CABINET.

ORGANISATION OF ELECTRICITY SUPPLY.

MEMORANDUM BY THE MINISTER OF FUEL AND POWER.

ON the 19th November last the Lord President of the Council stated in the House of Commons that it was the intention of the Government to introduce legislation during the present Parliament to nationalise the Electricity Supply Industry.

2. The reorganisation of this Industry has been under almost continuous examination during the last 10 years. In 1936 a Committee under the Chairmanship of Lord McGowan was appointed to review the distribution of electricity and in 1938 the Government tabulated proposals for a drastic reduction in the number of Electricity Undertakings with a view to creating much larger and efficient units. These proposals were shelved in the Spring of 1939 in view of the international situation.

3. The Coalition Government took the matter up again during the war and in 1943 appointed a Committee under the Chairmanship of Major Lloyd George which reported in December 1943. This advocated the transfer of the Industry to a Central Generating Board and 14 Regional Distribution Boards. This Report was referred to the Reconstruction Committee which had not come to any definite decisions on the subject when the Coalition Government ended.

4. Since the present Government was formed the subject has been further considered both by the Ministerial Committee on the Socialisation of Industries and the Official Committee. With the agreement of my colleagues on the Ministerial Committee I have had discussions with all sections of the Industry. In the light of all this consideration and discussion I now put forward the following proposals as an outline scheme for nationalising the Electricity Supply Industry and seek the authority of my colleagues to proceed with the drafting of a Bill to be introduced into Parliament early in February and passed next Session. To keep to this time-table instructions must be given to Parliamentary Counsel by September and the matter is therefore urgent.

5. I propose that there should be set up a Central Organisation which might be called the National Electricity Board or perhaps by some other name such as British Electricity. To this Board all the assets of the Industry would be transferred, and it would be responsible for the planning and development of electricity supply, including research, subject to general directions of the Minister of Fuel and Power. The Industry falls into two distinct parts. Generation and main transmission of electricity is a highly technical subject which, in the last 20 years, has very largely been concentrated under the Central Electricity Board. It can now be easily transferred to a National Board. The other hand, distribution to the individual consumers, industrial and domestic, while involving technical issues has great local significance and cannot very well be handled in detail from one centre. I propose, therefore, that generation and main transmission should be directly managed by the Board itself which would thus become the sole producer and bulk distributor of electricity. Policy for distribution would also be the responsibility of the National Board but the detailed administration would be delegated by the National Board to Regional Distribution Boards whose composition and functions are set out below.
6. The National Electricity Board would be solely responsible for the financial policy of the Electricity Industry. It would be the sole Borrowing Authority, subject to the Minister's consent as in the case of the National Coal Board. The National Board would thus become responsible for servicing the whole of the capital of the industry but the Regional Boards would in turn be responsible to the National Board for the servicing of capital representing the assets transferred to their management. Each Regional Board would submit to the National Board its own plans and the National Board would be responsible for co-ordinating them. The National Board would control the creation and use of Regional reserves and would direct how Regional surpluses should be applied. Apart from these general powers the National Board, by virtue of being the sole producer of electricity, would be in a strong position to guide and co-ordinate the financial arrangements of the Regions.

7. The National Electricity Board would be appointed by the Minister of Fuel and Power and would consist of:

(a) One full-time Chairman.
(b) Two full-time Vice-Chairmen, one of whom would be responsible for administration and/or finance, and the other an engineer responsible for generation.
(c) Three part-time persons selected for their experience in industrial, commercial, or financial matters, administration, applied science or the organisation of workers. [This proposal for some part-time members was generally favoured by the Ministerial Committee on the Socialisation of Industries; but the Fuel and Power Committee of the T.U.C. have made strong representations to me that members of national Boards of socialised industries should be full-time members].
(d) Several Chairmen of Regional Distribution Boards selected by the Minister of Fuel and Power in rotation. This arrangement would keep the National Board closely in touch with the problems of local distribution and on the other hand give the Regional Boards a close insight into, and some responsibility for formulating and working out, national policy.

8. I have given much thought to the question of a suitable Organisation to handle distribution and am satisfied that in an all-pervading service like electricity and one in which Local Authorities have been so much concerned it is essential to provide a form of local organisation for distribution which will enable local people to have some responsibility for management and development.

9. I therefore propose the creation of a number of Regional Distribution Boards. I have not yet decided what is the suitable number of such Boards. Important criteria are:

(a) Each Board should be large enough to be able to employ first-class personnel and to enjoy all the economies of large-scale management.
(b) Each Region should have a balanced load of town and countryside.
(c) The Region should not be so large that the members of its Board are out of touch with local interests.

10. The Lloyd George Committee proposed 14 Boards. I would like to consider the matter further. It may be necessary to increase the number somewhat above 14. Special arrangements will have to be made for the North of Scotland Hydro-Electric Board and I propose to discuss this subject with the Secretary of State for Scotland.

11. The members of the Regional Distribution Boards would be appointed by the Minister. Each Board would have a full-time Chairman and a full-time Vice-Chairman; in addition there would be part-time members selected from different areas of the Region after consultation with the Local Authorities, and perhaps Organisations representing local industries, Trade Unions and Professional Associations.

12. As indicated in paragraph 6 above, the Regional Distribution Boards would be allocated the distribution assets as their responsibility and would be responsible to the National Board for their management. They would be informed of the value represented by those assets and, of course, any subsequent increase and would be under an obligation to service through the National Board the capital represented by those assets. They would also have the responsibility
of preparing plans for development in the light of their local knowledge and submitting those plans to the National Board. It would be the responsibility of the National Board to find for the Regional Boards the additional capital to meet approved requirements. These arrangements I suggest would strike the necessary balance between central control and co-ordination and local initiative.

13. I propose that in each Region there should be Consumers’ Councils and possibly also Area and District Consumers’ Councils. They would be appointed by the Minister after consultation with the same kind of bodies as will be consulted on the appointment of the part-time members of the Regional Boards.

14. An important part of the Bill will be the provisions relating to compensation. The Electricity Supply Industry is roughly two-thirds in the hands of Local Authorities and the other third in the hands of Companies. For Local Authorities the Lord President’s Committee decided on the 9th November, 1945 (GEN. 98, 1st Meeting), that compensation should be on a basis of net outstanding debt. This will be strongly opposed by Local Authorities, but in fact they have a very poor case. As regards Companies my Department is in consultation with the Treasury as to a possible formula. The application of the concept of net maintainable revenue is not easy in electricity, because most of the Companies operate on a franchise, for which allowance must be made.

15. I shall submit to the Committee on the Socialisation of Industries and if necessary the Cabinet the detailed proposals for compensation as soon as possible. Meanwhile, I seek the approval of the Cabinet to proceed at once with the preparations for drafting a Bill to give effect to the general scheme of nationalisation outlined above.

E. S.

Ministry of Fuel and Power, S.W. 1,
15th July, 1946.