

PREM 19/1874

Organisation of the Electricity

Industry.

Private Electricity Generation.

NATIONALISED
INDUSTRIES

JULY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
24.7.79							
25.7.79							
7.3.80							
11.3.80							
16.3.80							
3.4.80							
10.7.80							
14.7.80							
28.7.80							
6-8-80							
8-8-80							
27-8-80							
19-2-81							
6.8.81							
6.8.86							

PREM 19/1874

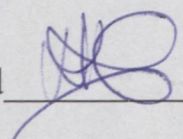
Material used by
Official Historian
DO NOT DESTROY

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(EA)(81) 10	19/02/1981

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed  _____

Date 09/10/2014

PREM Records Team

CG/BC

010

CONFIDENTIAL



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon John MacGregor MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON

NBmi

6 August 1986

D. J. [Signature]

PRIVATE SECTOR GENERATION OF ELECTRICITY

WILL REQUEST IF REQUIRED

Thank you for your letter of 3 June and for your support for my proposals for negotiations with the private sector on this matter. I have also seen Paul Channon's letter of 17 June.

You may be assured that I regard a publicly financed project as an equal contender with the private consortia and I look forward to receiving the NIES proposal later this year. I know that the consortia - now reduced to two by the decision of GEC to join Bechtel in the group headed by Antrim Power Co Ltd - also recognise the competition provided by NIES. I believe that your concern on this matter arose from the references in my letter of 7 May to the difficulties which might be encountered in funding expenditure deemed to be public expenditure and in this respect I note the invitation in your letter to raise the issue with you should the expenditure fall to be classified as PE for whatever reason.

As regards your references to the need to maximise the efficiency gains achievable from a conventional public sector proposal, I have already stated in my letter of 2 May that I expect the NIES proposal to be based on indicative quotations rather than its own estimates. My officials will be scrutinising the proposal to ensure that it is indeed the minimum cost for the provision of a public sector station although it will also be necessary to assess the risks of cost overrun and delays in construction in a public sector project. In seeking these quotations, the NIES is, of course, free to approach companies within the consortia should it consider this appropriate.

CONFIDENTIAL

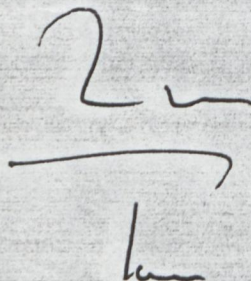
CONFIDENTIAL

You go on to mention private sector management of construction of a public sector project and Paul Channon has taken this further by proposing privatisation of designs as well. I recognise that the involvement of the private sector in these ways could reduce the cost of a public sector station but the potential benefits of these variations will be subsumed within the full privatisation option which I am pursuing. Only if this option fails should we explore these alternative methods of designing and constructing a public sector station which will still be open to us. To do otherwise would result in further delays in the project without necessarily adding to the degree of competition which has already been fostered. Another difficulty is that the consortia might first look to their own interest in submitting quotations on different bases rather than impartially facilitating a fair comparison of these options. Alternatively, the consortia might regard a change in the nature of the competitive process at this stage as evidence of a lack of commitment by the Government to the private generation project. This could lead them to withdraw their proposals for a full private sector project so removing the competitive element essential to securing the most cost-effective NIES bid.

I have also noted your comments on our obligations under the GATT and EC law. I understand that the position on GATT has since been clarified although some doubt still remains on the EC front. In the circumstances I suggest that we leave it to our officials to resolve this matter.

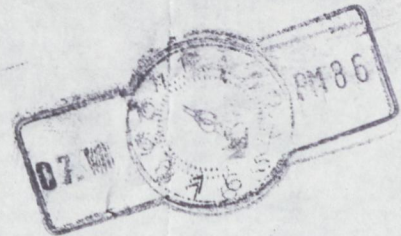
Finally, I have just seen your letter of 4 August commenting on my draft letters to Sir Desmond Lorimer and John Lyons. Our officials have agreed on revised wordings and the letters have now issued. While I fully accept that we must proceed down the most cost-effective route, I wish there to be no misunderstanding that if either the private sector proposal scores for public expenditure purposes or the NIES proposal wins the day the project will not be able to proceed as quickly. That is the public expenditure reality viewed from my seat and given the pressures and priorities within the NI programme. This has already been made clear to the public, potential investors and trade unions in Northern Ireland.

I am copying this letter to the Prime Minister and to Peter Walker, Paul Channon, Malcolm Rifkind and Sir Robert Armstrong.



T K

CONFIDENTIAL



010



Nax had
Prime Minister 2
Wm
6/8

PRIME MINISTER

INTERRUPTION TO ELECTRICITY SUPPLY

In David Howell's absence I am reporting on the breakdown in the electricity supply system yesterday.

2 There were three separate major failures on the national grid system which distributes electricity from power stations throughout the country. The first at 9.08 was on the link from Feckenham (West Midlands) to Bristol, the second at 9.10 on the Dungeness to Lydd line in Kent and the third at 9.35 on the Bromley to West Weybridge link in Surrey. Supply was lost to one fifth of the consumers in the affected area which was essentially southern and south-west England and South Wales. Total loss was 1000 MW which made this the biggest electricity failure since 1962.

3 The CEGB took immediate action; the system was progressively restored from about 10.40 onwards and all consumers were back on supply by about 11.30. While industry was affected, therefore, the effects were not serious.

4 The Secretary of State has asked the electricity supply industry, who have kept the Department informed of developments throughout, for a full report on the causes of the failures. The industry have set in hand an immediate inquiry and the results of this will be reported to the Secretary of State when they are available, probably in three weeks or so. At this stage there is no certainty of the causes of failure.

5 The Electricity Council are continuing to keep the Department informed. I will report any further significant developments.

J. P. Clark

Pr. NORMAN LAMONT
6 August 1981

6 AUG 1981

11 12 1 2 3 4
5 6 7 8 9 10



✓ cc A Inghid.

✓ MS

01 211 6402

Lord Soames
Leader of the House of Lords
House of Lords
LONDON SW1

27 August 1980

Dear Antonin

will request
Inghid

Thank you for your letter of ✓ 13 August in which you propose that legisla-
tion to relax the prohibition on electricity supply as a main business
activity should not be included in the Energy Conservation Bill. You
will since have seen my letter of 8 August to Norman St John Stevas in
which I indicated that I propose to include this measure in our legisla-
tive bids for the 1981/82 Session, unless an earlier opportunity arises.
In considering any such opportunity, I will of course keep in mind the
desirability of introducing Bills in the House of Lords where possible.

I am copying this letter to the recipients of yours.

D A R Howell

Yours
Dan

22 AUG 1980



cc/A August



Nat Ind

V
MS

FROM THE LEADER OF THE HOUSE
HOUSE OF LORDS

8 August 1980

The Rt Hon David Howell, MP
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Dear Secretary of State,

PRIVATE ELECTRICITY GENERATION

I have seen a copy of Norman St John-Stevas's letter to you of 28 July.

Next Session's Energy Conservation Bill is certainly one which I consider a strong candidate for early introduction in the Lords. It is vital that to achieve a better balance in next Session's programme, we agree that a good number of Bills are introduced in this way. Like Norman, I hope that nothing will be added to the Bill which might jeopardise introduction here.

I am copying this letter to the Prime Minister and to the other recipients of the letter from Norman St John-Stevas.

Yours sincerely,
J. Incheery.

Dictated by the leader.

SOAMES

11 AUG 1980



ce AD

nat ind.



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

01 211 6402

The Rt Hon N St John-Stevas
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
London
SW1A 2AT

6th August 1980

De Anna

R 98

PRIVATE ELECTRICITY GENERATION

Thank you for your letter of 28th July about my recent statements of our intention to remove the prohibition on the generation of electricity as a main activity.

I had discussed the proposition for some months with Keith Joseph and others and obtained the agreement of the Prime Minister and members of E and E(DL) to making an announcement in principle about our proposal.

I am sorry that I did not warn you in advance of my intention to include the announcement in the debate on Monday 21st July. However, I did say then that we would propose taking this step when a suitable legislative opportunity arose, and I did not wish to suggest that immediate action would follow. Therefore, when making bids for 1981/82 later this year I will include relaxation of the prohibition on private generation, unless there happens to be an earlier and convenient opportunity for bringing in the necessary changes, when I will of course consult you.

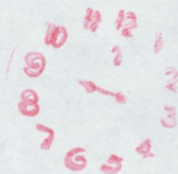
I am copying this letter to the Prime Minister, the Secretary of State for Industry, other members of E and E(DL) and to Sir Robert Armstrong.

D A R HOWELL

Howell

David

- 8 AUG 1980



Nat Inds



Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

28 July 1980

Mich ✓ MS

De David

R 29/17

PRIVATE ELECTRICITY GENERATION

Your statement to the House on 21 July during the debate on public sector industries about removing the statutory prohibition on the generation of electricity has not unnaturally aroused a good deal of interest. I would normally expect to have been consulted about such a statement in advance, particularly when, as with this statement, there are legislative implications.

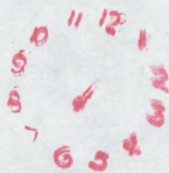
I see that some commentators have assumed from your statement that the Government will be introducing legislation next session. I am sure you would have consulted me about this if this had been your intention, and you will no doubt wish to make clear in any follow-up comments that the Government have no firm commitment on timing. Certainly, I do not at present see a suitable opportunity for this legislation next session. A new bill would add to the four you already have in the programme and would go against our intention, agreed at Cabinet, to lighten the burden of legislation. Nor do I think it can conveniently be added to any of your bills at present in the programme. Its addition to your Energy Conservation Bill would I suspect add a controversial element to what we hope will be otherwise a largely uncontroversial bill and might well affect its handling (I think the Lord President would like the Bill to start in the House of Lords) and its prospects in both Houses. I hope, therefore, the necessary legislation to implement your statement can be considered in the context of the legislative programme for 1981-82.

