

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLENNIUM LONDON SW1P 3AG

01 211 6402

NBPH

AT

4/1

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

4 January 1985

FINANCIAL TARGET FOR THE ELECTRICITY SUPPLY INDUSTRY

I find myself at a loss to understand your letter of 20 December about the Electricity Supply Industry's financial target. ✓

I have made my position clear throughout, and in particular in my letters of 12 and 13 November to you. You knew from my letter of 12 December that I was committed to confirming the target and the performance aim underlying it to the Chairman of the Electricity Council before the Council met on 20 December. That was the package deal I had reached with Philip Jones, in line with my letter to Willie Whitelaw of 24 October, that enabled me to bring about such a satisfactory outcome to the IFR, as far as electricity was concerned. You knew that no other option was open to me that did not involve a breach of faith.

As you requested, my officials discussed with yours the figures supporting the financial target and the performance aim. They agreed that there were detailed points, about the coverage of the performance aim in particular, that could reasonably be discussed with the industry. But my officials stressed to yours that I was, as I had explained, committed to confirming the financial framework by 20 December.

Against this background, I find it astonishing that you should record in your letter of 20 December that you regard the Treasury as not committed to, or constrained by, the framework I on behalf of the Government have now announced in confirmation of an agreement which colleagues knew I had reached with the industry during the IFR.

CONFIDENTIAL

CONFIDENTIAL



This is, indeed, "a most unfortunate way of doing business". However you describe the Treasury's attitude, I shall continue to regard my announcement as the Government's position.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Peter Walker', with a large, stylized initial 'P'.

PETER WALKER

CONFIDENTIAL

NAT IND
Electricity

4 JAN 1985

9 2 3 # 1 2 3
8 7 6 5 4

CONFIDENTIAL



CCW

NBR

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
 LONDON
 SW1P 4QJ

20 December 1984

Dear Secretary of State

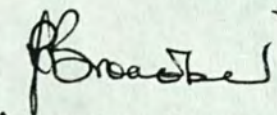
FINANCIAL TARGET FOR THE ELECTRICITY
 SUPPLY INDUSTRY

Thank you for your letter of 18 December.

In my letter of December 17 I made clear my reservations about announcing the financial target at present and I set out the further work that was needed before the performance aim could be announced. In an effort to be helpful I said that, on certain conditions, I would be prepared to see the target announced now.

You have felt unable to meet these conditions but, instead of discussing the matter with me, you have simply gone ahead and announced both the target and the aim. This is a most unfortunate way of doing business. I must make quite plain that, as you have proceeded without my agreement, the Treasury does not see itself as in any way committed to, or constrained by, the target and aim you have announced.

I am copying this letter to the Prime Minister.

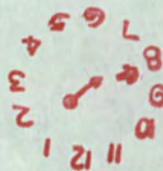
Yours sincerely

 for PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

NAT. IND PT 10

GASTBLEEDER



20 DEC 1984

SEND
2

01 211 6402

Pine Muntz

The Rt Hon Peter Rees QC MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
 London
 SW1P 3AG

19/12

18 December 1984

FINANCIAL TARGET FOR THE ELECTRICITY SUPPLY INDUSTRY

Thank you for your letter of 17 December about the electricity supply industry's financial target and performance aim. I have now confirmed to Philip Jones, before his Council meeting this week, the understandings I reached with him during the IFR.

As to any Scargill surcharge, I have made it clear publicly on many occasions that no decisions have yet been taken on meeting the costs of the strike and that we shall return to that subject when it ends. I have made the same point to Philip Jones and have done so again in informing him of the agreed financial target. I cannot however make a public statement to the effect that the esi target we are only just setting will be reviewed when the strike ends without being widely seen as implying that we have already decided to impose a Scargill surcharge. That would, in my judgement, be politically inept and damaging to the stance we have adopted on this issue for many months now. Moreover, it is very early to say that we must review a three year Financial Target to take account of strike costs which may not continue into 1985/86, and in doing so to leave the industry without any firm financial guidelines. In any event, it would be open to us to deal with extra costs and a surcharge raised to meet them as a separate matter outside the financial targets if we so decided.

As for the performance aim, I understand that my officials have already dealt with the queries raised by yours. I must tell you that Mr Jones, correctly regards the performance aim as part of the package I agreed with him and considers it to be a very demanding one. Of course, we must encourage nationalised industries to pursue improved efficiency



to the maximum possible extent. But I cannot demand a "best endeavours" element in a performance aim that I know is very demanding, as indeed is the whole financial framework I negotiated during the IFR. I am confident, however, that the management of the industry will, in practice, use their best endeavours to surpass the performance aim we are now setting.

