



ce JH

Prime Minister

(2)

CABINET OFFICE

Central Policy Review Staff

MUS 12/3

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

CONFIDENTIAL

Qa 05856

10 March 1982

Dear Secretary of State

Northern Ireland Electricity Service

will request of neg.

I have seen your letter of 23 February 1982, in which you argue for a comprehensive and authoritative efficiency audit of NIES as soon as possible, for which you feel MMC would be better suited than a firm of private management consultants such as Maynard and Barry. I have also seen the correspondence that followed your letter, and I understand that, although a reference could not be included in 1982, NIES will be considered for the 1983 MMC programme.

It was of course at your suggestion that CPRS and Treasury officials made contact with Maynard and Barry last year. We were impressed by their presentation and are of the opinion that there would be considerable merit in trying out this kind of approach to efficiency audits to compliment the MMC.

The proposed efficiency studies of the two Scottish Electricity Boards were good candidates for the type of approach advocated by Maynard and Barry. I understand, however, that three management consultancy firms have been invited to tender for each of the two Scottish Boards studies, but Maynard and Barry were not among them. These studies will not therefore provide an opportunity of seeing what Maynard and Barry can do and how useful their experience of efficiency auditing of electricity utilities in the US might be.

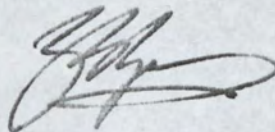
The Rt Hon James Prior MP
Northern Ireland Office
Gt George Street
SW1

CONFIDENTIAL

If, because an early reference of NIES to the MMC has not proved possible, you reconsider the idea of a management consultancy study, I think there would be a good case for including Maynard and Barry among the firms you invite to tender for the study.

I am sending copies of this letter to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

Yours sincerely



PP. J R Ibbs

*(Approved by Mr. Ibbs but
signed in his absence).*



With the Compliments of

ROBIN IBBS

**CENTRAL POLICY REVIEW
STAFF**

Cabinet Office
Whitehall London
SW1A 2AS

Telephone or **233** 8589

Not of
Policy



Prime Minister (2) ~~PC SV~~

ms 9/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

8 March 1982

George

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

Thank you for your letter of 26 February with which you put forward draft objectives for the Scottish Electricity Boards. You say that you want to be in a position to set at least some objectives before the new Chairman for the SSEB is appointed at the beginning of April.

The draft objectives proposed are written in very general terms and they raise many of the difficulties which Robin Ibbs identified in his letter of 22 January to Nigel Lawson about objectives for his industries. I can well understand why they have had to be written in these terms. As Robin Ibbs commented, the objectives should be clear statements of what Ministers require from each industry and this will entail some fundamental thinking about the direction in which we wish each industry to develop. This thinking has still to be largely carried out and it is doubtful whether it is worth agreeing objectives, which in some cases are not much more than a restatement of statutory objectives, before it has.

You will have seen from Nigel Lawson's minute of 3 March to the Prime Minister that he does not envisage early progress on objectives for the CEGB and that they are unlikely to be completed before that Board's new Chairman is appointed. This is a pity, but I accept that it would be a mistake to agree objectives which had not been properly prepared. I am therefore forced to the conclusion that we ought not to try objectives before the new Chairman is appointed at the end of this month.

Could I therefore suggest that further thought should be given to the Scottish Boards' objectives so that we can be certain that they are right? It may prove in the end that

the objectives which you propose are the best that can be agreed. But before coming to this conclusion we ought, as Robin Ibbs suggested in his letter of 22 January, do some fundamental thinking about the direction in which we wish the two Scottish Boards to develop. This will, of course, need to take into account Department of Energy thinking about the English industry, and vice versa.

Even though we are not yet in a position to set formal objectives, we would be missing an opportunity if we let the appointment of the new Chairman slip without giving him an indication of some of the important subjects which the Government thinks he should give his attention to in the early period of his chairmanship. I would like to suggest three matters which he ought to be asked to consider. They are:

i) Excess Capacity: I know that the Boards have already given some consideration to the measures for dealing with the over 70 per cent excess plant capacity on the Scottish electricity system. There are certainly difficult judgements here: which is better - to scrap plant now or to mothball it with the prospect of bringing it on service later on when demand recovers? Is it worth keeping expensive oil-fired plant on the system for the sort of eventuality to which you refer in the fourth paragraph of your letter?

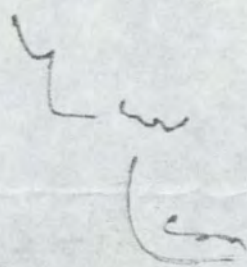
Even though the Board has considered these questions I think that it would be reasonable to expect the new Chairman to call for a new examination of a subject which is fundamental to his Board's operation. This is not to suggest that there should be a requirement in the Board's objectives, when they are agreed, to reduce excess capacity. That is something that has still to be decided. All I suggest is that the Chairman should be asked to give this subject his special attention and to let you know the outcome. This would be no more than an elaboration of your Department's normal contacts with the Board which you suggest is the way for dealing with this matter.

ii) Control of Costs: you might stress to the Chairman the great importance which the Government attaches to efficiency in the nationalised industries. This will no doubt not be news to him, but his appointment provides us with a useful opportunity to intensify pressure on the industry for increased efficiency. I therefore suggest that you should ask him to let you have a note of his plans for cutting the industry's costs. He might reply that his report should await the outcome of the current management consultants' study into the efficiency of the industry. This would be reasonable, though any action which could be taken before their report was ready obviously should be taken.

iii) Privatisation: you say in your letter that we are not yet in a position to include in the objectives an explanation of how we would wish our general policies of privatisation and the introduction of private capital to be applied in the case of the Scottish Boards. I agree; further thinking needs to be carried out here first. But this ought not to prevent us from asking the new Chairman to consider the possibility of introducing greater competition and private capital into his industry's operation. He may respond unhelpfully. But it surely is worth warning the new Chairman that we are actively contemplating such ideas and would like his views.

