

Energy

2



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

*cc Mr Hodgson
Mr Walker*

PRIME MINISTER

[Handwritten signature]

BNOG

Prime Minister

This came in too late for this morning's meeting. These points can be taken up bilaterally at official level.

David Howell sent me a copy of his minute to you of 8th November in which he outlined his thinking on the future of BNOG.

*TL
14/4*

2. First, can I say in answer to the point in the last paragraph of his covering minute, that we in the Treasury will give him every co-operation in carrying through and presenting to the public in the most effective way whatever plans we agree for the future of BNOG. Indeed, Treasury officials are already participating in the groups which David Howell has established to consider various aspects of his proposal.

3. I want to make only one comment on the ideas in his paper at this stage. One of the reasons why we agreed in September not to pursue the sale of BNOG assets in this financial year was that we were persuaded that asset disposal would not represent a good bargain for the Exchequer. Indeed, David Howell pointed out in his paper (E(79)36) that BNOG had emphasised to him that it regarded any disposal as a bad business decision, as it did not expect to realise values reflecting the very large cash inflows which would accrue to those assets in future years. He also presented figures to demonstrate that the valuation of certain of BNOG's fields was lower than the loss of cash flow from those fields in the PES period if those fields were sold.



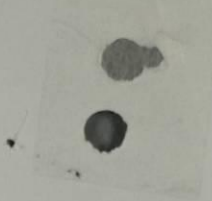
4. The figures in the annex to David Howell's draft paper setting out the PSBR consequences of various privatisation options, show a rather different picture with the possibility of substantial receipts in the short term which are not counter-balanced at least over the next 3 or 4 years by revenue foregone by the public sector (because the Exchequer no longer has the benefits of all BNOC's profits). These figures therefore suggest that the benefits to the Exchequer of introducing private sector participation into BNOC are greater than through the disposal of assets. This may indeed be the case, but before endorsing such a conclusion, I have asked my officials to discuss with the Department of Energy the precise basis of the estimates in Annex 1 of David Howell's paper. Meanwhile, I want to reserve judgement on the advantages to the PSBR of the course proposed in his paper.

5. I am sending a copy of this minute to David Howell.

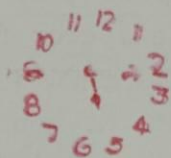
A handwritten signature in dark ink, appearing to be "G.H.", written in a cursive style.

(G.H.)

14 November, 1979



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COORDINATOR

101