 1982





CCJV
BI

Prime Minister (2)

11/11

Treasury Chambers, Parliament Street, SW1P 3AG

Julie West Esq
Private Secretary to the
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

11 November 1982

Dear Julie

ELECTRICITY PRICES 1983-84: PRESENTATION

will request if required

The Chief Secretary is generally content with the draft Answer attached to your Secretary of State's letter to the Chancellor of 10 November, but he thinks it most important that the Answer should make clear that the price freeze will be accommodated within the industry's EFL, which was announced on Monday. This could be done by including at the end of the first sentence of the first paragraph, the following:-

"This will be accommodated within the industry's EFL of -£300 million for 1983-84 which has already been announced."

The Chief Secretary also thinks it important to make clear that we will soon be announcing a performance aim for the industry as well as a new financial target. This point could be included by inserting the words "and a performance aim" after "financial target" in the first line of the fourth paragraph of the draft text.

Finally, the Chief Secretary thinks that it would be worthwhile if your officials could give a technical briefing to a few journalists so as to explain to them in broad terms the economics which underlie the announcement, concentrating in particular on the "NAC" versus "NEC" approach. This might help defuse any criticism that the standstill could not be justified in economic terms but had been introduced as a short-term political expedient.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Secretaries of State for Scotland and Industry, Mr Sparrow and Sir Robert Armstrong.

Yours sincerely

John Gieve

JOHN GIEVE
Private Secretary

CONFIDENTIAL

NATIONALISED IND: GAS AND ELECTRICITY PRICING POLICY PT 7.

Nat-Ind ~~Ce J.V.~~



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Copy to → S.B.T

NBPM
MSW/ll

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

10 November 1982

Dear Nigel,

ELECTRICITY PRICES 1983/84: PRESENTATION

Thank you for sending me a copy of your letter of 10 November to Geoffrey Howe asking for comments on the draft text of a written answer announcing an average electricity price increase of zero for next year. I have no comments on the draft of your announcement but consider that I must make a similar announcement at the same time. Unless I hear anything to the contrary by noon tomorrow I propose to table the attached written answer on Friday.

I am copying this to the Prime Minister, Geoffrey Howe, Leon Brittan, Patrick Jenkin, John Sparrow and Sir Robert Armstrong.

Yours ever,
Cunze

ELECTRICITY PRICES

My rt hon Friend, the Secretary of State for Energy, has announced today that he has agreed with the electricity supply industry in England and Wales that there should be no increase in the average level of electricity prices next year. As similar factors apply in Scotland I have asked the Scottish Electricity Boards to follow suit and they have agreed not to increase their average level of prices next year. Details of the tariffs which will apply from 1 April 1983 will be announced by the Boards in due course.

I shall be discussing the implications of this announcement with the Boards and shall announce a financial target for the Boards as soon as possible.

nat Ind, Gas & Elect. Pt 7



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

CONFIDENTIAL

Qa 06137

10 November 1982

The Rt Hon Nigel Lawson MP
Department of Energy
THAMES HOUSE SOUTH
LONDON S W 1

Dear Nigel,

Electricity Prices 1983/84: Presentation

Thank you for sending me a copy of your letter of 10 November to Geoffrey Howe enclosing a draft written answer on electricity prices in 1983/84.

Although the draft answer is, of course, perfectly accurate in stating that there should be no increase in the average level of electricity prices next year, I am worried that this might be taken by some to mean that there will be a freeze for everyone, which could lead to trouble later. It might be safer to insert, say before the final sentence of your draft, words on these lines: "For many consumers prices in 1983/84 are likely to be the same as or lower than they are now: for others they will be a little higher."

I am sending copies of this to the recipients of your letter.

Yours sincerely,

John

John Sparrow

CONFIDENTIAL

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OFFICE OF THE SECRETARY OF STATE FOR ENERGY
TREASURY HOUSE
11, BEDFORD SQUARE, LONDON, W1P 9AT

01 211 6402

Prime Minister (2)

MUS 26/10

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1

26 October 1982

Leon Brittan

[Handwritten signature]

At our meeting with the Prime Minister last Tuesday we agreed to examine the financing of the electricity price standstill in 1983/84.

I have discussed this further with the industry and have now obtained their commitment to use their best endeavours to meet a 1983/84 EFL of -£300m. This assumes an average level of inflation in that year of 6%.

Part of the cost of the prices standstill will be met through a transfer of payments between this year and next. I will write to you again about the likely size of this and any consequences for the industry's 1982/83 EFL. The industry have however emphasized their concern for the effectiveness of the EFL as a discipline within the industry. That being so, they believe that there are limits to 'shunting' which it would be imprudent to exceed. Taking this, and other improvements in 1983/84 into account, I consider that an EFL of -£300m in 1983/84, is the best that can be achieved. I trust you are able to accept this figure, which represents an improvement of £288 million over the figure I quoted in my minute to the Prime Minister of 18 October.

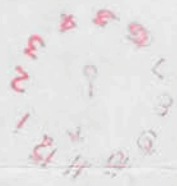
I am copying this letter to the Prime Minister, Geoffrey Howe, George Younger, John Sparrow and Sir Robert Armstrong.

via Brittan

NIGEL LAWSON

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26 OCT 1982