



file no

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Central Policy Review Staff

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Qa 06403

From: John Sparrow

CONFIDENTIAL

27 June 1983

The Rt Hon Peter Walker MBE MP  
Department of Energy  
Thames House South  
Millbank S W 1

Dear Peter,

Objectives for the Chairman of the Electricity Council

I have seen a copy of your letter of 21 June to the Chancellor of the Exchequer enclosing a draft policy letter to Philip Jones setting out his objectives as Chairman of the Electricity Council.

The CPRS has been involved in the formulation of these objectives but there are two points which you might wish to consider when finalising the letter.

First, the Energy Act 1983 places a new and specific requirement upon the Boards to adopt and support schemes for the combined production of heat and power (CHP) subject to normal financial criteria. In view of this, I suggest that a reference to CHP should be made in paragraph 2 of the letter. Perhaps the last two sentences could read: "You should also encourage the Boards to adopt and support commercially viable schemes for the combined production of heat and power in line with the new requirements in the Energy Act 1983. I would like you to take a special interest in these areas." The emphasis on commercial viability would not commit the Government to take the lead in district heating schemes but support for CHP would provide a welcome boost to industrial schemes.

My second point concerns the discussion of strategic and corporate planning in paragraph 4. There is increasing agreement on the need to distinguish clearly between the strategic planning options which need to be assessed at the beginning of the planning cycle and the results of

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this cycle contained in the Corporate Plan. The proposed strategic plans for the ESI will reflect this point, but the draft objectives could reinforce the distinction if the second, third and fourth sentences of paragraph 4 were re-ordered as follows:

"This plan should set out clearly, in the context of the objectives agreed with Government, the strategic options and issues facing the industry together with the industry's preferred planning objectives. Decisions on these options, taken together with agreed financial and performance targets and the industry's external financing limits, should provide the basis on which the Board's detailed plans for efficient operation and cost reducing investment are to be developed. The strategic plan should also include a summary of the main conclusions of the current Corporate Plan including up-to-date financial and sales forecasts."

Although I support paragraph 7 and its emphasis on the undoubted importance of British Electricity International, the ESI, through its approach to procurement, can also play a part in ensuring that the UK supply industry is internationally competitive. You might wish to raise this with Philip Jones as your predecessor did with Sir Walter Marshall.

I am sending copies of this letter to the Prime Minister, to other members of E(NI), and to Sir Robert Armstrong.

*Yours sincerely,*

*John*

John Sparrow

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SECRETARY OF STATE FOR ENERGY  
TOWER HOUSE SOUTH  
MILBANK LONDON SW1 4DP

01 211 6402

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

21 June 1983

*As usual*

OBJECTIVES FOR THE CHAIRMAN OF THE ELECTRICITY COUNCIL

I am enclosing the draft of a letter to Philip Jones setting out his objectives as Chairman of the Electricity Council. The objectives are similar at all relevant points to those set for the Chairman of the Central Electricity Generating Board and published on 18 March.

I am content with the letter as drafted, and as approved by you before the election. Subject to your agreement and that of our E(NI) colleagues I propose to publish the objectives, by means of a written answer, at an early date.

I am copying this letter to the Prime Minister, other members of E(NI) and Robert Armstrong.

*Peter Walker*

PETER WALKER

T P Jones Esq CB  
Chairman  
Electricity Council  
30 Millbank  
London SW1

This letter sets out the objectives which the Government wish you to pursue as Chairman of the Electricity Council. The objectives elaborate the responsibilities and obligations placed by Statute on the Electricity Council, and in particular the duty to promote and assist the maintenance and development by Electricity Boards in England and Wales of an efficient, co-ordinated and economical system of electricity supply.

1 Your prime objective must be by all practicable means to promote and encourage maximum efficiency throughout the industry including sustained and detailed attention to cost control by the various Boards in England and Wales through all aspects of their activities. In this context:

- (a) You should encourage Boards to set challenging cost control and efficiency targets wherever practicable, and monitor them carefully;
- (b) You should advise me on the setting of financial and performance targets for the electricity supply industry in England and Wales and for each Board individually; you should keep me informed on progress towards their achievement;

- (c) A wide range of performance indicators should be developed and published.

