9 April 1984

MR TURNBULL

WYTCH FARM

The Prime Minister should never have become involved in this issue. Departments are making a great fuss over an easily resolvable question.

The Government's objective is to obtain the best price for the disposal of Wytch Farm. As neither the Government nor BGC have a legal obligation to sell to the Dorset Group, the new offer by RTZ/Charterhouse should be considered on its merits. The Dorset Group should be given an opportunity to produce a revised offer.

There is no need to reopen the bidding to others, nor should Wytch Farm be transferred to Enterprise Oil. Transfer is unlikely to raise more money, but will delay the sale of both Wytch Farm and Enterprise Oil.

Our approach can be justified as the Government has previously recognised that the Dorset Group and RTZ were the only two serious bidders. The original unsatisfactory bids were renegotiated without submitting the offer to a new round of tenders.

We do not consider that the Government can be accused of bad faith in its dealings with the Dorset Group. Failure to complete a deal is a normal commercial risk. There are also three additional factors which should be borne in mind:

- The Budget has significantly changed the valuation of Wytch Farm.

- The Department of Energy consider that the Dorset Group's post-Budget revision does not reflect the improved asset value. This in itself would be a reason for seeking alternative bids, even if RTZ had not come forward.

- BP have always had a pre-emptive right to match any terms agreed with a third party. The Dorset Group have therefore always been faced with the possibility of losing the contract at the last minute.

Conclusion

We consider that the Government has a clear and defensible position. In order to resolve this issue quickly, we recommend that both the Dorset Group and RTZ/Charterhouse should be given 30 days in which to produce final bids.

If there is any chance that a third bidder would be interested - which we doubt - he should be given an equal opportunity to bid within the same tight timetable.

The best offer should then be selected, and the disposal effected without delay.

DLP.

DAVID PASCALL

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Andrew Turnbull Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

7 April 1984

Dear Andrew

WYTCH FARM

In preparation for the meeting which he and the Chancellor of the Exchequer are having with the Prime Minister on Monday, my Secretary of State has asked me to send you the attached note.

Copies go to David Peretz in the Chancellor's Office, and Sir Robert Armstrong.

Yours sincerely

Michael Reidy

M F REIDY
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

WYTCH FARM

Background

1. In October 1981, the then SOS for Energy directed the Corporation to dispose of its interest in Wytch Farm under section 7(2) of the Gas Act 1972. The tender document was put out by BGC in July 1982. It made clear that (i) BGC reserved the right not to accept any of the tenders and (ii) BP had a pre-emption right to acquire the interest by matching any term agreed by BGC and a third party. It attracted three bidders only, the two principal ones being the Dorset Bidding Group and an RTZ/Charterhouse consortium. No bids were sufficiently attractive in original form for the sale to proceed. After discussions between the bidders and the Secretary of State the Dorset Bidding Group improved its offer and in March 1983 Mr Lawson instructed BGC to proceed with the negotiations with a view to finalising the sale.

2. The Dorset Group offer consisted of an initial payment of £80m, a second payment of £80m either when production reached 20,000 barrels per day or after five years, and a 40% net production interest in all production after expenses. Sale documentation was finally agreed and put to the BGC Board in March 1984. In the event BGC delayed a decision beyond the budget. In a budget day adjournment debate on Wytch Farm, the Minister of State for Energy said that consideration of the Wytch Farm deal would take account of any impact from the budget changes. Shortly afterwards BGC wrote to the Dorset Group saying that in the light of the budget the bid was inadequate and should be improved. Following informal discussions with the Department of Energy, Dorset offered to increase the second payment by £20m. On any calculation we or BGC have been able to make on a wide range of assumptions this increase falls well short of the improvement in the value of the asset brought about by the budget.

3. On 29 March RTZ/Charterhouse, the other principal original bidder, wrote to BGC indicating that they were contemplating offering an initial payment of £110m, a second payment of £80m and the same net production interest arrangements as in the Dorset bid. They also indicated that they were prepared to adopt the substance of the purchase and contractual arrangements in the DBG/BGC documentation. Legal advice confirms that there is no legal obligation to sell to Dorset.

The Options

4. (i) to press ahead with the sale to Dorset on present or improved terms;

(ii) to request BGC to open negotiations with RTZ;

(iii) to re-open the sale to a new round of tenders;

(iv) to seek ways of transferring Wytch Farm to Enterprise Oil consistent with the Enterprise flotation in June.

Commentary

5. Sell to Dorset. The negotiations have been protracted and the Dorset Group have foregone other investment prospects in the expectation of success on Wytch Farm as well as incurring direct expenses. It could be argued that there is a moral, but not legal, obligation to complete the sale to them. But sale to Dorset on their latest offer could not be defended as providing the best return to the nation.

6. Negotiate with RTZ/Charterhouse. Their approach is an offer to negotiate, not a bid. If finalised speedily it is worth some £15m to £20m more than the Dorset bid but is not particularly attractive and would be eroded by any delay. But this negotiation with RTZ could not be a final step. It would have to lead either to an invitation to Dorset to match or exceed their bid; and/or to a full retender process.

7. If Dorset matched the RTZ bid the question remains as to whether Government could accept that bid. Once a process of auction had begun it would be difficult not to test the market fully.

8. Re-open the Tender Process. If this route is followed I could not realistically allow BGC to control the process, given the history. I would therefore issue a new statutory direction to take the asset into my possession. This would probably mean a delay of at least 6 months, but the Government would have greater certainty of completing the sale at the end of this period.

9. Transfer of Wytch Farm to Enterprise Oil. The procedure would be that the Government would provide Enterprise Oil with the funds to purchase Wytch Farm from BGC at a price slightly above the RTZ offer. This price would be intended to be sufficiently high for BGC to agree to sell and for BP to agree (as they have hitherto) not to exercise their pre-emption rights. The proceeds received by BGC would by agreement already made be placed on deposit with the Exchequer at no interest and would later accrue to the Exchequer. The Exchequer would get the full proceeds of sale at the flotation stage.

10. It would be essential to get merchant bank advice on the increase in the proceeds from the flotation to be expected from the inclusion of Wytch Farm. This advice would need to confirm that the increased value of Enterprise would definitely exceed the bids made by Dorset and RTZ.

11. It would also be essential to obtain urgent advice from those preparing the prospectus on whether the revised flotation could be achieved within the timetable. Enterprise is scheduled for flotation by the end of June and there would be great delay and loss to the Exchequer if this were not achieved.

12. While it is likely that the BGC Board would accept the sale to Enterprise Oil on these terms if the Government accepted responsibility, full co-operation would also be needed from them to achieve the objective.

13. The real problem is that Dorset will feel strongly aggrieved at any course which does not give them the asset at the price they have now bid. At a rough guess they may already have incurred up to £2 million in legal and professional expenses, and also will have foregone alternative investment opportunities. Officials have suggested that some form of ex-gratia payment in respect of their expenses might be feasible in strict theory. However in practice it would be very difficult indeed to justify to the House of Commons a payment to a group of oil companies for whom failure to complete deals is a normal commercial risk.

14. Were a transfer to Enterprise to be pursued, the key requirement would be urgent consultation with professional advisers to assess the viability of this course of action within the planned timsecale.

SECRETARY OF STATE FOR ENERGY
7 April 1984

CONFIDENTIAL

FILE
cc
bc JP

10 DOWNING STREET

From the Private Secretary

8 May 1984

Wytch Farm

The Prime Minister has seen your Secretary of State's minute of 4 May. She is very pleased that an outcome has been reached which keeps faith with the Dorset group but ensures that the effect of the Budget is fully reflected in the price.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

cc/po

Prime Minister
Agree this as a satisfactory outcome, keeping faith with the Dorset group but having the Budget fully reflected in the price?
AT 4/5

PRIME MINISTER

Yes - delighted MT

WYTCH FARM

As foreshadowed in my minute of 2 May, I met the Dorset Group yesterday to ask them to improve their bid.

You will recall that the Group's original bid comprised an initial payment of £80 million, a second payment of £80 million when production from the field reaches 20,000 bpd, and a net production interest of 40% on cumulative production over 25 million barrels. We persuaded them yesterday to increase these figures to £85 million, £130 million and 40%. In net present value terms, this represents an improvement at a 10% real discount rate of £41 million on a central case compared with the pre-budget bid.

This is £4 million better than the offer foreshadowed by RTZ/Charterhouse. The Chancellor and I are both satisfied that, having regard to all the circumstances, particularly the risks, uncertainties and inevitable delays involved in following any other approach, it would be both commercially justifiable and in the national interest to proceed with the sale to the Dorset Group on this basis.

I am therefore asking British Gas to conclude the sale as quickly as possible, and I would hope to be in a position to announce the outcome in the fairly near future.

I am copying this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Peter Walker

SECRETARY OF STATE FOR ENERGY
4 May 1984

ECM (87) Pt 9

Privatisation

NBPM

AT 3/5

Ref. A084/1338

MR TURNBULL

in PM Box.

The Secretary of State for Energy has sent me a copy of his minute of 2 May to the Prime Minister about Wytch Farm.

2. I agree with the Secretary of State for Energy that it is right to follow the advice given by Warburgs. The fact that they have given that advice would help to protect the Secretary of State for Energy from any possible Parliamentary decision, and the course recommended looks like the best way of getting out of the present difficulty.

RTA

ROBERT ARMSTRONG

3 May 1984

CONFIDENTIAL

FILE da
cc DP

10 DOWNING STREET

From the Private Secretary 3 May 1984

WYTCH FARM

The Prime Minister was grateful for your Secretary of State's minute of 2 May and agrees with the approach which, following merchant banking advice, he and the Chancellor are recommending.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

MR. A. TURNBULL

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

CST

cc NO

Prime Minister ①
Agree this approach?
AT 2/5

Yes MT.

