



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John MacGregor OBE MP
Chief Secretary
H M Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister²

15/9.

15 September 1986

REVISION OF ELECTRICITY AREA BOARD TARIFFS: 1 OCTOBER 1986

When the Electricity Supply Industry (England & Wales) (ESI) reduced the price of electricity from 1 July by 0.2p per unit (to take account of the agreement on coal prices), the Electricity Council announced that the industry would be reviewing the impact of lower fuel prices, lower inflation, higher sales growth and improved efficiency with a view to determining tariffs in the longer term.

Philip Jones has now informed me of the results of the review and of the ESI's intentions. All twelve Area Boards are able to consolidate the 0.2p per unit in their quarterly tariffs. (Monthly billed customers receive the reduction automatically through the fuel price adjustment clause.) Eight of the Boards are able to make further reductions, resulting in an average further reduction across all the Boards of 1.2% on quarterly tariffs and 0.5% on monthly tariffs. (The difference redresses further the imbalance which had arisen between monthly and quarterly tariffs and costs, mainly as a result of the over-estimation of fuel costs in recent years.) The average reduction over all tariff groups is 0.9%. As far as the longer term is concerned, the Area Boards will simply say that the tariff revisions will remain in force until further notice.

As your officials are aware, based on the results for the first quarter of the financial year, the ESI is currently forecasting a shortfall (after allowing for different assumptions about Sizewell B) of about £30m on the EFL of -£1416m, due mainly to Area Boards' requests for supplementary approval for capital expenditure. At this stage of the financial year the estimated shortfall is well within the range of uncertainty about the outcome. The EFL prospect does not therefore provide sufficient grounds for me to suggest to the Electricity Council that it should consider deferring the intended further price reduction; and I have no powers to oblige the industry to defer it. I shall however make clear, in replying to Sir Philip, the great importance which the Government attaches to the EFL being met.



The reduction is to be welcomed as a contribution to the reduction in general inflation and, in particular, to the reduction in industry's energy costs. There are presentational gains here for the Government. We shall be discussing the industry's financial prospects for the IFR period when we meet on 19 September. However it is clear that to urge the industry to defer this reduction would be counter-productive since it would result in even greater over-achievement of their financial target this year, thus compounding the problem for 1987/88.

I am copying this letter to the Prime minister and members of E(A) Committee.

A large, stylized handwritten signature in dark ink, consisting of a large loop and a trailing flourish.

PETER WALKER