I am copying this letter to the Prime Minister, the Secretary of State for Industry, other members of E and E(DL) and to Sir Robert Armstrong.

John R.

The Rt Hon David Howell MP
Secretary of State for Energy
Thames House South
Millbank
SW1

29th JUL 1980



Mr. Howell: I am dealing with the major problems posed by the existing nationalised industries. I shall come to those parts that could attract private capital or just as easily be in the private sector. My right hon. Friend will have more to say on that matter.

It is important to set three-year financial targets. Industries that fall within my responsibility have had such targets set. Compared with the one-year ad hoc targetry of the previous régime, which was a significant handicap in planning their business, the changes have been of benefit to the industries and enabled them to plan sensibly for a dangerous and uncertain energy future, where huge investments will be required to meet the turbulence created by the 145 per cent. increase in world oil prices in the past 11 months.

We are also pledged to establish performance targets, which will be of significant help to the industry, satisfy the Government and the taxpayer and help the customer to judge the standard of service that he is receiving.

The nationalised industries chairmen's group has put certain arguments to the Government and the taxpayer and help cash limit system, particularly over the way in which investment is treated. My right hon. and learned Friend the Chancellor of the Exchequer told the House that the Government were ready to consider with the nationalised industries chairmen possible modifications, and we are doing so.

Another important and overdue change that the Government have made in handling nationalised industries is the provision in the Competition Act which, for the first time, makes it possible to refer nationalised industries' activities to the Monopolies and Mergers Commission for investigation. That power has already been used over computer rail services, the Severn water authority and the Central Electricity Generating Board. In other areas, such as telecommunications, about which my right hon. Friend made an excellent speech this afternoon, and the postal services, we are widening exposure to competition, which will be of great benefit to the public, customers and the industries. I am glad to confirm our intention to remove the statutory prohibition on the generation of electricity

as a main business as soon as a suitable legislative opportunity arises.

In all those respects we are determined to make nationalised industries more efficient, more responsive to the needs of the taxpayer and the customer and more able to run their businesses within the strict financial and performance criteria that the Government must set.

I have said that the Government are firmly of the view that the public sector is over-extended, and we want to restore the balance. The right hon. Member for Devonport became obsessed with the word "doctrine". The imbalance and the tilt towards massive over-extension of the public sector has arisen as each Labour Government have rushed with renewed enthusiasm into further and more disastrous ventures of public ownership. We are committed to reducing the extent of State activity. My right hon. Friend will go into the detail of the progress that we have made in restoring the balance and rolling back the extended frontier of the public sector and the plans we have for the future.

I wish to draw the attention of the House to one project in the energy area that constitutes a milestone in the journey onward from the stale principle of nationalised everything—the gas gathering pipeline proposed for the North Sea. As proposed by the Government, that scheme will involve the first private sector utility in this country for many years. It offers a major opportunity for sources of private finance to step in and take the burden off Government borrowing and the taxpayer. It should be welcomed on all sides of the House, although, needless to say, there has been a deafening silence from the right hon. Gentleman.

The right hon. Gentleman returned understandably to his concern over unemployment, which we all share. As far as I understand his remedies and the proposals in the motion, they would make an ugly situation far worse. Everyone who bothers to stop and think knows that the bellows approach—puffing up demand by monetary inflation—is useless. In his more courageous days, that was the firm view of the previous Prime Minister and the right hon. Member for Devonport, although he tends to keep his views on these matters to himself. It was also the view of the right hon. Member for Leeds, East

[Mr. Howell.]
for a brief Camelot period, until he reverted to a damp neo-Keynesianism, which had nothing to do with the views of the late Lord Keynes.

Everyone knows that nations like ours must look to smaller and newer enterprises, providing products and services that may not have been even heard of or categorised in Whitehall officialdom, for the jobs and prosperity of the coming years. It is hard to envisage anything less appropriate for Britain than lumbering us with the reactionary centralism offered by the Opposition in their motion, which has nothing to do with the needs of the economy in the 1980s.

The nation wants no more nationalisation. It wants less. I suspect that the right hon. Member for Devonport and some of his friends want no more of it either, although they need to fight quickly and courageously if their views are not to be swamped. What we have heard today from the Opposition is the intellectual flotsam of the past. It has no place in a creative and better future. The right hon. Gentleman and his right hon. and hon. Friends continually express fears for the future, but I suspect that they are not fears that we shall fail but that we shall succeed—as we shall.

4.58 pm

Mr. David Watkins (Consett): There is not a single publicly owned industry in the country that is not under attack and being damaged, perhaps irreparably, by this Government's policies. Among the welter of damage and destruction, no industry is more severely under attack than the steel industry. Perhaps one omission in a speech notable for omission of anything remotely relevant to the debate is hardly surprising, but it is interesting to note that the Secretary of State made only a passing reference to the condition of the steel industry in 1945.

My constituency is heavily dependent upon the steel industry. It will be more affected by the Government's damaging policies in closing down large sections of the industry than any other place where closures are proposed. I am not minimising the serious effects of steel closures wherever they take place.

I note that the Secretary of State for Industry has not graced or troubled us so far in the debate. The right hon. Gentle-

man constantly wrings his hands about what he says will be the terrible effects of the shutdown of the Consett steelworks, yet he acquiesces in the unjustifiable closure of Consett and does everything he can to encourage it. Indeed, the whole Government seek to encourage the closure with all the means at their disposal.

This policy will be socially disastrous. It will put 3,700 steel workers out of jobs plus many hundreds in dependent occupations. My right hon. Friend the Member for Plymouth, Devonport (Dr. Owen) said in his able opening speech that there is an inevitable linkage and interaction between the publicly and privately owned sectors of industry. Many of the hundreds of additional jobs that will be lost as a result of the shutdown at the Consett steelworks will be in private firms that depend for their existence on contracts with the BSC works at Consett.

The shut-down of the steelworks will devastate an entire community and send shock waves of increased unemployment through, for example, coal mining and transport throughout the North-East of England, a region that has already been savagely hit by the Government's policies.

If the policy is disastrous on social grounds, it is deplorable on economic grounds. We are not talking of an old run-down plant that is working at a loss. It is a modernised, efficient and profitable plant with one of the best productivity records in Europe. The productivity of the Consett steelworks is about 240 tonnes of liquid steel per man year. The BSC average is 140 tonnes and its target is 180 tonnes. Consett is already performing well above the corporation's target figure, at a level that compares favourably with that of Germany, which has one of the most productive steel industries throughout Europe.

Consett is meeting all the criteria that have been laid down by the Government for survival but, seemingly, that has not been welcomed by the Government. The Government appear to be doing their best to discredit Consett's success in meeting their criteria. In reply to me in the House the Prime Minister has made great play of the fact that the Consett plant was unprofitable between 1975 and 1979 and that it became profitable only in the last quarter of 1979. Nobody is disputing that. How on earth could it become profitable until the loss-making

Mr. Neil Marten: The country papers and summaries will be placed in the Library immediately and the report as soon as it is available.

Somalia

73. **Mr. Brocklebank-Fowler** asked the Lord Privy Seal what contribution his Department is making to alleviate suffering amongst refugees in Somalia; and if he will make a statement.

Mr. Neil Marten: We have pledged a contribution of £850,000 for refugee relief in response to the international appeal by the UN High Commissioner for refugees, a large part of which will be provided as 5,000 tonnes of bilateral food aid. The British share of the food aid and emergency assistance provided to Somalia by the European Community since December 1979 amounts to over £2,200,000.

Tropical Medicines Research

Mrs. Renée Short asked the Lord Privy Seal what funds his Department provided for the work being carried on by the Tropical Medicines Research Board over the past few years; and what effects he expects Government spending cuts to have on this work.

Mr. Neil Marten: I refer the hon. Member to the reply given to her on Friday 11 July.

Zimbabwe Aid

Mr. McQuarrie asked the Lord Privy Seal if he will ensure that some part of the £75 million aid which it is proposed to grant to Zimbabwe over a three to four year programme should be provided in the form of canned fish products which have been processed in Scottish factories.

Mr. Neil Marten: Our aid programme to Zimbabwe is being allocated by agreement with the Zimbabwe Government; but there are no plans to devote any of it to the provision of canned fish or other food.

ENERGY

Electricity Supply Industry

Mr. Mudd asked the Secretary of State for Energy whether he has now considered the organisation of the electricity

supply industry in England and Wales; and what are his proposals.

Mr. David Howell: I have given careful consideration to how the electricity supply industry should be organised in England and Wales. I have consulted widely in the industry and have heard the views of other interests.

The industry's present structure dates from the 1957 Electricity Act and comprises 13 statutory boards—the Central Electricity Generating Board and 12 area boards—and the statutory Electricity Council which acts as a confederal body for the industry as a whole. It is the council's duty to advise me on questions affecting the industry and to promote and assist the maintenance and development of an efficient, co-ordinated and economical system of supply. In 1976 the Plowden committee recommended the unification of the industry into a single corporation. The last Administration published their proposals for such a corporation in a draft Bill which was the subject of pre-legislative hearings and a report by the Select Committee on Nationalised Industries towards the end of the last Parliament.