Prime Minister

WYTCH FARM

The Chancellor and I have now completed the further consideration of this issue, taking account of merchant banking advice, which you requested at your meeting on 7 April. At Nigel's request, I am writing to let you know our joint conclusions.

The nub of Warburgs' advice is that we should give the Dorset Group an opportunity to improve their bid further, rather than proceed to any wider re-offer at this stage. This follows on from Warburgs' conclusion that although the Dorset Group can reasonably have felt that the Government were committed to a sale to them before the Budget changes, it is wholly reasonable for the Government to expect to receive an increase in the proceeds which takes account of these changes, while maintaining its commitment to a sale to Dorset. They further conclude that it is reasonable for the Government to hold the view that the improved bid we so far have from Dorset does not properly reflect the extra value resulting from the Budget, and that a value for the Budget changes should be capable of being agreed between the parties.

In putting forward their advice, Warburgs recognise that the Government is not in precisely the same position as a private seller engaged in a similar transaction, although their views are naturally directed to this latter situation. However, Nigel and I are both satisfied that the course they recommend is the most appropriate for us to follow, having regard to the history of the negotiations with Dorset so far and to our general privatisation objectives; and is, given the risks and uncertainties involved in following any other approach, the best in all the circumstances for the Exchequer.

The Budget added between £33 million and £62 million to the net present value of the assets at a 10% real discount rate, across a wide range of assumptions on oil prices, production etc. but only £8 million to £21 million to the value of the bid. Concentrating on a central case, the value of the assets increased by £45 million. The revised Dorset offer now represents in total an improvement of £23 million on the pre-Budget position. There therefore remains a gap of £22 million and Nigel and I have agreed that we should put this gap to Dorset and ask them to improve their offer. I am therefore proceeding with an approach to the Dorset Group along these lines.

If that approach is successful, there would still be a need for further discussions with British Gas to tell them to proceed on the basis of the revised offer.

I am copying this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

SECRETARY OF STATE FOR ENERGY

2 May 1984

Econ Pol: Privatisation : Rel

FILE

RM

10 DOWNING STREET

From the Principal Private Secretary

27 April, 1984

Dear Michael,

I should report to you that a Mr. David Boyd, Chairman of Goal Petroleum, which is a member of the Dorset Group, telephoned me today ostensibly to ask my advice about how an approach should made to the Prime Minister if the Dorset Group did not receive an early reply from Mr. Walker about the bid for Wytch Farm. I said to Mr. Boyd that the Prime Minister was well aware of the problem, that there was no lack of sympathy for the Dorset Group, but that the case raised for the Government genuinely difficult questions of accountability and relations with a nationalised industry. The problem would not therefore simply be resolved by an appeal to the Prime Minister.

Mr. Boyd said that he was grateful for this advice and, while he explained that the delay in this matter was causing great problems for the members of the Dorset Group for which they had to account to their shareholders, my impression by the end of the conversation was that he accepted that the matter would not best be pursued by an appeal to the Prime Minister. Mr. Boyd rang me in the first place because we were acquaintances many years ago and our conversation was affable throughout.

I am copying this letter to David Peretz (HM Treasury).

Yours sincerely,

Robin Butler

M. Reidy, Esq.,
Department of Energy.

RM

file ECL

cc MASTER SET

10 DOWNING STREET

From the Private Secretary

9 April 1984

Wytch Farm

The Prime Minister held a meeting today to discuss the difficulties which have arisen over the sale of Wytch Farm. Present were your Secretary of State, the Chancellor of the Exchequer and Sir Robert Armstrong. The meeting had before it the note attached to your letter to me of 7 April.

The Prime Minister set out the dilemma. If a solution were adopted which meant that Wytch Farm was sold to someone other than the Dorset Group, who had won the original round of bidding and who had spent a considerable sum during negotiations, the Government could be accused of bad faith. While there was clearly no legal obligation the Government could be held to have a moral obligation. Alternatively to accept the Dorset Group's current bid when there existed a higher one could lead to criticism from the PAC that the Government had not secured the best deal for the taxpayer.

One approach would be to ask Dorset to bid again on the grounds that they had taken insufficient account of the impact of the Budget on the value of Wytch Farm. The aim would be not to ask them to match the RTZ bid explicitly but to produce a bid which yielded more or less the same amount. There was no guarantee, however, that this would be the end of the matter as there was nothing to prevent still higher bids from being made.

Another approach was to set a short deadline by which the Dorset Group and RTZ could be asked to submit sealed bids. It was noted that this would in effect allow RTZ back into the bidding when it had been eliminated at an earlier stage. If RTZ were allowed back in, there was no justification for not opening the bid up to others, thereby testing the market fully.

Another alternative was to take the Wytch Farm assets from BGC, combine them with the Enterprise Oil assets and sell them as part of a flotation. While this would ensure that there could be no criticism about the price obtained, it left open the charge of bad faith vis a vis the Dorset Group. It could also delay the flotation of Enterprise Oil.

The Prime Minister asked about BP's right of preemption. It was noted that BP did have such a right but had shown no signs of exercising it, possibly an indication that the price negotiated with the Dorset Group was a reasonable one.

/Summing

Summing up, the Prime Minister said that no solution had been identified which reconciled the conflicting factors. She asked your Secretary of State and the Chancellor to confer further, taking merchant bank advice as necessary. She hoped that, whatever solution was found, would enable a sale to be made without significant delay.

I am copying this letter to David Peretz (Treasury) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

SECRET

file

SUBJECT
cc MASTER

bc: David Pascall

JJ/
DA

10 DOWNING STREET

From the Private Secretary

6 April 1984

Dear Michael,

Wytch Farm

Your Secretary of State came to see the Prime Minister today to explain certain difficulties which had arisen over the disposal of the Wytch Farm assets by BGC. He set out the history of the case, (which I need not repeat in this letter), pointing out that BGC had been directed to negotiate with DBG rather than to settle at a certain price. Sir Robert Armstrong added that the direction to BGC was to dispose of Wytch Farm at the best price. This was no longer represented by the DBG bid, and in consequence the direction may no longer have force. In discussion, it was noted that BGC had no legal obligation to sell to DBG; their commitment was to negotiate with it. The Government had no legal obligation either to DBG.

Your Secretary of State said there was no easy solution. If DBG were not to secure the contract, there could be accusations of bad faith on the part of the Government. The group had spent possibly £2 million on legal fees, and had foregone alternative investment opportunities. It would, however, be very difficult for the Government to defend an offer of compensation to the Group. It would also be difficult to direct BGC to accept the bid from DBG now that a higher bid had been made, as the existence of this bid would inevitably become known. Asking RTZ to withdraw was not a solution, as this would not prevent the existence of the bid being known.

Your Secretary of State thought it unlikely that a joint bid could be arranged as it would be difficult to persuade DBG to share the contract with the loser in the original bid. There were difficulties too in asking DBG to bid again as this raised the question of whether the bidding should be completely opened up. An alternative approach would be to transfer the assets from BGC and sell them as part of Enterprise Oil. This would ensure that a fair market price was secured but would still leave the problem of bad faith in relation to DBG.

The Prime Minister recognised that it was difficult to find a solution which reconciled the need to avoid accusations of bad faith on the part of the Government and the need to be seen to be obtaining the best deal for the taxpayer. She asked Sir Robert

/ Armstrong

SECRET

Armstrong to discuss the matter with Sir Kenneth Couzens and Sir Peter Middleton and to prepare a note setting out the courses of action and the difficulties associated with each. A meeting has been arranged for the Prime Minister to discuss this with the Chancellor and your Secretary of State on Monday afternoon.

I am copying this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Michael Reidy, Esq.,
Department of Energy.

CONFIDENTIAL

PRIME MINISTER

Wytch Farm

Mr. Walker will discuss with you the possibilities for resolving the difficulties over Wytch Farm. These are:-

(i) Give BGC a direction that it should accept the latest DBG bid. The legal advice, however, is that the existing practice under which BGC is operating precludes it from concluding a deal which does not represent the best price available - see the note attached to the Department of Energy's summary. It seems that a new direction will be necessary, but this could generate criticism from the PAC for failure to accept the highest bid.

(ii) DBG could be invited to match the RTZ offer, but if they refuse, we are faced with the choice of either (i) or

(iii) allowing RTZ to gazump BDG.

(iv) Engineering a joint bid.

(v) Adopting the approach used with Enterprise Oil where the asset was transferred to the Department which became the seller.

If, for whatever reason, DBG are now thwarted, the Government will be accused of bad faith. It is thought DBG have incurred around £2 million of expenses.

/ Attached

CONFIDENTIAL

Attached is a folder of the main documents of the case. I suggest you look at the summary and the legal opinion attached to it, and Flags A, G and K.

You will want to consider your role in resolving this problem. You should try and avoid becoming involved in detailed negotiations between the Secretary of State for Energy and his predecessor. A large part of the difficulty lies in the wish of each to so manoeuvre that they do not incur criticism. You should suggest that the two should meet to try and work out a solution which they could bring back to you on Monday afternoon. (We could probably find time after Misc 101.) You may wish to indicate that you regard a good faith argument as being a relevant consideration.

AT

5 April, 1984.

Ref. A084/1068

MR BUTLER

I told the Prime Minister yesterday evening that the Secretary of State for Energy wished to come and see her, for half an hour, on a problem connected with the disposal of Wytch Farm. He would like this conversation to be entirely private between the Prime Minister and himself, though he has suggested that I should be there too.

2. The problem is that Wytch Farm was designated by the Government for disposal by British Gas. British Gas resisted the proposal. The then Secretary of State for Energy (Mr Lawson) insisted upon disposal. He pressed for bids. He decided that the best bid was one from Dorset Group. He told British Gas that that was the best bid, and instructed them to negotiate with Dorset Group. British Gas complied, but with reluctance and dilatoriness, and the negotiations were strung out over two to three years. The deal looked near completion until the Chancellor of the Exchequer's recent Budget altered the figures.

