

NO

I have spoken to  
J. Kew  
PBB  
6.8.



Prime Minister

The Chancellor

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

would like domestic gas

26 July 1983

prices to go up

The Rt. Hon. Peter Walker MBE MP  
Secretary of State for Energy

*[Handwritten signature]*

A very unwise  
letter to have  
written -  
and even more  
unwise to  
have given  
industrial  
inflation  
5% not 4%  
MS 28/7

**BGC OCTOBER GAS PRICING PROPOSALS**

Your letter of 25 July - informing me that BGC would today be announcing an extension of the current freeze on industrial prices - reached my office at noon today. Although on this occasion I would not have wished to object to the specific proposal, I hope that more notice can be given on future occasions.

As you know, one way and another I have had occasion to study very carefully the vexed question of gas prices. I am satisfied that there is a strong case for an increase in gas prices in real terms. However, we are not able to come to a definitive view on this until the basis of the figuring has been completed. I understand your officials are currently working on this with BGC. I hope it can soon be settled, as decisions will be needed in the context of the IFR exercise.

While the figuring is being settled I think the neutral assumption to make for domestic gas prices is that they should be maintained in real terms. I assume this is what BGC are trying to achieve with their proposal for a 4 per cent increase from 1 October. While the 12 month rate of inflation is currently just below 4 per cent, this is partly the result of temporary factors. As the Government has made clear on a number of occasions some rise in the rate of inflation is expected in the autumn. From August onwards I would expect the 12 month rate to be around 5 per cent. This indicates that to hold domestic prices constant in real terms, you should be steering BGC towards 5 rather than 4 per cent.

As the increases in the industrial and domestic sectors will be interim ones while we review policy, it is important that no commitments should be given about how long the new prices will be held.

I am copying this to members of E(A) Committee and to Sir Robert Armstrong.

*[Handwritten signature]*  
Nigel

NIGEL LAWSON

Not End : Gas & Elect  
Priority P10



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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLSBANK LONDON SW1P 4QJ  
01-211 6402

Prime Minister

MUS 26/7

CONFIDENTIAL

Rt Hon Nigel Lawson Esq MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

25 July 1983

*N. Lawson*

BGC OCTOBER GAS PRICING PROPOSALS

British Gas will be announcing tomorrow, Tuesday 26, an extension of the current freeze on industrial contract prices for a further quarter, until the end of the year. This is obviously welcome news. They have not yet decided what, if any, increase to introduce in January.

On domestic prices, the Corporation are proposing an overall increase in the tariffs of 4% from 1 October. This will be loaded on to the commodity rate, which will rise by about 4½%, with the standing charge being frozen for a further year. These decisions will not be announced formally for some weeks, since the Corporation need to consult the National Gas Consumers Council. They are consistent with E(NI)'s decision last year that domestic gas prices should rise broadly in line with inflation following the large increases of the last three years.

I am copying this letter to the members of E(A) Committee and to Sir Robert Armstrong.

*see*

PETER WALKER

26 JUL 1953

