

01 211 6402

46

P L Gregson Esq CBE
Deputy Secretary
Cabinet Office
Whitehall
LONDON SW1

5 November 1984

Dear Pete

REPORT OF THE MINISTERIAL GROUP ON PUBLIC
EXPENDITURE (MISC 106): GAS AND ELECTRICITY
INDUSTRIES

Thank you for your letter of 5 November. I attach
a redraft of your enclosure which reflects my
Secretary of State's understanding of the latest
position.

You will see that he is proposing to seek a
rephrasing of the figures as between different
years in the light of his conversation with the
Prime Minister this morning.

*Yours
Michael*

M F REIDY
Private Secretary

SECRET



SECRET CMO

20 70 50

(iii) Miscellaneous cost savings in the ESI of over £600m

(iv) Miscellaneous cost savings in the BGC of over £200m

5 The reductions in paragraph 3 would mean the following changes in the combined baseline for the two industries:

| £ million | | |
|-----------|---------|---------|
| 1985-86 | 1986-87 | 1987-88 |
| nil | nil | +48 |

Recognising the difficult overall public expenditure situation the Secretary of State for Energy has undertaken to seek the agreement of the industries to savings at this level in each year, including the phasing as between each year. He anticipates strong resistance from the industries and considers that additional savings beyond this level could not be achieved.



BRITISH GAS CORPORATION (BGC) AND ELECTRICITY SUPPLY INDUSTRY (ESI)
EXTERNAL FINANCING

| | 1985-86 | 1986-87 | 1987-88 |
|-----------------|--------------|--------------|--------------|
| Survey baseline | | | |
| - BGC | - 396 | - 495 | - 507 |
| - ESI | <u>-1022</u> | <u>-1337</u> | <u>-1370</u> |
| Total | -1418 | -1832 | -1877 |

2. The industries submitted the following bids for additions to their external financing limits.

| | | | |
|-------|--------------|--------------|--------------|
| - BGC | + 159 | + 237 | + 389 |
| - ESI | <u>+ 24</u> | <u>+ 298</u> | <u>+ 570</u> |
| Total | <u>+ 183</u> | <u>+ 535</u> | <u>+ 959</u> |

A significant part of these bids was to finance higher payments of corporation tax.

3. The Secretary of State for Energy has held discussions with the Chairmen of the industries and considers that the bids could be reduced, by a combination of efficiency and other savings and price increases, to the following extent.

| | | | |
|-------------|-------|------|-------|
| Gas | - 115 | -212 | - 282 |
| Electricity | - 68 | -323 | - 629 |

The price increases required to meet these figures are primarily a matter for the commercial judgement of the industries and no firm decisions have yet been taken. But the Secretary of State thinks it possible that there will be increases in electricity prices of 4½ per cent in 1985-86 and later years and increases in gas prices at a higher level through the period.

4. Other main sources of these reductions are as follows (post-tax):

- (i) Extended use of electricity links with France, saving £45 million by 1987-88.
- (ii) An assumption that the Sizewell project will be delayed by six months, saving



SECRET : QMD

Gas and electricity industries

14 The industries submitted bids for additions to their EFLs totalling:

| | | | |
|-------------|------|------|------|
| Gas | +159 | +237 | +389 |
| Electricity | + 24 | +298 | +570 |

Over 80 per cent of these bids was to finance higher payments of Corporation Tax.

15 The Secretary of State for Energy has held discussions with the Chairmen of the industries and considers that the bids could be reduced, by a combination of efficiency and other savings and price increases, by the following amounts (after allowing for extra corporation tax):

| | | | |
|-------------|------|------|------|
| Gas | -115 | -212 | -282 |
| Electricity | - 68 | -323 | -629 |

The price increases required to meet these figures are primarily a matter for the commercial judgement of the industries and no firm decisions have yet been taken. But the Secretary of State thinks it possible that there will be increases in electricity prices of 4½ per cent in 1985-86 and later years and increases in gas prices at a higher level through the period.

16 The reductions in paragraph 15 would mean the following changes in the combined baseline for the two industries :

nil nil + 48

Recognising the difficult overall public expenditure situation the Secretary of State for Energy has undertaken to seek the agreement of the industries to savings at this level in each year, including the phasing as between each year. He considers that additional savings beyond this level could not be achieved. MISC 106 recommend that these proposals (ie those in paragraph 15) should be accepted.