

CCBG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

13 March 1986

*Dear Peter.**W
WR***GAS BILL: AMENDMENTS AT REPORT STAGE**

As you are aware, leading members of the Energy Select Committee have tabled a number of amendments for consideration at Monday's Report Stage of the Gas Bill. These have already attracted Press interest, and we could well come under considerable public criticism if the amendments are not dealt with sympathetically.

I have no particular ^{interest} in the amendments on energy efficiency. But I do have an interest in the two amendments on the accounts of the gas supply business.

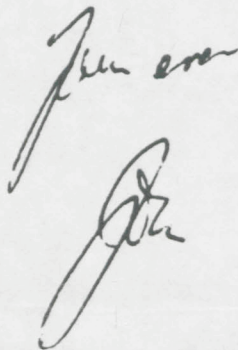
The first permits a licence condition to require British Gas to publish separate accounts for the (price regulated) tariff market and the (non-price regulated) tariff market. As you will know from our previous discussion, I have considerable sympathy with this idea. It is important for the efficiency of the business as a whole that cross-subsidies between regulated and non-regulated parts are exposed publicly. I know there is no single objective way of splitting costs because the pipeline system is shared, but the information is important and the Director of Gas Supply is bound to act reasonably in pursuit of his duties. The task is not impossible; British Rail's accounts contain audited profit figures for the different sectors of its business, and the problem of joint costs is if anything worse for BR than for BGC.

The second amendment requires British Gas to comply with directions given by the Director on the form of their gas supply accounts and on the formulation of service indicators. Again the Director will have to act reasonably, but there may well be information which it is in the interest of gas consumers to have published but which British Gas might not consider it necessary to inform shareholders about. This is certainly the case with service indicators, and we should not underestimate the strength of the consumer lobby.

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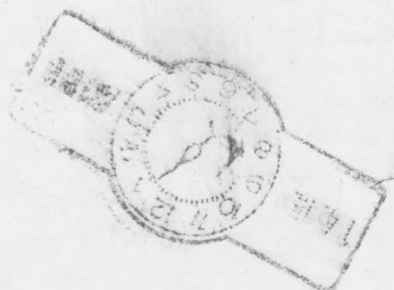
In my view, the amendments would not run counter to the regulatory regime we have agreed. Indeed they would improve it. The amendments have cross-Party support and we should think very carefully before we take on such opposition. I would be grateful to know the line you propose to take.

I am copying this letter to the Prime Minister, the Chief Whip and Paul Channon.

A handwritten signature in dark ink, appearing to read 'John Moore', with a stylized flourish below it.

JOHN MOORE

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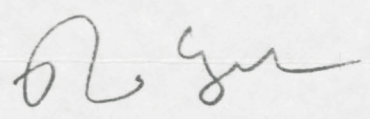
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The Rt Hon John Moore MP
Financial Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

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10/13

19 March 1986



GAS BILL: AMENDMENTS AT REPORT STAGE

Thank you for your letter of 13 March.

I appreciate your concern about the amendments put down by the members of the Select Committee. I considered these carefully but I decided that it would not be either right or consistent with the position the Government has taken in the Standing Committee and our response to the Select Committee to accept the amendments.

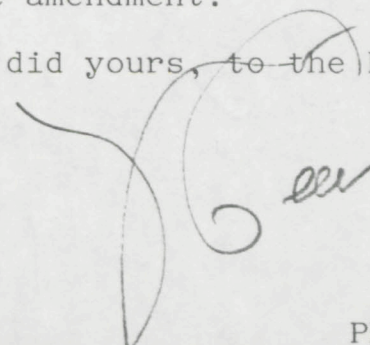
The question of publication of separate accounts is dealt with in para 54 of our memorandum to the Select Committee, cleared with you and other colleagues and released last week. This says:

"The nature of the integrated gas supply business means that it is not possible to associate in a rigorous way specific costs to individual sectors of the market. The objective accuracy of separate profit figures for tariff and contract sectors is not sufficient for regulation to require audited published accounts".

It will of course be open to the Director of OFGAS to obtain information about the various bases on which costs could be allocated and to publish such information as he considers appropriate.

As to the form of BGC's accounts the existing Condition 2 effectively gives the Director control of changes and achieves the necessary degree of regulation. The question of performance indicators came up in Standing Committee and we argued that there was no need for statutory provision for publication of indicators when the Consumer Council will be there to monitor standards achieved and report as necessary to the Director. I do not believe it would have been consistent with our objective of releasing British Gas from unnecessary bureaucratic control to go beyond this, and accept the amendment.

I am copying this letter, as you did yours, to the Prime Minister, Paul Channon and John Wakeham.



B.G. & have no
objection

PETER WALKER

Nat Ind: Gas Pt 12

