

POWER POLITICS

POLITICAL ENCOUNTERS IN
INDUSTRY AND ENGINEERING

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LONDON · NEW YORK

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POWER POLITICS – AN ALL-PARTY IMBROGLIO

Although the events described in the subsequent chapters of this book follow the chronological sequence of my career, the title, *Power Politics* and the title of this chapter, describe the main focus of my working life. The effects of a series of political decisions led in 1980 to my resignation as chairman of the Electricity Council, the federal body for generation and distribution activities in England and Wales. These and subsequent decisions, and their effect on eventual privatisation, have resulted in a situation where the reliability of electricity supply throughout the UK will be in serious jeopardy for many years to come.

It would be impracticable to describe fully the reasons for this situation, and the causal actions of politicians, in the narrative of my career, and so I will set out here the structural management problems which have allowed politicians to seemingly rely on market forces to shape events in the industry, while simultaneously interfering to achieve quite separate objectives. The seriousness of the decisions, and the shallowness of the thinking behind them, is very disturbing.

The roots of the problem lie back in 1957, when the Conservative Government of the day set up the Herbert Committee, under the chairmanship of Sir Alan Herbert, to consider the organisation of the electricity industry in England and Wales, which was then controlled by the British Electricity Authority following nationalisation in 1947. There

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was at the time considerable disquiet in political circles about the great power which lay in the unfettered hands of the then chairman, Sir Walter (later Lord) Citrine, former general secretary of the TUC and an appointee of the preceding Labour administration.

The Herbert Committee concluded that the generation side of the industry should be separated from the distribution activity and that a Council should be appointed with overall control. The notion of separation of generation from distribution and sales was an odd one since it separated design and production activities from the sale of the product – an error obvious to any commonsense observer. But the general proposal was accepted by the Minister for Energy, Aubrey Jones, who then proceeded to emasculate the proposed Council, thus laying the foundations for the continued dominance of the industry by the generating side and for the freedom of governments to dabble in the industry. This completed the political objective of restoring the previously devolved control of the industry to the Government.

So were born the Central Electricity Generating Board (the CEGB) and the Electricity Council (or ‘toothless wonder’, as it became known), which were to survive until privatisation in 1988. The reason for these far-reaching decisions was entirely political, with little or no thought for the practical managerial consequences.

For fortunate political reasons, Scotland and Northern Ireland were excluded from these proposals and became ‘all-purpose boards’ combining generation and distribution with great success. The independence of the Scottish boards provoked frequent comparisons, which usually favoured the Scottish boards, so that in practice a degree of competition existed within the nationalised electricity supply industry.

The economists on the Herbert Committee were obviously seized with the notion of market forces producing higher managerial efficiency, an astonishing concept given the proposed monopoly position in England and Wales of the CEGB and its deliberate separation from the market. In fact, the industry became wholly production-orientated with its tariffs controlled by the Bulk Supply

Tariff, produced by the CEGB and imposed on the distribution boards. Indeed, the only occasion on which production costs were linked with demand to produce a coherent tariff was in 1978, during my chairmanship of the Electricity Council, when reorganisation of the industry was the objective of the then Labour government and was the subject of a draft Bill. One benefit of this uncertain situation was that, for a couple of years, the expectation of impending changes had weakened the barriers of the existing organisation and produced a general willingness to accept change.

That new tariff was Economy 7, an off-peak tariff, which has survived all of the later organisational changes to the present day. It was essentially different in that the existing Bulk Supply Tariff was based on long-run marginal cost of electricity generation, resulting in a highly speculative tariff dependent upon future fuel costs and technology, and offering no indication of current production costs. Economy 7 severed this approach in its specific area of off-peak electricity, so separating a long-term economic theory from current considerations.

The monopoly CEGB, like other nationalised industries, inevitably used its power to build power stations which were widely recognised to be ‘gold-plated’ and hence uncompetitive in those areas of the world where similar absolute power did not rest with the national generating authorities. As a result, UK industry became accustomed to designing and building extravagant equipment which could not readily be sold overseas. This left the manufacturing industries unprepared to compete in the wider world when home orders became scarce. I was very close to this situation during my years at the GEC power plant division at Erith and was constantly confronted with the high costs of our machines when compared with European or Japanese competitors.