The question of the industry's organisation is not a new one. The need to strike a proper balance between healthy local independence and strategic decision-making at national level, and between generation and distribution, has been a theme for many years. The balance is not easily struck. Certainly, the creation of a large single corporation unifying the 13 boards and the council would carry significant risks of over-centralisation.

It was with this in mind that I informed the House last July that, although I did not rule out legislation to effect desirable change in the industry if it were necessary, I preferred to seek improvements if at all possible without it. I have now concluded that improved working arrangements of the kind I wished to see can be developed within the existing statutory framework.

For both technical and economic reasons the industry is divided into the generation and transmission of electricity through a high voltage grid, organised on a national basis on the one hand and its distribution by area boards on the other. I have not been persuaded that any benefits from bringing generation

and distribution together in a unified corporate structure would outweigh the risk of over-centralisation.

I have been impressed by the extent of co-ordination and co-operative working that already exists in the industry. I propose to build on the progress that has been achieved and, within the terms of the existing legislation, to develop relationships between the council and the boards, strengthening the co-ordinating and advisory role of the council and of its chairman, whom I regard as my main policy adviser within the industry, in the development of industrywide policies. I also look to closer links between the boards, particularly at local levels. The statutory responsibilities of the council and the boards will of course remain as defined by the relevant statutes. I have been assured by the council and the individual boards of their commitment to my policy. In particular, there is agreement to develop co-operative working in the following ways:

—when consulting the Electricity Council on capital programmes and tariff proposals the generating and area boards will provide full information on the underlying assumptions and costs relating to those programmes and tariff proposals bearing in mind the council's duty of advising me on the maintenance and development of efficient supply by the industry. I will seek specific comments from the council before approving capital programmes;

—the Boards will co-operate with the council in the development of an improved financial reporting system;

—the council will advise me on the further development of physical, technical and financial measures of performance by the boards;

—the council will review with the generating board and the area boards the structure of the bulk supply tariff with a view to considering whether changes are desirable and will report its conclusions to me;

—the boards will co-operate with the council in developing arrangements to encourage transfers of managerial staff between the two sides of the industry;

—the chairman of the generating board and the chairmen of the area boards will promote closer contacts between CEBG regions and the relevant area boards.

In my consideration I have very much had in mind the industry's relations with its customers. I value the close links which exist between the area boards and the communities which they serve and wish them to continue their efforts to improve customer relations at all levels. The industry has large responsibilities and I hope that senior members of the area boards and CEBG management at

regional as well as national level will continue to improve public understanding of the nature of their tasks, and their efforts to provide an economical, safe and efficient public service.

Finally I would like to thank all those in the industry both from management and the unions who have given me advice on this subject over the past months. I am conscious that widely different views are held. I believe however that all concerned will now work together to make improvements within the industry's existing statutory framework.

Power Station Manning Levels (International Comparisons)

Mr. Bright asked the Secretary of State for Energy if he will publish figures comparing manning levels in British power stations with those in France, West Germany and the United States of America.

Mr. Norman Lamont: Meaningful comparisons for power station manning levels in different countries are not available. The industry is pursuing methods of making valid international comparisons in this field.

Power stations in Scotland are the responsibility of my right hon. Friend the Secretary of State for Scotland.

Energy Policy

Mr. Skinner asked the Secretary of State for Energy if he will publish a regular policy statement to Parliament regarding energy prospects with all the alternative options for supply and conservation fully set out and costed.

Mr. John Moore: Our energy policy has been set out in a number of statements and speeches. My Department already publishes a good deal of the information requested. I would refer the hon. Member, amongst other publications, to "Energy Projections 1979" and "Energy Paper No. 39".

Oil-Fired Capacity (Conversion)

Mr. Whitehead asked the Secretary of State for Energy when oil-fired capacity will be converted to other fuels; and what revision of this programme is intended, following the Venice pronouncements.

Not Ind JD



10 DOWNING STREET

cc	HO	MAFF
	FCO	DOE
	HMT	D/T
	D/I	D/N
	LPO	CST
	D/M	FST
		CO

From the Private Secretary

10 July, 1980.

Private Electricity Generation

The Prime Minister has considered your Secretary of State's minute of 4 July, and is content with the draft Written Answer which he proposes to give announcing that in future companies will be able to engage in electricity supply as a main business activity. Could you please let us know when it is intended that this announcement be made.

I am sending copies of this letter to the Private Secretaries to the Members of E and ED(L), and to David Wright (Cabinet Office).

*poss. next monday?
cabinet w/b.*

T. P. LANKESTER

*Monday 21/7 in a speech.
Tim told.*

J.D. West, Esq.,
Department of Energy.

2488

VLS



CC HPT.
DH
WS
SO
DH
CO

North Inch 148

10 DOWNING STREET

From the Private Secretary

B/K/D/A-80

10 July 1980

Harvard 14/80

Organisation of the Electricity Supply Industry

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 2 July on the above subject, and she is content with his proposals - including the draft Written Answer.

You told me that you would let me know when you intend to have the Question put down and publish the Answer.

I am sending copies of this letter to John Wiggins (H.M. Treasury), Ian Ellison (Department of Industry), John Craig (Welsh Office), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

T. P. LANKESTER

J.D. West, Esq.,
Department of Energy,

MM



10 DOWNING STREET

Dear Sirs

On your future query,
companies with a surplus
can only sell it to the
CEGB - i.e. they can't build
their own transmission
lines, and it is not
intended to change this
because duplication of
transmission lines would
simply waste resources.

R. 9/7



10 DOWNING STREET

PRIME MINISTER

Private Electricity Generation

You asked whether Mr. Howell's draft answer should not cover the situation where electricity generation is a subsidiary activity of a business. The answer to this is that it is already legal. If you wish, this could be made clear in the answer.

Can a company supply anyone with electricity?

8 July 1980

competition with the
C&G?
not



Ann Minute

Content with
proposed Answer
(subject to any views
from colleagues)?

PRIME MINISTER
PRIVATE GENERATION

You will know that we have agreed to announce our intention of relaxing the existing statutory prohibition on the supply of electricity as the main activity of a business when a suitable legislative opportunity arises. This is one of a number of measures for promoting competition that have been considered by E(DL).

The proposals which I am hoping shortly to announce about the organisation of the nationalised electricity supply industry are designed to establish closer working relationships between the Electricity Council and Boards, without changing the existing legislation. To balance them, I think it would be helpful if I now announced as soon as possible our intention of relaxing the statutory barrier against others engaging in electricity supply as a main business. Even though, as the statute stands, private industry is already able to produce a considerable proportion of the electricity it consumes and we cannot expect any substantial increase in private generation, we nevertheless believe it desirable to remove this barrier to competition in electricity supply, and I think we should now announce that it is our intention to do so.

As soon as I have conveyed this decision to the Electricity Council and Boards, I would therefore intend, if colleagues agree, to notify the House in terms of the attached draft, pursuant to the Answer given to the earlier Parliamentary Question on this subject from Michael Brown, which I also attach.

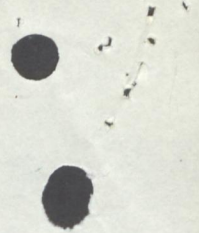
I am copying this minute to Keith Joseph, other members of E and ED(L) and to Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY
4 JULY 1980

JH
2

4 JUL 1960

1099
4
5
6
7
8
9
10
11
12



[Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.]

DRAFT PQ FOR WRITTEN ANSWER ON PRIVATE ELECTRICITY GENERATION

Q. TO ASK THE SECRETARY OF STATE FOR ENERGY IF HE HAS RECONSIDERED THE EXISTING PROHIBITION ON THE SUPPLY OF ELECTRICITY AS THE MAIN ACTIVITY OF A BUSINESS, WITH A VIEW TO ALLOWING WIDER PRIVATE GENERATION?

A. Yes. The prohibition will be removed as soon as a suitable legislative opportunity occurs.

But what if it is a subsidiary
activity and there is a surplus. How
that tax should also be covered?
M.

Electricity

Mr. Michael Brown asked the Secretary of State for Energy if he will review the monopoly powers of the Central Electricity Generating Board with a view to allowing wider private generation of electricity.

Mr. Norman Lament: The CEGB does not have a monopoly for generating and supplying electricity. It is open to any person in England and Wales to construct a generating station to produce electricity solely or mainly for his own purposes, provided that the necessary planning permission is obtained and regulations are complied with. If electricity for supply to others is to form a more substantial proportion of the station's output the Secretary of State's consent to construct is required. However, no one other than the Generating Board or an area electricity board may start to supply or distribute electricity to consumers as his main business.

This is among many matters being examined by the Government in the context of nationalised industry policy.



Prime Minister

PRIME MINISTER

to Mr. Lytton

Yes Mr

Mr Howell has now completed his consultations and wishes to make a written statement. Other Ministers, including Sir Keith, are content. Are you?

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY

12

I circulated my proposals for the organisation of the electricity supply industry in England and Wales last March and you agreed that I should move on to consult the industry, the Unions and consumer interests on my general approach and on the specific proposals for improvement I outlined at the time. As I explained then, I believe that we can develop relationships in the industry within the terms of existing legislation. My proposals are designed to strengthen the co-ordinating and advisory role of the Electricity Council and to bring the Central Electricity Generating Board and the 12 distribution Boards more closely into contact with each other and with the Council. The essential criticisms of the industry have been that co-operation between the generating and distribution Boards was difficult and cumbersome and that the CEGB was too isolated from the distribution side and unaccountable. My purpose has been to subject the strategic issues in the industry, (many of which arise from the CEGB's investment, fuel and pricing policies) to scrutiny by all the Boards and by the Council and to forge closer links between the various Boards in the industry.