I do not think this approach should cause difficulties with the new Chairman and I think it would be well worth putting these points to him on his appointment.

I am sending a copy of this letter to Members of E(NI), to Sir Robert Armstrong and Mr Ibbs.



LEON BRITTAN

-9 MAR 1982

11 12 1 2 3
4 5
6 7 8 9





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

26 February 1982

Dear Chancellor,

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

I indicated in a separate letter today about the Scottish Transport Group that I would put forward draft objectives for the Scottish Electricity Boards. These are now attached. They are drawn up largely as a common list because the Boards plan their generation activities jointly and any objectives which have a bearing on generation planning therefore need to be common to the two Boards.

I have naturally taken into account the draft objectives proposed by Nigel Lawson for the electricity supply industry (ESI) and the comments which you and Robin Ibbs made on them. The circumstances of the Scottish Boards are different in some respects; the structure of the industry in Scotland is not a live issue and no major new power stations are likely to be started within the next five years at least. I have not therefore attempted to follow closely the proposals for the ESI. There are a number of issues which I have decided against including in the draft, and I discuss these briefly below. I think it would be necessary, if reference were to be made to some of these matters, for them to be referred to in the ESI objectives as well.

Ideally the objectives should explain how we wish our general policies of privatisation and the introduction of private capital to be applied in the case of the Boards. I do not think we are yet in a position to do this; it is not easy to see ways in which a greater degree of competition can be introduced into the Boards' operations and we have not collectively reached any views on how the monopoly energy industries should be treated. One approach would be to require the chairmen to consider the question and put proposals to us, but I doubt whether that would be very fruitful until we have a clearer idea of how we wish the Boards to develop.

Another possibility would be to require the Boards to dispose of their retailing and contracting operations, but we should I think consider this option in more detail before we tackle the Boards on it. The introduction of private capital raise the same issues for the Boards as it does for the ESI, and any moves that I make will have to be in step with Nigel Lawson if they are to have any prospect of acceptance by the Boards.

One of the major problems facing the Scottish Boards is their excess of generating capacity, and there is a case for including in their objectives a requirement to deal with this. The Boards are well aware of our concern about it, and Alex Fletcher discussed it with SSEB when he met the full Board in January. But difficult judgements are involved in decisions to close power stations before the end of their useful life, and there are circumstances in which we could find apparently surplus capacity extremely valuable. I would therefore prefer to deal with this issue through our normal contacts with the Boards rather than by setting an explicit and specific objective.

As the construction of Torness proceeds I shall want SSEB to continue to play an important part in explaining and defending our nuclear power policies in Scotland, and I see good arguments for including the promotion of nuclear power and the nuclear construction industry in its objectives. I could not do so unless Nigel Lawson were setting a similar objective for the ESI, but I suggest that this possibility should be explored further.

As you will have seen I hope to appoint a new Chairman for SSEB to take effect at the beginning of April, and I shall have to be in a position to set at least some objectives for the Scottish Boards before then.

I am copying this letter to members of E(NI) to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

J.S. Wilson

Approved by the Secretary of State
and signed in his absence

DRAFT OBJECTIVES FOR SCOTTISH ELECTRICITY BOARDS

1. The Boards' primary objective is:

In accordance with their statutory obligations, to supply electricity to meet the requirements of consumers in Scotland as efficiently and economically as possible, subject to ensuring the maintenance of a satisfactory standard of service and to earning an adequate return as defined by the financial target to be set by the Secretary of State, on the resources employed.

2. In pursuing this primary objective, the Boards should endeavour:-

(a) to operate generally within the financial regime agreed with the Secretary of State and the Treasury, and to contain their external financing requirements within limits set annually by the Secretary of State.

(b) to use existing assets in the most efficient and economic way, and meet any performance aims agreed with the Secretary of State to this end.

(c) to carry out efficiently a programme of investment agreed from time to time with the Secretary of State, which is directed at meeting consumers' requirements in the most economic way, is justified by reference to techniques of appraisal agreed with the Scottish Economic Planning Department and the Treasury and yields the required rate of return determined by the Government.

(d) to encourage the conservation of energy and the development of renewable sources of electricity

(e) to take account of the scope for economic interchange of power with CEGB and other power station operators

(f) to operate procurement policies consistent with these objectives along guidelines agreed with the Secretary of State with due regard to the long-term interests of UK suppliers, and in particular their international competitiveness.

(g) to take due account of environmental considerations in the planning and operation of the supply system.

3. South of Scotland Electricity Board

To commission Torness on time and within budget

4. North of Scotland Hydro-Electric Board

To take all practicable steps to reduce the costs of generation in the diesel areas.



26 FEB 1982