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Prime Minister (2)  
Met 27/8

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

26 August 1986

The Rt. Hon. Peter Walker MP  
Secretary of State for Energy

Dear Secretary of State,

**BGC PRIVATISATION: CUSTOMER MAIL SHOT**

You wrote to me on 18 August about the content of the letter to be sent to British Gas customers.

I can appreciate the marketing advantages of the content of the mail shot being clear and precise. The problem is that such clarity and precision creates inflexibilities which could damage the success of the Offer for Sale and limit our ability to take the proceeds when we need them.

As regards the minimum application level, I am content to express this as "no more than £150" for 100 shares.

The size of the customer guarantee is more difficult. This scheme is completely novel and, as such, carries with it considerable uncertainty. The scheme is, by its nature, a costless option for customers. As such I would expect a large number of customers to register for the scheme. This will include those with a relatively low interest in the offer. We have no real guide as to how many of those who register will actually make an application.

This creates two dangers. First, we may under-estimate the number who apply. At worst this might involve us in being unable to honour the guarantee. Alternatively we might find we could only honour it by heavily scaling down applications from non-customers. This would cause resentment and would be inconsistent with wider share ownership.

Second, we may over-estimate the number who apply. This would lead to the Offer being under-subscribed.

We have a choice. We could retain flexibility by delaying fixing the size of the guarantee for some time. This would not help the marketing and would, no doubt, be unpopular with BGC. Alternatively we could create more flexibility in the





structure of the Offer than our advisers have so far suggested.

My preference is to create more flexibility in the Offer structure and, if you agree to this, I would be content for the letter to say that the guarantee will be "around £250" and that customers will in addition get some element of preference in allocation. You are not proposing to quantify the latter element. I am sure this is right.

On instalments, I am content for the letter to say that payment will be by instalment but I do not think that it would be prudent to specify the size of the first instalment. We cannot yet be sure that market conditions, and BGC's profit forecast, will enable us to sell 100 per cent of the equity this Autumn. If we had to sell a smaller amount, I would need to have a higher first instalment in order to get the revenue required during the current financial year, 1986-87. As regards the number of instalments I would be prepared to say there will be "at least two".

On vouchers and bonus shares, we ought to alter the balance struck on the BT offer away from vouchers and towards bonus shares. This would give the non-gas customer some compensation for his ineligibility for the Customer Share Scheme. Bonus shares are, in any case, more effective inducements, as the BT flotation showed; and our policy is to promote share ownership, not cut-price gas.

I do appreciate, however, that you face strong pressure in exactly the opposite direction from BGC and, in these circumstances, I am prepared to accept your proposal for the rough value of vouchers and bonus shares. There will have to be maximum allocations on which qualify for vouchers and bonus shares. I look forward to your proposals on this.

I am copying this letter to the Prime Minister.

*Yours sincerely*  
*Alex Allan*

NIGEL LAWSON

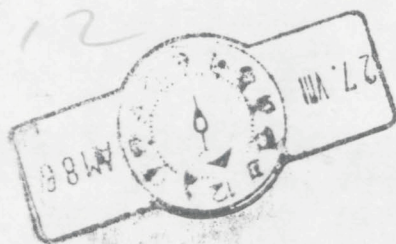
*(approved by the Chancellor and signed in his absence)*



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SECRETARY OF STATE FOR ENERGY

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Chancellor of the Exchequer  
HM Treasury  
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18 August 1986

Our officials have been discussing the content of the letter to be sent to all 16 million domestic gas customers inviting them to consider buying British Gas shares.

I regard this mailing as the most important element of our marketing plans. It offers us a real chance of bringing a large number of first time investors into the offer, exceeding the 2.3 million shareholders achieved by BT, and considerably expanding on shareholder numbers in the UK. If we do not maximise its impact we will have missed a significant opportunity and will have reduced proceeds greatly.

I have therefore added Wundermanns, the direct mailing specialists, to the team of general marketing advisers already employed on the British Gas offer for sale to ensure the most effective finished product. They and our other marketing advisers all agree that the letter will have most impact if it contains specific information about what is on offer to customers. They also believe response will be higher if the letter is signed by the Chairman, and he is only prepared to sign if the letter is specific. I strongly support inclusion of specific information; a vague generalised letter would in effect be a repetition of the stuffer already being sent to customers.

I propose first of all that the letter should indicate the minimum application level and the guaranteed amount. The minimum application level would be described as "no more than £150" for 100 shares, leaving us flexibility to set it somewhat lower later if we wished. I hope there is already agreement between us on such a relatively low minimum so as to enable the widest possible participation in the offer.

I propose a guaranteed amount of "around £250". Anything lower would appear too similar to the minimum entry fee and hence not act as a real incentive for gas customers to apply. I also believe a figure of "around £250" would not reduce our flexibility on the structure of the offer. It is lower than the minimum entry fee for BT (£260) and would only pre-empt £250 million of the offer for

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each one million customers who applied. The top limit of what we could expect might be about 4-5 million customer applications, pre-empting only £1-1.25 billion. At this optimistic level, over £1 billion of the general public part of the offer would remain available for non-customers.

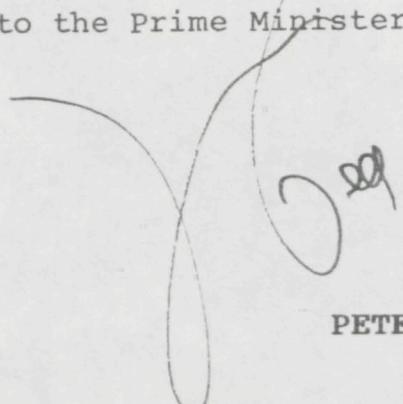
Second, I propose that the letter mention that gas customers will receive some element of preference in allocation policy in the event of every applicant, ie customer and non-customer, receiving £250 worth of shares rendering the guarantee meaningless. But this would be dealt with in general terms, preserving flexibility for us to decide on the level of the preference nearer the time.

Third, all of the marketing advisers strongly advise that marketing impact will be maximised if we can say that there will be instalments and give some broad indication of the size of the first payment. I imagine you will have no difficulty with the first part of this since we will not specify the number of instalments. On the second, I think we can maintain the flexibility your officials have been arguing for by referring to a first payment of "around £50" for the minimum application "of no more than £150". This would leave considerable flexibility since both the initial and total payments could subsequently be set at significantly different levels if necessary (eg initial payment of £60 for £125 worth of shares).

Fourth, there would similarly be clear advantage in setting out the rough value of the vouchers and bonus shares since these are clear financial inducements for customers to apply. I suggest we specify vouchers of £10 for every 100 shares. The bonus shares could be set at one bonus share for every ten bought and held for three years.

The deadline for printing the letter and the information sheet is now extremely tight. The exercise is so large that any slippage would result in production windows being missed and the entire mailing lost. We therefore need to resolve these policy points urgently so that some soundly based drafting of the content can begin. Adequate time must be left for this drafting process so that we can ensure the highest possible quality and impact. I would therefore be very grateful for your agreement to the proposals in this letter by Wednesday 27 August at the very latest, and earlier if possible.

I am copying this letter to the Prime Minister.

  
PETER WALKER

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