


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 CEEB 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 CEEB 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



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

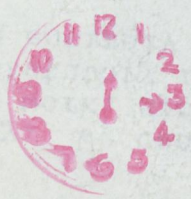
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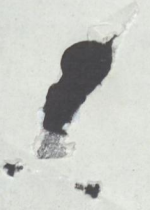
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18 JUL 1979



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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 CEGB 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



Qa 04203

To: MR LANKESTER
From: SIR KENNETH BERRILL

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Organisation of the Electricity Industry

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 CEGB 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 CEGB's huge investment programme goes through the Electricity Council virtually 'on the nod'.
3. The CEGB 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 CEGB 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 CEGB 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.

*Agree but
The CEGB still
seem accountable to
no one. If SN's has
any further proposals to
deal with the power & n
K.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 CEGB 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*

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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.

20 July 1979

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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.

X 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 CEGB, 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

