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MS.

Qa 05176

To: MR LANKESTER

From: J R IBBS

Industrial Energy Pricing

1. In E(80)128 the Secretary of State for Energy seeks colleagues' approval to his encouraging the Electricity Council and Area Boards to show what flexibility they can in bringing prices down closer to short-run marginal costs on a provisional basis for large users in temporary difficulties.

2. The CPRS agrees that the plight of the large users of electricity does seem to demand special examination. For them electricity costs usually constitute a large proportion of their overall costs and they have been the most vociferous in their complaints about prices relative to international competition. At the same time viewed from the commercial interests of the electricity supply industry, it can ill-afford in present circumstances to lose income if large users disappear.

3. The CPRS does, however, have reservations about the selective assistance scheme for companies in difficulties proposed by Mr Howell both on the grounds of -

(i) principle - how does one defend giving temporary assistance to one particular consumer and not his competitor who may well be able to point to energy conservation investment, higher productivity, lower wage settlements or other efficiency gains as the reasons for his better performance. When there is in general spare capacity throughout industry it seems perverse to support the inefficient. There may be exceptional cases where Area Boards shade the terms in their own commercial interests, but it seems doubtful whether the Government should explicitly encourage it.

(ii) practicality - who is going to decide on whether a particular consumer deserves temporary assistance; officials or area boards and on what basis? Will not the withdrawal of assistance in due course itself cause difficulties?





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4. As an alternative, the CPRS suggests that the review of the Bulk Supply Tariff that is currently being undertaken be accelerated because to be useful in the present context a quick answer is needed. Consideration should then specifically be given to providing scope for some reduction in charge to all large users by offering a more flexible range of terms.

5. I am sending a copy of this minute to Sir Robert Armstrong.

4 November 1980