



Prime Minister (4)

A report of E(A)'s

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Discussion and

conclusion to go ahead

with the Kinsale purchase

(at 27p a therm).

mes 20/9

PRIME MINISTER

KINSALE GAS

At their meeting on 14 September (E(A)(83)4th Meeting) the Ministerial Sub-Committee on Economic Affairs considered a memorandum (E(A)(83)9) by the Secretary of State for Northern Ireland seeking endorsement for an agreement with the Republic of Ireland for the supply of natural gas to Northern Ireland from the Republic's Kinsale field on the revised terms now available.

2. Ministers had agreed in November 1982 that the proposal should go ahead on the basis of terms which were discussed the previous May. Since that date, however, the Republic had put forward revised terms, some of which were less satisfactory. Whereas under the previous terms the effects of fluctuations in the sterling/dollar exchange rate were to be shared equally by the parties, the Republic was now to have full protection against a fall in sterling against the dollar although the United Kingdom would stand to gain from any appreciation of sterling. The new formula would produce a gas purchase price of 27p per therm, if applied in April 1983, compared with 24p under the original proposals. This price nevertheless was in line with current international prices. Since last year, however, the Department of Energy's common economic assumptions, which were used for the financial and economic appraisal of the project, had also been changed. In particular, the new assumption for long term increases in electricity tariffs was for an annual increase of 2 per cent in real terms whereas in the 1982 appraisal it was assumed that tariffs would remain constant in real terms. Both the revised terms and the changed economic assumptions had altered the results of the financial and economic appraisal over the period to 2014/15. Although it was now estimated that there would be a resource cost saving of £316 million over 12 years, the rate of return was projected to fall from 6.9 per cent to 5.2 per cent (or 5.4 per cent if the Republic agreed to some marginal concessions). The PSBR effect over the 30 year period was now estimated to be adverse to the extent of £244 million rather than favourable to the extent of £287 million, these unfavourable effects arising largely in the third decade. The main explanation of



the less favourable outcome for the PSBR was that the change in the assumption about electricity tariffs had increased the projected loss of revenue of the Northern Ireland Electricity Service (NIES).

3. The Secretary of State for Northern Ireland argued that, notwithstanding the change in the terms, and the revised economic assumptions, it would still be desirable to go ahead with the project. The present Northern Ireland town gas undertaking was not viable. Its replacement by a natural gas industry based on supplies from Kinsale would be a more cost effective way of meeting energy demand than closure of the Northern Ireland gas industry and reliance on increased supply from other sources of energy. The project would provide employment, and the availability of natural gas supplies would help to attract industry to Northern Ireland. If the project did not go ahead, there would be pressure in the Northern Ireland Assembly to maintain a gas industry by other means, for example by supply from Scotland, which would be less economic. Failure to reach agreement would sacrifice a useful opportunity for practical cross-border cooperation and would have an adverse effect on Anglo-Irish relations. The Secretary of State for Northern Ireland undertook to accommodate the cost of the programme within the totality of the existing allocation to the Northern Ireland programme.

4. In discussion, it was pointed out on the one hand that the project would increase the subsidies required for the NIES arising out of the Government's undertaking expressed in a statement which you made in March 1981, that Northern Ireland electricity prices would not be increased beyond the highest level of electricity prices in Great Britain. The estimated first year of surplus for the project was Year 11 and a cumulative surplus would not be attained until Year 23; this lessened the chances of private sector involvement in the Northern Ireland gas industry.

5. It was argued on the other hand that Northern Ireland consumers could reasonably expect to be allowed access to Kinsale gas as a more economical supply of energy than existing sources. The social and employment effects, which had not been reflected in the financial and economic appraisal, would be beneficial. There were substantial political advantages within Northern Ireland,



for Anglo-Irish relations, and in improving overseas perceptions of the Government's policy in Northern Ireland.

6. The Sub-Committee therefore agreed that the project should go ahead on the terms proposed, subject to any further marginal improvements which might prove negotiable with the Republic. They also agreed that, within the terms of the Government's commitments on electricity prices in Northern Ireland, it would be desirable to explore what economies might be made in the operations of the NIES, for example by reviewing its generation strategy, with the aim of reducing the cost of the electricity subsidies.

7. I am sending copies of this minute to the other members of the Ministerial Sub-Committee on Economic Affairs, the Minister of State, Foreign and Commonwealth Office (Lady Young) and to Sir Robert Armstrong.

(N.L.)

16 September 1983

Ireland
Economic Co-operation
between N.Ireland & the
Republic of Ireland

May 79



20 SEP 1983

COMPTON

Mr. Fletcher

E(A) Kinsale Gas

Core of the discussion will be as follows:

The proposal that Northern Ireland should purchase gas from the Republic's Kinsale field was approved in principle in November 1982. Since then currency movements and increasing costs to the taxpayer have made the economics of the scheme very marginal. The Treasury are therefore proposing that it should not be proceeded with. Other Ministers will agree that the need to ~~supply~~ assure Northern Ireland's energy supply (currently town gas) and the demonstration of politico/economic cooperation with the Republic make the scheme still worthwhile.

PM 7/9