My resignation in 1980 from the chairmanship of the Electricity Council resulted from the inherent inefficiency of the arrangements introduced in England and Wales in 1957, which had resulted in the Electricity Council, 12 distribution boards and the monolithic CEGB, each reporting to the Secretary of State for Energy, and on the

unsuitability of that organisation for privatisation, as proposed by the Conservative government elected in 1979.

I urged on David Howell, the incoming Conservative Minister for Energy, the implementation of the Bill proposed by the previous administration to set up an Electricity Corporation, combining the fragmented industry in England and Wales. I was chairman-designate of this new body and envisaged its subsequent division into five autonomous companies, competing with each other and with the Scottish boards. Those integrated companies would form a basis for privatisation and the proposed companies would still be large enough to finance and build large power stations. Unfortunately, he saw it as politically impossible, even as an interim measure aiding privatisation, to adopt a course favoured by the previous administration. My arguments were of no avail although I forecast, with considerable accuracy, the damage which would result from privatisation of the weak distribution boards and of a broken-up generating side, retaining their separation.

I therefore resigned, but my association with the problems was not allowed to end there. David Howell's successor at the Department of Energy was Nigel Lawson (later Lord Lawson of Blaby and Chancellor of the Exchequer). He telephoned to ask if I would discuss with him the privatisation plans for the industry. I declined, saying that I had already spent too much of my life on the matter and that my views were well known to the Government. He was somewhat disconcerted and said that the Prime Minister, Margaret Thatcher, had asked him to discuss the matter with me. (She was aware of my views.) I reluctantly agreed to meet him and spent two hours repeating the arguments I had earlier put to David Howell. He was unmoved, citing again the difficulty of pursuing a measure favoured by the Opposition, and a general distrust of large organisations.

I was subsequently approached by Cecil Parkinson (later Lord Parkinson), a later incumbent in a growing list of Secretaries of State for Energy, with a request to advise him on privatisation. I declined, outlining the objections I had put to his predecessors and adding that it

was now too late to implement my proposals, since the new organisation which I proposed would not have time to provide a suitable financial history for the privatisation prospectus. I was sorry about this, because he had a much better grasp of the problems than his predecessors and was accordingly more sympathetic to my solution.

He was succeeded by John Wakeham (later Lord Wakeham) who proceeded to privatise the industry in its existing form. At about this time, I gave a memorial lecture for Wilson Campbell, senior partner of Merz and McLellan, well-known consulting engineers, and sent a copy to John Wakeham. In it I described the results which I saw as following his decision. Wakeham was somewhat alarmed when he read it, and asked whether I really thought the results to be inevitable. I confirmed that I did, but comforted him (possibly) by saying that all-purpose companies would evolve under Stock Market conditions. The remaining disadvantages, I explained, would be that they would probably be foreign-owned and that the industry would have no sense of strategic purpose – an essential need when issues of security of supply and future fuels would continue to be vital and the planning horizon for large power stations was 30 years – a situation entirely alien to the market mechanism. This has turned out to be the case.

As privatisation approached I was telephoned by the DTI to ask my views on the regulator who had to be appointed by statute. I replied that I could think of no one in the industry who had a comprehensive knowledge of the industry and that an individual from either the generation or the distribution side would not command the trust of the other side. I suggested that Professor Stephen Littlechild, an economist who had been a leading adviser on the form of the privatisation, would perhaps be an appropriate choice, given his involvement in determining the proposals. He was appointed, and spent much of his term of office blocking mergers between generation and distribution companies, so remaining attached to his original, if mistaken, views. I had long ago formed the opinion that market economists could not resist framing organisations to use their theory of market forces (in which they believed totally), and quite enjoyed ‘playing at shops’. The same

dangerous inclination was later to be seen in the privatisation of the railways and is shared by many politicians.

Subsequent regulators took a more practical view of the undesirability of separating generation from distribution and allowed some all-purpose companies to evolve. But the movement was piecemeal and spasmodic and ended with the formation of mainly combined boards which were foreign-owned, as I had forecast.

The first years of the new privatised industry were under a Conservative administration and much was made, politically, of the early fall in electricity prices. A great deal of this fall arose from access to cheap gas for electricity generation, which had previously been forbidden. Also, the practice of the earlier industry, with recent memories of fuel supply dislocations as a result of miners' strikes and wars in the Middle East, had been to diversify its fuel supplies and to carry a generating plant margin sufficient to allow switching between fuels when difficulties arose. This policy ceased after privatisation, with scant regard for the effects on future security of supply.

