01 211 6402 P L Gregson Esq CBE Deputy Secretary Cabinet Office Whitehall 5 November 1984 LONDON SW1 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 rephasing of the figures as between different years in the light of his conversation with the Prime Minister this morning. M F REIDY Private Secretary SECRET



20 70 50

- (iii) Miscellaneous cost savings in the ESI of over £600m
- (iv) Miscellaneous cost savings in the BCC 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	-1022	-1337	<u>-1370</u>	
Total	-1418	-1832	-1877	
2. The industries submitte	ed the follow	wing bids	for addition	s to

their external financing limits.

Total	+ 183	+ 535	+ 959
- ESI	+ 24	+ 298	+ 570
- BCC	+ 159	+ 237	+ 389

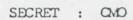
A significant part of these bids was to finance higher payments of corporation tax.

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  $4\frac{1}{2}$  per cent in 1985-86 and later years and higher level through the period. increases in gas prices at a

- Other main sources of these reductions are as follows (post-tax):
  - Extended use of electricity links with France, saving (i) £45 million by 1987-88.
  - An assumption that the Sizewell project will be delayed by six (ii) months, saving





## 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.

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.