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CONFIDENTIAL

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(4)

Prime Minister

MES 31/3

01 211 6402

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

31 March 1982

Dear Chief Secretary,

THE ELECTRICITY SUPPLY INDUSTRY'S EFLS

I am writing to bring up to date the estimates of the industry's outturn against its 1981/82 and 1982/83 EFLs given in my letter of 10 March, and to respond to the particular points in your letter of 16 March.

The industry now estimate an outturn in 1981/82, taking all factors into account, of about -£180m to -£185m, which is £15-£20m better than their EFL. For 1982/83, the industry expect to achieve their EFL as fixed, on the assumption that the cost of accelerated coal delivery does not affect their finances (I am writing to you separately on this). Thus, the 1981/82 position is close to that indicated in my letter of 10 March and the 1982/83 position is unchanged.

Turning to the particular questions in your letter of 16 March:

- the effect on profitability and on cash flow of extra oil burnt in 1981/82 is estimated to be £21m. In addition, higher oil stocks at the end of the year will add £15m to costs;

- extra electricity bought in from Scotland has cost about £2m;

- the effect of the cold weather in December and January was partly offset by milder than normal weather at other times of the year. For the year as a whole, the industry estimate that the net effect of the weather was to improve profitability by about £15-£20m, taking into account slightly higher average fuel costs;

- the costs of the special oil measures taken in 1981/82 will all be met during this financial year;

- the industry expect, if normal schedules for payment are followed, to have paid for about 72½m tonnes of coal in 1981/82 as compared with a forecast of 75m tonnes. This would save about £100m, which would have to be made up in 1982/83. I should add that these payment figures do not correspond with delivery figures over the same period. It is expected that 74m tonnes of coal will actually be delivered in 1981/82; approximately half of the tonnage lost during the ASLEF dispute would then be recovered during March.

As I am sure you will recognise, it is not possible simply to sum these figures in order to arrive at the overall estimated outturn. A number of other factors have been taken into account, including the timing of payments by the industry to its suppliers.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Patrick Jenkin, David Howell, Norman Tebbit, Sir Robert Armstrong and Robin Ibbs.

Yours sincerely

J. S. Clarke

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

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CJV

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Prime Minister

MLS 18/3

Treasury Chambers, Parliament Street, SW1P 3AG

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

16 March 1982

D Nigel,

THE ELECTRICITY SUPPLY INDUSTRY'S EFLS

Thank you for your letter of 10 March.

While there must be a range of uncertainty attached to such figures, it is unsatisfactory that we have not yet received from the industry an assessment of the external financing that they would like us to agree to for this year and next taking full account of the effects of the ASLEF dispute and the increase in oilburn. On the basis of the figures they have provided so far it is impossible to discover, for example:

- the likely cash flow costs of the extra oil burnt;
- the costs of extra electricity bought in from Scotland as a result of the ASLEF dispute;
- the benefits to the industry's cash flow from higher electricity sales in the cold weather earlier this year;
- the extent to which the industry will be able to meet the bills for the extra oil in 1981-82, a point to which, as you know, I attach particular importance;
- the reduction in payments in 1981-82 to the NCB for coal as a result of the delay in deliveries caused by the ASLEF dispute, or the likely increase in 1982-83 as a result of catching up.

The sums involved are large and could have a marked effect on both the industry's external financing requirement and profitability.

I recognise that your Department has pressed the industry for the information. It would be surprising, and disturbing if their accounting system was incapable of producing at least a preliminary assessment of the financial effects of the other factors this late in the financial year. It is therefore difficult to escape the conclusion that the industry is deliberately refusing to let us have the information.

I should be interested to know whether you interpret the position in this way and would appreciate your views on how the information might be obtained from the industry. I am especially interested to know whether action has been taken to meet the costs of oil burn in the present financial year.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Patrick Jenkin, David Howell, Norman Tabbit, Sir Robert Armstrong and Robin Ibbs.

Leon

LEON BRITTAN

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CC JV

(2)

Prime Minister

01 211 6402

MCS 10/3

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

10 March 1982

MR

THE ELECTRICITY SUPPLY INDUSTRY'S 1981/82 AND 1982/83 EFL's

– Reference in Coal: PR 6.

Your letter of 1 March asked for revised figures on the Electricity Industry's finances.

? As you will recognise, the complex situation of interrupted coal deliveries, increased oil burn, a cold snap in December and January, but a mild February has made it even more difficult than usual to give a confident estimate of the Industry's expected outturn against its 1981/82 EFL of -£165m. Even now, there is a considerable range of uncertainty, related to the rate at which coal stocks can be built up and paid for, and the timing of payments for oil, in the remaining weeks of the year. That said, and subject to the qualifications indicated below, the Industry now estimate an outturn of -£225m for the current year, ie £60m better than the EFL as fixed. This estimate depends on:-

i) End year coal stocks of 14m tonnes and oil stocks of 1m tonnes (ie within the range the industry were forecasting at the end of 1981);

ii) Exclusion of net additional oil costs incurred during February and March. (I am writing to the Chancellor separately on this: it may be that the margin of £60m will be sufficient to cover these costs within the EFL, even if grant is not received until 1982/83);

iii) Total units required of 215 TWh (as compared with 212 estimated at the end of 1981).

Because of the interaction of coal stock levels and oil burn, a separate estimate of the effect of the ASLEF dispute on the industry's revenues would not be directly comparable with the effect of the dispute on the NCB's finances. However, my department is continuing to discuss with the industry the factors underlying the end-year estimate and my officials will pass on to yours further information as it becomes available.

So far as 1982/83 is concerned, the uncertainties are clearly greater. On the assumption that fuel stocks at 31 March 1983 are the same as at 31 March 1982 the industries expect to achieve the EFL as fixed, ie -£232m (-£319m, with a reduction of £87m in respect of the contracted consumer tariff arrangements agreed by Ministers).

I am sending copies of this letter to the recipients of yours of 1 March.

Yours ever
Nigel

NIGEL LAWSON