

PRIME MINISTER

PRIVATISATION

Although we have now decided our approach to the regulation of British Gas, I would like to comment on the concerns Nicholas Ridley expressed about separate companies in his letter of 19 November to me, and his minute of 27 November to you.

We are well past the point where breaking up BGC into many separate companies is an option. But the existing subsidiary companies (eg for exploration and production) will continue, and our licence condition on separate accounting is designed to prevent hidden cross subsidy from the core gas supply business into the ancillary activities.

I believe this arrangement is appropriate to the realities of the gas business, including the Corporation's statutory safety responsibilities which straddle activities such as gas supply and servicing. Nicholas' proposals would be unlikely in practice to achieve more, but would risk precipitating a showdown with the unions. This is precisely what our opponents would like to see.

I think Nicholas is mistaken in the analogy he draws with BAA. Clearly separate airports - which are local monopolies - should be formed into separate PLC's. But the correct analogy with the British Gas arrangements would be that, within each airport PLC, the core business and ancillary activities such as baggage handling and duty-free retailing would need to be separately distinguished through a system of separate accounting. I do not believe there need be any real difficulty in explaining that there are genuine differences in the BGC and BAA situations.

If Nicholas or his officials would find it useful I will gladly arrange for them to see the advice on separate accounting which my Department has received from Touche Ross.

I am copying this minute to Nicholas Ridley.

Secretary of State for Energy
December 1985

NAT. IND
GAS
PT 12



COLLECTION

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

6 December 1985

PRIVATISATION

The Prime Minister has seen and noted without comment your Secretary of State's undated minute about privatisation of British Gas which commented on the Secretary of State for Transport's minute to the Prime Minister of 19 November.

I am copying this letter to Richard Allan (Department of Transport).

David Norgrove

Geoff Dart, Esq.,
Department of Energy.