I have now completed my consultations with the Chairman of the Electricity Council, Sir Francis Tombs and his full time members, with the Chairmen of the Generating Board and of the 12 Area Boards, and through them with their Board Members. I have also consulted with the Electricity Council as a whole and have seen representatives of the Unions in the industry and the national Electricity Consumers Council. I am glad to say that I have received assurances of commitment to my policy in writing from each of the 13 Boards and from the Electricity Council as a whole.

Some of the Boards have been concerned that their statutory responsibilities might be eroded by the proposals for strengthening the co-ordinating and advisory role of the Electricity Council. In particular,



the CEEB showed some hesitation about opening up their major policy areas to consideration by the Council, although the legislation provides for this. However, after discussion and elucidation and assurances that their statutory responsibilities and access to me and to my Department would remain unchanged, all were content. The industry as a whole is ready to co-operate to the fullest extent in pursuit of my policy and has indeed made progress already.

In discussion with the Unions it became clear they would have preferred centralisation bringing the 13 Boards together in a single Corporation as the Plowden Committee recommended and as the previous administration proposed. They regret what they consider to be a lost opportunity but have assured me nevertheless that they will continue to work constructively with the industry. They have in particular made it clear that they will not allow disagreement with Government policy for the industry to affect their basic commitment to co-operation.

The Electricity Consumers' Council is content with my proposals; those of its members who are Chairmen of Area Board Consultative Councils are of course committed as ex-officio members of Area Boards.

I am also considering ways of opening up the Board of the CEEB to outside influences, and have just appointed Eric Sharp of Monsanto as a part-time Member. We have also decided to refer the main aspects of the CEEB's operations to the Monopolies and Mergers Commission.

Keith Joseph and I have considered whether there was scope for increasing the part played by private generation in electricity supply. At present it is possible to generate and supply electricity to others if that is not the main activity of the business (some 17% of industry's consumption of electricity is privately generated today). We concluded that it would be possible to increase the scope for private generation by legislating to remove the prohibition on the supply of electricity as a main activity of the business, and we consider that this would be worth doing when a suitable legislative opportunity arises. Even though this may not in fact increase the proportion of electricity privately generated to any great extent it is a move that would allow market forces fuller play.



Now that my consultations have been successfully concluded the way is clear for me to inform the House. I would propose to do so by Written Answer.

The draft Answer attached is in largely similar terms to the draft Statement I circulated in March - changes of emphasis have been made to take account of points that arose during the consultations. If you are content I would like to arrange to give the Answer as soon as possible.

I am copying this Minute to the Chancellor of the Exchequer, the Secretaries of State for Industry, Wales, Scotland and Trade, and Sir Robert Armstrong.

JH.

Secretary of State for Energy

2 July 1980



CONFIDENTIAL

PQ FOR WRITTEN ANSWER

FOR ENERGY

TO ASK THE SECRETARY OF STATE/WHETHER HE HAS NOW CONSIDERED THE ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES AND WHAT HIS PROPOSALS ARE.

DRAFT ANSWER

I have given careful consideration to how the electricity supply industry should be organised in England and Wales. I have consulted widely in the industry and have heard the views of other interests.

2 The industry's present structure dates from the 1957 Electricity Act and comprises 13 statutory Boards - the Central Electricity Generating Board and 12 Area Boards - and the statutory Electricity Council which acts as a confederal body for the industry as a whole. It is the Council's duty to advise me on questions affecting the industry and to promote and assist the maintenance and development of an efficient, co-ordinated and economical system of supply. In 1976 the Plowden Committee recommended the unification of the industry into a single Corporation. The last Administration published its proposals for such a Corporation in a draft Bill which was the subject of pre-legislative hearings and a report by the Select Committee on Nationalised Industries towards the end of the last Parliament.

3 The question of the industry's organisation is not a new one. The need to strike a proper balance between healthy local independence and strategic decision making at national level, and

CONFIDENTIAL

between generation and distribution, has been a theme for many years. The balance is not easily struck. Certainly, the creation of a large single corporation unifying the 13 Boards and the Council would carry significant risks of over-centralisation.

4 It was with this in mind that I informed the House last July that, although I did not rule out legislation to effect desirable change in the industry if it were necessary, I preferred to seek improvements if at all possible without it. I have now concluded that improved working arrangements of the kind I wished to see can be developed within the existing statutory framework.

5 For both technical and economic reasons the industry is divided into the generation and transmission of electricity through a high voltage grid, organised on a national basis on the one hand and its distribution by Area Boards on the other. I have not been persuaded that any benefits from bringing generation and distribution together in a unified corporate structure would outweigh the risk of over-centralisation.

6 I have been impressed by the extent of co-ordination and co-operative working that already exists in the industry. I propose to build on the progress that has been achieved and, within the terms of the existing legislation, to develop relationships between the Council and the Boards, strengthening the co-ordinating and advisory role of the Council and of its Chairman, whom I regard as my main policy adviser within the industry, in the development of industrywide policies. I also look to closer links between the Boards, particularly at local levels. The statutory responsibilities of the Council and

the Boards will of course remain as defined by the relevant Statutes. I have been assured by the Council and the individual Boards of their commitment to my policy. In particular, there is agreement to develop co-operative working in the following ways:-

- when consulting the Electricity Council on capital programmes and tariff proposals the Generating and Area Boards will provide full information on the underlying assumptions and costs relating to those programmes and tariff proposals bearing in mind the Council's duty of advising me on the maintenance and development of efficient supply by the industry. I will seek specific comments from the Council before approving capital programmes;
- the Boards will co-operate with the Council in the development of an improved financial reporting system;
- the Council will advise me on the further development of physical, technical and financial measures of performance by the Boards;
- the Council will review with the Generating Board and the Area Boards the structure of the Bulk Supply Tariff with a view to considering whether changes are desirable and will report its conclusions to me;
- the Boards will co-operate with the Council in developing arrangements to encourage transfers of managerial staff between the two sides of the industry;

CONFIDENTIAL

-4-

- the Chairman of the Generating Board and the Chairmen of the Area Boards will promote closer contacts between CEGB Regions and the relevant Area Boards.

7 In my consideration, I have very much had in mind the industry's relations with its customers. I value the close links which exist between the Area Boards and the communities which they serve and wish them to continue their efforts to improve customer relations at all levels. The industry has large responsibilities and I hope that senior members of the Area Boards and CEGB management at regional as well as national level will continue to improve public understanding of the nature of their tasks, and their efforts to provide an economical, safe and efficient public service.

8 Finally I would like to thank all those in the industry both from management and the unions who have given me advice on this subject over the past months. I am conscious that widely different views are held. I believe however that all concerned will now work together to make improvements within the industry's existing statutory framework.

CONFIDENTIAL

27 JUL 1960



^{file}
CONFIDENTIAL



Ch

Nationalised
Industries

10 DOWNING STREET

From the Private Secretary

3 April 1980

Dear Sir,

Organisation of the Electricity
Supply Industry in England and Wales

The Prime Minister has considered your Secretary of State's minute of 2 April on the above subject, and is now content for him to move ahead with consultations with management, unions and consumers on the basis of the draft statement enclosed with his minute of 3 March.

I am sending copies of this letter to Martin Hall (HM Treasury), George Craig (Welsh Office), Ian Ellison (Department of Industry), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

W J Burroughs
T. L. L.

W J Burroughs, Esq
Department of Energy

CONFIDENTIAL

Ch



Prime Minister

Content for
Mr Hovell now to
move ahead on
consultations?

PRIME MINISTER

Yes
noR
2/4

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES

I wrote to you and to colleagues on 3rd March setting out my proposals on the organisation of the electricity supply industry and attaching a draft written statement.

As you requested, Keith Joseph and I have now discussed the options for competition or an element of privatisation in the electricity industry. We are agreed that we should, when a suitable legislative opportunity occurs, remove the prohibition on private generators supplying electricity as a main business. This will probably not have a very large or immediate practical effect, but it will give play to market forces. I do not see real prospects for introducing private capital into the existing supply industry though our proposals on the monopoly position will give potential customers a full opportunity and possibly a spur.

Play A I hope we can now agree to move on to consultations with management, unions and consumers on the basis of my draft statement on organisation and Keith Joseph is content with this. I told the House recently that I expected to make an announcement about organisation after Easter, and there is still some way to go.



I am copying this letter to the Chancellor of the Exchequer, the Secretaries of State for Industry, Wales, Scotland and Trade and to Sir Robert Armstrong

14
2

SECRETARY OF STATE FOR ENERGY
2nd APRIL 1980

12 APR 1960



COMMONWEALTH OF AUSTRALIA

Not Ind



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

01 211 6402

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
SW1

24 March 1980

Dear Tim, R 2/13

ELECTRICITY INDUSTRY ORGANISATION

My Secretary of State has met Sir Keith Joseph to discuss the option of some kind of privatisation of the electricity supply industry, as requested by the Prime Minister (your letter of 11 March refers). He will be responding shortly to the Prime Minister.

I am sending copies of this letter to the recipients of yours.

