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Energy prices
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SECRETARY OF STATE FOR ENERGY
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Andrew Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

30 November 1983

Dear Andrew,

BRIEFING FOR PRIME MINISTER'S QUESTIONS

You asked Michael Reidy yesterday for a note on the different figures for the profits of the gas and electricity industries which had recently been quoted in Parliament. I hope that the note attached is helpful.

Yours

John Neilson

J S NEILSON
Private Secretary

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GAS AND ELECTRICITY PROFITS 1982/83

In line with normal accounting practice, the gas and electricity industries report two profit figures : an operating profit and a net profit available for retention in reserves. The following table details the differences between these two figures and puts profits in context against assets and turnover.

1982/83 CURRENT COST RESULTS, £ MILLIONS

GAS			ELECTRICITY
663	Operating Profit		868
218	Net Interest		(536)
(208)	Taxation		-
(295)	Extraordinary item (provision for accounting loss on disposal of oil assets)		
188	Net Profit retained		332
	Return on average total net assets		
5.7%	i.	Operating Profit	3.2%
1.6%	ii.	Net Profit retained	1.0%
	Profit to Turnover:		
11.6%	i.	Operating Profit	9.4%
3.2%	ii.	Net Profit retained	3.6%

COMMENTARY

i. Gas Levy - this item (£524m in 1982/83) is treated as an operating cost in the British Gas Corporation's accounts, so is deducted prior to arriving at the £663m operating profit. It does not feature in the £208m charge for taxation, which consists mainly of current UK Corporation Tax.

ii. No Tax Charge for Electricity - no charge to taxation arises on the result for the year by reason of accelerated capital allowances, stock relief for the year and losses brought forward.

iii. BGC Extraordinary Item - this is an accounting mechanism to write out of BGC's books the Corporation's interests in offshore oilfields (£285m) and the Wytch Farm onshore oilfield (£10m) which are in the process of disposal as part of the privatisation programme. There is no reason to belive that this item will lead to an increase in gas prices: it is not in any real sense a "cost" borne by gas consumers, and is in any case marginal when set against BGC's accumulated retained profits of over £1.5 billion.

Department of Energy
30 November 1983