



Energy

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PRIME MINISTER

Gas Gathering Line
(E(80) 52)

BACKGROUND

The British Gas Corporation (BGC) and Mobil have recommended that a gas gathering pipeline should be built as soon as possible to link the fields in the northern basin of the North Sea to St. Fergus in North East Scotland. Their report is not a formal pipeline application. But the Secretary of State for Energy recommends that he should make an early announcement that the Government is in favour of the construction of the line; that it endorses the setting up of a private sector company, in which BGC would have a stake, to build and operate it; and that it agrees with the early formation of an Organising Group consisting of BGC, Mobil, BP and a financial adviser to work out the detailed proposals.

2. He has discussed these proposals with the Chief Secretary who is content with them in general but may, I understand, wish to propose a lower shareholding for BGC than the 35 per cent envisaged by the Secretary of State.

3. The capital cost is in the range of £0.8 billion to £1.3 billion, depending on the final extent of the system and the onshore facilities. It is generally agreed that the economic case is robust and that the scheme compares well with the alternative of collecting gas through existing pipelines and flaring other gas or leaving it in the ground. It is thought that the pipeline would also stimulate the development of further oil and gas reserves. The recommendations are judged to be technically sound.

4. It is also agreed that the aim should be to complete the pipeline by 1984-85. This would avoid further wasteful flaring. It would be useful in convincing the Norwegians that they should pipe gas from their fields to us through the new line rather than attempt to construct another line to their own western coast. In this connection you will have seen the telegram of 27th May from the Ambassador to Norway.



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5. The pipeline would be constructed and operated by a private sector company. To balance the interests of consumers and of the private sector operators, the Secretary of State for Energy is thinking in terms of a 35 per cent share for BGC; 35 per cent for financial institutions; 20 per cent for producers; and 10 per cent for other consumer interests including the Norwegians. The Government would not generally be involved in determining the tariffs, though the Secretary of State could intervene on appeal to him and, if necessary, the Monopolies and Mergers Commission could be asked to investigate.

6. If the debt/equity ratio were 80:20 as proposed, BGC's contribution to the equity would be in the order of £50 to £80 million over the next five years. Provided that BGC did not control the company, the rest of the financing costs would not score against the Public Sector Borrowing Requirement (PSBR).

7. The pipeline would also land natural gas liquids (NGLs) used for petrochemical purposes. One possibility is to pipe these westwards to a greenfield site at Nigg Bay. Another, which BP would prefer, would be to pipe it south to facilities in Scotland and the North of England. This will be considered further by Departments and by the proposed Organising Group.

HANDLING

8. After the Secretary of State for Energy has introduced the paper you might ask the Chief Secretary to comment on the implications for the PSBR. The Foreign Secretary may wish to comment on the reactions of the Norwegians. Lord Trenchard can speak on the interests of the chemical industry who would use the NGLs, and on the procurement possibilities for British manufacturing industry. The Secretary of State for Scotland may also have points to make.

9. The main questions are:-

(a) Should the Government endorse the general proposal?

There seems to be a strong economic case for encouraging the project to go ahead as soon as possible. If this is accepted the discussion can focus on questions about the role of the Government and of BGC.

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(b) What should be BGC's shareholding?

The case for giving BGC a minority holding is that they can then influence the development of the pipeline and the decisions on the tariffs for transmission. Their presence may also be necessary to win the participation of the Norwegians. But the Committee will wish to consider whether their stake needs to be as high as 35 per cent. 25 per cent would be sufficient to give them a blocking vote on changes in the Articles of Association which will incorporate the ground rules for the tariff system.

(c) Are the PSBR costs acceptable?

£50 million to £80 million over five years is relatively small in the context of the total borrowing of the nationalised industries. But BGC's contribution would be higher if the proportion of equity to debt were to be increased. It is also essential that the arrangements should not be modified in a way which would give BGC effective control of the company, since it would then have to be classified to the public sector and the whole of its financing would score against PSBR. The proposed Organising Group will be making detailed recommendations about the financial arrangements, including the debt/equity ratio. It will be important to make clear to them the limitations of BGC's role, and Ministers will wish to consider their detailed proposals when they are available.

(d) Who should run the Organising Group?

The paper is silent on the important question of who should chair the Organising Group. If BGC's role is to be confined, that points against Sir Denis Rooke. You might ask the Secretary of State for Energy to consult further with you and the Chancellor on this question.

(e) What are the procurement implications for British Industry?

This project should give very significant opportunities for orders from the British Steel Corporation and from other British manufacturers. The possibilities for the Government influencing the placing of these

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orders will be limited by the fact that the company will be a private sector one and naturally concerned with how competitive are the tenders offered. But subject to that, and to avoiding European Community charges of giving overt preference to British companies, the Committee will wish to ask the Secretary of State for Energy to take all steps possible to ensure that a high proportion of the orders go to British manufacturers.

CONCLUSIONS

10. Subject to the discussion you will wish to record conclusions:-
- (a) Endorsing the general proposal to construct the pipeline under a ✓ private sector company, with the shareholding spread between consumer, producer and financial interests.
 - (b) Agreeing the stake that the British Gas Corporation should have in ✓ this company.
 - (c) Endorsing the proposal for an Organising Group to work out the ✓ detailed proposals, but
 - (d) Inviting the Secretary of State for Energy to clear with you and the Chancellor who should chair this Organising Group and to report in due course when it has made its recommendations.
 - (e) Inviting the Secretary of State for Energy to ensure that, so far as possible, a significant proportion of the production contracts go to British manufacturing industry.
 - (f) Approving an early announcement of the decisions on (a) and (e).

(Robert Armstrong)

10th June 1980