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MR TURNBULL23 January 1984GAS PRICES

Although we sympathise with the Treasury's concerns about Peter Walker's letter of 19 January, we do not consider that a No 10 intervention would be helpful.

Your letter of 19 October 1983 clearly stated that the Prime Minister is hoping that agreed criteria can be put to her on what would be implied by the adoption of economic pricing. The implications of moving towards economic pricing during this Parliament and the timescale to be adopted could then be considered.

This puts a clear mandate upon both Energy and Treasury and does not give Peter Walker any flexibility to move away from economic pricing even if he wishes to propose a different interpretation.

It was also clear to all parties when the financial target was set, that this could be revised in the light of any future decisions on pricing.

We also do not see the prospect of privatisation as a problem. Economic pricing is essentially a surrogate for prices which would apply in a competitive market environment.

D.P.
DAVID PASCALL

cc No

Prime Minister

To note that D'En and Treasury have agreed that there is no point now in a collective discussion of the BGC 1983 Corporate Plan. Work is continuing on

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- (i) pricing principles
- (ii) gas exports.

CONFIDENTIAL

The Rt Hon Peter Rees QC, MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
 LONDON
 SW1P 3AG

AT 12/11

MR

19 January 1984

BGC 1983 CORPORATE PLAN

Thank you for your letter of 29 December.

I agree that there is now no point in collective discussion in E(NI) of BGC's 1983 Corporate Plan, which has been overtaken by events, although, as you say, important issues in this area on which we need to make early progress remain unresolved. My officials have been working closely with yours and with BGC in the context of the Corporate Plan with this aim in mind.

I agree that officials should continue to work together on the pricing principles which should govern gas pricing over a longer period. I say "pricing principles" advisedly, because I think the term "economic pricing" is not a particularly precise concept and can mean different things to different people. I certainly favour early progress on this, as you do, but it is important that the intended paper should be based on a thorough analysis of the relevant facts including the structure of the industry's costs. In preparing and discussing this paper we shall have to bear in mind two factors which were not before the Prime Minister's meeting on 13 September 1983. One is that the Government has now given BGC a financial target for the 4 year period 1983/84 to 1986/87 which has been publicly announced, although it was made clear to BGC that the target could be subject to revision. The other is that a prospect of privatisation within the next few years would inevitably limit the Government's freedom of manoeuvre on gas pricing.

On the gas exports issue, you may know that the question whether a controlled export regime would be compatible with the Treaty of Rome was put to the Law officers some months ago; we are expecting to receive their Opinion fairly soon. And there are of course other considerations we shall have to take into account in any decision we take on gas exports.

I do not think we can say flatly that we cannot take decisions on the purchase of foreign gas until the issue of exports is resolved. We cannot now be sure about the nature of the questions facing us on a foreign gas purchase and the export issue itself could well prove very complex. But I agree that we need to complete our examination of the export question as soon as possible and my officials are working on it with that in mind.

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

P. Walker

PETER WALKER

NAT INS: ~~Henry A &~~
Gas H¹⁹

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