Yours sincerely,

W J Burroughs
Private Secretary

Bill

24 MAR 1900



Nat hnd

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

14 March 1980

De David

R-12413

I have read with interest your recent minute to the Prime Minister about the organisation of the electricity supply industry in England and Wales. This has important implications for Wales and any uncertainty about the structure of the industry there ought, I agree, to be removed as soon as possible.

Like you, I would want to argue against any radical reorganisation of the industry involving legislation and perhaps the dissolution of the CEBG and the Area Boards and the substitution of a centralised authority. In my view Area Boards, with their local part time members and a degree of independence, have proved their value over the years. If of course there are ways, such as you propose, of improving the organisation and accountability of the CEBG and ensuring closer co-operation between that Board, and other Boards and the Electricity Council, I would be happy to see these pursued. But I would hope any changes would not alter the strength and responsibility of the CEBG's regional organisation.

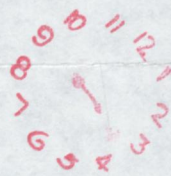
I look forward to knowing the outcome of the further discussions you propose with management, unions and consumer interests.

/ Copies of this minute go to the Prime Minister and the other recipients of your minute.

John Evans
Neil

The Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1

14 MAR 1950



CONFIDENTIAL



file

B

Nationalised
Industries

10 DOWNING STREET

From the Private Secretary

11 March 1980

bf 19.3.80

Electricity Industry Organisation

The Prime Minister has now considered your Secretary of State's minute on the above subject, and she has also seen the Secretary of State for Industry's and the Chief Secretary's minutes of 10 March.

The Prime Minister agrees with Sir Keith Joseph that before an announcement is made on the future structure of the industry, the option of some kind of privatisation should be considered. She hopes that Sir Keith and Mr. Howell will consider this urgently so that a final decision can be taken on whether an announcement should be made on the lines proposed in Mr. Howell's minute.

I am sending copies of this letter to John Wiggins (HM Treasury), Ian Ellison (Department of Industry), George Craig (Welsh Office), Godfrey Robson (Scottish Office), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

T. P. LANKESTER

W. J. Burroughs, Esq.,
Department of Energy.

CONFIDENTIAL

BK



PRIME MINISTER

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES

David Howell sent Geoffrey Howe a copy of his recent minute to you in which he seeks approval for his proposal for improving the electricity supply industry's decision making at strategic levels and its organisation.

2. I entirely agree with David Howell that working relationships within the industry, particularly between the CEGB and the rest of the industry, are less than satisfactory. Our experience with the industry's EFL this year has demonstrated in particular that its financial control is not as tight as it should be. One reason for the belated report to the Government of the prospective breach was, I think, the poor relationship between the CEGB and the Electricity Council which is mentioned in David Howell's minute. I am therefore glad that he is proposing to improve CEGB accountability and to encourage the various parts of the industry to work more closely together. The appointment of a full-time Finance Director to the CEGB's Board should help strengthen their financial control, provided, of course, that the CEGB provide promptly the financial information which the Council require in order to monitor and enforce the EFL. I understand that the industry have already taken steps to this end.

3. I am sending a copy of this minute to the Secretaries of State for Energy, Industry, Wales, Scotland and Trade, and Sir Robert Armstrong.

W. J. B.

JOHN BIFFEN
10 March 1980

170 MAR 1980



Faint, mostly illegible text, likely bleed-through from the reverse side of the page. Some words like "relationship", "industry", and "department" are faintly visible.

JOHN DIXON
10 MARCH 1980

CONFIDENTIAL



PRIME MINISTER

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY IN ENGLAND
AND WALES

In his minute to you on this subject, David Howell proposes an early statement on the future of the esi, announcing in effect that there will be no change. As you know, Michael Marshall is helping me prepare a paper on the scope for further privatisation and promotion of competition in the public sector. The injection of competitive considerations into parts of the public sector is such an integral part of our economic philosophy that I feel that it would be inappropriate to make the conclusive statement of the kind David proposes in respect of the future structure of any nationalised industry, apart from those for whom privatisation measures are already agreed, in advance of the completion of this work. I know how keen David is to move in the direction of privatisation and decentralisation and I accept much of what he writes, yet there may still be possibilities which might be considered. I am hoping to see David shortly on this subject and think that until we have carefully considered all the options we should hold our fire. I hope that David can therefore agree either to refrain from making any statement at present or to making one which rules out unification of the esi, leaving a way open to privatisation. I am copying this to the recipients of the earlier correspondence.

K J *KJ*

10. March 1980

Department of Industry
Ashdown House
123 Victoria Street

10 MAR 1980



[Faint, illegible text, likely bleed-through from the reverse side of the page]

[Faint, illegible text]

[Faint, illegible text]



CONFIDENTIAL

Nat Ind

Qa 04963

To: MR LANKESTER
From: SIR KENNETH BERRILL

W
W3

Organisation of the Electricity Supply
Industry in England and Wales

1. I believe David Wright has sent you the CPRS views on Mr Howell's judgement that the electricity supply industry had best be relieved of the threat of re-organisation through legislation and be pressured by his Department to achieve the necessary reforms within the existing legislative structure.

2. I have since heard that Sir Keith Joseph will be minuting the Prime Minister asking that this decision and the public announcement be postponed. Sir Keith's point is that he is currently studying the possibility of putting the lucrative telecommunications side of the Post Office into a private sector company and selling the majority of the shares to the public. Sir Keith believes that we should take time to study the case for doing the same operation to the UK electricity supply industry. The UK would then be similar to the United States in having its electricity and its telephones supplied by ^{private} public sector companies. In the case of monopolies such as this careful monitoring is needed on efficiency and charging practices - but the Americans achieve this reasonably well.

3. I confess that I had not adequately considered the case for 'privatising' the UK electricity supply industry and I think that Sir Keith is right - we should take time to consider it. Certainly, if the Government decides to 'privatise' telecommunications they will be asked to explain their different policies for the two utilities.

4. Mr Howell's minute to the Prime Minister gives no strong reason why he needs to make an announcement immediately. We understand, however, that he did make a public statement that he would not let "the grass grow under his feet on this issue as had his predecessor" and that he is committed to making a statement 'around Easter time'. This suggests that there is 3/4 weeks for this subject to be studied before he needs to make an announcement. I think the Prime Minister should agree with Sir Keith that the possibility of 'privatising' electricity



CONFIDENTIAL

be reported on by Mr Howell in collaboration with Sir Keith Joseph so that a comparison with the telecommunications case can be made.

5. I am sending a copy of this minute to David Wright.

KB.

7 March 1980



Prime Minister

See my comment
at end of this
minute.

Ref. A01625

PRIME MINISTER

Organisation of the Electricity Supply Industry in England and Wales

72
15/3

Page A

The Secretary of State for Energy has minuted you on the problems of restructuring the electricity supply industry in England and Wales. He seeks agreement to announce that the Government has decided not to go for early legislation but to try to make improvements within the existing framework.

2. In practical terms, Mr. Howell is surely right. There is no prospect of legislation this Session, and legislation on this subject is unlikely to rate high priority at any time in the lifetime of this Parliament. There is, therefore, little option but to soldier on without any change in legislation.

3. The difficulties are twofold. The first is the overwhelming power and impenetrability of the CEBG. Sir Francis Tombs of the Electricity Council must feel this more than anybody. He took the job (coming from the South of Scotland Electricity Board) on the assumption that he would be given greater powers, and he has been waiting quite a long time for this to happen. Achieving reform within the present statutory position will, as Mr. Howell recognises, mean a greater involvement by Government if movement is to be achieved. Increased Government interference is seldom desirable, but there has always been a strong case for interference to try to improve efficiency in a monopoly, and most industrialised countries keep their public utilities on a tight rein.

4. The second difficulty is that the industry has been in a state of considerable uncertainty for some time, and there is a case for lifting the threat of reorganisation off its neck for a while at least. But the CEBG might then settle happily behind its defences, believing that the threat of radical reorganisation had effectively disappeared.

5. Mr. Howell's approach in his draft statement is to remove the threat of legislation for the foreseeable future (paragraph 4 - "I have now concluded that improved working arrangements of the kind I wished to see can be developed within the existing statutory framework"; and paragraph 9 - "I believe however



that all concerned will now work together to make improvements within the industry's existing statutory framework, and that the end of a lengthy period of uncertainty will be generally welcome". The difference between taking this line and saying that the industry is "on probation" to achieve effective reform is finely balanced. But I would recommend that you endorse Mr. Howell's approach for public consumption, while suggesting to him that he makes it plain to the industry, and especially the CEGB, that it is "on probation" and that the Government will review the case for legislation after a decent interval in the light of experience.

But see below
P.

6. Sir Kenneth Berrill agrees.

REA

ROBERT ARMSTRONG

7th March, 1980

Amidst

Sir Keith Joseph has now minuted (see Flag B) but the proposed announcement should be postponed until the option of "privatising" the electricity industry has been looked at.

A month's delay won't matter, and therefore I think you should agree with Sir Keith but he and Mr Howell should quickly consider the 'privatisation' option. (You have often said that this would produce a more efficient industry).

The Chief Secretary's note at Flag C P2 need not stand in the way of this quick appraisal.

673

✓
Agreed



14.3.80

CONFIDENTIAL

PRIME MINISTER

ELECTRICITY INDUSTRY ORGANISATION

I have as you know been considering the structure of the Electricity Supply Industry in England and Wales. My conclusion, set out in the attached minute, is that necessary improvements in decision making and organisation can be achieved without legislation. I believe that this conclusion, which I should like to announce after Easter, will be generally acceptable. Though Frank Chapple and John Lyons - who want legislative unification of the industry - are likely to express public disappointment, I doubt if there is very much passion in the issue. (My soundings in the Party suggest that there is very little interest in legislation).

