PRIME MINISTER 13 November 1985

BGC PRIVATISATION

This is no easy task. We need successfully to accomplish the world's largest equity flotation, to net £6-8 billion, to confer sustainable benefits on gas consumers and get nearer to the ideal of an undistorted energy market inducing efficient production and consumption.

Like Denis Rooke, BGC is more solid than glamorous. The utility activity of gas distribution accounts for 90% of revenue. The real cost of purchasing gas from the producers is on a steady upward trend. Gas is becoming more vulnerable to competition from other fuels. The growth potential is limited. Yet, it will be a long time before BGC's other business activities make a substantial contribution to profits.

A necessary but not sufficient condition for the success of the exercise is a well-judged set of balances - between consumer and investor; between a highly-regulated, boring utility and a business which offers an element of worthwhile reward for risk and enterprise; between a management which, on the one hand, has room to manoeuvre and be innovative yet, on the other, is not too powerful and potentially predatory. The essential further condition for the acceptability of the exercise lies in its presentation.

In the main, the package put forward by Peter Walker lives up to earlier promise. It has the makings, both of the well-struck balancing of objectives and a defensible presentation.

1. Does the package expose BGC wherever possible to competitive market forces?

So far, the package scores well on this count. Retaining the practice of individually-negotiated contracts with BGC's larger commercial and industrial customers will allow real scope for interfuel competition. This should permit the full interplay of market forces over an important part of BGC's business. Moreover, the practical measures devised to give private sector gas producers direct access to the industrial market, should at last make the common carrier provisions of the Oil and Gas Enterprise Act work. This will add the further stimulus of gas to gas competition.

BGC's monopsony purchasing power from gas producers will be weakened when producers have the opportunity to place their gas directly into the industrial market. Nonetheless, the freedom to export UKCS gas to the Continent remains a vital missing ingredient left for later consideration.

2. Does the regulatory régime strike the right balance between consumer and investor?

The mass of small consumers purchasing gas under regulated tariffs will be protected by a tightly-controlled ceiling on gas price increases. The detailed working of the RPI-X+Y formula has been carefully tested. It looks satisfactory.

Those industrial customers who are inflexibly committed to gas, have cause to fear that BGC will exploit its monopoly position, particularly in the early years when gas still enjoys a competitive edge over competing fuels in many parts of the market. There should be comfort in the undertaking that BGC will publish maximum contractual prices, that price increases for 3 years after privatisation will be subject to prescribed maxima, and that BGC is required to be even-handed in dealing with large industrial and commercial customers.

Giving the regulation of the tariff market to OFGAS and the industrial market to OFT is a shortcoming - if not in substance certainly in appearance. An OFGAS, thus limited, will appear more prone to capture by BGC. OFT will seem too cumbersome and remote to be effective. (The rationale is that OFT will have greater freedom to roam the entire energy market, acting as gamekeeper.)

Having regard to this presentational problem, there may yet be a case to reopen the question of establishing a stronger and more independent body (still small) of expertise and experience dedicated to regulating privatised utilities like telecommunications, gas, water and electricity.

The decision not to interpose a regulator in the negotiations between gas producers and BGC is sound. Gas producers will not welcome interference; far better give them alternative disposal opportunities by facilitating direct access to the industrial market and allowing the possibility of gas exports.

The Other Ingredients

Containing next February's gas price increase to 4% is presentationally shrewd; less scope for criticism of robbing the consumer to pay the Chancellor.

The proposal to gear BGC with £2.5 billion of debt should serve the dual purpose of maximising the Government's proceeds whilst putting a check on Denis Rooke's marauding instincts.

Conclusion

Given our multiple objectives, the package is satisfactory, albeit - perhaps ominously - still missing the liberalisation of gas imports and exports.

The division of regulatory responsibility between OFGAS and OFT should be challenged, particularly on presentational grounds. Why not establish a strong more capture-proof body (still small) dedicated to the related problems of regulating the whole family of privatised utilities?

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