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10 DOWNING STREET

From the Private Secretary

12 November, 1984

The Prime Minister last discussed gas privatisation with your Secretary of State and the Chancellor in July. Since then it has, understandably, been difficult to make progress, given your Secretary of State's close involvement with the coal strike and the difficult negotiations with BGC over public expenditure. With the latter issue now settled, the Prime Minister would like to resume work on this issue. She would like to hold a meeting in about three weeks' time to discuss development of the ideas which emerged from the July meeting. Could your Secretary of State produce a paper by 30 November for discussion at a meeting in the following week?

I am sending a copy of this letter to David Peretz (HM Treasury) and to Helen Goodman (Financial Secretary's Office, HM Treasury).

(Andrew Turnbull)

M. Reidy, Esq.,
Department of Energy.

TMS.

E.P.

GR . PL type attached letter

PRIME MINISTER

GAS PRIVATISATION

At the last meeting of this subject in July Mr. Walker agreed to consider proposals for floating off all or part of BGC's upstream assets, and for operating retailing and servicing as joint ventures. This would leave the gas network within the public sector for the time being.

While Mr. Walker has been heavily engaged in the conduct of the coal dispute and while the public expenditure negotiations have been in progress, you have not sought to press him to carry this work further. With the public expenditure now settled and coal, for the time being, not generating such immediate pressures, the time now seems right to take this subject forward.

I believe Mr. Walker still hankers after selling BGC as a single monopoly, subject to regulation. He believes that the success of the BT floatation will prove his point. In this instance I think the Treasury is right in arguing for structural change before privatisation. The ideas sketched out in July represent a reasonable balance between selling as one entity and the Treasury's more radical proposals which would involve privatising the gas network as well.

Agree I send a letter along the lines of the attached draft?

Yes - you will recall that

I mentioned this in the PESC booklet.

mb.

Duty Clerk

PP. Andrew Turnbull
9 November 1984