

*cc Mr Wilson*

*A*



*Prime Minister*

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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

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CONFIDENTIAL  
Tim Lankester Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

*Have signed because  
had to have to  
revise.*

Dear Tim,

*Mr Howell has now submitted  
(Fly A)  
a revised draft to Eldon  
Griffiths, and hopes that you  
will be prepared to sign  
this without a meeting.*

*David Wilson has discussed all  
this with Mr Howell and his  
Officials and is impressed that  
they have got a grip of this  
project; it also seems that Eldon  
Griffiths is more interested in lobbying  
for the oil companies than in getting a  
good deal for industrial and  
domestic consumers.*

You mentioned on the telephone that the Prime Minister was not fully convinced by the draft reply to Eldon Griffiths', MP, letter of 30 October. A revised reply, approved by my Secretary of State is attached. Mr Griffiths does not question the composition of the Organising Group and approves of the guidelines my Secretary of State gave to the Group. It may nevertheless be helpful if I recall the considerations which Ministers had in mind when they approved the Secretary of State's proposals for the organisation of the gas gathering system.

*TL  
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The oil companies would have preferred full joint venture financing but this would have led to the pipeline being financed through tax reliefs to the detriment of the PSBR. Ministers therefore favoured the private utility pipeline company concept suggested by Mr Howell. They also agreed that it was desirable that BGC should have a significant stake (eventually agreed as 30% of the equity) in the company in order to ensure that the consumers' interests in keeping tariffs down were represented, to encourage the participation of the Norwegians, to keep up the momentum of the project and to influence the placing of orders for the construction of the line.

These arguments are just as valid today. If we were to change at this stage the structure of the Organising Group or of the proposed pipeline company, there would inevitably be delay. There would be no chance of achieving the 1984/85 completion date; we would as a consequence definitely lose Norwegian gas; and the price of gas to the consumer would rise through higher pipeline tariffs eventually. As it is, the oil companies realise that they have to bargain with BGC: that bargaining is proceeding; and the Organising Group is making useful progress and has recently advised Mr Howell that it still considers achievable the target completion date of 1984/85.

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The oil companies would, of course, like the highest price they can get for the gas. But, if this were conceded, it would be at the expense of both the industrial and domestic consumer in the UK. We could recover through taxation some of the profits of the international oil and gas companies. The tax system is, however, inevitably somewhat leaky and some of the profits which should accrue to the Exchequer would find their way overseas. Having BGC as the customer means that we get the gas ashore on terms which are fair and reasonable to both parties. And we can in turn ensure that



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any excess profits of BGC are channelled to the Exchequer.

Mr Griffiths in his letter suggests that the pipeline is being delayed because of the inability to obtain private finance and that the stumbling block is BGC's unwillingness to offer prices acceptable to North Sea producers. This is not so. Progress is being maintained through temporary financing arrangements between BP/Mobil/BGC and there are reasonable prospects, on the latest bank advice, of financing the early years of construction ahead of such contracts. In the meantime BGC has started contractual negotiations with one of the significant suppliers of gas to the pipeline, and we understand that these negotiations are going well.

Some of the points in this letter would, as you will appreciate, not be appropriate to include in the reply to Mr Griffiths. But I thought this background would be helpful in considering that reply. If there is any further information you need, please let me know.

*Yours ever,*

*J D West*

J D WEST  
Private Secretary



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DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:-

TYPE M

Eldon Griffiths Esq MP  
House of Commons  
LONDON  
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GAS GATHERING LINE

Thank you for your letter of 30 October and its attached paper on the gas gathering line.

I agree with you on the importance of this project and the need to avoid delay.

In your note you suggest that the gas gathering line is being delayed because private finance will not be provided <sup>until</sup> ~~until~~ there are firm gas purchase contracts in place, and that this will not happen until BGC offer producers a higher price for their gas in the light of world prices. I do not believe that this is so, and I hope that what I say below will reassure you that good progress is in fact being made.

