



CONFIDENTIAL

cc NO

Prime Minister (2)

Mr Walker put the Government's view accurately to Mr Jones. The latter's response was not as forthcoming as it might have been.

To await developments

AT 20/12

PRIME MINISTER

ms
Robert multi

I enclose the minutes of the meeting I had with Philip Jones, Chairman of the Electricity Council, together with a letter I have sent to him confirming the Cabinet's view. You will see that the Chairman expresses his desire to be constructive on this topic, but also expresses his very real anxieties about the reactions of some of the individual Boards. I will keep you informed when I hear further from them.

I am copying this to the Chancellor of the Exchequer.

SECRETARY OF STATE FOR ENERGY

20 December 1983

Lee

COPY



SECRETARY OF STATE FOR ENERGY

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T P Jones Esq CB
Chairman
Electricity Council
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20 December 1983

ELECTRICITY PRICES IN 1984/85

Thank you for your letter of 21 November, the substance of which I reported to my colleagues at last week's meeting.

The Cabinet welcomed your Council's willingness to take steps to achieve the EFL of £740m for 1984/85, which we have set for the industry; and we appreciated the force of the arguments you advanced against implementing a general price increase of 3% from next April. The Cabinet nonetheless felt unable to accept the Council's view that there should be no general price increase from next April. It was thought that this would run too great a risk of leading to undesirably large price increases later on either in 1984/85 or in 1985/86.

I should therefore be grateful if the Council would reconsider its position on tariff adjustments for next year; and if you would put to the Council the possibility of their increasing domestic tariffs by 2% from next April, whilst restricting increases in prices charged to industrial consumers to those which would result from the operation of the fuel price adjustment. I hope that the Council would be able to agree to these modest price increases for next year.

You indicated in your letter that the Council would be ready to discuss with me the pricing principles which should be followed in the electricity supply industry, and a financial target for the period beyond 1984/85. We shall certainly want to have such a discussion in the new year, following the submission of the Council's review of plans.



In the meantime, I have to confirm that Treasury rules governing public expenditure do not permit a surplus over the EFL achieved in one year to be carried forward towards the achievement of EFL in the following year. The Government nonetheless recognise the significant contribution which the industry has made in past years, and expects to make this year, towards containing overall public expenditure.

PETER WALKER

SOS R

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NOTE OF THE SECRETARY OF STATE'S MEETING WITH MR PHILIP JONES, CHAIRMAN OF THE ELECTRICITY COUNCIL - MONDAY 19 DECEMBER 1983

Also Present: Mr R Orson -
Member, Electricity Council

Lord Avon
PUS
Mr Manley
Mr Brown

The Secretary of State said he and his colleagues had now considered the Electricity Council's letter of 21 November. They appreciated the strength of the Council's arguments against a general electricity price increase of 3% from April 1984 and were agreed that industrial tariffs should not be increased, other than by operation of the price adjustment clause. However, it was their strongly considered view that domestic tariffs should be increased by 2% from April 1984.

In reaching this view they had taken careful account of the electricity industry's own expectations about the level of possible price increases that might be required in subsequent years. These expectations had changed significantly during the course of the debate, reflecting the real uncertainties faced by the industry in determining some of their key assumptions. A domestic price increase of 2% could provide a vital safeguard against such uncertainty; it should therefore substantially reduce any risk of disproportionately high price increases later on, either in 1984/85 or 1985/86.

The Secretary of State therefore strongly hoped that the Council would agree that a modest increase of this nature should be implemented.

Mr Jones said he was grateful the Government had considered the Council's arguments in depth. Although their estimates had changed they had endeavoured to keep the Department closely informed. He was in fact now more confident than ever before that even without a price increase the Council would meet their target of paying £740m to the Exchequer as required by the 1984-5 External Financing Limit. A domestic price rise of 2% - whilst more modest than the increase originally proposed by the Government - would therefore bring the industry surplus revenues which it did not need. This could cause particular difficulties for certain Area Boards such as the LEB and SEB, who faced the prospect of exceeding their individual financial targets and were liable to argue for rebates rather than price increases. The Council would also need to consider carefully whether consumers could claim the proposals showed undue discrimination, so putting the Council in possible breach of their Statutory obligations.

These were genuine anxieties and the Council would have to examine them carefully. Nevertheless, Mr Jones wished the Secretary of State to know they would do their utmost to reach a constructive conclusion. Their next meeting was scheduled for 16 January. It would not be practicable to convene an earlier gathering, but he was confident he would be able to respond to the Secretary of State directly afterwards.

The Secretary of State said he was grateful for these reactions. He would write to Mr Jones immediately to confirm the Government's proposals. He hoped to receive a positive response as quickly as possible.

M F Reidy

M F REIDY
PS/Secretary of State
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20 December 1983

cc Mr Turnbull - No. 10
PS/PUS
PS/PUSS (Lords)
Mr Manley
Mr Brown
Mr Morphet