I should however mention that this decision will be a bitter disappointment to Sir Francis Tombs, the Electricity Council's Chairman since 1977, who believes he was brought in to preside over a legislatively unified industry and has been actively campaigning for the creation of a new electricity Corporation along the lines advocated by the Plowden Committee in 1976. I doubt whether the decision will lead to his resignation in due course, but it could.

YH

SECRETARY OF STATE FOR ENERGY



14-3-80

CONFIDENTIAL

PRIME MINISTER

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY IN ENGLAND AND WALES

I have been considering the structure of the Electricity Supply Industry (esi) in England and Wales. The industry is governed by the 1947 and 1957 Electricity Acts which give no discretionary powers to change the structure laid down in them. The esi comprises 13 statutory Boards - the Central Electricity Generating Board and the Area Boards - and the statutory Electricity Council which acts as a confederal body for the industry as a whole.

The esi has long been uncertain about its future. A Bill to change the industry's structure fell upon Dissolution in 1970; the Plowden Committee set up in 1974 to review the structure reported in 1976, and the last Government published its proposals as a White Paper in 1978, but was unable to gain Parliamentary support. The Select Committee on Nationalised Industries in 1978 criticised successive Governments for delay.

In my statement of last July (Annex A) I said that I preferred to seek improvements without legislation if at all possible. I have now concluded that, while we do need to improve the industry's decision-making at strategic levels and its organisation, this can for the foreseeable future be done without legislation. My proposals are given below. I would like to announce the Government's decision as soon as possible on the lines attached at B. I seek agreement to this announcement and the proposals below.

I have held consultations with the Electricity Council, the Generating Board and the Area Boards and with the Unions. There is no consensus in the esi. The Council and particularly its Chairman seeks unification which it sees as giving its central members a strong directing role. The CEGB wants to keep its statutory status and identity as do the Area Boards. The Unions - John Lyons and Frank Chapple - want



unification and a strong strategic centre for the esi and in any case discretionary power to vary the industry's structure in accordance with changing needs without primary legislation.

The essential criticisms made of the esi as it now is are that

- because statutory responsibility is divided between the Electricity Council, the CEGB and the twelve Area Boards, co-operation between the Boards is difficult and the process of getting the Boards to adopt common policies is slow and cumbersome;
- the CEGB is too isolated from the distribution side of the industry and the consumer, too powerful, and too unaccountable to anyone in practice.

Plowden's solution was the legislative unification of the industry with a single Electricity Corporation which would have control of the whole industry including investment, finance, pricing and organisation. The statutory entity of the Area Boards and CEGB would go. The risk of this proposal - which was recognised by the Plowden Committee - was that excessive centralisation could easily result. As some guard against this the Committee recommended a statutory duty to 'devolve maximum authority' to operating units. Seeing the same problem the previous Administration proposed, in their White Paper, to retain the present Boards as executive bodies subsidiary to the proposed corporation, at least for the time being, together with Ministerial power of appointment of members of these bodies.

The present structure has its weaknesses but I do not believe that Plowden offered the right solution. For instance, though Area Boards are not easily brought to agree on a common view, and in the last analysis can choose not to go along with a central Electricity Council resolution, they are in practice constrained by the fact that their Chairmen are ex officio Members of the Council. Diversity of approach between Boards moreover is not necessarily a bad thing. It has led to innovation which might not otherwise have occurred. Disagreement between the Area Boards



and the Council tends in any case to be on relatively minor matters. Their Chairmen have assured me of their readiness to work closely with the Council in the development of industry-wide policies. The Boards have become well established over the past 30 years in the communities which they serve. Each Board has a majority of part-time members who represent the public interest and are able to monitor the executive. I see no real need to disturb the present Area Board structure.

Unlike the Area Boards, whose business is essentially local, the CEGB operates the grid system which technologically and economically requires national control. It is responsible for a capital programme of £750m - more than twice that of the Area Boards in aggregate. It runs most of the country's power stations. It is a highly technical engineer-dominated organisation which, as the industry's main purchaser of fuel and plant, is the main client of the NCB, the nuclear industry, and the power plant industry.

The Board consists of 5 Regions (looking after power station operation and high voltage transmission, with considerable devolved authority) and a number of central service establishments. Relations at Regional level between the Board and the Area Boards are adequate, though I believe that a closer liaison can be achieved, and will be proposing measures for this. I also want an increased effort by CEGB Regional HQs to get across to the public the nature and complexity of their job and their approach to efficiency and safe and economic operation.

Relations between the CEGB and the Electricity Council are less satisfactory. The CEGB, with its statutory responsibilities and large specialist organisation, often prefers to act without reference to the Council which, apart from its Chairman Sir F Tombs has no particular expertise in generation questions. For the past three years Tombs has, in the hope of Plowden-type legislation, tried hard to bring generation decisions within the Council's ambit. Not unnaturally, this has been resisted.



Here again, I do not believe that the difficulties are such as to require legislation. Improvements in consultation are needed and the CEGB need to be opened up to fuller scrutiny. But putting the Board into an even larger new centralised Electricity Corporation could have the reverse effect, without offering any certain improvement either of accountability or efficiency. Indeed the danger would be that efficiency would be lost through the sheer size of the new organisation and the disruption involved in setting it up; and increased remoteness from the consumer would result. Nor in my view would the merging of the Area Boards into a series of larger regional Boards, using the CEGB as a kind of service organisation - as Arthur Palmer, for instance, has suggested - provide the answer. The Power Board model, though it has worked in the somewhat different circumstances of Scotland, is not in my view appropriate to England and Wales where the main strategic decisions (power station siting, fuel use etc) must relate to the whole of the grid network so that any competition between the Boards would be more apparent than real. Such moves would moreover risk creating new relationships problems without necessarily disposing of the old.

Structure and organisation do not of course by themselves make a body efficient. Good management and clear targets are critically important. I also place considerable emphasis on the fact that none of the advocates of change have been able effectively to demonstrate that their proposals would bring tangible benefits.

What is needed for the future is a closer working relationship between the CEGB and the rest of the industry, and a general improvement in the CEGB's accountability. The two needs are related. I propose the following:

- (i) the Council already has consultative functions on capital programmes, tariffs and borrowing. I intend to build upon these. In particular I shall require its specific comments on the CEGB's (and Area Boards') capital programmes. I have already asked the Council to establish improved financial reporting. I shall require its advice on the further development of performance indicators.



(ii) I shall ask the Council to review with all Boards the structure of the Bulk Supply Tariff (which sets the transfer price from the CEGB to the Area Boards) and its underlying costs on which the Boards feel insufficiently informed.

(iii) I shall promote closer contacts between CEGB Regions and Area Boards and encourage the CEGB to get their Regional Managers to increase public awareness of what they do.

(iv) I shall encourage transfers of managerial staff between the two sides of the industry, using my power of appointment as appropriate.

I also intend to improve CEGB accountability by the appointment of a full-time Finance Director to its Board, where financial control has remained for too long the responsibility of the Deputy Chairman, who in effect combines the functions of Chief Executive and Financial Director. I have further changes in mind with a view to opening up the CEGB Board to outside influences.

In all this it will be very important the Ministers here, without getting involved in day-to-day management, bring influence to bear to ensure effective co-operation within the industry. The Council's co-ordinating role can and should in my view be strengthened, especially in financial matters. But it does not need to oversee the whole business of the Boards. To subordinate the CEGB to it would run the risks of duplicating bureaucracy, lengthening lines of command and losing transparency. The CEGB should in my view continue under the existing statute, where its powers and duties are not dissimilar from those of other nationalised industries. In dealing with the Board I propose to use to the full my right to obtain whatever returns, accounts or other information I require, either directly or through the Council.

In many ways the industry's greatest problem lies not in organisational structure but in getting power stations built on time and cost. These



problems will not be solved by restructuring. I have considered the CEGB's relations with the nuclear industry. I announced my proposals in December for a restructured NNC and envisage that the relationship between it and the CEGB will be one where the Board, while maintaining its role as informed customer with responsibility for safety and long-term operation, stands back increasingly from the task of nuclear power station designs and construction. I am in no doubt that the CEGB must act in close collaboration with its major suppliers, and will encourage this.

In reaching my conclusions I have had in mind that reorganisation offers no obvious attractions to consumers. No cost savings from reorganisation can be demonstrated. The submerging of Area Boards in any larger structure would be retrograde from the consumers' point of view.

My soundings lead me to believe that the policy I have outlined will prove generally acceptable. While some in the industry will be disappointed at the outcome and we can expect the unions to make some formal protest, I doubt if there is very much passion in the issue. Most will welcome an end to the uncertainty.

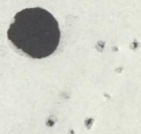
I have agreed to see both management and unions again and I would also propose to talk to consumer interests. If you and colleagues agree I will consult upon the policy outlined in the draft Statement and report back.

I have, concurrently with my consideration of the industry's structure, been giving thought to ways of encouraging private generation of electricity and combined heat and power; and have written separately to Keith Joseph about this.

I am copying this letter to Chancellor of the Exchequer, the Secretaries of State for Industry, Wales, Scotland and Trade and Sir Robert Armstrong.

MA.

- 4 MAR 1980



WEDNESDAY 25 JULY 1979

200 Mr Donald Thompson (Sowerby): To ask the Secretary of State for Energy, what decision he has taken on the organisation of the electricity supply industry in England and Wales and on the need for legislation.