It is understandable that the oil companies should press for higher gas prices and they have indeed been lobbying for this in different parts of the world. But their case is far from substantiated. The viability of the gas gathering line is based on known reserves of gas already explored. The full position is made clear in the BGC/Mobil report. You suggest that the oil companies are arguing for world parity pricing for gas (although some argue further for oil-parity pricing which is demonstrably against the interests of consumer nations). There is in fact no world gas market despite the claims of the oil companies because gas (unlike oil) is not so readily switched between markets, and where it is (in relatively small quantities, as for liquefied natural gas) the netback to the producer can be far lower than BGC is offering for gas ~~for~~ the pipeline. Indeed, even on the basis of comparing gas sales to fixed destinations, such as the Canadian/Mexican sales to the USA, BGC's current price

/offers...



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offers are pretty comparable. ~~It is hard to see why a purchaser should deal other than in the particular market place for purchase of gas if it is to serve the interests of its consumers best. The alternative is inevitably higher gas prices than would otherwise be the case both for industry and for domestic consumers.~~ BGC have never expected that gas purchase contracts, which are complex documents, could be tied up for all or even most of the fields to be connected to the pipeline (many of which have not even got development approval) before substantial finance for the pipeline is needed, though currently they are in serious discussions on gas to become available for the line. <sup>b.r.</sup> I can assure you that, far from not meeting costs, the producers of gas from the central and northern sectors of the North Sea stand to make substantial profits, ~~for what in the absence of a gas gathering line would in many cases have been gas flared in the course of oil production. The new gas line will therefore be of great benefit to both producers and the nation.~~

*in advance of time* The absence of gas throughput contracts is not delaying progress on the line. A recent Interim Report from the Organising Group showed that <sup>being set up</sup> ahead of the pipeline company momentum is being maintained through a joint venture agreed and financed between BGC, Mobil and BP. On the offshore work BP, who are in the lead there, are well into the pre-engineering phase, and expect the conceptual design largely to be completed by early next year. Work on preparation of tenders, on survey and on permit acquisition would then get under way. <sup>As for</sup> On the onshore work, BGC have let a conceptual design study contract for the St Fergus terminal and have work well advanced on the other onshore facilities. Land has been purchased and important planning permissions obtained. Overall, the Organising Group consider that a completion date of 1984/5 is still achievable, and they are working to that end.

As far as the purchase of Norwegian Statfjord gas is concerned, the Norwegian time-table has long been set <sup>as the basis for</sup> at a final decision <sup>will</sup> to be taken next Spring. <sup>later</sup> Meantime, the Norwegians are understandably doing their best to promote a competitive market for their gas, and have gone to great lengths to promote competition between BGC, <sup>the and</sup> the Continent, <sup>foreign purchasers</sup> and others, as well as considering plans to land the gas.



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in Norway. <sup>a</sup> There is a good deal of politics as well as economics in the Norwegian position - <sup>coming up</sup> With their General Election next year, Nevertheless, BGC have made what the Norwegians themselves acknowledge as a sensible offer, and if it is turned down it will not be for want of trying on our part. BGC, Department of Energy Ministers, and the Foreign Office (including <sup>the</sup> Embassy in Oslo) have all paid detailed and continuous attention to the negotiations, with the aim of obtaining Statfjord gas for the new gas gathering line if at all possible. It would, of course, improve the economics of the gas line to obtain the Norwegian gas, but in its absence the line will still be a fully profitable venture as is made quite clear in the BGC/Mobil report.

On organisation and finance, I have already mentioned the current joint venture between the three partners that is carrying things forward for the time being. For the next stage, the Organising Group consider that an interim pipeline company should be formed until adequate gas throughput contracts are in place, and they are working on the structure and financing of that company. This company could be financed by equity, loans, and loan assurances from prospective users of the line and purchasers of gas and NGL. There now appear to be reasonable prospects, on banking advice, of raising funds for at least the first two or three years of construction ahead of the firm purchase/sales agreements which your information had suggested was a prerequisite of financing. As far as revision of the original cost estimates is concerned, we shall not be in a position to judge matters further until BP and BGC have produced new estimates based on the detailed engineering designs.

In summary, significant progress has been made to date and the picture is far more promising than you may have been led to believe. The Organising Group are well aware of the need for the project to be completed speedily and successfully and, given the experience and standing of the people and the organisations involved, I believe that we can be <sup>reasonably</sup> confident about the final outcome. ~~provided that all concerned, including Government and the oil companies, lend their full support to making a success of the project to the time table.~~