

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
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MILLBANK LONDON SW1P 4QJ

01 211 6402

A. Duguid

Prime Minister

Ms 2/12

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

30 November 1981

Dear Michael,

Thank you for your letter of 24 November about the electricity discount scheme. I enclose as requested by the Prime Minister a note on the progress made in devising a workable scheme.

My Secretary of State has discussed this scheme with the Secretary of State for Industry but because of the persistence of legal problems has asked for the Law Officers' advice. This is expected shortly; my Secretary of State will then report further to the Prime Minister.

He has noted the Prime Minister's disinclination to proceed with the proposal in the light of current public expenditure difficulties.

Copies of this go to recipients of your letter and to Gareth Roscoe at the Attorney General's office.

Yours ever,

JULIAN WEST
Private Secretary



ASSISTANCE TO INDUSTRIAL ELECTRICITY USERS

- 1 MISC56(81) 4th meeting agreed that the electricity supply industry (esi) be invited to operate a scheme of assistance, for one year only. The esi's EFLs would be relaxed by £80/90m. Ministers also asked that the scheme be shaped to give greater help to the larger users (eg ICI Runcorn) while still helping electric arc steelmakers (eg Sheerness Steel).

2. The Electricity Council accordingly devised a scheme providing increasing discounts with rising consumptions. Two basic options were offered; one covering some 1300 consumers and providing discounts averaging about 5% (but ranging up to 13% for ICI Runcorn) and the other covering some 200 of the largest consumers giving discounts averaging 10% (ranging up to 17% for ICI Runcorn). Both would cost about £80m on a UK basis. Department of Industry have advised that the scheme covering 200 larger users would be more consistent with the findings of the latest NEDC report. This confirms that price disparities with Europe are confined to large high load factor users.

- 3 But the Electricity Council also advised that Area Boards could only operate the scheme if the industry were fully compensated by the Government. The industry believe that the Electricity Consultative Councils (whose Chairmen are ex-officio Area Board members) could well challenge in the Courts any action which led to other consumers meeting extra costs. An £80/90M relaxation of EFLs would mean significant extra interest charges to be met by consumers generally. The industry made clear that relaxation of its EFL alone would not secure action.

- 4 Two alternative methods of financing the scheme by grant rather than by borrowing have accordingly been examined:
 - i) by direct grant - funded via the Appropriation Act procedure, and

 - ii) by indirect grant - to NCB for a supply of cheaper coal to the esi.The first has to be rejected as immediately contravening the state aid provisions of the Treaty of Rome. The second appears to be technically feasible, though legal problems remain.

- 5 The discounted coal scheme would operate roughly as follows:
- i) the NCB would [REDACTED] give £75m or so discount to CEGB through "aligning down" the price of the marginal tranche of coal to notional import prices. (This is permitted under the Treaty of Paris);
 - ii) Area Boards would operate the industry scheme, logging the rebates given to industrial consumers;
 - iii) CEGB would subsequently reimburse them in cash;
 - iv) Both industries would publicly justify this as a commercial action taken to preserve an important market for coal. The Government, recognising the effect of this commercial action on the NCB's finances, would increase its deficit grant (under S3 of the Coal Industry Act 1980) by £75m (plus such additional sum as might be needed to cover similar arrangements for Scotland and Northern Ireland);

6 This arrangement is not free from difficulties; the EC Commission might still challenge it (as they have challenged the Netherlands' cheap gas scheme for horticulture). The industry's legal advisers also take the view that hypothecation of the benefits of the cheaper coal to a limited number of industrial users would constitute "undue preference" under the electricity statutes. There is also a chance that the PAC might at some future stage claim, in relation to the use of NCB deficit grant, that this was "an unexpected use of the power". However, notwithstanding the legal uncertainties both the coal and electricity industries have indicated informally that they would be prepared to operate the scheme. The Law Officers' advice has been sought on these issues and is expected shortly.



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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

*You may wish to be
aware.*

MUS 4/12

27 November 1981

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

Dear Secretary of State

INDUSTRIAL ELECTRICITY PRICES

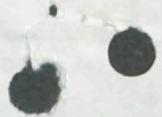
Now that the NEDO Task Force has up-dated its report and the general terms of its findings have become public, I have come under renewed pressure from a number of large electricity users in Scotland about the continuing disparities between their charges and those available elsewhere in the EEC. I think that you and Patrick Jenkin are due to make a further report to MISC56 on a possible scheme of assistance to such users. I appreciate the issues both legal and practical which this subject raises particularly as I have myself responsibilities both for electricity and for industry in Scotland. But I have become convinced as a result of the various representations I have received, that some important industrial sectors in this country will suffer severely if they are to be permanently disadvantaged in energy costs as against their European competitors. In my view that would be a very serious outcome and I hope therefore that we can have a further collective discussion on this difficult matter before long.

I am copying this letter to the other members of MISC 56.

yours sincerely

M Stewart. (Miss)

(Approved by the Secretary of
State and signed in his
absence.)



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10 DOWNING STREET

From the Private Secretary

24 November 1981

B/K

Electricity discount scheme

During a discussion between the Prime Minister, the Chancellor and the Chief Secretary yesterday evening about public expenditure, the Prime Minister enquired about the electricity discount scheme.

The Prime Minister would be grateful for a note about the progress that has been made in devising a workable scheme. Her immediate inclination is not to go ahead with this scheme in the current difficult public expenditure situation.

I am sending copies of this letter to John Kerr (H.M. Treasury), Ian Ellison (Department of Industry) and Muir Russell (Scottish Office).

M. G. SCHOLAR

J.D. West, Esq.,
Department of Energy

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