The notion of diversity of fuels vanished and the only new generating plant built after privatisation was gas-fired combined-cycle, which offered the advantages of cheap fuel, low capital cost and short construction time. Governments and companies were dazzled by this combination and quite lost sight of the arguments for diversification of fuel supplies. They therefore allowed the plant margin to fall, and the industry to move steadily into increasing dependence on gas and, importantly, on imported gas from politically dubious areas, as our North Sea fields became depleted.

The resulting inactivity on building large power stations fuelled by a diversity of fuels lasted throughout the Labour administration, with a naive insistence by ministers that market forces would ensure reliability of gas supplies and that we had commercially secure contracts with our projected suppliers of gas. This was coupled with their belief that the industry would itself produce and implement a strategy which would ensure security of electricity supply. Recent events have shown how unrealistic these assumptions were – and we still have pitifully small gas

storage facilities, much smaller than those of our European neighbours who effectively also have first call on pipeline supplies from Russia and its neighbours. The failure to build large power stations also led to the collapse of our traditional turbo-generator and combustion plant industries, so that plant for the inevitable replacement stations will have to be obtained from overseas suppliers – a disaster which the industry would probably have avoided in its earlier, nationalised, form.

In fact, all governments since privatisation have acted in a way as opposed to sensible strategic planning as can be imagined. Their two big decisions, apart from developing a growing and dangerous dependence on imported gas, took the form of building windmills and abandoning nuclear power and coal stations – so endangering the security of fuel supplies and of the industry.

The love affair of the Labour Government with wind power arose from fears about climate change, an opposition to nuclear power and the declared belief that carbon dioxide was the principal cause of climate change. Renewable power became a requirement and the only available candidate was wind. Unfortunately, wind farms are expensive to build and their potential value has been greatly exaggerated. The facts, rarely acknowledged by politicians and renewable energy enthusiasts, are as follows:

- they can only operate when the wind speed is not too low and not too high and it is rare for a favourable wind regime to coincide with peak demand;
- when the conditions are not favourable, as is the case for much of the time, their output has to be replaced, often at very short notice, by fossil-fired plant;
- as a result, standby plant has to be kept running at considerable cost and producing additional CO₂, so partially negating the objective of renewable energy.

The government estimate, in 2006, was that wind power would require a subsidy of £30 billion by the year 2020 – a sum more than sufficient

to meet the total construction costs of replacing the then operating nuclear power stations. This wind subsidy will increase massively as the proposed offshore wind farms are built, with greatly increased construction and maintenance costs, which will be reflected in electricity tariffs. The subsidy is, of course, met by the electricity consumers – a stealth tax in all but name, and one designed to meet wildly unrealistic central government targets for reduction in carbon dioxide emissions.

Other renewable sources are being researched, as some of them have been for the past 50 years. But they all, on the most favourable estimates, seem likely to exceed the costs of wind power for the foreseeable future, so requiring even greater subsidies, and most share with wind the handicap of interruptible supply. Politicians seem to be in thrall to renewable energies, disregarding their high costs and limited contribution to security of supply. There is an urgent need for an authoritative re-evaluation of the mix of generating sources in the light of costs and security and a recognition that there are available much cheaper ways of reducing carbon dioxide emissions.

So where will future UK electricity supplies come from? That there will be a serious shortage is beyond doubt. The large power stations built in the 1960s and 70s had an expected life of 25 years, and many are now more than 40 years old. Their life is limited by the life of the high temperature steels used in their construction, as well as the ageing control systems and auxiliary plant. Their replacements are not planned as yet, with the exception of nuclear plant, where the first new station is envisaged for 2017, and a proposal, recently postponed, for one coal-fired station. The coal station has the unrealistic provision that it will have equipment capable of separating carbon dioxide from the flue gases and storing it underground – a highly optimistic project, with extra costs as yet unquantified, but certainly very large, and designed to achieve the highly optimistic government policy of carbon dioxide reduction. Little wonder that its promoter has deferred it.