3. One of the members of the British Gas Corporation is a Director of RTZ and Charterhouse, but (as a member of the Corporation) knows all the details of the negotiations with Dorset Group. It appears that the Chairman of British Gas urged the Chairman of RTZ to put in a rival bid for Wytch Farm. In the meantime Sir Denis Rooke wrote to the Secretary of State for Energy, to put on record the sequence of events and the fact that British Gas had been obliged to go into the negotiations with Dorset Group against its will and that the deal was non-commercial. RTZ have now written a letter indicating how much they would be prepared to bid for Wytch Farm. The offer they have in mind is substantially better than that available from Dorset Group. If, however, Dorset Group is gazumped, two things will happen: Dorset Group will argue that because their bid was accepted in principle and made the subject of detailed negotiations, they have foregone other commercial opportunities whilst the negotiations proceeded, and therefore as a matter of good faith

Flag A

the deal should be completed; and Mr Lawson's role in obliging British Gas to negotiate with Dorset Group is liable to become publicly known.

4. It is this last aspect in particular which the Secretary of State for Energy would like to discuss with the Prime Minister, before discussion extends to a wider group (including the Chancellor of the Exchequer).

RTA

ROBERT ARMSTRONG

5 April 1984

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 7214

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

5 April 1984

Dear Andrew

WYTCH FARM

In preparation for his meeting with the Prime Minister tomorrow my Secretary of State has asked me to forward, for the Prime Minister's personal use, the attached folder of key papers. I am sending an identical folder to Sir Robert Armstrong.

Yours sincerely

Michael Reidy

M F REIDY
Private Secretary

G 120/03/2

CONFIDENTIAL

1. Mr Campbell 30.3.
2. PUS
3. Minister of State
4. Secretary of State

KEC 30/3

cc Mr Guinness
Mr Claydon
Mr Wilson
Mr Long
Mr Dart

WYTCH FARM: LEGAL POSITION

1. The Secretary of State asked for a folder of the most important documents relating to the conduct of the sale, and advice on the legal position in respect of the Dorset Group. These are attached; the key sections in the documents have been highlighted for ease of reference.

2. It may be helpful to summarise the position briefly:

(i) In July 1982, BGC put their interest in PL 089 out to tender. The offer for sale document made clear (para 13)* (a) that BGC reserved the right not to accept any offer, and (b) that the decision to accept an offer would only be made when a sale and purchase agreement had been negotiated.

*Flag O

(ii) Bidding closed in October 1982. BGC concluded that none of the offers received was acceptable. Mr Lawson then met the bidders to explore the scope for improvements*; at no stage did he say what level of bid would be acceptable, or give any commitments. The Dorset and RTZ/Charterhouse Groups both put revised offers to BGC. They concluded that neither was acceptable, and asked Mr Lawson for guidance (Sir D Rooke's letter of 10 March 1983*)

*Flag N

*Flag M

(iii) Mr Lawson concluded that BGC's analysis was flawed, and told the BGC Board on 30 March* that it would be commercially justifiable and in the national interest for BGC to finalise a sale to Dorset. In subsequent exchanges of correspondence* between 31 March and 11 April, BGC undertook to open negotiations with Dorset. Government's decision announced on 25 April 1983*

*Flag L

*Flags K-H

*Flag G

(iv) In November 1983 a problem about the risks associated with planning permission arose. The Secretary of State offered his services to bring about a settlement, and in his letter of 2 November* asked BGC to conclude the negotiations.

*Flag F

CONFIDENTIAL

Flag E (v) BGC agreed, but Sir Denis Rooke's letter of 7 November made clear their view that the legal responsibility for the sale was theirs alone, and they would require further instruction before selling to Dorset. This is reinforced in Sir Denis Rooke's letter of 24 November* which makes clear that BGC undertook only to open negotiations following the 30 March 1983 meeting with Mr Lawson, not to conclude the sale. Sir Denis Rooke's latest letter of 26 March 1984* requests an instruction to conclude the sale to Dorset; it pre-dates the latest RTZ/Charterhouse offer.

*Flag C

*Flag A

3. Our legal advisers have therefore concluded that:

(a) BGC have no legal obligation to sell to DBG;

(b) The Government has no legal obligation to DBG;

(c) There is no legal obligation on BGC to comply with the Direction by accepting the Dorset bid now that there is a possibility of a better price from RTZ/Charterhouse.

J G WRIGHT
Gas 1
Rm 735
Ext 7163

30 March 1984

CONFIDENTIAL

Note by Legal Division on relationships of the Secretary of State, the British Gas Corporation (BGC) and the Dorset Bidding Group (DBG) in respect of the disposal of production licence PL089 (Wytch Farm) in the light of the RTZ/Charterhouse offer.

1. It is quite clear that BGC has no binding obligation to DBG to dispose of Wytch Farm to DBG on the terms of the negotiated documents or on any other terms until a contract to do so is concluded between BGC and DBG. The tender document states that BGC was not obliged to accept any offer made pursuant to it; in fact DBG's original offer was rejected. The subsequent offer did no more than open the way to the negotiations which have produced the documents which only create legal obligations if they are completed.

See Flag O

2. It is also clear that, so long as the Direction which came into force on 13th October 1981 is continued in force, BGC have a duty to dispose of Wytch Farm at the best price that can reasonably be obtained consistently with their obligation to complete the disposal with all convenient speed. Before the Charterhouse offer appeared it was accepted by ourselves and, it is understood, by BGC that there was no real prospect of a better offer than that made by DBG. We therefore considered that, unless the Direction was revoked, BGC had no option but to conclude the negotiations with DBG; that being the only way in which BGC could comply with the Direction.

3. In the circumstances obtaining before the Charterhouse offer appeared, we considered whether the Secretary of State could have incurred any legal obligations to DBG. It seemed that the only possibility was if the Secretary of State had induced DBG to pursue the negotiations with BGC on the understanding that the Secretary of State would not allow BGC to discontinue the negotiations by revoking the Direction which alone compelled BGC to continue them. There is no evidence to suggest that such an arrangement was ever made. Consequently there would be no legal inhibition on the Secretary of State revoking the Direction if even though there was no real prospect of a better bid, the DBG offer was nevertheless unacceptable to the Government.

4. The Charterhouse offer at first sight seems to be a substantial improvement on the DBG offer. It therefore presents the real prospect of a better bid which has hitherto been absent and in our view fundamentally alters the legal situation.

5. In the first place it is no longer possible to maintain that the only way of complying with the Direction is for BGC to conclude negotiations with DBG. It would be quite consistent with the Direction for BGC to negotiate a disposal to Charterhouse on the better terms, at least if this could be accomplished within a reasonable time. But we would expect BGC to argue that their members' fiduciary duty to the Corporation required them to seek the best possible deal.

6. Secondly, the question of revocation of the Direction would not arise unless both the RTZ/Charterhouse and DBG offers turned out to be unacceptable and there was still no real prospect of a better offer from anyone else.

7. Finally, it raises the question as to whether circumstances have changed to the extent that even better offers might be forthcoming and so whether the Direction could properly be complied with without first re-testing the market.

D.R.M. Long.
30th March, 1984.

Flag A - Sir Denis Rooke's letter of 26 March 1984

B - " " " " " 27 January 1984 to PUS

C - " " " " " 24 November 1983

D - Secretary of State's letter of 17 November 1983

E - Sir Denis Rooke's letter of 7 November 1983

F - Secretary of State's letter of 2 November 1983

G - PQ (answered by John Moore, PUSS) 25 April 83

H - Sir Denis Rooke's letter of 11 April 1983

I - Previous SOS' letter of 11 April 1983

J - Sir Denis Rooke's letter of 31 March 1983

K - Previous SOS' letter of 30 March 1983

L - Note of previous SOS' meeting with BGC Board - 30 March 1983

M - Sir Denis Rooke's letter of 10 March 1983

N - Note of previous SOS' meeting with DBG - 17 Jan. 83

O - Extract from tender document July 1982

BRITISH GAS

Sir Denis Rooke CBE FRS FENG
Chairman

A

DER/BH

26th March, 1984.

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Peter,

WYTCH FARM

You will be aware that in March, 1983, having assessed the results of detailed analyses of the final bids received from RTZ and from the Dorset Bidding Group and taken external advice on valuation, the Board advised your predecessor that in its opinion neither bid represented a satisfactory offer for the Corporation's interest in PL089. The Board made clear that they were ready to give effect to the existing Direction but asked whether the Secretary of State, on wider policy grounds, wished to direct the Board to dispose of the assets on the basis of either of those offers or to consider other means of disposal.

In a letter dated 30th March, 1983, Mr. Lawson stated explicitly that the Government had decided that it would be both in the national interest and commercially justifiable for the Corporation to accept the Dorset Group's bid. In a further exchange of correspondence Mr. Lawson confirmed his instruction that the Board should proceed with negotiations with that Group, notwithstanding the view of the Board that the offer was commercially unacceptable.

Since that time the Corporation's representatives and advisers have worked hard to bring inevitably complex negotiations to a conclusion. A feature, which from the outset, especially concerned the Corporation has been the uncertainties attending the ultimate sum which the bidders can be required to pay. The main thrust of the Corporation's approach therefore has been to try to ensure certainty of receipt of the three stages of promised payment. Throughout,

/your staff ...

10/174

your staff have been kept in close touch with events and have been provided with copies of all relevant documents. They are now in possession of the three principal definitive documents that encapsulate the overall deal, viz:-

The Sale and Purchase Agreement

The Change of Operator Agreement

The new Joint Venture Operating Agreement

which the Board has considered in detail. For the sake of precision I submit formally herewith final copies of the documents.

