



SECRETARY OF STATE FOR ENERGY

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CONF
NBPM.

David Norgrove Esq
Private Secretary
10 Downing Street
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14 October 1985

New David,

ELECTRICITY AND GAS EFLs

Thank you for your letter of 4 October.

My Secretary of State has asked me to make sure that there is no misunderstanding on the forecast overshoot for the electricity industry. The £710 million which you quote does reflect, indeed is largely attributable to, the effects of the coal strike and the need to rebuild power station stocks before the winter. To this has unfortunately been added increased capital expenditure, largely by the CEGB on the Cross Channel link, which is now more than was reported in E(NI)(85)10. Mr Walker has gone into this personally with Lord Marshall, and stressed the Government's concern that the industry tighten its project control in order to minimise the risk of further cost escalation.

My Secretary of State fully shares the Prime Minister's view on the importance of financial discipline in the industry and the need to set a revised EFL as soon as possible. But the issues, both those arising from the strike and its aftermath (including further coal stocking through the winter) and those arising from the CEGB request for extra capital, have first had to be clarified.

On gas my Secretary of State is keeping a close watch on BGC's position. He believes that they will be able to recover a fair amount of the ground lost by the end of this financial year. In particular the forecast overshoot reflected an increase in gas costs because of a decline in the value of sterling at the turn of the year. Future monitoring reports should show an improvement because of more recent movements in oil prices and exchange rates.

Mr Walker will be coming forward shortly with his proposals for floating a strong viable company. These proposals will pay particular attention to the company's cash flow and the profit profile for the prospectus to which the Prime Minister's points are very germane.

I am copying this to Richard Broadbent in the Chief Secretary's Office.

G S DART
Private Secretary

*Yours,
Geoff 14/10*

NATIONAL GAS + ELECTRICITY



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