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Ref. A05351

PRIME MINISTER

British Gas Corporation's Monopoly

(E(81) 80)

In E(81) 80 the Secretary of State for Energy sought policy approval of measures, for inclusion in the proposed Gas (Industrial and Commercial Supplies) Bill, to reduce the British Gas Corporation's (BGC's) control over the supply of gas.

2. He has now, in his letter of 27th July to the Chancellor of the Duchy of Lancaster, offered to withdraw these measures in order to reduce the pressure on the 1981-82 legislative programme; instead he wants to publish a White Paper indicating the Government's intention to legislate in the 1982-83 Session and to invite public discussion on the best way forward. He still wants to go ahead with the legislation to give effect to the decision that BGC should cease their retailing activities and dispose of their showrooms.

3. If this is accepted - either in correspondence or in Cabinet's discussion of the legislative programme on Thursday - it will not be necessary for E to discuss E(81) 80 on Friday (when there is already a heavy agenda). The Secretary of State for Energy could put forward further proposals and his draft White Paper after the Recess; in the meantime, any Ministers who had points of substance on the proposed approach could write to him.

4. If on the other hand it were decided to press ahead with the legislation in 1981-82 for policy reasons, you might draw on the following brief in discussion in E.

BACKGROUND

5. BGC has an almost complete statutory monopoly over the purchase, distribution and sale of gas in the United Kingdom (including the purchase of off-shore gas). The Secretary of State for Energy argues that BGC's monopsony discourages the exploration and development of offshore gas, gas manufacture and the import of liquefied natural gas; and that its monopoly has allowed it to subsidise domestic gas supply at the cost of industry. He believes that the Corporation has also been freed from the need to increase its internal efficiency.

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6. The Secretary of State for Energy proposes that:
 - (a) BGC should no longer have first option on the purchase of gas found onshore or offshore or its supply for industrial fuel purposes (the basis of its monopsony and monopoly).
 - (b) BGC should be required not unreasonably to refuse to transmit private sector gas through its pipelines.
 - (c) The Secretary of State should be empowered to regulate disputes about BGC's carriage of private sector gas - as a first step towards setting up a separate regulatory agency.

BGC's monopoly of supply to domestic consumers would be preserved.

HANDLING

7. After the Secretary of State for Energy has introduced his paper the Committee will wish to hear the views of the Chancellor of the Exchequer and of the Minister of State in the Foreign and Commonwealth Office (Mr. Ridley) on the European Community implications.

8. You might then focus the discussion on the following questions, some only touched upon in the paper.

- (a) How do the proposals in E(81) 80 fit in with and affect decisions on the Gas Gathering Pipeline (GGP), which will be discussed at a meeting you are to chair on 3rd August, and on depletion policy, on which the Secretary of State for Energy is to put proposals to colleagues in the autumn? You will want to avoid a full-scale discussion of either of these questions; but to establish whether the Secretary of State's present proposals close any options on the GGP or depletion.
- (b) What are the European Community implications of what is proposed? Paragraph 7(b) of E(81) 80 suggests that removing BGC's monopoly and monopsony might lead to challenges to the statutory requirement that gas from the United Kingdom continental shelf be landed in the United Kingdom. If so, could the landing requirement be defended as compatible with Community obligations? If not, would it be necessary to permit the export of gas; and could that be in any respect undesirable?

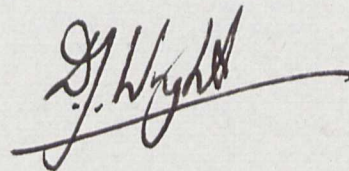
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- (c) What are the implications of the Secretary of State's proposals for domestic gas prices? Paragraph 7(b) of E(81) 80 refers to resource gains from the Secretary of State's proposals. It appears that these might arise as a result of BGC's being constrained by lower margins on industrial gas supply and higher offshore gas prices in general to raise domestic gas prices more than would otherwise have been the case.
- (d) Is it necessary to retain BGC's monopoly over domestic supply? The Secretary of State adduces economies of scale and considerations of safety and security of supply as the reasons: but do not the same considerations apply as much to non-domestic use, where he proposes that the monopoly should be abolished?
- (e) Is the Secretary of State's reference to the need for at least eight to ten additional staff to regulate BGC's common carrier functions (paragraph 8 of E(81) 80) a request for a relaxation in the Department of Energy's manpower ceilings? If so, do colleagues agree?

CONCLUSIONS

9. You will want to record conclusions on whether the Committee is content that the Secretary of State for Energy should proceed with the Gas (Industrial and Commercial Supplies) Bill on the basis he proposes in E(81) 80 and on any points of substance arising from discussion of the questions in paragraph 8 above. If there is general agreement but particular points of difficulty still have to be resolved, you will want to invite the Ministers concerned to pursue them outside the Committee.

28th July, 1981



ROBERT ARMSTRONG

*(Approved by Sir R. Armstrong
and signed on his behalf)*

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Rt Hon Francis Pym MC MP
Chancellor of the Duchy of Lancaster
and Paymaster General
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27 July 1981

Dear Francis

GAS LEGISLATION: SESSION 1981/82

It might be helpful if I set out the background to the suggestion I made about gas legislation at our meeting this morning.

Colleagues have agreed that it is desirable to break the monopoly of British Gas over the purchase, transmission and sale of gas in the UK. This would result in greater competition, encourage more exploration and hence availability of gas supplies. As a result the pressures on BGC to improve its efficiency would be increased. If, however, we are to reap the full benefits of this change, we need also to ensure that BGC's transmission system is open to the private sector.

I am in a position to bring forward in the next session a Bill aimed at breaking BGC's monopsony/monopoly position. A number of complex issues are involved, including:

- (a) Whether the breaking of the monopsony/monopoly should be confined to industry or extended to large commercial and local authority users. Difficult problems of definition are involved.
- (b) Whether BGC's existing statutory duties need to be modified.
- (c) The extent of the regulations or the regulatory agency that will be necessary to ensure that BGC do not frustrate the new arrangements by impeding access to their transmission system.

While I have formed a view on these points, I have also taken account of the pressures on the legislative programme. Rather than attempt to proceed next Session with far reaching legislation, I propose that we publish a White Paper which would indicate our intention of legislating in the 1982/83 Session to end the present position, but inviting an informed public discussion of the best way of proceeding.

This would ease the pressures on the legislative programme for the next Session. We have announced our intention that BGC should cease retailing and dispose of their showrooms and it is clear from advice I have received that legislation to effect this change will be necessary. Colleagues will wish to follow up our statement on showrooms with the necessary legislation as soon as possible. This can be ready by February 1982.

I believe that proceeding in this way, with legislation on showrooms and a White Paper on the monopoly/monopsony, would commend itself to our supporters. We would be showing determination to cut down the size of British Gas by adding the disposal of showrooms to the step we have already taken in requiring the Corporation to sell Wytch Farm. And the publication of a White Paper would demonstrate our intent to make more fundamental changes in the Corporation's future role.

I am copying this letter to Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

D A R HOWELL

Howell
David