

SUBJECT
CC MASTER

SECRET AND PERSONAL



file³
PSC
D

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

14 December 1987

Dear Stephen,

ELECTRICITY PRIVATISATION

The Prime Minister discussed electricity privatisation with your Secretary of State this afternoon.

Your Secretary of State said that neither the Parliamentary Party nor the Government's critics would accept electricity privatisation if the CEBG was left intact. Whatever the powers and expertise of a regulatory authority, the CEBG would remain, in those circumstances, a monopoly. It was essential to introduce some form of competition into the industry's generating function. Lord Marshall, with whom he had discussed the issue many times, was refusing to countenance the introduction of real competition in generation. He was insisting that the CEBG retained the statutory obligation to supply and control the grid. He was prepared to have contractual arrangements whereby private generators provided the CEBG with electricity. Such private generators would be effectively sub-contractors, and would not introduce proper competition into the industry.

Mr. Parkinson then explained, by reference to charts, the form of organisation which he favoured and that which was favoured by the CEBG. He believed that the ownership and control of the grid was the critical factor. Private generators would not be willing to invest if they were dependent upon the CEBG for transmitting their electricity through the grid. It was important to transfer the obligation to supply from the CEBG to the distribution companies. This would help the industry become a consumer-led organisation rather than a supplier-dominated one.

Your Secretary of State then reported that the Chancellor of the Exchequer still favoured the Option D discussed at the Chequers Seminar: namely, the division of the CEBG into four or five competing generating companies. Though this system had theoretical advantages from the point of view of stimulating competition, it would make it harder to sustain the development of nuclear capacity and to maintain the massive programme of new investment needed over the next few years. It would also delay privatisation.

SECRET AND PERSONAL

Your Secretary of State then said that he had not been able to identify any structure for privatising the industry which he could recommend, and which he could persuade Lord Marshall to support.

In answer to a question from the Prime Minister about the ownership of nuclear stations, your Secretary of State said that the nuclear stations should be owned by the successor to the CEGB, and not split between the various private generating companies. The CEGB's proven technical competence in managing nuclear stations would help secure planning consents. The CEGB would also need to be responsible for dealing with the recurring problems with the AGRs and with de-commissioning. There was nothing, however, to prevent the smaller generating company in the model he proposed from building new nuclear capacity.

The Prime Minister said that your Secretary of State should produce a paper for the Chequers Ministerial group setting out the options he had described to her for discussion shortly after she returned from her African visit on 8 January. He should recommend his preferred approach described in the chart which he had shown her. It was important to maintain in play Option D so that Lord Marshall could be told that there had been considerable pressure from Ministers for the adoption of an approach which divided the CEGB into several parts. There would need to be a major effort to persuade Lord Marshall to co-operate with the Government's chosen approach. She did not believe that it would come to a position where Lord Marshall tried to exercise a power of veto. She would meet Lord Marshall with the Secretary of State, after the meeting of the Ministerial group. Your Secretary of State should ensure that Lord Marshall felt no grudge about his salary or other terms and conditions, bearing in mind that he was running one of the largest nationalised industries. When they saw Lord Marshall, it would need to be made clear to him that many of his objectives had been accomplished, for example by maintaining the grid intact, even if outside the CEGB's control, and by keeping a large part of the CEGB as one operation.

Yours sincerely

Nigel Wicks

N. L. Wicks

Stephen Haddrill, Esq.,
Department of Energy.