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Wat Ind
Prime Minister (2)

MS 19/11

Treasury Chambers, Parliament Street, SW1P 3AG

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

mf

19 November 1982

Dear Secretary SJS

Thank you for your letter of 11 November about the external financing of the electricity supply industry and their new financial target.

First, the 1982-83 EFL. Since the industry's financing requirements still appear to be falling back against their present EFL, I agree that it would be sensible to wait until the New Year to see whether any relaxation will actually be required.

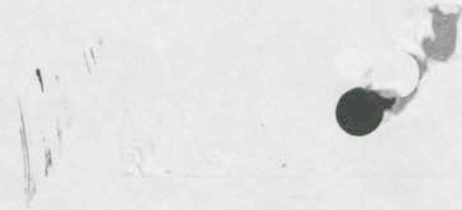
The additional bids implicit in the new 1984-85 and 1985-86 figures are an improvement on the provisional bids put to Cabinet. These can be included in the White Paper totals. I hope that further improvements can be identified for next year's IFR, eg as a result of a demanding performance aim.

I also hope that the work can be completed so that we can announce a new target and a performance aim early in the New Year. There is clearly a good deal of ground to be covered.

You say that you would be surprised if it proved necessary for Treasury officials to involve themselves in direct discussion with the industry about the financial target. I do not want to make an issue of this. But I think that generally the Treasury ought to have the opportunity to discuss important matters like this with the industry, if they think it necessary, with your Department in the lead and chairing the discussions. Indeed the work on the financial target will surely go forward more quickly if Treasury officials are involved directly in discussions with the industry. It would be a great pity if our aim of an early announcement was confounded by any delay as a result of your officials having to go backwards and forwards to the industry to get information on points raised by the Treasury. We shall be pressing ahead in parallel with similar discussions for the Scottish Electricity Boards, where it is already accepted that it could be useful for there to be a joint meeting with the industry, involving the Treasury.

A copy of this letter goes to the Prime Minister, George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely
J. Brittan
for LEON BRITTAN *J. Brittan*
[Approved by the Chief Secretary]



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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLSBANK LONDON SW1P 4QJ

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Prime Minister ②

MJ 12/11

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

11th November 1982

MS
Dear Chief Secretary

EFL FOR ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES
FOR 1983/84 AND FIGURES FOR LATER YEARS


Thank you for your letter of 28 October, and for your agreement to the 83/84 EFL of - £300 million. *requested attached*

The Industry advise that in order to achieve the 1983/84 EFL, payments of between £100m and £155m overall (including those mentioned in my letter to you of 18 October) will need to be transferred into 1982/83. The consequences for the 1982/83 EFL are not yet clear and the Industry have not yet requested a relaxation. Present indications are that a relaxation of up to £40m might be necessary, but I should prefer to defer a decision until the New Year, when firmer figures should be available. *not asked requested*

For 1984/85 and 1985/86, the latest advice from the Industry indicates EFLs of - £260m and - £450m (an improvement in both years on the provisional figures in your Public Expenditure Cabinet Paper). While these figures too are provisional, pending financial target discussions, we are unlikely to be able to refine them further before publication of the Public Expenditure White Paper.

I agree that our officials should now take these discussions forward as rapidly as possible, since I want to announce a new target early in the New Year. Expected movements in costs, sales, and profitability, as well as methodological changes in the light of the Coopers' report, will of course be relevant. The Industry will provide my Department with information under these heads, and I expect this to be fully discussed with Treasury officials. I should however be surprised if it proved necessary for Treasury officials, in addition, to involve themselves in direct discussion with the Industry.

I am sending a copy of this letter to the Prime Minister,
George Younger, John Sparrow and Sir Robert Armstrong.

Yours sincerely


NIGEL LAWSON

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

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Treasury Chambers, Parliament Street, SW1P 3AG

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

October 1982

Nigel

EFL FOR ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES FOR
1983-84 AND FIGURES FOR LATER YEARS

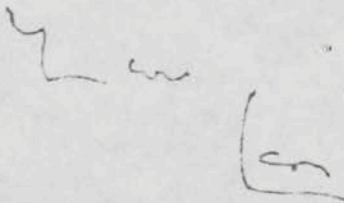
Thank you for your letter of 26 October in which you report that you have obtained the industry's commitment to use their best endeavours to meet a 1983-84 EFL of -£300 million. I accept that and am extremely grateful for the great amount of work which you and your officials have put in with the industry to bring this about. I agree to this outcome.

I note that you will be writing to me again about the likely size of the consequent transfer of payments between this year and next and of any consequences for the industry's 1982-83 EFL. You will appreciate why the Treasury needs to know this as soon as possible. I hope therefore that you can write very quickly. Finally on the 1982-83 and 1983-84 EFLs, let me say that I fully recognise the industry's concern about the effectiveness of the EFL as a discipline within the industry. It is certainly not in our interest to undermine that. But as I am sure you have already explained to the industry, your proposal for a price standstill posed particular problems for 1983-84.

Now that the public expenditure consequences for 1983-84 of an electricity price freeze have been agreed, the next step is for there to be a proper study of the quantification of the CEGB's response to Coopers' criticism so that we can see whether this can provide the basis for a medium-term target and performance aim for the industry. Ian Byatt is already in touch with your people about the details of the figures and I hope that they can let us have a full report on them and the industry's methodology when they have carried out a thorough study. I hope that you can agree that if they think it necessary, Treasury officials should be able to discuss the figures with the industry.

Our officials have not yet been able to settle final figures for the two later years. The figures in my Cabinet paper should therefore be regarded as provisional. I understand that more information is needed from the industry before the later years' figures can be decided and it is hoped that these should be available by the end of next week. I hope that we can quickly settle this unfinished business.

I am sending a copy of this letter to the Prime Minister, George Younger, John Sparrow and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Leon Brittan'. The signature is written in a cursive style with a large initial 'L' and a distinct 'B'.

LEON BRITTAN