

SUBJECT cc MASTER



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*From the Principal Private Secretary*

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*Des Steph,*PRIVATISATION OF THE ELECTRICITY SUPPLY INDUSTRY

The Prime Minister had a meeting today with your Secretary of State, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry about the next steps on electricity privatisation following her discussion last week with the Chairman of the Central Electricity Generating Board (CEGB), Lord Marshall.

The Prime Minister reported the broad lines of her discussion with Lord Marshall. Although he was a persuasive advocate, the Government could no doubt deal with his arguments if they could field equally persuasive advocates for their chosen course of action. More worrying was the possibility that there might be substance to Lord Marshall's doubts about the Government's approach. Ministers would clearly be in great political difficulty if there was a serious interruption of supplies soon after privatisation. Lord Marshall's position was, in part, based on the unique structure of our industry; this was based on a spine grid which brought power from the generating stations to the markets. This contrasted with the system prevalent abroad of local power pools centred on the market with only tenuous links between them. Lord Marshall argued that separation of the grid from the generating function would risk failure of supply. He made much of the point that it would be imprudent to place an obligation to supply on the area boards when they had virtually no generating capacity. He was suggesting that the 12 area boards would over-insure their power supplies and thus increase costs. It was relevant that the two most important trade unionists in the industry, Lyons and Hammond, were decrying the prospects of competition within the industry for the next decade because, they alleged, the industry would need all its power supplies to meet demand, bearing in mind that last winter the industry had operated virtually at maximum capacity. The Government would need to assemble and then mobilise an impressive battery of outside expertise in order to demonstrate that the Government's proposed approach was a viable one and that Lord Marshall's fears were not well based.



The meeting then went on to consider various points on Lord Marshall's arguments:

- (i) there were an impressive number of experts available to argue against Lord Marshall's points, including the President of the Institution of Electrical Engineers, consultants like Merz and McLellan and chairmen of area boards some of whom had held senior positions in the CEBG. Although Lord Marshall was a persuasive advocate, many would consider that he spoke as the representative of the status quo. The same was true of the industry's union leaders.
- (ii) Lord Marshall had already moved his position on the ownership of the grid. At one stage he was arguing that it was technically impossible for the grid to be separated from the generating function. When it had been shown that that argument was not technically correct, the CEBG had argued that separation of the two functions would add £1 billion to the industry's costs. That estimate had been based on some quite arbitrary assumptions unrelated to the Secretary of State's proposals.
- (iii) It was not true that there was no scope for competition for the next decade. The industry might operate at peak capacity during the winter, but during the rest of the year there was spare capacity. Nor was it consistent to argue that there would be lack of competition because of lack of capacity (or the possibility of a failure to supply) and that the area boards would over-insure with capacity if they were given the obligation to supply.
- (iv) Although Lord Marshall's description of the industry's unique structure was correct, its lop-sided structure had come about because of the Government intervention and the CEBG's central dominance of the industry. This had resulted in power stations being built near the coal fields rather than near the markets for the electricity.
- (v) It needed to be borne in mind that under the industry's present planning there was a risk of failure of supply every one in nine (?) years.
- (vi) The Government would be criticised, especially by its Back Benchers, if it adopted the structure for the industry advocated by Lord Marshall. To that extent the presentational advantage lay with the Government.
- (vii) In practice, there would be little change in the industry's day-to-day operation in the first few years of privatisation, bearing in mind that the industry's plant and personnel would hardly have changed. The scope for greater efficiency would come in the medium term as new plant was ordered and new methods for its operation devised. This second argument should be

emphasised rather than the first so as to avoid criticism that "nothing would change" after privatisation.

Summing up the discussion, the Prime Minister said that your Secretary of State should now put his proposals for the privatisation of the industry to E(A) Committee with a view to a Cabinet discussion and announcement on 25 February. He should indicate in his paper the extent and nature of Lord Marshall's opposition and recommend how that opposition could be met both in the realm of public opinion, in the House of Commons and House of Lords and in the media. It would be extremely important to assemble many experts who were prepared to stand up in public to oppose Lord Marshall's points and to advocate the Government's approach. Your Secretary of State should seek E(A) Committee's approval to the publication of a White Paper, at the time of the announcement, which would set out in detail the Government's approach. She would welcome an early opportunity to comment upon the White Paper.

I am sending a copy of this letter to Alex Allan (Chancellor of the Exchequer's Office), Alison Brimelow (Department of Trade and Industry) and to Sir Robin Butler.

*Yours truly  
Nigel Wicks*

N. L. WICKS

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