The serious reservations which the Board expressed about the proposed deal in correspondence prior to the 30th March, 1983, have not been lessened in the course of negotiation. Indeed, in certain respects of importance, for example in regard to the planning risk, the final documents place the Sellers in a worse position than was originally understood from the offer. The Board therefore has no grounds to change its earlier opinion.

There have been tax changes announced in the Budget; a rapid analysis of these indicated that they would have a material effect on the value of the assets and the Dorset Bidding Group were therefore asked if they were prepared to increase their offer. They initially replied that they did not accept that the effect of the Budget materially improved the value of the interest. However, we understand that they have had the opportunity to discuss the situation with the Department and by letter dated 22nd March they have now said that they are prepared to add £20 million to the second stage payment, bringing that to a total of £100 million. Notwithstanding the views of the Dorset Group, the Corporation notes that the taxation changes apply also to the Corporation's valuation of the assets and have a larger effect than on the bid itself. Since the Dorset Group's response does not in our opinion reflect the full potential value of the tax changes on the assets, this latest development has made the bid even less attractive overall than before. Details of the Corporation's evaluation of the taxation effects are contained in Mr. Hogg's letter of 23rd March, 1984, addressed to Mr. Campbell.

/We entered ...

We entered into these negotiations on the explicit understanding that the Government, notwithstanding the Board's reservations, were satisfied with the bid of the Dorset Bidding Group and that it was in the national interest for it to be accepted rather than to seek other means of disposal. Now that the final documents and the increased offer are available it is important to receive confirmation that the Government's view of the national interest has not changed since this is material to the Board's consideration.

I should be grateful if you would therefore confirm in the light of all the circumstances, including the impact of recent Budget changes, that in the view of Government it is in the overriding national interest for the Corporation to complete the three Agreements including the increased offer enumerated above. The Board has unanimously agreed that subject to that confirmation arrangements should be made to execute the documents without delay.

SECRETARY OF STATE'S OFFICE	
TO MR CAMPBELL	Copies to
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 2/4/84 VIA PS/MOS.	PS/PUS MR GUINNESS MR WILSON MR CLAYDON DR WRIGHT MR DART.

Yours ever,

Peter

Hal

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman

DER/BH

27th January, 1984.

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

PERSONAL TO ADDRESSEE

Sir Kenneth Couzens, KCB,
Permanent Under Secretary of State,
Department of Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Ken,

WYTCH FARM

You know my concern to find a solution to the problem I raised in my letter to the Secretary of State dated 7th November, 1983.

I am enclosing a draft of a possible letter (or part of a letter) which might be sent by the Secretary of State to the Board when he has approved the documents.

Unless we can agree something substantially along the lines of this draft then there is certainly no point in my attempting to run this solution with the Board. And you appreciate of course that even if a draft can be agreed between us, there is no certainty that it would be acceptable to them.

The Board have been advised that such a letter would not remove their legal responsibility. Its purpose would be to show any Parliamentary committee, or the Courts, that Government has plainly accepted full responsibility and that to insist upon legal formalities would merely be delaying the inevitable.

I can of course see that there could be many difficulties for both the Board and the Secretary of State if we were to proceed in this way, but I think it is the best solution I can offer short of a new Direction which is what my Members really feel is necessary at this point in time.

Yours ever,

Denis

PERMANENT UNDER SECRETARY'S OFFICE

TO Mr. Campbell (off the file)	COPIES TO Mr. Guinness, Dr. Wright, Mr. Darton
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE, BY: ACMP	

R
A
F
T

MATERIAL PART OF A LETTER TO BE WRITTEN
BY THE SECRETARY OF STATE TO BGC

You were good enough to send the Department copies of the X agreements negotiated with the Dorset Bidding Group and these have been reviewed by the Department.

The Government has considered the terms of the proposed sale to DBG and considers that it would be in the national interest for the sale to proceed upon those terms, pursuant to the British Gas Corporation (Disposal of Wytch Farm Oilfields Interests) Direction, 1981. Accordingly I require the Board to proceed forthwith with the formalities of sale.

I can confirm that it is Government's view that it is the Board's duty under Section 7(2)(a) of the Gas Act 1972 and the above Direction to dispose of its interest in PL 089 upon the approved terms of the proposed sale to DBG. The negotiations with DBG commenced on the instructions of my predecessor as Secretary of State, given in the national interest; the proposed terms and conditions negotiated by the Board have now been approved in detail by Government, and it is Government, and not the Board, which at this final point accepts full responsibility for them and requires the Board to sign the appropriate documents bringing them into effect. [I should make it quite clear to the Board, that if it were necessary to do so, Government would take every step [exercise its legislative powers] to ensure that the proposed sale proceeds upon the approved terms.]

BRITISH GAS

DER/SH

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

24th November, 1983.

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

Dear Peter,

WYTCH FARM

Thank you for your letter of the 17th November.

I agree that the Corporation is under a duty to give effect to the direction to divest Wytch Farm, but we have been advised that the legal responsibility for the terms of sale rest entirely upon the Board, and that the Board's fulfilment of that duty could not be achieved by a sale upon terms which they regard as commercially unacceptable.

The statement in the fourth paragraph of your letter that "Government agreed that the Corporation should proceed to a negotiated agreement on the basis of Dorset's bid" will be taken by Members as contrary to their understanding of the position on a critical issue. At a personal meeting with Members, when they expressed their view that the DBG bid was commercially unacceptable, the then Secretary of State insisted that they proceed with negotiations in the national interest. The Board consented to open negotiations, but made it quite clear at the meeting that they regarded the Secretary of State's intervention in the nature of an instruction overruling their commercial judgement.

You will also be aware that two external Members thought the issue of the commercial unacceptability of the bid sufficiently important to seek a subsequent meeting with the Permanent Secretary.

/ Since it ...

The Rt. Hon. Peter Walker, MBE, MP. 24th November, 1983.

Since it is apparent that a difference of view exists, I am glad that I have raised this point with you at this juncture, as we shall have an opportunity to explore the position fully, and I have no doubt agree the right course of action.

I regret that we cannot reach any immediate solution and I shall take further advice. As you will appreciate, the Board regard this as a matter of paramount importance and I shall write to you again soon.

Yours ever,

Jim

CC PS/MOS
PS/PUSS (Lords)
PS/PUSS (Commons)
PS/PUS
Mr Guness
Mr Campbell
Mr Gaydon
Mr Wiggins
Mr Dart
Mr Wright
(on file)

01 211 6402

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

17 November 1983

WYTCH FARM

Thank you for your letter of 7 November confirming that you will negotiate in accordance with the request contained in my letter of 2 November, for which I am grateful.

I fully accept that this request does not itself impose any legal obligation on the Corporation. However my understanding of the wider legal position differs from that set out in your letter.

I am advised that since the British Gas Corporation (Disposal of Wytch Farm Oilfield Interests) Direction 1981 was brought into force on 13 October 1981 the Corporation have had a duty under section 7(2) of the Gas Act 1972 to give effect to it.

As you know the Government agreed that the Corporation should proceed to a negotiated agreement on the basis of Dorset's bid. There is no doubt that this bid was the most attractive to result from an offer of open tender. Of course the final outcome may have moved some way from the bid but the effect of any changes is not a matter on which any final conclusions can be reached until negotiations are complete. At that stage I and my colleagues will wish to look at the package as a whole.

If at that stage we are of the opinion that the deal is sufficiently attractive to allow the Corporation to meet its duty, it would follow that we would see the Corporation's conclusions of the deal on those terms as fulfilment of the existing direction. In that situation defence of the sale would in practice lie to Ministers not the Corporation. On the other hand a decision by the Corporation not to proceed with the deal would leave it having failed to discharge its statutory obligation to give effect to the direction.

You will appreciate from this that I see no reason for any supplementary direction either under section 7(2) of the 1972 Act or under the wider powers conferred by section 11(1) of the Oil and Gas (Enterprise) Act 1982, nor do I think that any question of new legislation arises.

As to your point concerning unequivocal acceptance of responsibility by the Government, it remains the case that they are and will be solely responsible for the giving of the direction and for its continuation in force, notwithstanding that the only practicable way in which it could be complied with was by the Corporation disposing of its interests to the Dorset Group on the terms which had eventually been negotiated.

Yours ever

PETER WALKER

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/BH

7th November, 1983.

The Rt. Hon. Peter Walker, MBE, MP,
Secretary of State for Energy,
Thames House South,
Millbank,
London, SW1P 4QJ.

SECRETARY OF STATE FOR ENERGY'S OFFICE
RECEIVED
8 NOV 1983

Dear Peter,

WYTCH FARM

Thank you for your letter dated the 2nd November, 1983, in which you say that bearing in mind your predecessor's decision that the Corporation should commence negotiations with DBG, you have decided to ask the Corporation to accept on your behalf the risks that the relevant local or central Government authorities may refuse or delay either development consents or planning permissions.

I can confirm that we shall negotiate in accordance with your instructions, but at the same time I can foresee an eventual problem which I should mention to you.

The proposed agreement is now, at your requirement, moving further away from the Board's understanding of the original bid, which in any event they regarded as commercially unacceptable. The Corporation will be conceding points in the negotiations which they would not have conceded had they been able to exercise their own judgement.

I do not want to prejudge what the Board may do when presented with the fully negotiated document, but I am bound to say that on the information I have, it is very unlikely that they will view it as commercially acceptable. In such circumstances, the Board could only sign the document if responsibility were to be unequivocally accepted by Government.

/The Corporation ...