MR DAVID HOWELL

There are I know widely held views that the present situation is not satisfactory. I do not rule out that legislation may be needed to effect desirable changes. But I prefer to seek improvements without legislation if at all possible. I am therefore requesting the Chairmen of the Electricity Boards to work more closely with the Electricity Council under the Chairmanship of Sir Francis Tombs in the development of industry-wide policies.

DRAFT WRITTEN STATEMENT

I have given careful consideration to how the electricity supply industry should be organised in England and Wales. I have consulted widely in the industry and have heard the views of other interests.

2 The industry's present structure dates from the 1957 Electricity Act and comprises 13 statutory Boards - the Central Electricity Generating Board and 12 Area Boards - and the statutory Electricity Council which acts as a confederal body for the industry as a whole. It is the Council's duty to advise me on questions affecting the industry and to promote and assist the maintenance and development of an efficient, co-ordinated and economical system of supply. In 1976 the Plowden Committee recommended the unification of the industry into a single Corporation. The last Administration published its proposals for such a Corporation in a draft Bill which was the subject of pre-legislative hearings and a report by the Select Committee on Nationalised Industries towards the end of the last Parliament.

3 The question of the industry's organisation is not a new one. The need to strike a proper balance between healthy local independence and strategic decision making at national level, and between generation and distribution, has been a theme for many years. The balance is not easily struck. Certainly, the creation of a large single corporation unifying the 13 Boards and the Council would carry significant risks of over-centralisation.

4 It was with this in mind that I told the House last July that, although I did not rule out legislation to effect desirable changes in the industry if it were necessary, I preferred to seek improvements if at all possible without it.

CONFIDENTIAL

I have now concluded that improved working arrangements of the kind I wished to see can be developed within the existing statutory framework.

5 For both technical and economic reasons the industry is divided into the generation and transmission of electricity through a high voltage grid on the one hand, organised on a national basis, and its distribution by Area Boards on the other. The tasks of generation and distribution are very different and I have not been persuaded that any benefits from bringing them together in a unified corporate structure would outweigh the risk of over-centralisation and disruption.

6 Following my statement last year I was assured by the Chairmen of all the Boards of their readiness to work closely with the Electricity Council under the Chairmanship of Sir Francis Tombs in the development of industry-wide policies. The industry has worked well together in the development, with Government, of financial targets. And I recognise a commitment by all Boards to the need for careful financial control, in which the Council has a central co-ordinating role to play.

7 I wish co-operative working in the industry to be further developed in the following ways:

(i) the 1957 Act provides for the Electricity Council to be consulted upon the investment programmes and tariff proposals of the Generating and Area Boards and to manage the industry's borrowing. I look to the industry to provide full information on the underlying assumptions and

costs relating to those investment programmes and tariff proposals, bearing in mind the Council's duty of advising me on the maintenance and development of efficient supply by the industry. In this connection I shall in particular require the Council's specific comments on the Boards' capital programmes, and timely advice on significant changes in their financial position;

(ii) I have requested the Council to advise me on the further development of physical, technical and financial measures of performance by the Boards;

(iii) I have asked the Council to review with the Generating Board and the Area Boards the structure of the Bulk Supply Tariff with a view to considering whether changes are desirable and to report to me;

(iv) I have asked the Chairman of the Generating Board and the Chairmen of the Area Boards to promote closer contacts between CEGB Regions and the relevant Area Boards.

(v) I have asked the Council and Boards to encourage transfers of managerial staff between the two sides of the industry.

8 In my consideration, I have very much had in mind the industry's relations with its customers. I value the close links which exist between the Area Boards

and the communities which they serve and wish them to continue their efforts to improve customer relations at all levels. The industry has large responsibilities and I hope that senior members of the Area Boards and CEEB management at regional as well as national level will continue to improve public understanding of the nature of their tasks, and their efforts to provide an economical safe and efficient public service.

9 Finally I would like to thank all those in the industry both from management and the unions who have given me advice on this subject over the past months. I am conscious that widely different views are held. I believe however that all concerned will now work together to make improvements within the industry's existing statutory framework, and that the end of a lengthy period of uncertainty will be generally welcome.

525

525

The first of these is the fact that the
 Government has been unable to secure
 the necessary funds to carry out its
 policy of expansion. This is due to
 the fact that the Government has
 been unable to raise the necessary
 funds through the sale of bonds or
 other means. The Government has
 also been unable to secure the
 necessary funds through the sale of
 assets. This is due to the fact
 that the Government has been unable
 to sell its assets at a price which
 would allow it to raise the necessary
 funds. The Government has also
 been unable to secure the necessary
 funds through the sale of assets.
 This is due to the fact that the
 Government has been unable to sell
 its assets at a price which would
 allow it to raise the necessary
 funds. The Government has also
 been unable to secure the necessary
 funds through the sale of assets.
 This is due to the fact that the
 Government has been unable to sell
 its assets at a price which would
 allow it to raise the necessary
 funds.

525

E-5 MAR 1950

121
2
3
4
5
6
7
8

525

North Lond.

Electricity

Mr. Thompson asked the Secretary of State for Energy what decision he has taken on the organisation of the electricity supply industry in England and Wales and on the need for legislation.

Mr. David Howell: There are, I know, widely held views that the present situation is not satisfactory. I do not rule out that legislation may be needed to effect desirable changes. But I prefer to seek improvements without legislation if at all possible. I am therefore requesting the chairmen of the electricity boards to work more closely with the Electricity Council under the chairmanship of Sir Francis Tombs in the development of industry-wide policies.

WRITTEN ANSWER 25.7.79 COLS. 238-9



Nat. Ind.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

MSM

BF

~~31/10/79~~

24 July 1979

R.

Dear Tim,

ORGANISATION OF THE ELECTRICITY SUPPLY INDUSTRY .

My Secretary of State has now circulated the draft of a PQ and Written Answer on this subject. His proposed course for the industry is to seek improvements without legislation if at all possible and he has requested the Chairman of the Electricity Boards (including the CEGB) to work more closely with the Electricity Council under the chairmanship of Sir Francis Tombs. This change should bring the CEGB policies under closer scrutiny by the Electricity Council and the Area Boards.

At a meeting last week with Sir Francis Tombs and Mr Glyn England representing management and Mr Frank Chapple and Mr John Lyons representing the unions, Mr Howell told them that he would be considering further his policy and recommendations for the industry and would consult with them again. He expects to put his conclusions to the Prime Minister and colleagues before the end of the year.

I am copying this letter to the Private Secretaries of Members of E(EA), Sir John Hunt and Sir Kenneth Berrill.

Yours sincerely,

Bill.

W.J BURROUGHS
PRIVATE SECRETARY

25 JUL 1979





From the
Minister of State

Lord Trenchard

The Rt Hon D A R Howell MP
Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QJ

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

24 July 1979

12/24/79

The Secretary of State,

ORGANISATION OF THE ELECTRICITY INDUSTRY

You wrote to Keith Joseph on 18 July about the organisation of the electricity supply industry.

We have, of course, an interest in the structure, role and Boards of the industry in terms of its position as supplier of energy to industry generally and as customer of the plant supplying industry in particular. On the first point, we would endorse the view that the organisation should be so designed as to be more responsive to market pressures. On the latter point, my recent discussions with some of the principal executives of the plant suppliers have brought home to me the importance of reviewing the way plant is currently ordered. The existence within the electricity supply industry of large research and development and quality control facilities seems to have produced a predilection to ordering goods of their own special design often from a manufacturer with modest design facilities. This seriously restricts the plant suppliers in the bids they can submit, in the commercial and technical initiatives we ought reasonably to expect from them and in their seeking some accommodation between home and export requirements in order to secure necessary specialisation and volume. I believe we have to encourage a more commercial attitude from the electricity supply industry in this respect, and I should like to have an opportunity of discussing this with you. In the meantime, my officials are in touch with yours about the nomination of industrialists who, as members of the CEB, could be expected to make a contribution in this and other commercial fields.

I have considered whether a statement of the kind you propose would in any way restrict our freedom in relation to these issues. I do not see how it would. On the other hand, I believe that action to develop our own policy should proceed urgently.



I am sending copies of this letter to the Prime Minister,
the other members of E(EA), Sir John Hunt and
Sir Kenneth Berrill.

Your sincerely
David Reynolds.

LORD TRENCHARD

(Approved by the Minister
and signed in his absence)

24 JUL 1979



10:10


CONFIDENTIAL

JS

10 DOWNING STREET

From the Private Secretary

23 July 1979

BF 27/7/79
for Howard

Dear Bill.

ORGANISATION OF THE ELECTRICITY INDUSTRY

The Prime Minister has seen your Secretary of State's letter of 18 July to the Secretary of State for Industry on the above subject. She has also seen the Chief Secretary's letter of 20 July.

The Prime Minister agrees that the Chairman of the CEGB and the Area Boards should be asked to work more closely with the Electricity Council, and that the Chairman of the Council should in future be regarded as Mr. Howell's main adviser; she agrees that this should be announced in answer to a Written Question before the recess. However, the Prime Minister has asked me to say that the CEGB still seems accountable to no-one, and that because of this, it has been able to abuse its monopoly position, over-specified its requirements, damaged the export potential of its suppliers and unnecessarily increased the cost of electricity to the consumer. If Mr. Howell has any further proposals to deal with this, the Prime Minister would be glad to see them.

