cc MASTER SET

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10 DOWNING STREET

From the Private Secretary

23 July 1984

PUBLIC EXPENDITURE

The Prime Minister held a meeting today to consider whether there should be an increase in the price of electricity to cover the increased cost of electricity generation as a result of the miners' dispute. Present were the Chancellor of the Exchequer, the Secretaries of State for Energy, Scotland, and Trade and Industry. Also present were Sir Robert Armstrong and Mr. Gregson.

The Chancellor set out the difficult position he was facing on public expenditure. There were already strong pressures on the Reserve and if the strike continued until the end of September it would cost the PSBR £600-700m. If, when it ended, it were decided to continue oil burn to allow stocks to be replenished rapidly, the cost could be even greater. After local authority current expenditure this was likely to be the largest claim on the Reserve. In order to demonstrate the Government's determination to hold public expenditure within the planning total, the increased cost of electricity generation should be reflected in the price to the consumer. To recoup the additional costs in full would require an increase of 10%. He was suggesting, however, an increase of 6% from September which would in effect bring forward by six months the increase he believed was necessary from April 1985. He thought the CEGB could be persuaded to put forward such an increase in its own name.

The Secretary of State for Energy accepted the principle that the consumers should pay for the increased cost of generation as they had, as a result of oil-burn, enjoyed continuity of supply. He questioned whether the cost to the PSBR was as high as the Chancellor had estimated. He thought the Chancellor's figures had been based on a gross cost of oil burn of £50m a week; he now believed the figure to be around £40m a week. Net of various offsets the cost to the PSBR was £12½m a week.

His main reservation was that it would be politically unwise to announce an increase now. First, the ESI was about to report 1983-84 profits of £900m before and £456m after interest. In these circumstances he did not believe it would be possible to persuade the industry to volunteer an increase in prices. The Government would face a difficult task in arguing the case through the consumer councils. Secondly, it would allow the NUM to mount a case that the money being spent on extra oil burn could be better used to keep open uneconomic pits. The reaction of public opinion could not be relied upon. He recommended, therefore, that no increase be made while the strike was continuing but a surcharge should be imposed when it had ended which would be identified as the cost of the dispute.

The Secretary of State for Scotland agreed that the consumer should pay eventually. It would be especially difficult at present to secure an increase in Scotland as the strike had had no adverse effects on SSEB's results as it was exporting the higher cost electricity to the CEGB through the interconnector. The Government had to persuade the miners that they were engaged in a long struggle and to do so it had to demonstrate that the economy was not being damaged by their action. An increase in the price of electricity would make this presentation more difficult.

The Secretary of State for Trade and Industry also agreed that the extra cost should be borne by the consumer. He argued that there were advantages in bringing home to the public now the true cost of the dispute. On balance, though, he favoured delaying any increase as it was uncertain how the public would react.

Summing up the discussion, the Prime Minister said it was agreed that the extra cost of electricity generation should be recouped in full from the consumer either in this financial year or the next. This should be done through an increase over and above whatever was settled for the normal increase for 1985-86. For the time being, the meeting took the view that it would be better to avoid making any increase while the strike continued but to impose a surcharge immediately it had ended. The Chancellor should report again to the group in September.

I am copying this letter to Michael Reidy (Department of Energy), John Graham (Scottish Office), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield and Peter Gregson (Cabinet Office). As with the papers circulated for the meeting no copies should be taken of this letter, it should not be allowed out of Private Offices and officials should be allowed to see it only a strict need to know basis.

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