SECRETARY OF STATE'S OFFICE

TO Mr. Dart	Copies to PS/MOS
FOR ADVICE AND	PS/PUS
DRAFT FOR	Mr Guinness
APPROVAL	Mr Campbell
PLEASE BY: 15/11/83	Dr Wright
VIA	

cc Mr Clayden
Mr Long

The Corporation has always recognised the interest of Government as effectively the principal, and has thus sought to give as much weight as possible to the views of the Secretary of State. However, the Corporation's advisers have warned that the Secretary of State is not empowered, in the legal sense, to intervene in the negotiations, nor to make any request or give an instruction short of a supplementary direction under the Gas Act, 1972, or the imposition of new legislation. The legal responsibility for the terms of sale, I am advised, rest squarely on the Board.

The difficulty is how the legal responsibility of the Board can be assumed by Government. If the Government were prepared to give a supplementary direction under Section 7(2) of the Gas Act, 1972, I can tell you that the Corporation would not raise any legal objection. This would be the simplest course, and could hardly raise any political issues in view of the original direction. Your advisers may like to consider whether this is a course which is open or whether they see difficulties in it.

The alternative of new legislation seems unduly onerous: indeed, the Corporation is not anxious to press Government to the stage of either a supplementary direction, or the enactment of new legislation if it can reasonably be avoided. We are wondering whether, in circumstances in which it is clear that the Government would so act unless the Board signs the deal, a sufficiently categorical acceptance of responsibility can be given by Government to overcome the difficulties we presently foresee. The exact nature of any document would have to be verified by our advisers, it would certainly have to be associated with clear publicity at the time that the Board was acting only in the knowledge that legislation would be forthcoming it if did not. Your advisers might wish to give some thought to the feasability of such a course of action as we intend to do.

I do not want us to get to the point where the agreement is ready for signature and it is assumed that if we receive a letter which instructs or requests us to sign the deal, that in the light of our compliance with past instructions, we will again comply and sign; a much more formal assumption of

/responsibility ...

responsibility is, I think you will agree, necessary. I hope you will accept that this is a genuine concern which we should explore now.

Yours ever,

Tony

01-211-6402

Sir Denis Rooke CBE FRS F Eng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
London
SW1V 3JL

Mr Guinness
Mr Campbell
Dr Wright
Mr Dow

2 November 1983

F

WYTCH FARM

As you know, the Dorset Group have written to me about a problem which has arisen in the detailed negotiations for the sale of the Corporation's interest in PL 089. I have also seen a copy of Bob Evans' letter of 27 October to Ken Couzens, setting out the Corporation's position.

It appears to be common ground between the Dorset Group and the Corporation that the main outstanding issue between Dorset and BGC is who should bear the risk that failure to attain, or delay in attaining, local planning permissions will prevent or hinder expansion of the field, and thus reduce its value. In considering this question on the basis of the arguments put to me by both sides, I have had regard to a number of factors.

First, it is clear to me that, barring extreme circumstances, it will be in the commercial interest of both Dorset and BP, who will of course be the operator, to make every effort to increase production well above the 20,000 bpd trigger level as soon as possible. I regard this as a major element of reassurance. In addition, Dorset have offered to back this up with a covenant covering the situation where economic circumstances might change this balance of advantage.

Second, I accept what Bob Evans says in his letter about my predecessor having evaluated the bid on the assumption that the second payment, and the NPI payments, would be received. But there has never been any question of absolute certainty. Failure to obtain adequate planning permissions is only one factor which could hinder expansion of the field. Dorset have, I understand, accepted the major reserves and reservoir risks. You accepted in your letter of 2 September to Ken Couzens that the Corporation (ultimately of course the Government, as final recipient of the proceeds), should bear the risk that Department of Energy development consents might be withheld, since this is in the control of the Government, which is the de facto seller. Dorset have applied similar reasoning to the planning permission risk. We are talking, as the Chief Executive says, about what constitutes reasonable commercial certainty, and here I note the Corporation's view that the risk in question is in fact "not a very great one"; a view we share.

, Dorset's strong reluctance to accept the planning risk is not a new development. Indeed their position had so been interpreted here even before their bid was accepted by my predecessor as a suitable basis for detailed negotiations, although I recognise that this position was not specifically spelled out in the bid. If there are inherent obstacles in obtaining the necessary planning permissions, these bear directly on the value of the field and would hence have the same consequent effect on the Corporation's interest as on Dorset's bid. We are not therefore talking about accepting any additional risks on this score. Nor have I any reasonable grounds for supposing that BP, who have considerable onshore experience, would be any less competent in handling planning applications than the Corporation.

Fourth, the Chief Executive says in his letter that "very little is to be gained by analysing the letter of the original bid". I agree that there is scope for elaboration as part of the process of detailed negotiations. But we must give weight to the shape of the original bid which led my predecessor to his decision that you should commence negotiations with the Dorset Group. The Corporation have made clear their view that Dorset's offer was a payment of £160 million in two stages; Dorset have consistently maintained that the planning risk was one which they intended to exclude from the factors triggering the second payment.

Taking into account all aspects, both of the merits and of the history of the negotiations, and against the background of a number of concessions which Dorset are making in other areas, and bearing in mind my predecessor's decision referred to above, I have decided to ask the Corporation to accept on my behalf the risks that the relevant local or central Government authorities may refuse or delay either development consents or planning permissions. Of course, the proceeds of sale are for the Government, not the Corporation, and the finances of BGC are not therefore at risk on this. I must therefore now ask the Corporation to conclude its negotiations with Dorset, as soon as possible, on the basis that these particular risks should be taken by the seller, not the buyer. It would be helpful if all outstanding issues, including the idea of a sliding scale which has been suggested to the Corporation in discussion with the Department, could be speedily resolved so that I may consider the deal in all its aspects before the final agreement is signed.

PETER WALKER

Reference .....

HOUSE OF COMMONS

Written Answers to Questions

Monday 25 April 1983

ENERGY

Wytch Farm Oilfield

41. **Mr. Edwin Wainwright** asked the Secretary of State for Energy if he will make a statement on progress to date in the disposal by the British Gas Corporation of its share of the Wytch Farm oilfield.

Mr. John Moore: My right hon. Friend met the full board of the corporation on 30 March to discuss the offers received for the corporation's 50 per cent. share in PL 089, which includes the Wytch Farm oilfield. He explained that the Government had considered carefully with their advisers the advice put to it by British Gas and had decided that it was both commercially justifiable and in the national interest for the corporation to take forward negotiations with the Dorset Group of independent British oil companies. He instructed the corporation to proceed accordingly and they undertook to do so.

CODE 18.78

G

BRITISH GAS

11 APR 1983

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/CLN

11th April 1983

Private & Confidential

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

Dear Nigel,

WYTCH FARM

Thank you for your further letter of the 11th April, and for explicitly confirming our understanding.

Yours ever,

Denis

cc PS/MCS
PS/PUSS (Commons)
Mr Gilmore
Mr Mantle
Mr Campbell
Mr Morphet
Mr L Miles
Mr Mulholland.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211-6402

cc PS/MOS
PS/PUSS (Commons)
PS/PUSS (Lords)
PS/PUS
Mr Guiness
Mr Manley
Mr Monphett
Mr Wiggins
Mr Walmsley
Mr E Price
Mr Claydon
Mr Wilson
Mr Gillis
Mr Campbell
Mr Macintyre
Dr Heathcote
Dr Rou[redacted]
Mr Dart
Lon file

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

11th April 1983

Dear Denis

Thank you for your letter of 31 March. I confirm that this correctly states the Government's position, and look forward to an early completion of the sale along the lines which I have indicated.

For the reasons I explained when I met you and your Board on 30 March, I am satisfied that acceptance of the Dorset Bidding Group's offer is commercially justifiable.

Yours
Nigel

NIGEL LAWSON

BRITISH GAS

PS/PUS
Mr Manley
Mr Campbell
Mr Morphet
Mr Clayton
Mr MacIntyre
Mr Wilson
Mr Wiggins
Mr Walmsley
Mr E. Price
Mr Ellis
Dr Heathcote
Mr Long
Mr Duff

Sir Denis Rooke CBE FRS F ENG
Chairman

British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

DER/JS

31st March 1983.

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

Dear Nigel,

I am in receipt of your letter of 30th March following your meeting with the Members of the Board of the Corporation.

We had been expecting a clear written instruction and in order to avoid any possibility of future misunderstanding I should like to make it clear that the Board are taking your letter to be confirmation of the oral instruction you gave to them on 30th March, namely that in view of the Government's decision that the Dorset Bidding Group's offer was acceptable both in the national interest and commercially justifiable, the Board should proceed with negotiations with that Group, notwithstanding the Board's previous decision that all extant offers were commercially unacceptable.

I should be grateful if you would confirm the Board's understanding on this point.

Yours ever,

Denis

cc PS/MOS.
PS/PUSS (Commons)
PS/PUSS (Lords)
PS/PUS
Mr Manley
Mr Campbell
Mr Morphet
Mr Claydon
Mr Macintyre
Mr Wilson
Mr Wiggins
Mr Wolmsley
Mr E. Price
Mr Ellis
Dr Heathcote
Mr Long
Dr Rouse
Mr Dart
(on file)

01 211 6402

Sir Denis Rooke CBE FRS FEng
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
LONDON
SW1V 3JL

30th March 1983

Dear Denis

At my meeting with the Board of the Corporation this morning, you said that it would be helpful if I wrote formally recording the Government's views on the disposal, as explained to the Board.

As I made clear this morning, the Government has considered the Corporation's advice, as contained in your letter of 10 March, carefully and in depth with its advisers. I agree with the Corporation's recommendation that the bids from the Ashdown Oil Company and the RTZ Consortium should not be proceeded with; the former because they are structurally unsound, the latter because it is too low. I have now seen RTZ's latest letter proposing a further revision to their bid, which you passed to my officials and to which you referred this morning. It does not alter my view of the RTZ bid.