I am sending copies of this letter to the Private Secretaries to members of E(EA), Sir John Hunt and Sir Kenneth Berrill.

WJB

Tim Latham

W.J. Burroughs, Esq.,
Department of Energy.

JS

Qa 04203

To: MR LANKESTER
From: SIR KENNETH BERRILL

CONFIDENTIAL

*Agree but
The C&G B still
seem accountable to
no one. If S.N. has
any further proposals to
deal with the power & n.
K.C.B.'s note - they
will be welcome.*

*Prime Minister
Are you content with the
Howell's proposal to make a
statement (written answer) asking
the C&G B to work more
closely with the Electricity
Council and saying that
the Council will be his
main source of policy advice
in future? (Chief
Secretary - Plans B - agrees)
20.7.79*

Organisation of the Electricity Industry

Flag A

1. In his letter to Sir Keith Joseph, copied to the Prime Minister (18 July), the Secretary of State for Energy outlines his short term intentions with regard to the electricity supply industry.
2. Inadequate strategic direction within the industry, because of the over-dominant position of the C&G B and lack of authority of the Electricity Council, has been recognised in previous, unsuccessful attempts to reorganise the electricity industry. Just to take one example, the C&G B's huge investment programme goes through the Electricity Council virtually 'on the nod'.
3. The C&G B is an organisation with vast technical knowledge and resources, but insulated from the pressures of the market place, and effectively accountable to no one. To give another example, from the CPRS's own involvement in the recent issue over the turbine generators for the new AGR power stations, we are sure that it was only through the intervention of the previous Prime Minister (prompted by one of the manufacturers, GEC) that the C&G B gave the matter proper consideration and took into account the implications for the manufacturing industry including its export prospects.
4. We believe there are many cases where the C&G B has abused its monopoly position, over-specified its requirements, damaged the export potential of its suppliers, and unnecessarily increased the cost of electricity to the consumer.

*TL
2/7*



CONFIDENTIAL

5. The Secretary of State's proposal to make it clear publicly that the Electricity Council will in future be the main source of his policy advice is a worthwhile move. But it may not be an adequate enough move to get a real improvement in the CEGB's accountability or, less importantly, to induce the right sort of response from the Area Boards.
6. The CPRS agrees with the Secretary of State that the possibility of legislation should not be ruled out. Amongst other things this would enable the organisation to be adapted to changing circumstances without the need for further primary legislation.
7. We recommend that the Prime Minister should agree to the Secretary of State making a Written Answer before the Recess on the lines he suggests.
8. I am sending a copy of this minute to Sir John Hunt.

kg

20 July 1979

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

20 July 1979

Dear Keith,

ORGANISATION OF THE ELECTRICITY INDUSTRY

In his letter to you of 18 July David Howell proposes, as a first step, that he should ask the Chairman of the CEBG and the Area Boards to work more closely with the Council and that he should announce this in answer to a Written Question.

I certainly agree that we cannot take a decision on the organisation of this major industry's organisation quickly but, as has been pointed out, the industry has been in a state of some uncertainty for a number of years and the sooner this issue can be considered and decisions reached the better. I therefore hope that consideration can be given to the substantive issues involved in the not too distant future. In the meantime I agree that the approach suggested could do no harm and if successful would be a small advance on the somewhat unsatisfactory existing situation. However, given that this type of approach will obviously excite some interest in the industry I think the drafting of the answer will require some care and I would suggest that colleagues have the opportunity of commenting on a draft before any announcement is made.

I am sending copies of this letter to the Prime Minister, the other members of E(EA), Sir John Hunt and Sir Kenneth Berrill.

John Biffen

JOHN BIFFEN

19 JUL 1979





SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
Victoria Street
London SW1

18 July 1979

Dear Keith

ORGANISATION OF THE ELECTRICITY INDUSTRY

The present organisation of the electricity supply industry in England and Wales has remained unchanged since the 1957 Electricity Act set up 14 independent statutory bodies - a Generating Board (the CEGB), 12 Area Boards, for distribution and an Electricity Council which carries out certain central functions and provides common services. The 1957 Act made no provision for changing the organisation as need arose.

For many years there has been a current of opinion in favour of a change to improve cooperation between the generation and distribution sides of the industry; a Bill was introduced in 1970 but fell upon dissolution; Lord Plowden's Committee (set up in 1974) reported in favour of unification; and the previous Government's draft Bill was published in 1978. The industry has therefore suffered from doubts about its future organisation over a long period.

I recognise that the present situation is considered unsatisfactory by many people. There is a need to bring uncertainty to an end and it is certainly unfortunate that the industry cannot adapt its organisation to changing circumstances without primary legislation. It is also argued that reorganisation would bring about a closer relationship between the generation and sale of electricity and this would increase the responsiveness of the industry to market pressures.

But I do not believe that we can take a decision on the organisation of such a major industry quickly. We need time to consider and develop our own policy and to satisfy ourselves that reorganisation really is absolutely necessary. In particular, we cannot commit ourselves to legislation at this stage. I therefore propose as a first step to ask the Chairman of the CEGB and the Area Boards to work more closely with the Council. I would make it clear that I regarded the Chairman of the Council as my main adviser on general

policy. We cannot however be certain that such an approach would work, since the boards and independent bodies with their own statutory rights and duties. We should not therefore at this stage entirely rule out the possibility of legislation.

We need to let Parliament and the industry know of our intentions. I would therefore propose, unless my colleagues disagree, to answer a Written Question in Parliament before the recess, announcing that this is how we intend to proceed.

I am sending copies of this letter to the Prime Minister, the other members of E(EA), Sir John Hunt and Sir Kenneth Berrill.

Howell
David

D A R Howell

15

Handwritten scribbles and marks, possibly initials or a signature.

18 JUL 1979



15



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
Victoria Street
London SW1

18 July 1979

Dear Keith

ORGANISATION OF THE ELECTRICITY INDUSTRY

The present organisation of the electricity supply industry in England and Wales has remained unchanged since the 1957 Electricity Act set up 14 independent statutory bodies - a Generating Board (the CEGB), 12 Area Boards, for distribution and an Electricity Council which carries out certain central functions and provides common services. The 1957 Act made no provision for changing the organisation as need arose.

For many years there has been a current of opinion in favour of a change to improve cooperation between the generation and distribution sides of the industry; a Bill was introduced in 1970 but fell upon dissolution; Lord Plowden's Committee (set up in 1974) reported in favour of unification; and the previous Government's draft Bill was published in 1978. The industry has therefore suffered from doubts about its future organisation over a long period.

I recognise that the present situation is considered unsatisfactory by many people. There is a need to bring uncertainty to an end and it is certainly unfortunate that the industry cannot adapt its organisation to changing circumstances without primary legislation. It is also argued that reorganisation would bring about a closer relationship between the generation and sale of electricity and this would increase the responsiveness of the industry to market pressures.

But I do not believe that we can take a decision on the organisation of such a major industry quickly. We need time to consider and develop our own policy and to satisfy ourselves that reorganisation really is absolutely necessary. In particular, we cannot commit ourselves to legislation at this stage. I therefore propose as a first step to ask the Chairman of the CEGB and the Area Boards to work more closely with the Council. I would make it clear that I regarded the Chairman of the Council as my main adviser on general

policy. We cannot however be certain that such an approach would work, since the boards and independent bodies with their own statutory rights and duties. We should not therefore at this stage entirely rule out the possibility of legislation.

We need to let Parliament and the industry know of our intentions. I would therefore propose, unless my colleagues disagree, to answer a Written Question in Parliament before the recess, announcing that this is how we intend to proceed.

I am sending copies of this letter to the Prime Minister, the other members of E(EA), Sir John Hunt and Sir Kenneth Berrill.

Howell
David

D A R Howell

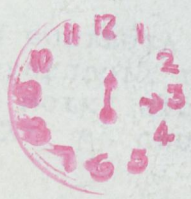
55

55

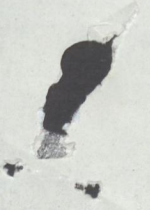
55

Handwritten scribbles and marks, possibly initials.

18 JUL 1979



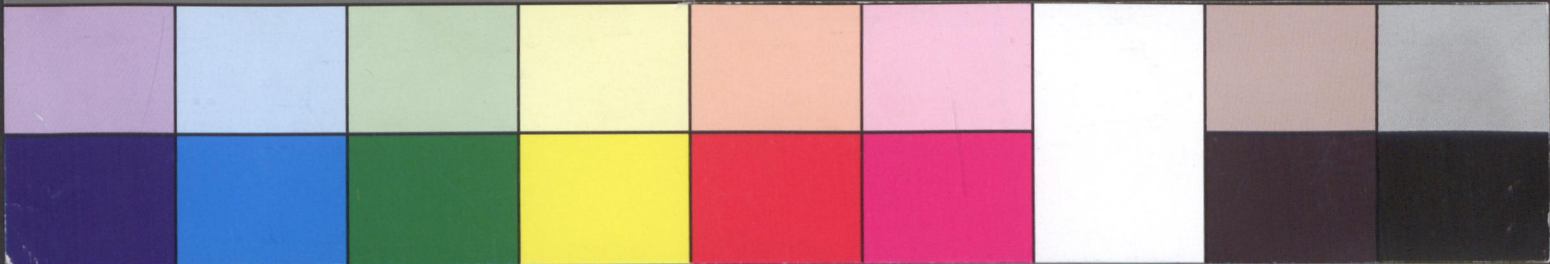
55



Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow



A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19

Grey Scale #13

