

MR GRAY

Electricity Privatization

There is a good case for a new look at the application of the principles outlined in the original White Paper policy. The principles of the White Paper - putting customers interests first and promoting competition - are paramount. But one of the main difficulties is fitting the nuclear program, at whatever level is thought to be in the national interest, into a competitive system.

The notion that Big G can carry nuclear is fraught with problems. The costs, risks and general uncertainty would tend to put off incipient shareholders and the issue may require massive underwriting. I suspect that the advisers may come to the conclusion that, as such, Big G is "unfloatable" at any price regarded as reasonable.

I would suggest a clean break. Separate nuclear as completely as we can from Big G, and regard it as a separate corporation, so that Big G may go to the market unencumbered by nuclear costs and uncertainties. A clean break is best, then the nuclear operation would not be confounded.

We have to come to terms with the fact that the nuclear corporation would float at a price much less than the book value of the assets (certainly if revalued at current prices and even if calculated as historical costs). This is the government's loss, or the cost of the government's "insurance" for some security of supply. I believe the cleanest solution is for the government to accept these book losses, and so provide a "once-and-for-all" "up-front" implicit subsidy to the nuclear company. Since variable costs of nuclear are well below any conceivable price, there would be no problem of ensuring that the nuclear plants were used to capacity.

This solution would allow considerable competition and would avoid the pressures to limit competition and keep prices high, which will be characteristic of the original Big G (with nuclear) solution. It will avoid the uncertainties of a nuclear "tax" being imposed on all electricity prices and all the regulatory problems that will give rise to.

This is only one solution. There are many others. But at this stage I think the main decision is that we should explore alternatives to the original Big G idea.

AW  
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\* This is what we did with BA.