The Government has decided that it would be both in the national interest and commercially justifiable for the Corporation to accept the Dorset Group's bid. Accordingly, we agreed this morning that you would now enter into detailed negotiations on outstanding questions with the Dorset Group, with a view to an early finalisation of the sale. I explained the reasons why the Government had formed this view in detail at our meeting, and do not propose to rehearse them at length. However it might be helpful if I were to list the main factors. First, it is clear that the market has been thoroughly tested, and that the Dorset Group's revised bid is the best that the market can produce. Second, there is no good reason to believe that a postponement for, say, two to three years would improve the prospects for the sale. Our merchant bank advisers have concluded that there is nothing which would lead them to expect a re-tender after such a delay to result in a higher price. Third, for reasons which I explained in some detail at the meeting, the Government has, after the fullest consideration, taken a somewhat different view from the Corporation about a range of factors affecting the evaluation of both the licence interest and the bids. In the light of these adjustments, I am satisfied that acceptance of the Dorset Group's bid is commercially justified.

.../I

I was grateful for the assurance in your letter of 10 March, which was renewed at the meeting, that the Board are ready to give effect to the existing Direction, and I should now like the Corporation to proceed in the way I have explained. I appreciate that this will not be an easy operation, and I look forward to the Corporation's continued full co-operation in carrying it through to a successful conclusion.

Yours ever
Nigel

NIGEL LAWSON

SOS/R 67/83

NOTE OF THE SECRETARY OF STATE'S MEETING WITH THE BOARD OF THE BRITISH GAS CORPORATION ON 30 MARCH 1983

Present:

Secretary of State
PUSS (Commons)

PUS
Mr Campbell
Mr Macintyre
Mr Dart
Dr Rouse
Mr West

Lord Garmoyle)
Mr Harrison-Topham) Warburgs

Sir Denis Rooke
Mr J Smith
Mr Jewers
Mr McHugh
Mr Keating
Mr Boissier
Mr Badham
Mr Greenbury
Mr Jacomb
Sir Leslie Smith

WYTCH FARM

The Secretary of State began by saying that he was grateful to the Board for agreeing to meet him at short notice. He thought it important that the Government and Corporation understood each other's positions.

He had given careful consideration, together with his colleagues and advisers, to the arguments in Sir Denis' letter of 10 March. He agreed with the Corporation that the bids from Ashdown and the RTZ consortium should be rejected - the former because they were structurally unsound; the latter because it was too low.

Sir Denis said that, even though RTZ had set a deadline for a reply to their bid which had now expired, he had just received a personal telephone call from Sir Alastair Frame to say that the bid was still on the table and could be improved in a number of ways. He had given no undertaking to consider such improvements but would pass on the details to the Department. The Secretary of State said that he did not expect RTZ's improvements to change the position. The Corporation's own analysis showed the Dorset Group's bid to be consistently better than RTZ's and he doubted that this ranking would change. As the Corporation knew, he had sought improved bids from both valid bidders so RTZ had had their chance.

The Dorset Group had submitted the highest bid and he had therefore concluded that Wytch Farm should be sold to them. However, he thought it important to explain to the Board why he had reached that conclusion.

His first test had been the present state of the market. It was clear that the market had been thoroughly tested and that the Dorset Group's bid was the best the market could produce. Indeed, the market had been tested to destruction in the sense that two of the partners in the original consortium had withdrawn. Despite wide publicity and an open auction, no other bidder had come forward with a structurally sound offer approaching the Group's.

The second test was the likely future state of the market. He did not believe that postponing the sale for 2-3 years would be likely to produce a better price. It was possible that some of the land rights and planning permission uncertainties might be resolved during such a delay but it was equally possible that they might not be, or that the outcome might depress the price. Nor was there reason to believe that the oil price outlook would be more bullish in 2-3 years. He had consulted Warburgs on the question of delay and their advice was that there was no reason to expect a re-tender in, say, 2 years' time to result in a higher price.

Therefore the next step was to evaluate the licence. For a field in so early a stage of development as Wytch Farm, with so many uncertainties, it was not realistic to opt for the most favourable assumption on all factors as the Corporation appeared to have done in their evaluation. Sheet 1 (attached) illustrated the effect of adopting slightly more conservative assumptions on the £450m estimate which the Corporation put to the Select Committee some time ago. If the more conservative view - which was not the most pessimistic in each case - were correct for all factors, the value of the Corporation's interest might be as little as £153m.

He wished to draw particular attention to four key variables. The first was the oil price, the Corporation's assumptions for which the Department considered unrealistically high. Nor were the Department's assumptions specially designed for evaluating Wytch Farm. It would be wrong to assume that the sterling exchange rate's present offset to the fall in the dollar oil price would continue indefinitely. The sterling oil price would probably fall shortly. The effect of more realistic assumptions would emerge later, when considering the evaluation of the bids.

The second key variable was the discount rate. He did not understand the reference in Sir Denis' letter to pre-tax discount rates, a concept unlikely to be of much interest to oil companies. Nor did he believe that an oil company would evaluate oil investments on as low a rate as 5% post tax; it was inappropriate for a commercial investment with as much risk as Wytch Farm. He had noted the statement in Sir Denis' letter that Wytch Farm was a low risk investment because the proven reserves, confirmed by an independent consultant, are more than 75% of the ultimate reserves. Officials had looked into this and were unable to understand it: ERC gave proven reserves as 195 mbbls or about 55% of the Corporation's estimate of total reserves.

The third key variable was the unproven and prospective reserves. BGC's figure for "proved" reserves (ie proven and probable) was 253 mbbls. However, the first graph of Sheet 2 (attached), which was taken direct from the ERC report, showed that ERC considered the probability of this figure's being exceeded less than 20% More important, the second graph showed that ERC attached only a 10% probability to the Corporation's figure of 80 mbbls from unexplored acreage being realised. Their own figure was 36 mbbls.

Finally, on the production profile, the Corporation assumed that the unexplored acreage would add 15,000 b/d from 1991 to all cases. This was arguable since it conflicted with the Corporation's central assumption that maximum production was 45,000 b/d. In the rail cases, it had to be wrong since production from the existing field was assumed to have reached the 20,000 b/d maximum for rail handling by then. Reserves discovered in the unexplored acreage would therefore extend the life of the field, not increase its production but the effect of discounting was that extending the life added very little to the NPV.

Turning from the evaluation of the licence to that of the bids, there was a critical point on capital gains tax (CGT) which made a bid difference. The Corporation deducted their CGT liability in calculating the bids' NPV, whereas this was merely a transfer within the public sector and, from the national viewpoint, was correctly considered as an addition to the value of the bids. This made a difference of some £55-65m in the case of Dorset and £40-£50m in the case of RTZ.

There were also other factors, which made a smaller difference to the value of the bids, which he thought the Corporation had not analysed correctly. The lags between the generation and use of CT allowances had been ignored which, on a rail case at a 10% discount rate, depressed the Dorset bid by about £7m.

The Corporation had also assumed that Dorset's second payment would be received on 1 September 1986, apparently on the grounds that sustainable production took 9 months to establish. This was hard to accept, particularly since RTZ were prepared to concede 3 months. It was clearly a matter of judgement but was worth £6m in the case mentioned above.

Finally, the Corporation had included the full value of their assessment of unexplored reserves in their evaluation of the licence. He had already explained why he thought this unrealistic but, even if the valuation were accepted, it was not normal practice to attribute to them their full value. The reserves themselves were highly uncertain and their full development costs not yet incurred. The Department and Warburgs agreed that it was unrealstic to evaluate them at a 5% post tax discount rate. Given the uncertainty, 10% was probably too low. Furthermore, if the NRI were set to realise their full value, the purchaser would have no incentive to develop them. The Department had therefore excluded the unexplored acreage from its evaluation and relied instead on the judgement in the structure of the Dorset bid that the 40% share in the net profit from those reserves with significantly reduced risks was reasonable.

After correcting for the 4 analytical flaws described above, the gap in value between the licence and the bid virtually disappears, even using the Corporation's assumptions on the other factors. This was demonstrated by Sheet 3 (attached) for two median cases. However, the Corporation's oil price assumptions were too high. Sheet 4, particularly column C, and Sheet 5 (both attached) showed that more plausible assumptions made the value of the Dorset bid exceed that of the licence at a 10% discount rate.

To sum up, the evaluations made by the Department and Warburgs, using ERC base data and their own assumptions, showed a range of returns to Dorset ranging from under 10% on pessimistic (but not extreme) assumptions to about 20% on the most optimistic. As a result, and taking account of wider national policy objectives, the bid was acceptable on commercial and national grounds. The Government was

confident that this decision was justified. He hoped the Board now accepted that it had not been taken lighly, but only after the fullest consideration. He was grateful for the assurance in Sir Denis' letter that the Board were ready to give effect to the existing direction. It would not be an easy operation to carry through, and would require the Corporation's whole-hearted co-operation in taking forward and concluding negotiations with Dorset positively and expeditiously, and in helping them over any difficulties which might arise - such as tax condition which should not take too long to resolve.

Such action by the Corporation all flowed from the direction but, if the Board wished to have a further letter of instruction, he would write one. Sir Denis replied that he would like such a letter. He could not accept the Secretary of State's valuation although he was not saying it was wrong. It would have been helpful if his advisers had discussed their workings with the Corporation as it had done with them. However, if the responsibility were taken off the Corporation it would, as always, do its best to conclude a sale to Dorset. Recent accusations that it had inflated the value to obstruct a sale were unjustified and resented. The figure of £450m had come from a special exercise for the Select Committee. The Secretary of State said that he was happy to take responsibility for the sale because he was confident in its justification. The disposal of Wytch Farm had taken too long and spoiled relations between the Government and the Corporation. Although the Corporation had not previously seen all his figures, he had set out his main concerns about the Corporation's approach in his letter of 23 February. Some of his points were beyond conjecture - eg that £60m for CGT should be added to the Corporation's valuation of the Dorset bid. Mr Jewers asked if the Secretary of State was saying that the Corporation had to pay the CGT but not from the proceeds of the sale. The Secretary of State replied that since the CGT was paid to the Exchequer, it was part of those proceeds.

