

cc JV

Prime Minister (2)

01 211 6402

To note

Mus 30/7

The Rt Hon Leon Brittan QC MP
 Chief Secretary to the Treasury
 Parliament Street
 London
 SW1

30 July 1982



Dear Chief Secretary,

POLICY LETTER FOR THE NEW CHAIRMAN OF THE CENTRAL ELECTRICITY GENERATING BOARD

My minute of ^{TPM} 27 July to the Prime Minister discussed the general issue of publishing policy letters to nationalised industry chairmen. If colleagues accept my proposals, I intend to send a letter on the lines of the attached draft to Sir Walter Marshall on the clear understanding that it will become public. I shall give him further confidential guidance on the points omitted from the version annexed to E(NI)(82)17.

Against this background, some of the changes to the draft with E(NI)(82)17 will be self-explanatory. I should however like to answer the particular points raised by you and other colleagues on that draft.

I recognise the potential problems with the Commission to which the original objective 1d (on purchasing) might have given rise and it has therefore been omitted. I should however like to include it in the confidential guidance, with a suitable proviso about our international obligations, and I note Patrick Jenkin's support for an objective of this kind. If you feel that there might still be difficulties, perhaps our officials could work out a satisfactory form of words.

You suggested that on competition and private risk capital, the Chairman should be asked to submit an interim report on the possibilities by the end of the year. I think you will agree that to include a particular deadline in a published letter could attract undue attention, but I will certainly make clear to Sir Walter Marshall that I should like his advice on these questions at the earliest practicable date.

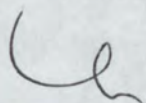
As you will see, the objective relating to nuclear power has been much shortened and revised with an eye to publication, bearing in mind also the Government's position with regard to the Sizewell Inquiry - a point which Michael Heseltine raised. I shall aim to cover your point about the nuclear industry in the additional confidential guidance.

Michael also suggested the insertion of a new objective dealing with environmental standards. This point arose earlier in connection with the policy letter to the new chairman of the NCB, and my view is the same in relation to the CEGB; that compliance with environment standards is not an objective in its own right but a constraint within which the industry must operate. I hope therefore that Michael will agree, as he has in the case of the NCB, that there should not be a separate objective on this subject for the CEGB.

In answer to Mr Bailey (CPRS), I can confirm that we are discussing various aspects of corporate planning with the industry and my officials will keep the CPRS in touch on this.

Subject to colleagues agreement to my proposals on the general question of publication, I would aim to hand over a letter on the lines attached to Sir Walter Marshall as soon as possible.

I am copying this letter to the Prime Minister, other colleagues on E(NI), Sir Robert Armstrong and Mr Sparrow.

 *similar*
J.P. Clark

NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

POLICY LETTER FOR CEGB CHAIRMAN

This letter sets out the objectives which the Government wish you to pursue as Chairman of the CEGB. The objectives elaborate on the responsibilities and obligations placed by Statute on the Board as a whole, and in particular the duty to develop and maintain an efficient, co-ordinated and economic system of supply of electricity in bulk.

(1) Your prime objective must be to run the Board with maximum efficiency, ensuring that sustained and detailed attention to cost control extends through all aspects of the Board's activities. In this context:

- (a) challenging cost control targets should be set wherever practicable, and carefully monitored;
- (b) the Board should achieve its part of industry-wide performance targets which are set by Government;
- (c) every effort should be made to ensure that power stations are built to time and cost.

(2) It must also be your objective to increase the scope for competition in electricity supply. You should review the prospects for the injection of private risk capital into areas of the Board's operations, and make positive recommendations to me wherever possible. In co-operation with Area Boards when appropriate you should seek to develop co-operation with private generators, ensuring that effective commercial and technical arrangements exist to take full economic advantage of their potential contribution to supply.

(3) In developing proposals for capital investment, your objective should be the production and distribution of electricity at the lowest possible cost consistent with maintaining adequate standards eg of security of supply. Capital investment proposals should be set out comprehensively for my approval, giving an account of the

strategic framework against which they have been developed. The Board should continue to pay close attention to the methodology used in capital investment appraisal.

