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✓ A. Walker

A. Douglas

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✓ Econ Pd. Pt 9.  
Monetary Policy

Prime Minister

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To note.

PRIME MINISTER

Ms 9/10

INDUSTRIAL ENERGY PRICES AND THE EXCHANGE RATE

Econ Pd. Pt 9.  
Domestic Monetary Policy

The minutes of Cabinet on 15 September (CC(81)31st Meeting) invited me to report on comparative costs of energy to industrial users in the UK in the light of recent exchange rate movements.

The NEDC task force report prepared earlier in the year by Government, CBI, TUC and fuel industry representatives found that fuel prices to the majority of UK industrial consumers were in line with those in Europe. There were, however, disparities for large consumers of gas (up to 20%) and for large, high load factor users of electricity (up to 35%). Since January sterling has depreciated about 10% against the Deutschmark and 7% against the French franc, most of this in the past few weeks. This helps energy price comparisons correspondingly. The attached table, which shows January electricity tariffs to large consumers at the January exchange rates and at current exchange rates, illustrates the improvement. Depreciation so far, however, has not fully offset the considerable strengthening of sterling against European currencies which took place during 1980 (20% or more) and which contributed significantly to the disparities.

The earlier NEDC comparison is now being updated. In addition to exchange rate movements, this new comparison will take account of price increases this year, both in other countries and (mitigated by the Budget concessions) in the UK. I cannot anticipate the outcome. But on the basis of available data and at present exchange rates, it seems likely that:-



-2-

- (a) the disparities for large, high load factor electricity consumers will have narrowed. These will not, however, have been eliminated at the highest load factors against Germany and could still reach 25% against France (where the growing nuclear power contribution is also a factor).
- (b) some disparities will also remain for large consumers of firm gas. Under the influence both of oil prices and higher prices for Dutch gas, prices in Europe have now generally moved up to the mid 20s in pence/therm. But average prices in the UK have also increased, within the renewal price ceilings set in the Budget, from about 22p/therm to 25p/therm for interruptible gas and 25p/therm to 29p/therm for firm gas.

Realignment of currencies in Europe may help comparisons further in relation to Germany and Holland. But the effects on sterling parities and fuel price comparisons with other European countries are less certain.

I am copying this minute to the members of Cabinet, Sir Robert Armstrong and Mr Ibbs.

SECRETARY OF STATE FOR ENERGY

8 October 1981

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ELECTRICITY TARIFFS FOR LARGE CONSUMERS APPLYING IN JANUARY 1981

Demand (Megawatts)	Load Factor (%) (1)	England & Wales (2)	pence per Kilowatt/hour			
			France		Germany	
			(3)		(4)	
			Jan exchange rates	Oct exchange rates	Jan exchange rates	Oct exchange rates
4	40	2.91	2.25	2.40	2.82	3.11
	60	2.75	2.04	2.17	2.31	2.55
	80	2.67	1.89	2.01	1.99	2.20
10	40	2.87	2.22	2.36	2.74	3.02
	60	2.72	2.03	2.16	2.26	2.50
	80	2.64	1.87	1.99	1.95	2.15
40	40	2.74	1.87	1.99	2.70	2.98
	60	2.60	1.73	1.84	2.23	2.46
	80	2.53	1.61	1.71	1.94	2.14

- (1) Actual consumption expressed as a percentage of what it would be if the consumer's maximum demand were sustained throughout the year.
- (2) Yorkshire and North Western electricity board tariffs.
- (3) Electricite de France "tarif vert".
- (4) Rheinisch-Westfälisches Elektrizitätswerk (RWE), the largest of the German utilities which serves the Ruhr. Tarif L 120.

source: Table 15 of NEDC Energy Task Force Report, February 1981.

exchange rates: DM 4.702 on 2 January and DM 4.26 on 1 October;  
FF.10.866 on 2 January and FF 10.2 on 1 October.