He then reminded the Board of Wood-Mackenzie's valuation of Wytch Farm. Mr Smith attributed their value to their assumption of a constant real oil price over the life of the field. Mr Jewers objected to discounting stage payments tied to production levels at 10%. The Secretary of State pointed out that if those payments were delayed, they would be more heavily discounted. Sir Leslie Smith expressed relief that the end of the disposal was in sight and asked when BP's position could be established. Sir Denis said that negotiations had first to be completed with Dorset. Their bid was highly conditional and the negotiations would not be easy, particularly on their tax point. The Secretary of State said that his officials would give all the help they could.

Sir Denis noted that the Board had heard the Secretary of State in silence. He was unwilling to accept that the Corporation's valuation was wrong and did not know that it would be able to accept the Secretary of State's after examination. The question was highly subjective and the Department should have discussed it with the Corporation. However, if the Government was satisfied, the Corporation would comply so long as the Board did not have to take the responsibility for doing so. The Secretary of State replied that he would have to defend the Government's decision. He was not asking the Board to jump to conclusions but hoped he and the Corporation would not fall out over the valuation. Mr Boissier asked for a summary of the Department's case. The Secretary of State said that the tables he had given the Board contained this but that if, on examination, the Board wished for more it had only to ask - he had nothing to hide.

pp J D WEST
PS/Secretary of State
Rm 1237
Ext 6402
6th April 1983

cc PS/PUSS (Commons)
PS/PUS
Mr Guinness
Mr Campbell
Mr Gillis
Mr Macintyre
Mr Dart
Dr Rouse

G 120/63/2 Mrs [illegible] copy to Lordships, Dr Heathcote + Mr Gough (Ecs) for their consideration. (I will call a meeting to discuss it)

BRITISH GAS

Sir Denis Rooke CBE FRS F ENG
Chairman
British Gas Corporation
Rivermill House
152 Grosvenor Road
London SW1V 3JL
Telephone 01-821 1444
Telex 938529

2. Pl draft a minute for me to the Secy asking him to confirm the SOS does not need to make another direction to give effect to the Point.

WJT 10/3.

DER/BH

10th March, 1983.

CONFIDENTIAL

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

SECRETARY OF STATE'S OFFICE
TO MR MACINTYRE
FOR ACTION
DIRECT
INFORMATION
PLEASE BY:
22/3/83

PS/MOS
PS/Ass/
COMMONS
PS/Ps
MR GUINNESS
MR CAMPBELL
MR E PRICE
DR HEATHCOTE
/
all w/o attachments

Dear Nigel,

PL 089 DISPOSAL

In view of the short timescale envisaged by you for dealing with revised bids for Wytch Farm I thought it best to defer making any reply to your letter of the 23rd February until it could embrace all of the matters raised. This, hopefully, I can now do, although I regret that we have failed to meet your timescale by a few hours. That is not because of any failure to accord the highest priority to this matter, but has been dictated solely by the time taken to obtain the bids and the lengthy procedures needed to evaluate these formula bids. Even using computer models and with staff working right through the weekend, the detailed evaluations have only become available to Board Members for discussion within the last 24 hours.

I must respond to the detailed points you made on the primary basis of valuation adopted by the Corporation for determining its 'threshold' value. But before doing so I wish to point out that while the Corporation felt obliged to formulate a reasonable 'threshold' estimate using a particular set of assumptions, the bid analyses were nevertheless carried out under many differing assumptions, and the influence of those changed assumptions on our valuation was also determined. All of this detailed data was passed to your officials as it became available and was in their hands when I wrote to you on the 21st December, 1982, giving a general overview of the position. We did

/not employ ...

not employ our 'threshold' value as a simple 'no-go' test; we judged the position more broadly on the difference between the bid analysis and the corresponding estimate of field value across the whole range of differing assumptions. The Corporation's judgement within that framework was that all of the bids fell substantially short of a satisfactory offer to purchase the Corporation's interest and we could not therefore recommend them to you.

Referring now to the four detailed criticisms in your letter we would observe that:-

(i) Although the ERC Report was completed nearly a year ago no different view of its technical conclusions has emerged in the meantime, particularly with regard to the level of proven reserves which constituted the overwhelming part of the valuation which we developed. You make especial mention of oil price; while that has moved significantly downwards in the meantime it has been slightly more than compensated by opposing movements in the dollar/pound exchange rate. Additionally, most forecasts are that oil prices will regain their former upward momentum and with the current status of the field, oil price movements over the next, say, 2 years are not very significant. During that period ongoing development of the field will take place and in the interim the present relatively low level of output from the field will have to be sustained.

(ii) On the question of the product transportation route we still consider that the building of a pipeline is both practicable and essential to the proper development of the field reserves. Our comprehensive experience in laying pipelines throughout Southern England over many years does not lead us to anticipate undue difficulty in constructing a suitable pipeline which in any case could have a number of alternative destinations. Although, as you say, BP had earlier expressed reservations about pipeline construction this was more in relation to timing factors than to overall feasibility and we have recently agreed with them a plan involving a period of transportation by rail at 20,000 BOPD production capacity (for about 5 years) followed by transportation by pipeline constructed in that period. This only reduces marginally the field valuation as can be seen by the detailed analyses of the new bids.

/(iii) ...

(iii) We accept that there must fundamentally be uncertainty about the level of unproven reserves but our valuation of these at £167M has been derived from statistical analysis, studying each of the prospective structures in turn. It has been derived on a fully risked basis and is calculated to represent the statistical expected value of these reserves. However, the overall figure of £350M included only about £30M for the unproven reserves. It could thus be considered to be conservative.

(iv) The 5% discount rate which we employed is on a post-tax basis and thus equates approximately to the pre-tax 10% Test Discount Rate which the Corporation normally uses in appraising new capital projects. In our view this still represents a reasonable rate of return on a project which is land based and in which the proven reserves, confirmed by an independent consultant, are more than 75% of the ultimate reserves. In our judgement and knowledge this fits reasonably in the context of pre-tax discount rates used by other Operators in the assessment of riskier offshore projects.

We are conscious that the use of a higher discount rate has a significant effect on the calculated value of the field. For instance, discounting at 10% instead of 5% reduces the value by about one-third. However, because all the bids comprise a relatively small initial payment and a stream of annual payments extending over the life of the field, the use of a higher discount rate not only reduces the value which the Corporation places on the field but also reduces the bids correspondingly. The comparison between the Corporation's value and the bids received is therefore little changed by the use of a higher discount rate. Comprehensive assessments have been made at various stages of the evaluation process and the information provided to your officials has fully set out the comparisons - which show that, on any basis, the bids fall significantly short of the valuation.

Taken overall the figure of £350M, therefore, did not represent an assessment based upon a series of highly optimistic assumptions. We purposely framed it so that the value of the proven reserves was dominant and used assumptions in reaching the discounted valuation that were not in our minds extreme.

/I now ...

I now turn to the new bids which you asked us to obtain following your meetings with the two consortia.

Although you broadly agreed with the Corporation's earlier view about the uncertainties surrounding the bid which had been received from Ashdown Oil Company, we felt in the circumstances of a third effective stage of bidding that it would be unwise to exclude Ashdown entirely. You will recall that earlier doubts about the bid surrounded the equity strength of the Company and its sources of finance. Therefore, simultaneously with seeking new bids from the consortia we instructed Lazards to enquire of Ashdown whether any further information was available on either of those two aspects. The only information we have received is contained in a letter dated the 8th March, 1983, of which I enclose a copy for your information. The Board discussed this at its special meeting yesterday and concluded that this letter itself provided no basis for a change to its earlier conclusions. I would, however, draw your attention to the final paragraph of that letter; if new firm information becomes available I shall of course inform you immediately.

Two new bids were received from the RTZ Consortium and from the Dorset Bidding Group on 28th February, 1983. Copies have already been given to your officials but I enclose further copies for your ready reference. I draw your attention to the changed composition of the Dorset Bidding Group from which LASMO and Ultramar have withdrawn. We have been advised that these two companies felt unable to sustain a substantial increase in the Group bid which they say had been indicated as necessary during discussions with the Department. This withdrawal has reduced materially the financial strength of the Group but, in the view of our advisers, Lazards, not sufficiently to justify rejection of this bid.

The RTZ bid has changed little since the second stage of bidding. The Dorset Bidding Group have improved their offer somewhat, principally through restructuring the initial cash sums which now reach a total of £160M, in two stages. However, repayments of these capital sums are treated as an expense to be deducted from future revenues before the seller is able to receive the full benefit of the net revenue interest. This consequently reduces the apparent value of the improvement by delaying the receipt of the stream of net revenue interest.

I am enclosing copies of the full assessments that have been made of the bids, presented in both tabular and graphical format. They have been produced on exactly the same pre and post-tax basis as the valuations of the previous bids, which were given to your officials and discussed in detail with Warburgs. From these assessments you will see that on any of

/the assumptions ...

the assumptions of oil price, discount rate, and product transportation route, there is a very significant shortfall between the net present value of each bid and the value of the asset calculated on the same basis.

In each case the value of the best bid, which is consistently that from the Dorset Bidding Group, is approximately half the asset valuation developed on that same basis. I should perhaps draw attention particularly to histograms J, K and L from which unproven reserves have been eliminated and which therefore relate only to proven reserves. Here again the same shortfall is exhibited.

