

cc: [handwritten initials]

PRIME MINISTER

GAS PRIVATISATION

Mr. Walker has discussed the scope for improvements to the regulatory framework for gas with Mr. Brittan and the Financial Secretary. They have not reached agreement, though the Department of Energy thought last week that they had done so. Minutes from Mr. Walker, Mr. Brittan and the Financial Secretary are attached, Flags A-C.

The major disagreement concerns the role of OFGAS in the industrial contract market. Mr. Walker says they should have no role:

- there has been no regulation of this market in the past;
- there is adequate competition;
- the CBI are content with his proposals;
- OFGAS regulation could be extended to the contract market by Ministerial order following an MMC inquiry;
- the support of BGC management for privatisation would be lost if the Government insisted on extending the powers of OFGAS now.

Mr. Walker does not think privatisation would then go ahead successfully. He argues that he has gone as far as he can in agreeing that the licence would require British Gas to publish the principles by which it will set prices in the industrial contract sector. (You may like to glance again at Mr. Walker's minute of last week, Flag D).

Mr. Brittan and the Treasury believe OFGAS must have a role in industrial contracts, to protect industrial gas users, to provide a system of regulation which is defensible in the light of arrangements for British Telecom, and to avoid an

increase in public pressure against the privatisation programme. This could be achieved through the Bill or through the licence. DTI and the Treasury see this as a test case for privatising monopolies and they think Parliament and the public will too.

The Ministers concerned are now looking to you to resolve this. The Policy Unit (Flag E) believe the package proposed by Mr. Walker is acceptable. Clearly it will be extremely hard to persuade Mr. Walker to move further; but DTI and the Treasury also feel very strongly.

The alternatives seem to be either to go along with Mr. Walker or to call a meeting. This would need to be tomorrow, if the timetable is to be retained. 'L' Committee is to take the Gas Bill at noon tomorrow and I am told there is no scope for slippage: the Bill has to be introduced this week to guarantee a Second Reading by Christmas. Your meeting could be at 0930 if Sir John Fieldhouse is postponed or at 1115, which would take time from your preparations for the Debate.

There seems to be no scope for compromise. Mr. Walker may well in the end get his way even if you hold a meeting: the gas privatisation is his responsibility to deliver as are relations with Dennis Rooke, however strong the arguments of DTI and Treasury (and they are strong). The result will, however, if this is right, be controversial and difficult for the Government.

Do you wish to go along with Mr. Walker, or call a meeting?  
If a meeting, do you want it at 0930 or 1115?

J. Bowers

pp David Norgrove  
25 November 1985

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*I'm afraid we shall  
have to go along with Mr  
Walker.. If there is a  
in the House - there may have  
to be an amendment at Committee  
stage*