2. It must also be your objective to increase the scope for competition in electricity supply. In consultation with individual Boards as necessary, you should review the prospects for the injection of private risk capital into areas of the industry's operations and make positive recommendations to me wherever possible. You should encourage the Boards to develop co-operation with private generators of electricity, within the framework laid down in the Energy Act 1983, when enacted, and ensure that effective commercial and technical arrangements exist to take full economic advantage of their potential contribution to supply. I would like you to take a special interest in this area.

3. I shall require Boards to set out their capital investment proposals comprehensively for my approval, giving an account of the strategic framework against which they have been developed. I shall also require them to continue to pay close attention to the methodology used in capital investment appraisal.

In advising me on these proposals it should be your objective to promote the production and distribution of electricity at the lowest possible cost consistent with maintaining adequate standards eg of security of supply.

4. Each year, prior to submission to the Department of the Board's Capital Investment Memorandum and the Investment and Financing Review, the Electricity Council should prepare a strategic plan for the industry which will be reviewed with Government. This plan should set out up to date financial and sales forecasts, and the strategic options and issues facing the industry as

well as the industry's preferred planning objectives. I shall require the Board's detailed plans for the efficient operation and cost reducing investment to be developed within this framework. The Board's plans should also take full account of the objectives agreed with Government as well as the financial and performance targets agreed and the industry's external financial limits. Bearing in mind the requirements of S.8(5) of the Electricity Act 1957, you should ensure regular, timely, and effective information flows from the Boards to assist the Government and the Electricity Council to monitor performance in relation to those objectives, targets and limits.

5. You should, in consultation with the Boards, and as appropriate with Government, develop and promote a framework of electricity pricing principles, within which the Boards set their prices so as to reflect the costs at the margin of meeting demands on a continuing basis, and so as to be consistent with the financial framework set by Government.

6. Subject to objective 2 above, you should seek to ensure that both the contracting and sales of appliance activities of the Area Boards are carried out effectively and economically so as to yield a proper return on the assets employed.

7. Subject of course to European Community and other international obligations, you should encourage the Boards to assist UK manufacturing industry to secure orders in export markets, in particular through the provision of support services through British Electricity International.

8. You should ensure that the industry remains sensitive to the impact of its policies and prices on consumers, and that these are properly presented to the industry's consumer representative bodies and to the public at large.

9. You should seek by all practicable means to promote close working relationships within the industry. In this connection, I draw attention to David Howell's statement of July 1980 which I attach.

10. Finally, I should make clear that the Government may wish to give further guidance to you at a later date or to impose constraints from time to time, for wider reasons, on your ability to achieve one or other of these objectives.

PETER WALKER



21 JUN 1983





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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MP  
Secretary of State for Energy  
Thames House South  
Millbank  
London SW1P 4QJ

23 June 1983

*[Handwritten signature]*

OBJECTIVES FOR THE CHAIRMAN OF THE ELECTRICITY COUNCIL

You wrote on 21 June seeking agreement to the draft letter to Philip Jones.

I am content that the letter should be issued and published.

I am copying this letter to the Prime Minister, other Members of E(NI) and Sir Robert Armstrong.

*Yours ever  
Peter Rees*

PETER REES

West End,  
Gas & Elect. P48



24 JUL 1904





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ST. JAMES CENTRE  
EDINBURGH EH1 3SX

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The Rt Hon Peter Walker MBE MP  
Secretary of State for Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

5 July 1983

*Dear Peter,*

OBJECTIVES FOR THE CHAIRMAN OF THE ELECTRICITY COUNCIL

I refer to your letter of 21 ~~June~~ to Nigel Lawson enclosing a draft letter to Philip Jones setting out his objectives as Chairman of the Electricity Council. I have also seen John Sparrow's letter of 27 ~~June~~.

I am content that the letter should be issued and published. However, in considering John Sparrow's reference to encouraging schemes for the production of combined heat and power, you may wish to bear in mind that I set an objective along these lines for the two Scottish Boards earlier this year.

I am copying this letter to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

*Lawson was,*  
*George -*

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JUL 1983

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