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CONFIDENTIAL

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From: J B UNWIN

13 May 1986

NOTE FOR THE RECORD

cc Sir R Armstrong
Mr Wiggins

Mr Morgrove - No 10

COAL AND ELECTRICITY PRICES

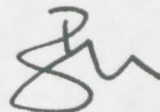
The Secretary of State for Energy was invited by E(A)86 12th Meeting to encourage the ESI and the NCB to negotiate an interim reduction in coal prices to reflect the fall in oil prices. Although no specific time period was set, Ministers had in mind an arrangement covering the summer months and the Energy Secretary himself talked in terms of a rebate of between £150 and £200 million.

2. According to Department of Energy senior officials, the present position (on which there have been recent press leaks) is as follows. The two Boards have drawn up an agreement, ad referendum to their Chairman, comprising specific arrangements to cover the next 12 months, and a longer term understanding. The Department do not yet know the details of the longer term arrangement; the deal for the next 12 months, however, is expected to add between £240 and £270 million to NCB costs, and to reduce electricity tariffs by 3% over the next 12 months. This reduction would initially be made through the Bulk Supply Tariff (BST) and would thus immediately benefit large industrial and commercial customers; it could then be expected to be passed on to domestic consumers when the next quarterly bills are presented.

3. The cost to the NCB is before taking account of savings by the NCB itself. I have reminded the Department that the Secretary of State was urged by E(A) to put the maximum pressure on the NCB to reduce their costs (particularly the capital investment programme) in 1986-87.

4. Department of Energy officials are about to discuss the proposed arrangements with the Treasury. At first glance, they appear to be within the broad scope approved by E(A), although the 12 month agreement is a good deal longer than E(A) or the Secretary of State himself had envisaged (I understand, however, that it contains appropriate escape clauses related to the price of Heavy Fuel Oil).

5. I have asked the Department of Energy to ensure that the Secretary of State reports the outcome of these discussions to the Prime Minister and other members of E(A) as soon as the full details are known and discussions with the Treasury have been completed. I have been assured that there is no question of any public announcement before collective Ministerial endorsement has been obtained.



J B UNWIN

