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PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor is now coming to see you at 1700 hours tomorrow. The main subject will be electricity prices - Mr. Walker's Cabinet paper is attached.

When I commissioned this paper I asked the Department of Energy to cover:

- (i) where the savings are coming from;
- (ii) whether the prices proposed are consistent with economic pricing;
- (iii) what the balance between industrial and domestic prices would be.

The paper provides some material on all three but it is pretty thin.

On (i), apart from an assurance that accountancy fiddles are not being used, all we have is the Electricity Council's word.

On (ii), the answer is vague but it is probably the case that economic pricing is not sufficiently precise to choose between a price rise of 0 and 3 per cent.

On (iii), the answer given is that industry will be worse than households in 1984/5, offsetting the converse in 1983/4 (not very convincing).

The Chancellor's attitude is likely to be that the savings are not well enough founded and that out of prudence, and in order to avoid the risk of a sharp rise later on, a small increase between 0 and 3 per cent should be sought. He may also feel that it would be damaging for the Electricity Council to be seen to out-face the Cabinet.

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At the last bilateral you suggested that the correct response was for coal prices to be raised. The Treasury have prepared a note which argues that coal is currently correctly priced in relation to imports. This means that the Coal Board is shown as making losses rather than having losses disguised through higher selling prices. I agree with the Treasury advice.

Other possible subjects:-

- (i) Exchange rate and interest rates.
Is the Chancellor concerned about recent developments?

- (ii) The Bank Court.
Is the Chancellor any nearer finding some one who will keep the Bank in line on monetary policy?

AS

13 December 1983