Over the next 20 years we are likely to require new generating plant of 30,000MW for replacement purposes alone, and little of that,

because of government procrastination, will be powered by nuclear energy or coal. This is a huge challenge, which cannot be met, as it should be, by direct replacement of large coal and nuclear power stations – because of planning and construction constraints and European requirements. We have seen that renewable sources will contribute little to the security of electricity supply, so it follows that the bulk of the new plant will have to be fuelled by gas imported from troubled areas, making our nation increasingly vulnerable to interruption of electricity supplies and subject to volatile and rapidly rising costs.

On present form, we will also continue to build renewable energy plant with increasingly uncompetitive costs, requiring large and growing subsidies to be met by the electricity consumer. The effects of these developments on our economy can easily be imagined, and the responsibility rests clearly with the inactivity of the last Labour administration and their indifference, and that of preceding administrations, to risks which were readily apparent but consistently ignored.

I organised an annual debate in the House of Lords from 2002 to 2008 when the situation was painstakingly spelled out by me and by others to a series of disinterested ministers who continued to describe the fictitious high security of our rapidly growing dependence on imported gas and to studiously evade proposals for nuclear power – the only generating source available to provide both fuel independence and carbon dioxide reduction on a reliable and economic basis.

The visceral opposition of the Labour Government to nuclear power, and the accompanying obsession with wind power, stemmed from ministers at DEFRA and DTI who continued, year after year, to promulgate their personal prejudices and to deny the obvious dangers of doing so. Theirs will be a cripplingly expensive and damaging legacy, encouraged by the irresponsible support of the environmental lobby.

This systematic dismissal of the readily available facts, and the inactivity which it bred, was ‘justified’ by a declared reliance on market forces – an astonishing position for a Labour administration to adopt –

and by a tacit acceptance of that reliance by the Conservative and Liberal Democrat opposition parties. They all seemed unable to realise that Adam Smith described the ‘invisible hand’ of the market back in the eighteenth century, when roads were primitive, railways and aeroplanes non-existent, communications and international trade virtually non-existent, and technology played a tiny part in the nation states of the world – a far cry from the world of today.

Today, we rely on major facilities to provide our accepted mode of living, and their financing and construction can require decades. During my time at the head of the electricity industry we had to look three decades ahead to plan and construct new generating capacity to meet the needs of a growing economy and improving standards of living. Improving technology offered great financial savings but a prudent balance in primary fuel supplies had to be adopted as the primary aim of the industry to maintain security of supply with the steady growth in demand. Industry, commerce, hospitals, communications all depend on reliable electricity supplies, and the planning horizon of the industry has to be sufficient to ensure an orderly situation in a highly uncertain world.

The belief of politicians that a national strategy for the privatised electricity supply industry could emerge through the operations of the market is breathtakingly naive. First, because the politicians were busily intervening in the market through tariffs, renewable energy subsidies and hostility to nuclear power. Secondly, because the overseas owners of our electricity supply companies have no desire to get involved in the national energy policy of a foreign country in which they have invested. Their objective is simply to ensure that their investment is a profitable one – hence their investments in wind farms, heavily subsidised by electricity consumers by a surcharge on their bills. The credit crunch and its associated economic recession have reduced the demand of industry for electricity, and the high fuel prices in all sectors have encouraged economy in use. There may therefore be no growth in electricity demand for some years. But the effect of the need to replace worn-out power stations will eclipse such effects on demand, and the

investment requirements will be very large and certainly unwelcome to a government preoccupied with the crippling debts incurred since 1997. In a period of dominating debt repayments and stringent limits on capital expenditure, it will still be necessary to replace worn out plant and to meet electricity demand, and the only rational approach to this situation is to reduce further investment in heavily subsidised renewable energy, until it can be afforded on genuinely competitive terms.

We sorely need a technically competent and independent body capable of long-term strategic planning for a national electricity supply industry, irrespective of its ownership. We have seen ample proof that management of our foreign-owned industry is unsuited to the task, and that Government is incapable of discharging it, but it is also far from clear that a domestically owned industry would be any more able to develop and implement a long-term strategy.

I have often drawn Parliament's attention to the situation in the 1920s, when rapid load growth was being met by hundreds of companies, some municipally owned and some private. The solution to the fragmented system lay in the creation in 1926 of a statutory body, the Electricity Commission, which served the nation well until the industry was nationalised in 1947, having performed well during a period of very rapid load growth and technical developments. The politicians responsible for finding a solution to the present situation and its daunting problems should examine history and devise a solution on similar lines, for the five years' horizon which characterises politics is ill-adapted to tackling long-term problems, however serious the consequences of failure to do so. On recent form, we may have to wait for systematic electricity interruptions to secure the attention of politicians to the need for an independent body such as we enjoyed for much of the developing twentieth century.

