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Andrew Turnbull Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

28 November 1984

Dear Andrew

Revised for
11/12 at 1630

GAS PRIVATISATION

Thank you for your letter of 12 November.

My Secretary of State is much concerned, for the reasons I give in the following paragraphs, that discussion of this matter and the range of the options discussed should not reach any wide circle in Government.

We have, in particular, to be very careful indeed to see that no references to further privatisations in gas or electricity reach the press or the trade unions while the coal strike continues. You will recall the fuss which NACODS has made about investments in British Telecom by the NCB Pension Fund. We do not want to stir up other energy unions just now, or to have John Lyons or Eric Hammond calling in to demand assurances about electricity privatisation. News of more gas privatisation could have that effect.

Second, there is the problem of Sleipner. My Secretary of State is clear that it would be very unwise politically to get into dispute with the gas industry on Sleipner and on partial privatisation of gas assets at the same time. The effect would be to rally the gas industry behind Sir Denis Rooke in total opposition, and to extinguish all co-operation on either subject. We hope the Sleipner issue - on which we are updating all the alternatives - will be resolved, one way or the other, in the near future; but whichever way its goes, it will be better to get it out of the way and gain as much public support as we can for the decision before locking horns with the BGC on partial privatisation.

It remains the view of my Secretary of State that the best, clearest and least contentious way forward would be to go for a radical change of ownership for the gas industry as a whole, on the lines of his earlier paper - proposals which have already been very carefully worked out. He still believes this offers the most for the Government (including the Exchequer) and for the industry; and that nothing that has yet emerged on British Telecom demonstrates the contrary.

However, it may help if I outline my Secretary of State's present thinking on the more limited options he undertook to explore.

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He regards action on the gas showrooms as a priority, whether or not the industry as a whole is privatised. He envisages a substantial advance towards a more competitive and consumer oriented market in gas appliances. Drawing in High Street retailers would ensure a more thoroughly commercial approach and release resources, at present locked up in the gas-dedicated outlets, for a more diverse range of retailing. Further work would be needed on the precise the way experienced High Street retailers were brought into the business, but the accent would be on increased involvement of the private sector, both as competitors and through joint ventures at existing sites. A suitable combination of joint venture and franchise arrangements could ensure that the present network of consumer enquiry and bill paying points continues. This whole approach would also be a substantive response to the 1980 report of the Monopolies and Mergers Commission on the showrooms.

On BGC's offshore gas assets, he hopes it may prove possible to evolve a similar joint venture approach. Most of BGC's offshore gas assets are already minority interests in joint ventures with oil companies, who would have pre-emption rights in the event of disposal. The wholly owned assets, Rough (a form of offshore gasometer) and Morecambe (a peak lopping supply), have a more limited appeal to the private sector.

Unlike oil disposals, disposals of producing gas interests would raise prices to gas consumers. BGC's resistance to disposals of gas assets would be bitter and tenacious. There is not the same scope for concentrating these gas assets in a single company for flotation as there was with BGC's oil assets because we would be forming a company with, effectively, a single customer - BGC. In practice, we would have to sell the gas assets individually to oil companies against the background of the existing pre-emption rights. This is not a particularly promising area for separate privatisation, either in terms of the trouble it would cause the Government or of the benefits to competition and consumer choice it would achieve. The Secretary of State believes that there is, nevertheless, a chance - once the Sleipner decision has been taken one way or the other - of persuading Sir Denis Rooke to co-operate in achieving a solution.

He expects to make good progress during this Parliament with BGC's remaining oil assets and has made this clear to the Corporation. He is now considering further how these remaining interests might best be handled.

We will make a further report on the options as soon as possible after the coal strike and the Sleipner decisions are out of the way. Meanwhile I hope the material in this letter will prove a sufficient basis for discussion. If some limited circulation of it is necessary, however, my Secretary of State hopes that the risks referred to in the second paragraph can be kept to an absolute minimum.

Copy no 2 of this letter goes to David Peretz in the Chancellor's office, and copy no 3 is retained here.

Yours sincerely
M F Reidy

M F REIDY
Private Secretary

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