I must also underline the time limitation now evident in the new RTZ bid; Lazards have only been able to obtain an extension to the validity of the bid until the 14th March and in any event the bid envisages a sale and purchase agreement being completed by the 31st March, which we would consider quite impracticable.

There is a further difficult matter affecting taxation. In the case of both the RTZ and Dorset Bidding Group the bids include conditions to the effect that the Oil Taxation Office has to agree that the Royalty and Net Revenue Interest payments respectively are to be treated as a trading expense. In neither case has such assurance from the OTO been received; it would appear that the assurances needed by the Dorset Bidding Group could be somewhat more difficult to obtain.

The Board discussed all these matters at its special meeting yesterday and concluded that the improvement in the two consortia bids was insufficient to justify a change in its previous conclusion and that neither yet represented a satisfactory offer for the Corporation's interest in PL 089. The general view was that this was not an opportune time at which to attempt to sell oil assets and that there could be a case for deferring the sale until market conditions are more propitious.

The Board are ready to give effect to the existing Direction but as they cannot recommend either of the offers on commercial grounds they would ask you whether, on wider considerations of policy, you wish to direct the Board to dispose of the assets on the basis of either of the current offers. Alternatively you may wish us to consider other means of disposal.

Yours ever,

Peter

SOS/R 2/83

NOTE OF THE SECRETARY OF STATE'S MEETING WITH THE DORSET GROUP ON 17 JANUARY 1983

Present:

Secretary of State
PUSS (Commons)
Mr Macintyre
Mr West

Mr G Hearne, Tricentrol
Dr C Phipps, Clyde Petroleum
Mr J Owers, Ultramar

WYTCH FARM

The Secretary of State said that none of the bids for Wytch Farm were acceptable on the basis of the Department's own evaluation of them, not just compared to BGC's valuation. Since the Government was not a forced seller, the disposal need not take place. However, since a great deal of work had already been done, it seemed sensible to give the bidders an opportunity to think again. An acceptable bid would require a substantial increase, particularly in the initial cash payment, over the present bids.

Dr Phipps said that the Secretary of State's position was not unexpected. He asked how Dorset's bid had been valued and what value the Secretary of State was looking for. Their own calculations, on identical assumptions to BGC's and ERC's and with a 5 per cent real discount rate, gave NPVs ranging from £199m to £332m. Was this satisfactory? There were two problems about increasing the bid: first the tax inefficiency of initial cash payments; and second the uncertainties about planning permission. Mr Hearne said that it would be useful if the group could elucidate their bid in detail with the Department and its advisers.

Mr Macintyre confirmed that Dorset's bid had been assessed in the same way as the group had done their calculations, and also on other bases. The Secretary of State added that he was not satisfied that the NPVs were as high as Dr Phipps had said. However, if they were of that order and if the initial payment was sufficiently large, such a bid would merit serious consideration. At present, though, Dorset would get a 15 per cent real rate of return even on pessimistic assumptions, rising to 30 per cent on less pessimistic assumptions.

Mr Hearne said that the rate of return depended on the production profile and that a very substantial increase in present production would be required to justify a higher bid. Dr Phipps added that such an increase depended in turn on planning permission, including that for a pipeline, which was not under their control. He did not see how Dorset could increase their initial payments

substantially except in staged payments - ie a first tranche, a second when planning permission was received and a third when production increased. This would help with the group's tax problems but the main point was that, if production did not rise above 3,600 b/d, an initial payment of more than £50m could never be recovered. The Secretary of State replied that BP would help Dorset get their planning permissions. The initial payment would have to be increased but if it could not be done sufficiently, he would be willing to consider staged payments as well. However, Dorset were supposed to be in the risk business.

J-D.

J D WEST
PS/Secretary of State
Rm 1237
Ext 6402
20 January 1983

cc PS/Minister of State
PS/PUSS (Commons)
PS/PUS
Mr Jones
Mr Campbell
Mr Wiggins
Mr Wilson
Mr Macintyre
Mr S Price
Dr Heathcote
Mr Dart
Dr Rouse

EXTRACT FROM TENDER DOCUMENT, JULY 1982.

In addition to Royalty payments, the licensees are obliged to pay to the Secretary of State an annual payment calculated by reference to the size of the Licence Area in square kilometres. The sum presently payable is £100 per square kilometre. This will be increased to £110 per square kilometre with effect from 1st April, 1983.

c. Land and land rights

The disposal of the land and the land rights will depend on whether or not GC(E) ceases to be Operator.

If it ceases, GC(E) and British Gas will hold the land, easements and licences as trustees for the joint venture against a suitable indemnity and an undertaking to use all reasonable endeavours to procure, where possible and as soon as practicable, consents to the necessary transfers and assignments. The planning permissions personal to GC(E) will require further discussion with the planning authority.

If GC(E) continues as Operator, it will, under the terms of the Joint Operating Agreement, continue to hold the freehold and leasehold land, the easements and licences and will have the benefit of the planning permissions including those personal to it.

1. Further information

Enquiries to BP should be addressed to the Chief Executive, BP Petroleum Development (UK) Limited, Britannic House, Moor Lane, London EC2Y 9BU.

Enquiries to Dorset County Council should be addressed to the County Planning Officer, County Hall, Dorchester, Dorset DT1 1XJ.

Enquiries to the Department of Energy, whether in respect of paragraph 8 or otherwise, should be addressed in writing to W. I. Macintyre, Esq., Assistant Secretary, Gas Division, Department of Energy, Thames House South, Millbank, London SW1P 1QJ.

British Gas, GC(E), ERC and S. H. Landes will not accept direct requests for additional information. Requests should be submitted in writing to Lazards, at 21 Moorfields, London EC2P 2HT for the attention of T. J. Manners who will arrange for the request to be passed to the appropriate party. The right is reserved to refuse any request for further information. British Gas reserves the right to convey to other recipients of this document any additional information sought by and given to one prospective bidder.

GC(E) proposes to make arrangements for interested parties to visit the sites in the Licence Area: dates will be arranged in due course.

2. Bases for offers

a. Operatorship

Offers may be made on either or both of the bases set out in paragraph 6.

b. Form of consideration

Offers may be made on the basis that the consideration is provided in full on completion or in instalments, the first on completion and others thereafter. Provision for future payments may be based on additional reserves discoveries, production, revenues, profits or otherwise.

c. Interests to be acquired

The interests to be acquired are set out in paragraph 10a.

3. Procedures and timing

Offers must be made in writing and delivered to Lazards by 3 p.m. on 1st October, 1982, or such later date as may be notified to all recipients of this document ("the closing date") in a plain sealed envelope marked on the outside "Offer: Licence PL 089". Delivery will evidenced, if requested by the issue of a receipt by Lazards. No offer will be opened until after the closing date.

British Gas may accept one of the offers submitted by the closing date but reserves the right not to accept any of them either then or at any later stage.

The procedures after the closing date and the likely timing will be as follows:—

(i) an offer, or a shortlist of offers, will be chosen and all bidders will be informed whether or not their offer has been included on the shortlist. This stage is expected to be completed within 14 days of the closing date.

(ii) British Gas will evaluate the offer or offers on the shortlist, which will involve meetings with shortlisted bidders and British Gas. In addition, BP will make itself available to bidders during this stage to discuss future arrangements between them. British Gas reserves the right to communicate to shortlisted bidders the terms of the most attractive offer made during this stage (although not the identity of the offeror) and to allow all shortlisted bidders one opportunity to amend their terms. It shall be in the sole discretion of British Gas to determine which is the most attractive offer and in what terms to communicate it to shortlisted bidders. During or at the end of this period, British Gas may require a bankers letter in respect of the availability of any cash sum offered on completion. The timing of this stage is difficult to predict but it is unlikely to be completed in less than one month from the conclusion of the previous stage.

(iii) British Gas will select an offer, or possibly more than one, in respect of which a purchase and sale agreement will be negotiated. Unsuccessful shortlisted bidders will be informed. The decision as to which offer will be accepted will be made when all such agreements are ready for signature. The agreement with the successful bidder will be signed on the basis of the conditions set out in (iv) below.

(iv) the agreements will be conditional on:

(a) the non-exercise by BP of its rights of pre-emption (see paragraph 1e above); and

(b) the written consent of the Secretary of State for Energy to the assignment of the British Gas interest in PL 089 (see paragraph 8a above);

BP's right of pre-emption runs for 30 days from the date on which it receives written notice of the price, terms and conditions set out in the conditional agreement. It is expected that the Secretary of State will reach a decision on assignment within seven days of BP's decision. British Gas will thereupon be free to complete the sale.

14. Documents available for inspection

Copies of the following documents are available for inspection (to persons identifying themselves, to the satisfaction of Lazards, as authorised representatives of recipients of this document) at the offices of Lazards, 21 Moorfields, London EC2P 2HT during normal business hours on any weekday (Saturdays and bank holidays excepted) up to the closing date:—

(i) Licence dated 30th May, 1968 and Variation of Licence dated 23rd August, 1972, both referred to in paragraph 10.b. above;

(ii) the Joint Operating Agreement;

(iii) the conceptual study reports by S. H. Landes referred to in paragraph 2.e. above;

(iv) the Consultative Document, entitled "Onshore Oil in Dorset", referred to in paragraph 5.c. above;

(v) the deeds and documents referred to in Section 1 of Appendix I;

(vi) the leases referred to in Section 2 of Appendix I together with a composite plan showing the rights;

(vii) the completed and draft deeds referred to in Section 3 of Appendix I;

(viii) the property licences and exploratory drilling licences referred to in Section 4 of Appendix I; and

(ix) the planning consents referred to in Section 5 of Appendix I.

29th July, 1982