

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

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

SV
Prime Minister (2)

A robust defence of
Mr Lawson's standing charges
proposal.

11/11 November 1982 HUG

11/11

Leon Brittan

↑

STANDING CHARGES

Thank you for your letter of ^{PR6} 6 October. I have also seen the letters of ^{AG} 8 October from Patrick Jenkin's Private Secretary, of 15 October from Tom King, and George Younger's minute of 21 October. This letter responds to some of the points which have been made on the proposal that standing charges for gas and electricity should not exceed 50% of any bill.

First, I should make it clear that this proposal is not designed as a DHSS measure, but to take the heat out of the worst area of resentment about standing charges. It is a commonsense political and commercial judgement in the face of sustained Parliamentary and public pressure. In my view that judgement has already been justified by the positive response my proposal has evoked. And this of course affects our image as a Government, as well as that of the nationalised industries concerned.

There is little doubt that, were the nationalised fuel industries in the private competitive sector, and compelled to look more carefully at their image than they do, and to behave with less arrogance towards their customers, this concession would have been introduced long ago. Indeed, it is inconceivable that any competitive private sector corporation would have allowed customer dissatisfaction on this scale to have arisen in the first place. It is also in my view a necessary step if we are to retain any public confidence in the principle of standing charges, a principle which, as you know, I accept.

I am therefore pressing and will continue to press the industries to respond positively to the proposal I made at Brighton.

I am surprised at the suggestion that my proposal causes difficulties because it might embarrass other nationalised industries. I do not accept that I should be inhibited from seeking to make the electricity and gas industries more responsive to their consumers by some spurious concept of nationalised industry solidarity.

Finally, I do not think colleagues need be concerned by the impact of my proposal on industrial or any other energy bills. The estimated cost to the industries of around £20 million for gas and £6 million for electricity is de minimis in the context of the industries' turnover. The impact on other consumers' bills will be insignificant, nor would I expect there to be any implication for EFLs.

I am copying this letter as before.

Nigel Lawson

NIGEL LAWSON



Secretary of State for Industry

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

Prime Minister (2) *ms 25/11*
 DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

23 November 1982

Dear Nigel,

STANDING CHARGES

My Private Secretary's letter of 8 October ¹⁴⁶ was one of a number of letters to which you responded trenchantly in your letter of 11 November to Leon Brittan.

2 I support you strongly in your main thesis, namely that the nationalised fuel industries should look carefully at their image and not treat their customers with arrogance. It seems to me that the arguments you have used to justify your proposal are very similar to those used by electricity-intensive industries in seeking further concessions. Their dissatisfaction too would have been met by any competitive private sector supplier tempering his pricing principles to what his customers could afford - at least temporarily. And if we are to secure confidence in the principle of pricing energy in relation to costs, some departure from rigid pricing principles seems necessary for industry too. You point out that the cost to the energy supply industries of the concession for domestic customers would be very small - only £26m per annum. This is very similar to the £20m more ICI pay for electricity for chlorine production than their European counterparts.

3 Perhaps the sensible course would be to let the accountants' survey take its course and then to look at the matter with an open mind.

4 So far as telephones are concerned there is a similar fairly delicate balance to be drawn between attachment to appropriate pricing principles and sensitivity to particular groups of customers. British Telecom have been raising their rentals but they are intending to introduce next Spring a modest but imaginative rental rebate scheme which will offer limited relief to the two million customers who make least use of the telephone.

5 I am copying this letter to the recipients of yours.

You are
Ratcliff

Nat Ind. Gas & Elect, P77



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

JV

Prime Minister (2)

To note.

M/S 21/10

W

PRIME MINISTER

STANDING CHARGES FOR GAS AND ELECTRICITY

As you know the gas and electricity industries have agreed to Nigel Lawson's request to commission an independent study of the level of standing charges and the reason for this level. My officials were not extensively involved in his Department's review of the impact of standing charges but were in agreement with the conclusions reached.

There has been less controversy about standing charges for electricity in Scotland than in England and Wales. This may be partly because the South of Scotland Electricity Board does not have a standing charge as such, but a higher unit rate for the initial block of units coupled with a minimum charge. A study by the Scottish Boards would probably follow closely the lines adopted in England and Wales and the findings would be unlikely to be very different. In addition, the last element of the proposed terms of reference for the study overlaps considerably with certain aspects of the efficiency audits of the Scottish Boards which are currently nearing completion.

For these reasons we decided not to initiate a parallel study in Scotland. My officials have instead asked the Scottish Boards for a detailed analysis of the structure of their charges to small consumers and that any increase in standing charges be postponed until the results of the England and Wales study are available. The Scottish Consultative Councils have also been asked for their views. We shall then be in a position to consider, when the report of the study becomes available, what changes, if any, are desirable in Scotland. I should, however, record that an initial reaction from the North of Scotland Hydro-Electric Board supports the point made by Leon Brittan

in his letter of 6 October to Nigel Lawson; namely that the proposal to limit standing charges to 50% of any individual account will be of greatest benefit to those with seasonally-used premises such as holiday homes.

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

G.Y.

G.Y.

21 October 1982

Nat Ind: Geo & Elec Specs Pt 7