My officials have already agreed to consider with yours and with the industry whether it is possible to devise performance aims in areas not covered by the existing one. I am sure that is the best way to proceed.

I am copying this letter to the Prime Minister.

A large, stylized handwritten signature in black ink. The signature is highly cursive and fluid, with a large loop on the left side and a smaller loop on the right side. The name 'Peter Walker' is written in a smaller, more legible script to the right of the main signature.

PETER WALKER

NAT IND : Gas price : A-10

TDA

12-19-84
19 DEC 1984

19 DEC 1984



NBM

C/O
17/12

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

17 December 1984

**FINANCIAL TARGET FOR THE ELECTRICITY
SUPPLY INDUSTRY**

Thank you for your letter of 12 December.

As you say, your officials have been over the proposed performance aim with mine. They have recently sent some further information and I understand my officials have raised some queries in this. Until these are resolved I will not be clear how the proposed aim does relate to the savings you agreed with Philip Jones.

Beyond that, I think we need to consider whether it is enough to set a performance aim that reflects only the level of efficiency assumed in the external financing limit and requirements which came out of our recent IFR discussions. The last performance aim for the electricity industry contained an element for efficiency over and above this level. The element was accepted by the industry on a "best endeavours" basis. The current aims for the Scottish Boards contain a similar element.

I see advantage in setting aims with this additional element of challenge in them. I am sure it is common ground between us that we should do everything to encourage these industries to pursue improved efficiency. I suggest our officials should discuss with the industry an appropriate size of such an element.

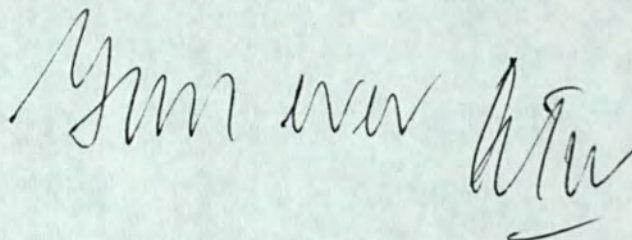
I think we also need to consider whether it is enough to have a performance aim restricted to part, but not all, of the industry's revenue costs. Efficiency does not end at this point. It also extends into the areas of capital expenditure and working capital. We need to consider additional performance aims in these areas. Again I suggest our officials discuss this and report back to us.

CONFIDENTIAL

As regards the financial target, as I explained in my letter of 14 November, I am concerned that an announcement at this stage could importantly restrict our freedom of manoeuvre in relation to the Scargill surcharge.

That said, I recognise the pressure on you at the moment. One possibility would be to separate the announcement of the financial target from that of the performance aim. If you were prepared to agree to the further work described above in the performance aim and in particular to the inclusion of a best endeavour element in the aim, I would be prepared to see the financial target announced now on the understanding that this is not seen by you as prejudicing a Scargill surcharge and that the terms of the announcement make it clear the target will be reviewed when the coal dispute is over. Our officials can discuss the terms of the announcement.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

CONFIDENTIAL

GAB & Elec NAT IND. P10.

14 DEC 1964
6 8 9 0 1 2 3 4 5 6 7 8 9 0

CONFIDENTIAL



cc/no

NSPM BT 12/12

01 211 6402

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

12 December 1984

R. G. W.

FINANCIAL TARGET FOR THE ELECTRICITY SUPPLY INDUSTRY

You know from my letters of 12 and 13 November that I must now confirm to Philip Jones the Financial Target for the electricity supply industry that I agreed with him, as part of a package, during the IFR.

Your letter of 14 November suggested that it was first necessary to settle the performance aim. My officials have now explained to yours how the performance aim falls naturally out of the agreement I reached with the Chairman of the Electricity Council.

The Electricity Council is meeting on 20 December, and must have confirmation of the Target by that date in order to be able to settle the financial objectives of individual Boards. I am therefore writing to Philip Jones to indicate the Government's agreement to the Financial Target of 2.75% average return on net assets over the next three years, coupled with a performance aim of reducing unit costs by 6.1% by the end of the financial year 1987/88. Simultaneously, I propose to announce the new Target and performance aim in a Written Parliamentary Answer.

I am copying this letter to the Prime Minister.

Peter Walker

PETER WALKER

CONFIDENTIAL

Not hd : Cor A10.

12 DEC 1944

