

THE PRIVATISATION OF THE BRITISH GAS CORPORATION AND ITS IMPLICATIONS FOR ENERGY EFFICIENCY

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The world's biggest ever stockmarket flotation will take place this November 1986. It will involve the sale by the British Government of the whole of the ownership of the British Gas Corporation to private stockholders the world over. The total estimated value of the Corporation is upwards of 15 billion US dollars (£10 billion); however for political (and other) reasons it is most unlikely that any attempt will be made to realise the full amount.

British Gas currently provides natural gas for 16 million domestic customers throughout the mainland of Britain (not including Northern Ireland), and is responsible for 60% of heat provision in British homes. It is also the market leader in fuel provision in both the commercial and industrial sector, selling 17 billion therms of natural gas annually.

When British Gas was owned by the Government, a board of management was appointed by the Energy Secretary, with responsibility for the day-to-day running of the business. Longer term strategic decisions, and issues like pricing policy, were taken in consultation with officials in the Department of Energy, and at any rate nominally the British Parliament retained a substantial measure of control over the Corporation's activities. Certainly various House of Commons' committees (the Energy Committee, the Public Accounts Committee) have on numerous occasions made retrospective comments upon the efficiency of some of these decisions, and have theoretically influenced future behaviour as a result.

Except insofar as company law is concerned, the legislature will after November have no official say as to how this mega-corporation will operate. However, in recognition of its huge monopolistic powers, the Government have proposed to set up two organisations to oversee the activities of the newly 'privatised' British Gas on behalf of the public.

These two organisations will divide their activities as follows: the National Gas Consumers Council will be responsible for handling complaints from consumers on issues like disputes over individual bills, disconnections and other essentially 'individual' complaints.

These functions are in many ways identical to those of a series of regional Gas Consumer Councils which have been in existence since gas was nationalised in 1948; indeed many of the staff carrying out these jobs have been reappointed, albeit at decreased salaries. The sole voluntary exception to this was the able Director of the national body, who was passed over in favour of a retired military officer with no previous experience of gas or utility operations.

The second organisation, colloqually known by its acronym OFGAS (the Office of Gas Supply) will have the responsibility of representing the interests of the 'consumer at large', and will in theory deal with the macro-issues previously the concern of Government servants at the Department of Energy. (There is no suggestion that the number of relevant Government servants be scaled down proportionately!)

The total budget for both these 'watchdog' bodies is to be around £3 million (\$4.5 million), an amount acknowledged by most commentators to be derisory. Indeed it has been significant that the arrangements for, and the powers given to, the regulatory authorities have been universally decided even by those normally sympathetic to the British Government's desire to 'privatise' state-owned assets.

Some background to this policy is perhaps apposite at this point: since winning power in 1979 and increasingly since being re-elected in 1983, the Conservative Government has waxed eloquent upon the merits of denationalising or 'privatising' state-owned companies, thereby raising substantial sums for the Treasury.

Certainly there were a number of total anomalies, companies owned by the state which were competing directly with private sector companies in relatively 'free' markets like road haulage, oil exploration, medical research and long distance buses, which could be sold off with little genuine reason for complaint about replacing state monopolies with private ones. However, in 1984 the whole British telephone system, British Telecom, was sold off as a single entity, not broken up on the US deregulation model, and with a visibly weak regulatory body to oversee it.

This caused some dissention even among those temperamentally sympathetic to privatisation, dissention which has subsequently turned to overt hostility over the way in which British Gas is being handled.

Consider some of the headlines which have appeared in major national, most Conservative, newspapers:

'Beware, British Gas Escaping'	(The Times)
'Privatisation; a sorry chapter'	(Financial Times)
'Let Gas Compete'	(Sunday Times)
'Step on the Gas, Not the Consumer'	(Observer)
'A Suitable Bill for Treatment'	(Sunday Telegraph)
'Rich Will Get Richer With Gas Sell Off'	(Mirror)
'Privatisation Dilemmas'	(Daily Telegraph)
'Gas Sell Off Risks New Monopoly'	(London Standard)

Certainly the textual criticism has, if anything, been even more forthright. The Financial Times (a sister of the Wall Street Journal) for instance editorialised that:

"the Government's plans for selling British Gas seem to be in serious danger of being them into disrepute a tale of political expediency the Gas Bill looks lamentably tattered. The regulator's task seems to be too much restricted."

The Sunday Times Business News echoed this with:

"Gas gives every impression of being bundled into the marketplace as swiftly as possible with the question of regulation largely undecided", and the Economist Magazine, probably the most influential financial journal, thundered:

"OFGAS is a regulatory dwarf, and British Gas' size will distort any competition."

In essence, every serious commentator has concluded that OFGAS will be well nigh impotent as a body to have much impact upon the megalithic gas company - it is truly a 'regulatory dwarf'.

Why has the British Government allowed this to happen? Basically the reasons are threefold.. Firstly, politically they are anxious to ensure that as many new stockholders as possible are encouraged to purchase British Gas shares; they believe that too much 'red tape' from OFGAS may detract from their appeal. Secondly, they are aware that 1986 has not been a good year for energy stocks, and are anxious to attract as large a sum for the Corporation as possible (even if not the full \$15 billion which its assets had been ostensibly worth); they believe that a strong OFGAS could cut perceived profits. Thirdly, the present management of British Gas have insisted that their co-operation in this major transfer exercise would only occur if their empire was allowed to stand as before; there must be no trust busting regulators interfering with their right to run their business as they see fit, in as expansionary mould as ever.

The House of Commons Energy Committee has seen matters rather differently. After extensive research and hearings, they published a Report earlier this summer which condemned the proposed regulatory arrangements as creating a "powerful and ineffectually restrained monopoly".

The Energy Committee had a myraid of detailed complaints to make in their Report about the powers - or rather the lack of them - given to OFGAS. They chose to major on certain of these, by moving amendments at Report Stage in the House of Commons debate. (They were unsuccessful; however, the Government later conceded one point to them, on energy conservation. See below.)

The Committee objected strongly to the fact that whilst maximum prices were theoretically controlled, at least for smaller consumers, no limits to profits were postulated; indeed the formula even for controlled prices enabled the Gas Company to pass on automatically the cost of all purchases however injudiciously acquired. The option of requiring exploration of the "least cost resource acquisition" alternative had been specifically rejected.

When it is first created in November, OFGAS will have in many situations no power to regulate prices, to query purchases, or to eliminate cross-subsidies or discriminatory pricing. (An example of the latter causing much concern is the announced intention of the utility to undertake third party financing activities in competition with the private sector for energy conservation installations; as suppliers they will need to be informed at an early stage of any proposed alteration in natural gas use by any other 'third party' - thus enabling the Gas Company to enter a competing bid for the contract, possibly cross-subsidised from their mainstream business.)

The one and only concession which has been wrung from the Government, only after the longest Parliamentary filibuster in the House of Lords since

Hitler's War, is that the Gas Company will now be required as part of its authorisation "to provide information and advice to its customers about the efficient use of gas."

This concession is hopefully a bridgehead which can be used by a determined conservation-minded Director of OFGAS to ensure that the private sector monopoly does not trample wholesale over all other energy interests. It must however be recognised that with electricity and coal both still publicly owned, and natural gas already the market leader in every market in which it competes, the impending sale of British Gas to the private sector with none but a 'regulatory dwarf' to oversee it could have a profoundly detrimental effect upon energy conservation.

One final point: as well as selling British Gas this year, the UK Government has also declared 1986 as Energy Efficiency Year.