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PRIME MINISTER

GAS PRIVATISATION

As requested at last Thursday's E(A) ^{att.} meeting I have now discussed with Leon Brittan and John Moore the arrangements to apply to the industrial contract market.

Our common aim is, of course, to produce a package which will command wide support and credibility, and which offers real protection for industrial and commercial companies whatever their size or sector. I have explained to them the support which my approach has received from the CBI and also, over the last few days, from the Chemical Industries Association - effectively the largest single pressure group in this area. But I also undertook to consider further whether there were ways of strengthening the package short of the kind of regulatory interference which both British Gas and the CBI actively wish to avoid.

There are of course severe limits to what I can realistically achieve with the BGC board, given that we are already well beyond the point they consider reasonable. However, I am prepared to put it to Denis Rooke that we need to give more formal status to the voluntary assurances which BGC propose. This would involve a licence condition to require British Gas to publish the principles by which it will set prices in the industrial contract sector. The assurances would then be published pursuant to this licence condition.

By means of this, and the other measures described in my E(A) paper, I believe we shall have achieved an attractive and effective package, which can be defended from the kind of criticism which those pre-occupied with the arguments for close regulatory control are bound to throw at it. BGC's assurances, particularly



those limiting price rises for the next three years and promising fair treatment into the future, will be strong selling points.

In relation to the separate accounting of the gas supply business and BGC's ancillary activities I believe we have also made useful progress. John Moore and I are agreed that the Treasury should participate in the exercise with BGC to set the initial cost allocations to apply between the various parts of the business.

I believe these further measures go as far as practicable in present circumstances. Provided you are content I will now proceed with my paper for next Tuesday's meeting of Legislation Committee and prepare the draft licence for publication in time for Second Reading.

I am copying this minute to other members of E(A).

SECRETARY OF STATE FOR ENERGY

22 November 1985

CONDICION

