



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



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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

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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;

- 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.

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10 DOWNING STREET

From the Private Secretary

B/K/D/A-80

10 July 1980

Hansard 11/12.

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,

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