



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

ELECTRICITY PRICES AND LARGE INDUSTRIAL CONSUMERS

Peter Walker sent me a copy of his minute of 26 July. *with AT*

2. Treasury officials were not involved in the preparation of the paper which Peter circulated. They have a number of doubts about the material in that paper. In addition schemes of this sort can easily fall foul of the relevant nationalised industry legislation and it would have been helpful to have seen a view from the Law Officers.
3. My main concerns about the scheme are, however, more fundamental. In general our electricity prices compare favourably with those overseas, although a few of our largest high load factor users are probably at a disadvantage in relation to competitors in France and, sometimes, to those in Germany and Italy.
4. It is hard to see that any such disadvantage derives from the price of NCB coal. There is an open international market for coal and the current contract between the CEEB and the NCB was based on prices in that market. Any disadvantage derives from either lower non-coal costs of the foreign electricity industry (eg France with its high nuclear generation) or from the sale of electricity below cost ie subsidisation.
5. The paper circulated by Peter asserts that the NCB's long run marginal costs (LRMC) of production are £32 a tonne. Neither I nor my officials know of any evidence to sustain this. The NCB's current marginal costs are probably over £60 a tonne and will probably be some £50 a tonne even when the Board is breaking even.
6. In any case the NCB's costs do not determine the prices it receives for coal (which are set by the international market). The NCB's costs determine how much of its capacity can operate profitably, and how much should be closed down.

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7. This is, of course, exactly the principle over which we had to fight a long and expensive coal strike. Our success provides the NCB with a unique opportunity to bring its capacity quickly into line with profitable demand. As Peter's paper makes clear, the proposed scheme only makes sense for the NCB if there is difficulty bringing capacity into line with profitable demand. In my view it is quite contrary to our policy to plan on this basis. Retaining capacity which cannot meet demand profitably is exactly what the NUM sought to force us to do.

8. In the end this scheme is a form of selective subsidisation of industry. The main beneficiaries appear to be ICI and British Oxygen - two large companies with good profits. We should not spend £50 million a year subsidising companies of this sort and we certainly should not do so by means of a device which runs quite contrary to our policy towards the coal industry.

9. I am copying this minute to Peter Walker, George Younger, Nicholas Edwards, Norman Tebbit and Tom King and to Sir Robert Armstrong.

N.L.

N.L.

1 August 1985

17th Nov 1942

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Dear Sir,
I have the pleasure to acknowledge the receipt of your letter of the 11th inst. in relation to the above mentioned matter.
The information you have furnished is being considered and a reply will be sent to you as soon as possible.
Yours faithfully,
[Signature]

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P.M.E.F.



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