

CG/BC

010

CONFIDENTIAL



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon John MacGregor MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON

NBmi

6 August 1986

D. T.

PRIVATE SECTOR GENERATION OF ELECTRICITY

WILL REQUEST IF REQUIRED

Thank you for your letter of 3 June and for your support for my proposals for negotiations with the private sector on this matter. I have also seen Paul Channon's letter of 17 June.

You may be assured that I regard a publicly financed project as an equal contender with the private consortia and I look forward to receiving the NIES proposal later this year. I know that the consortia - now reduced to two by the decision of GEC to join Bechtel in the group headed by Antrim Power Co Ltd - also recognise the competition provided by NIES. I believe that your concern on this matter arose from the references in my letter of 7 May to the difficulties which might be encountered in funding expenditure deemed to be public expenditure and in this respect I note the invitation in your letter to raise the issue with you should the expenditure fall to be classified as PE for whatever reason.

As regards your references to the need to maximise the efficiency gains achievable from a conventional public sector proposal, I have already stated in my letter of 2 May that I expect the NIES proposal to be based on indicative quotations rather than its own estimates. My officials will be scrutinising the proposal to ensure that it is indeed the minimum cost for the provision of a public sector station although it will also be necessary to assess the risks of cost overrun and delays in construction in a public sector project. In seeking these quotations, the NIES is, of course, free to approach companies within the consortia should it consider this appropriate.

CONFIDENTIAL

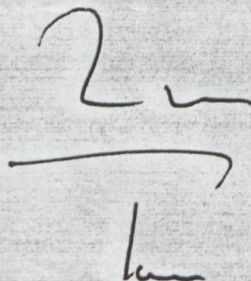
CONFIDENTIAL

You go on to mention private sector management of construction of a public sector project and Paul Channon has taken this further by proposing privatisation of designs as well. I recognise that the involvement of the private sector in these ways could reduce the cost of a public sector station but the potential benefits of these variations will be subsumed within the full privatisation option which I am pursuing. Only if this option fails should we explore these alternative methods of designing and constructing a public sector station which will still be open to us. To do otherwise would result in further delays in the project without necessarily adding to the degree of competition which has already been fostered. Another difficulty is that the consortia might first look to their own interest in submitting quotations on different bases rather than impartially facilitating a fair comparison of these options. Alternatively, the consortia might regard a change in the nature of the competitive process at this stage as evidence of a lack of commitment by the Government to the private generation project. This could lead them to withdraw their proposals for a full private sector project so removing the competitive element essential to securing the most cost-effective NIES bid.

I have also noted your comments on our obligations under the GATT and EC law. I understand that the position on GATT has since been clarified although some doubt still remains on the EC front. In the circumstances I suggest that we leave it to our officials to resolve this matter.

Finally, I have just seen your letter of 4 August commenting on my draft letters to Sir Desmond Lorimer and John Lyons. Our officials have agreed on revised wordings and the letters have now issued. While I fully accept that we must proceed down the most cost-effective route, I wish there to be no misunderstanding that if either the private sector proposal scores for public expenditure purposes or the NIES proposal wins the day the project will not be able to proceed as quickly. That is the public expenditure reality viewed from my seat and given the pressures and priorities within the NI programme. This has already been made clear to the public, potential investors and trade unions in Northern Ireland.

I am copying this letter to the Prime Minister and to Peter Walker, Paul Channon, Malcolm Rifkind and Sir Robert Armstrong.



T K

CONFIDENTIAL