(4) You should ensure that the Board does all possible to explore and exploit the full potential of nuclear power to contribute to the cheap; effective and safe production of electricity.

(5) The Board's plans for efficient operation, and cost-reducing investment, should be developed within the framework of a corporate plan for the industry, which will be reviewed annually with Government. They should take full account of the financial targets agreed with Government and of the industry's External Financing Limits. The Board should ensure regular and effective information flows to assist the Government and the Electricity Council to monitor performance in relation to those targets and limits.

(6) The Board should set its prices so as to reflect the costs at the margin of meeting demands on a continuing basis. It should pay careful attention to the impact of the bulk supply tariff on different categories of the electricity supply industry's consumers. In appropriate cases, the Board should be ready, subject to the provisions of Section 2(6) of the 1957 Electricity Act, to discuss with bulk industrial users and the Area Boards the possibilities of direct supply by the CEGB.

(7) You should work closely with the Chairman of the Electricity Council on all major issues affecting the industry. I shall be sending him a copy of this letter for his personal information. The need for close working relationships within the industry as a whole was stressed in David Howell's statement of July 1980, which I attach.

Finally, I should make clear that the Government may wish to give further guidance to you at a later date or to impose constraints from time to time, for wider reasons, on your ability to achieve one or other of these objectives.

30 JUL 1982

1234567890



Prime Minister 2

Wm
7/8

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

4 August 1982

MS

Nigel

Thank you for your letter of 30 July enclosing a revised draft of an open policy letter to the new Chairman of the CEBG. It does seem sensible to be able to make this policy guidance public wherever we can.

I quite understand why you would prefer to deal with the points I raised in my letter of 22 June in your confidential rather than public, guidance to the Chairman. That will meet my concern over the need for an early report on possibilities for injecting private risk capital into the industry and for the development of a more effective private nuclear industry. On purchasing, there is still a risk that even confidential guidance given by the Government could leak, causing embarrassment with the European Commission. I suggest that our officials try to devise a "safe" formulation, but if this proves impossible we may regretably have to leave it out altogether.

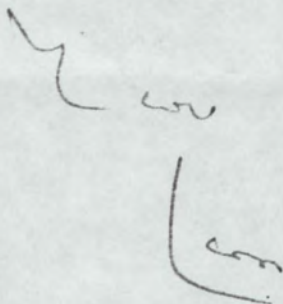
I also appreciate why you have removed from the public document the objectives concerning a review of the role and structure of the CEBG and the maintenance of secure supplies of fuel. There seems to me a risk, however, that by not referring to the latter at all (at a time when the Government is widely reported to have directed that stocks should be built up), we may stimulate speculation that confidential directives have been issued on the point. This may be unavoidable, but the policy letter might usefully re-iterate the general duty of the Board to ensure security of supply so that we have something on record to point to if challenged. As well as the reference in objective (3) you might therefore consider rephrasing the last part of the first paragraph to read:

"...economic system for the secure supply of electricity in bulk".

CONFIDENTIAL

Finally, I take it that we shall be able to say that Sir Walter Marshall agrees with the policy objectives set out in the letter.

A copy goes to the Prime Minister, other colleagues on E(NI), Sir Robert Armstrong and Mr Sparrow.

Handwritten signature of Leon Brittan, consisting of a stylized 'L' followed by 'Brittan'.

LEON BRITTAN

CONFIDENTIAL



Not ind. LCC JV
S m's
W
Rg

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

CONFIDENTIAL

Qa 06012

3 August 1982

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
SW1

Dear Nigel,

Policy Letter for the New Chairman of the
Central Electricity Generating Board

I have seen your letter of 30 July 1982 to the Chief Secretary to the Treasury enclosing an amended version of the policy letter for Sir Walter Marshall.

I support your proposals and hope that it will be possible to include in the confidential guidance to the new Chairman the procurement objective as originally drafted, subject to any necessary qualification about international obligations.

I am sending copies of this letter to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

CONFIDENTIAL