CONFIDENTIAL

PRIME MINISTER

ELECTRICITY PRICES FOR INDUSTRY

We are to discuss the CPRS Report on this subject on 2 December.

The CPRS study was initiated by Ministers, meeting earlier this year under the chairmanship of the Chancellor, in order to carry out a fundamental examination of this long-standing industrial complaint and to make recommendations.

This remit has been carried out with commendable thoroughness, and I agree with the main thrust of the Report's conclusions and recommendations, which are summarised in Chapter 6.

In particular, it seems to me important:

a. that "electricity prices in the United Kingdom should be properly based on economic prices, without any subsidy from the taxpayer or cross subsidy from other consumers" (para. 6.29); and

b. that "if Government wished as a long term policy to assist firms which are adversely affected by electricity price differentials, this would represent an aspect of industrial policy, and that the aid should be given directly, not through distortion of the electricity pricing system" (para. 6.26).

The CPRS identified only one case in which an international electricity price disadvantage put at risk the continuation of a significant industrial activity with a long term future in the UK. This is the production of chlorine. Accordingly, in the light of Sir Robin Ibbs' representations, I have looked again at what could be done to help ICI's chlorine operation at Runcorn. I propose that I should use section 2(6) of the 1957 Electricity Act to authorise the CEGB to give Runcorn a direct supply, as they do already to Anglesey Aluminium. These two plants are by far the largest private sector electricity consumers in the UK and the size of their consumption could be held to justify

their receiving direct supplies.

Direct supply would not make a substantial difference in the price paid by ICI Runcorn for its electricity - it would mean a reduction of perhaps 5 per cent or so, at a cost of about £1½ million. But, together with the recent fall in the pound against the deutschmark (6 per cent over the past fortnight) and the prospect of our general standstill in electricity prices compared to the increases to be expected elsewhere next year, this additional help would not be insignificant. And, of course, the price ICI pays for its electricity at Runcorn is already 35 per cent below the average for industrial consumers as a result of the general structure of the BST and the special load management arrangements in the last two Budgets.

To engage in any wider help for energy intensive industries would:

a. be a complete reversal of our economic pricing policies;

b. require either an increase in electricity prices for other consumers, including many hard-pressed sectors of industry as well as domestic consumers, or else a significant increase in public expenditure;

c. require primary legislation to amend the existing statutory provisions on undue preference which, as the CPRS point out (para. 6.24), would "expose electricity pricing to a flood of special pleading - and it would run the very real risk that in due course industry would find itself subsidising domestic consumers".

For these reasons, it would be wrong to pursue industrial policy objectives through electricity prices.

I am copying this minute to the Chancellor of the Exchequer, the Secretaries of State for Scotland and Industry, Sir Robert Armstrong and John Sparrow.

Secretary of State for Energy
30 November 1982