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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

ELECTRICITY INDUSTRY IN ENGLAND AND WALES; EXTERNAL

FINANCING LIMIT 1979/80

Memorandum by Secretary of State for Energy

1. The External Financing Limit (EFL) set for the electricity supply industry in England and Wales in June 1979 was -£68m. The present prospect is for a breach of this limit by £325m; the steel strike is costing the industry net revenue of at least £4m per week, so that if it continued for the rest of the financial year, the total breach could be of the order of £350m. The main factors contributing to the breach are;

- a) successful stock building, which we encouraged, of both coal and oil against the threat of a miners' strike;
- b) higher fuel prices than expected when the industry determined, in July 1979, its tariff increases for September 1979;
- c) lower sales due to the steel strike, milder than average weather and a lower general level of industrial activity;
- d) higher wage and salary settlements than expected when the EFL was fixed - settlements accepted by union negotiators were twice rejected by ballots of the workforce.

My minute of 19 February to the Prime Minister sets out the background.

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2. The prospective breach came too late in the year for there to be any significant room for manoeuvre either on capital programmes or on tariffs. I have however been assured by the industry that they expect to improve the EFL position by £25-£30m by speeding cash in transit arrangements at the end of the year. It is also likely that payments of £100m to fuel and other suppliers could be deferred into next year. £50m of these payments would be in respect of NCB coal, ie within the public sector.

3. Deferring payments into next year will exacerbate difficulties also threatening the industry's ability to live within next year's EFL of £187m. Hitherto, we have been assuming tariff increases of 17% in April and 5% in October. Now, we shall almost certainly need a higher tariff increase in the autumn. I am urgently examining the options. Further discussions with the industry and with the Treasury will be needed before I can make proposals to colleagues for 1980-81.

4. We do however need to fix now a new EFL for the industry for 1979-80, though the announcement will need careful handling in view of the steel strike.

5. I invite my colleagues to agree that, on the basis of deferment of payments of £100m, and savings of £25-£30m, there should be an increase in the electricity industry's EFL for this year of £200m. At the same time I would ask colleagues to note that a continuation of the steel strike could still prevent the industry from meeting this new limit.

D.A.R.H.

Department of Energy  
22 February 1980

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