



PRIME MINISTER

GAS PRIVATISATION

I undertook at our meeting in December to put in hand further work on the partial privatisation possibilities for gas appliance retailing, servicing and the offshore gas assets.

2 I have concluded that the options available in these areas are very limited:-

- (a) BGC's servicing operation is not a realistic privatisation candidate. The activity holds few attractions for investors, there would be real union opposition and genuine public concern - heightened by this winter's explosions - about maintenance of adequate safety cover. Attempts to push this through would, as in 1981, most likely impede progress on other fronts.
- (b) The retailing activity could be privatised, with a minority gas industry involvement and suitable provision for customer inquiry points. This would, however, be a time consuming exercise and would yield little in the way of proceeds for the Exchequer.
- (c) BGC's offshore gas assets could be sold to the oil industry. But they would not fetch a good price. The main asset, the Morecambe gas field, suffered from severe problems of underbudgeting and cost escalation in 1982/83 and might realise about half what BGC have spent. Consumers would also face a price increase of





about 5% to cover a return to the new owners. Our opponents would, inevitably, seize on both these features and attention would become focussed on the Government's handling of the Morecambe project in its earlier stages.

3 Our best prospect for gas industry privatisation remains a radical change of ownership for the business as a whole, along the lines I proposed in 1984. This would require proper regulatory arrangements. But it will roll back the frontier of the public sector, creating new spurs to efficiency through the capital market and a more entrepreneurial approach to the running of the business. With a suitably managed flotation it would bring into being a genuine ownership by the public and employees and is the only option available which holds out both proceeds of any magnitude for the Exchequer and real benefits for consumers.

I am copying this minute to the Chancellor of the Exchequer.

SECRETARY OF STATE FOR ENERGY

25 March 1985