

Prime Minister 1

Agree the terms of the
announcement, subject to
colleagues?

MR NORRGROVE

17 June 1986

JWS
17/6.

GAS PRIVATISATION - FINANCIAL PACKAGE FOR FLOTATION

The Prime Minister need have no reservations about the
financial package developed by Energy and Treasury for the
British Gas flotation.

A talented, highly-motivated team of officials is steering an
impressive array of professional expertise from the City and
advertising. They have their sights firmly set on net
proceeds of £8 billion and the participation of five million
small shareholders - popular capitalism on an unprecedented
scale.

mt JWS

JOHN WYBREW

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 June 1986

Nigel

GAS PRIVATISATION

Now that we have settled the financial package for November's British Gas flotation, I need to announce the key features this week to underpin the marketing work now in hand, including preparation of brokers' reports and discussions with the institutions.

I propose to do this on Wednesday 18 June by way of the written announcement enclosed. The text has already been discussed in draft by our officials.

I am copying this letter with enclosure to the Prime Minister, Willie Whitelaw, John Biffen, John Wakeham and John Belstead.

Peter Walker

PETER WALKER

CONFIDENTIAL



Q. To ask the Secretary of State what progress has been made towards the privatisation of British Gas and if he is able to announce further details.

A. Since my statement to the House about gas privatisation last May, the Gas Bill has received its Third Reading and is nearing Report Stage in another place. I am now able to give the House further details of the basis on which, subject to passage of the legislation, the Government intend to sell the equity in British Gas plc in the autumn.

The new company's balance sheet will contain both debt and equity. This is in line with normal commercial practice. After careful consideration, the Government has decided that the debt element should be fixed at £2.5 billion. This will ensure a properly balanced capital structure while leaving the company full opportunity for business development and growth. The Gas Bill provides the necessary powers for the Government to assume responsibility for the existing British Gas Corporation 3% Guaranteed Stock, which relates to liabilities incurred during nationalisation in 1948. This will be transferred to the National Loans Fund, which will then assume liability for the service and redemption of the Stock. There will be no compensatory payment into the NLF to balance this liability, which will therefore be met from the Consolidated Fund as authorised by the Money Resolution passed by the House on 10 December 1985. The Gas Levy, which is a tax on gas supply from offshore fields not subject to Petroleum Revenue Tax, will decline over time in importance as the proportion of total supply from these fields reduces. The Government has decided that, as provided for in the Bill, the Levy will continue at its present rate of 4p/therm.

The value of X in the regulatory formula relates to the onshore component in the maximum price chargeable to tariff consumers. It is important that X should be set so as to provide a continuing incentive for the company to contain onshore costs directly within its control and to ensure that consumers participate in the benefits of cost containment. After careful examination, I have decided that the appropriate value for the initial five year period of the regulatory formula will be 2. This will ensure that the element of the charge to tariff customers covering the delivery of gas is held

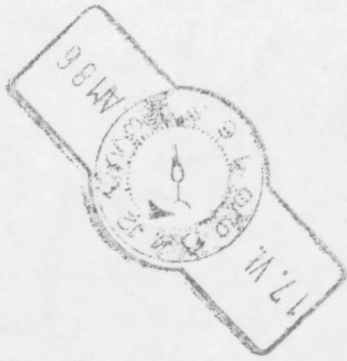


at a level 2% below the rate of inflation, while the gas itself will be charged at prices under long term contracts which are influenced by movements in oil prices, exchange rates and other factors. The formula will set a demanding discipline for the company to meet while leaving opportunities for a profit oriented management to work for still better performance. The regime will be kept under scrutiny by the Director-General of OFGAS.

It is our intention that British Gas employees, past and present, should have every encouragement to take a stake in the new company and the Government will be offering suitably attractive terms. Most employees will be eligible for free shares worth around £70 plus £2 for each year of service. In addition, the Government will provide two free shares for each share purchased by an employee, up to a maximum of £300 of free shares for £150 purchased. It will also be open to employees to purchase up to £2000 worth of shares at a discount of 10%. For British Gas pensioners there will be a free offer worth around £75. Both pensioners and employees will be able to apply on a priority basis for additional shares. The free and matching offers for employees will be available to all in continuous employment from 1 May 1986 who are contracted to work at least 16 hours a week.

The British Gas offer for sale will bring within reach of everyone the chance to share in the fortunes of a major and successful enterprise. Details of the special arrangements for share purchase we shall be making available to small investors will be announced at a later stage. These will include arrangements for domestic gas customers who register their interest in advance to purchase a guaranteed allotment of a certain number of shares.

The provisions I have announced today mark a further step towards realising a historic opportunity which will be good, not only for gas consumers and all who work in the industry, but for the millions of members of the public who will be able to own shares.



CJSG



Treasury Chambers, Parliament Street, SW1P 3AG

Geoff Dart Esq
PS/Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

18 June 1986

Dear Geoff

NBPN.

GAS PRIVATISATION

^{at trap.}
The Financial Secretary has seen your Secretary of State's letter of 17 June to the Chancellor and is content with the draft announcement.

I am copying this to the private secretaries to the Prime Minister, to the Lord President, to the Lord Privy Seal, to the Chief Whip and to Lord Belstead.

Yours ever
Vive

VIVIEN LIFE

CONFIDENTIAL

NAT IND Gas + Electric PT 12

