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Prime Minister ①

Agree to support Chief Secretary in pressing for study of gas prices (though without committing yourself to outcome)?



FROM: CHIEF SECRETARY
DATE: 22 February 1985

PRIME MINISTER

AT 22/2

I do not think such a study would achieve very much at all.

PUBLIC EXPENDITURE SURVEY: GAS PRICES

At your January 15 discussion of the 1984 and 1985 Public Expenditure Surveys you suggested that the Treasury should seek substantial savings from among the programmes I listed in the papers for that meeting. We are pressing forward with the programme of reviews I then outlined - on industrial subsidies, housing, defence research and development, and of course on social security. But there is one area - gas pricing - in which, without your help, I do not believe it will be possible to get ahead with the necessary assembly of factual material and analysis.

2 It has been our consistent policy with the nationalised industries that they should fix their prices at economic levels. These are the prices that would be charged for the products concerned if they were produced by firms in a competitive market place rather than by state monopolies insulated from market disciplines.

This price was for economic debate -

3 Back in October 1983 your private secretary wrote to Peter Walker's private secretary about gas prices in the following terms:

"On pricing principles themselves the Prime Minister has noted that there is as yet no agreement. She hopes that agreed criteria can be put back to her on what would be implied by the adoption of economic pricing. The implications of moving towards economic pricing during the course of this Parliament and the timescale to be adopted can then be considered."

CONFIDENTIAL

Peter has yet to respond to this. I understand a good deal of work has been done by his officials and mine using information provided by BGC last Spring in the discussions on Sleipner. On the basis of this information my officials considered gas prices are at present about 25 per cent below the level indicated by economic pricing.

4 There are obvious political problems in increasing gas prices quickly by this amount. In view of this I proposed in the last autumn's discussions on public expenditure that gas prices be raised in each of the years 1985-86 to 1987-88 by 4 percentage points more than BGC were proposing; BGC had then in mind increases in line with general inflation. My proposal would have brought in some £1,400 million over the three year period. It would have added only some 0.3 points to the RPI. On the basis of published information, such an increase would not have pushed prices to domestic or industrial customers above average European levels.

5 In the event MISC 106 felt unable to go along with my proposal. Time was short and, as Peter had not responded to your remit, the Group did not have all the information it would have needed to take an informed decision.

6 In view of the public expenditure problems we still face, and bearing in mind our policy of economic pricing, I do not think it would be right to leave matters as they now stand. Your remit to Peter of October 1983 pointed in exactly the right direction. We need from his department a full assessment of the facts and figures. In the light of this we would then be able to consider fully the issues and timescale involved in moving to proper pricing for gas. I am also conscious that, as the decisions on Sleipner have been announced, BGC and Peter's department, are no doubt re-examining the options facing the Corporation. Gas prices should be an important part of this. For all these reasons it therefore seems timely to press Peter for an early response to the remit of October 1983.

PR

PETER REES

Edna for
Hubert
P. 31

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