



CUBB  
NSpm

Treasury Chambers, Parliament Street, SW1P 3AG  
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31 October 1986

The Rt Hon Peter Walker MBE MP  
Secretary of State for Energy

A handwritten signature in dark ink, appearing to read 'Peter Walker'.

**CONTRACT ENERGY MANAGEMENT**

Thank you for your letter of 15 October.

I do not accept the representation of the Treasury's attitude to contract energy management schemes in your letter or in the attached paper. Our policies put considerable emphasis on enlarging the area over which a competitive private sector can operate and a substantial shift in the private/public sector boundary has been secured. Artificial barriers have not been put in the way of contract energy management schemes; and the fact that these schemes have many of the characteristics of financial leases has not determined Treasury attitudes to them.

The Treasury's approach has been:

- (i) to encourage public sector bodies to secure the value for money savings that CEM schemes can bring; but
- (ii) to discourage them from using these schemes solely as a device for releasing public expenditure provision so that other public spending can be increased.

CEM schemes comprise two elements: energy management services and the provision of finance. The benefits to the public sector lie in the former; whereas, as your officials recognise in their paper, the finance will be more expensive, by comparison with the public sector financing the capital expenditure involved. It would generally be more beneficial if the companies involved were prepared to split the contracts accordingly; access to the full management benefits would still be available. My officials have put this proposition to Emstar who have acknowledged the point.

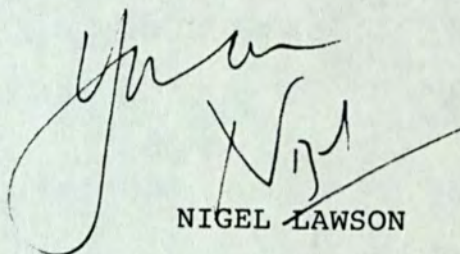
I share your view that there are potentially substantial gains to be made from using private sector expertise in energy efficiency.

ENERGY  
CONSERVATION  
PT 2



It may well be possible to develop guidance for public sector bodies aimed at securing the benefits of CEM while safeguarding public expenditure control. This guidance will need to relate to the characteristics of contracts, and the circumstances in which the public sector bodies are likely to find them most attractive. It is by no means clear from your officials' paper that the Treasury's approach has been the primary factor inhibiting public authorities from taking fuller advantage of private sector expertise in this area. The paper suggests that a number of other factors have been involved. The guidance could also be aimed to cover these, as appropriate. I suggest that our officials meet to take this forward.

I am copying this letter to the recipients of yours.

  
NIGEL LAWSON

ENERGY: Conservation: Part 2

