



10 DOWNING STREET

Prime Minister

Mr Walker wants
your support against Mr Tebbit
et al. who fear a
privatised monopoly. He
thinks that if they have
their way in safeguarding it
with not be possible to
sell BGC successfully,

Mr Walker is seeing
Mr Rooke tomorrow morning.

The accusation that
the Govt. is privatising
a monopoly probably
carries more weight than
it did with BT, where
people could see strong
competition coming, even if
not for a few years. It

should be possible to
find a balance on B.G.C.

DLV

11/11

BGC PRIVATISATION - MEETING WITH PETER WALKER

The Government's critics will say that the interests of gas consumers are being subordinated to the objective of making BGC as attractive as possible to investors, thereby maximising the Government's proceeds. Peter Walker can point to the widely perceived success of the BT flotation. He will argue that the inherent disciplines of the private sector, enhanced by the proposed regulatory regime for BGC's gas distribution activities, should benefit the consumer without impairing the appeal to investors.

In the discussion you might like to probe the balance that is being struck between consumer and investor. Could it be said that the Government has been captured by Dennis Rooke?

Possible Questions

1. Deregulating the individually negotiated contracts with the larger commercial and industrial customers should create a real battleground for inter-fuel competition between gas, electricity, oil and, to a lesser extent, coal. More than any other feature of the regulatory regime this should bring external market forces into play.

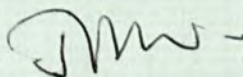
2. But are we satisfied with the protection for those industrial customers who are inflexibly committed to gas and are therefore vulnerable to BGC exploiting its monopoly position, particularly in the early years when BGC still enjoys a competitive edge over competing fuels in many parts of the market? You could press Peter Walker on the assurances being formulated by BGC. As we understand it, the expert gas regulator (OFGAS) with special knowledge and experience of the gas market is not intended to act as

gamekeeper in this area. Why not? Relying on the DGFT and normal competition law will be slower and less effective.

2. Liberalising the import and export of gas is widely regarded as the touchstone of the Government's commitment to the good Lawsonian view of energy policy - ie a framework which ensures that the market operates with the minimum of distortion and that energy is produced and consumed efficiently. Why fudge this because of presentational difficulties? In the long run the consumer will benefit and UK Ltd will secure the maximum return from our gas resources.

3. Our City advisers want to help the BGC launch on its way with a gas price increase next February of at least 5%. This is sensitive territory - increasing Mrs Jones' gas bill to boost the BGC state proceeds and thence reduce taxes. Peter Walker doesn't want to go as far as a 5% price increase, but can BGC contain costs sufficiently to present a healthy profit increase between 1985/6 and 1986/7?

4. The practical measures being devised to facilitate the entry of private sector gas producers into the industrial market begin to look promising. Can we be sure that BGC will deliver?



JOHN WYBREW