

9 May 1984  
Policy UnitPRIME MINISTERGAS INDUSTRY

The points I would have made this morning in the meeting concerning the future of the gas industry are:

1. British Gas's gas-ownership and production business is a very valuable asset. It is consistently under-played in all the BGC reports and accounts, corporate plans, and in Peter Walker's paper. According to the Deloitte efficiency study of British Gas, it owns 6.1 trillion cubic feet of gas, or 30 per cent of the net United Kingdom Continental Shelf reserves revealed in their study. (According to the Brown Book, this total is an underestimate, and the figures above overstate BGC's percentage.) 6.1 trillion cubic feet of gas converts roughly to 60 billion therms, or 4 years' total gas sales by British Gas. This is an extremely valuable and saleable asset.

This underlines the point that denationalisation of parts of British Gas's business would in itself be a major move and not messing about at the edges, as Peter Walker's paper implies.

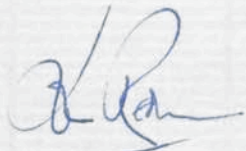
British Gas argue that it is impossible to retain control over their supply without ownership of gas, and argue that Morecambe and Rough - operating as gas stores - have to be owned by themselves to work properly. However, they have already signed a contract with the private owners of Indefatigable to fulfil a similar function to that fulfilled by Morecambe. It can be done in the private sector.

2. Peter Walker is right that the Treasury proposals for splitting BGC and selling off different parts of the business would require a change in management. Dennis Rooke is likely to fight these proposals every inch of the way, and if the debate is left too late in the life of this Parliament, it could be damaging to the Government's whole standing.
3. Making the market work in gas could put real gas prices as well as money gas prices up. To this extent, in the first year or two of the policy the critics will be right that it means dearer gas. Either this argument has to be faced out in the interests of matching supply and demand accurately; or some price control has to be placed on the market over a transitional period. This would be much less satisfactory, but it would be better to go the route of moving towards a market solution with some price

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regulation than the present system of political price control coupled with price control exercised by BGC as part of its propaganda war against the Government.



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