An exception to this reluctance by government to plan for long-term issues appears to have arisen in the subject of climate change, which has captured the attention of politicians nationally and internationally. This is in part due to the diligent efforts of environmentalists but also to

the belief that the effects of climate change can be avoided by strenuous (and costly) measures to reduce carbon dioxide, the suggested principal villain of the piece. The enthusiasm with which this hypothesis has been accepted internationally is surprising.

There is little doubt that the climate is changing – it has done so through millennia, sometimes with catastrophic effects. But the belief that carbon dioxide is mainly responsible rests on questionable assumptions. Meteorological changes take place over long periods, varying with the particular factors selected, and the system is a highly complex one with many factors being interactive in ways not always well understood.

Additionally, many of the variables have differing time cycles, so that their effect varies in an apparently incoherent way.

The proponents of climate change rest their case mainly on the efficacy of the highly complex computer models which they have developed over the past few years in an effort to represent – and even foretell – the behaviour of the highly complex factors in the meteorological system. It is worth remembering that some of these factors are terrestrially based, but other, very powerful ones, arise in the solar system in ways we do not understand and cannot control. The development of models in such a problematic environment is hazardous and relies largely on producing new hypotheses to explain unforeseen differences and then incorporating those new hypotheses into the already complex model. The performance of the resulting models may please their creators but they offer limited guidance in the long-term analysis of the system. The performance of comparatively distant predictions, as in the case of the notorious ‘barbecue summer’ six months ahead, does little to instil confidence in the models.

A remarkable coincidence has sprung from the meteorological research into climate change. I say it is a remarkable coincidence, because it concludes that the principal cause of the hypothesized changes happens to be man-made carbon dioxide – one of the few factors that can be measured, and of the even fewer that might be susceptible to control! Both of these perceived possibilities are

attractive to the political and public groups which have reacted so strongly, and expensively, to the forecasts of the climate change scientists.

The impression given of substantial unanimity among scientists on the question of apocalyptic climate change and its available solution is misleading and derives from its uncritical acceptance by politicians world-wide, shared by the desire of the media for a simple story. As a result, crippling expensive measures have been adopted in the belief that the threat of world disaster is real and can be avoided. Unfortunately, most of the measures adopted and advocated are not demonstrably capable of achieving the rescue mission for which they are proposed. The power of the climate change juggernaut is such as to suppress contrary analyses and proposed solutions, but the interested reader would do well to read *An Appeal to Reason; A Cool Look at Global Warming*, a thoughtful examination of the available evidence by Nigel Lawson, published by Duckworth Overlook. Another illuminating exercise is to type ‘climate change, sceptics’ into a search engine such as Google to see the breadth of authoritative scepticism that exists.

It is easily shown that international plans for wind and other renewable sources are not capable of replacing carbon dioxide in the quantities and on the timescale claimed and required by the climate change models, but the sheer impracticability of the ‘solution’ seems to evade its supporters.

We are thus, nationally and internationally, sleepwalking towards a series of measures, at enormous cost, which will not solve the predicted problem – itself not a hazard of great certainty. The bandwagon is rolling and seems likely to cause great damage. Perhaps fortunately there now exists a braking effect to these measures, in the form of severe economic pressures, which will radically affect their proposed adoption. An ill wind, perhaps?

One of the major inconsistencies of current assessments of the declared problem and its solution is the way in which future electricity supplies are being put at risk while simultaneously proposing to extend

the contribution of electricity to the reduction of carbon dioxide production, for example in transport. At the same time, technologies such as carbon sequestration and solar furnaces in the Sahara are blithely advocated without even a superficial examination of their practicability, security and economic demands.

It is, of course, possible to claim that the UK is in good international company in its reckless approach to the certainty of the dire nature of the foreseen climate change, and to the variety of half-baked solutions offered. But any responsible approach requires our own government to examine the evidence for the problem and its proposed solutions, before embarking on such a headlong course, based as it is on emotion as well as to some objective analysis. This will not be simple, given the size of the steamroller presently propelling the climate change movement. It is salutary, however to reflect that the UK contributes around 2 per cent of world emissions and that those of the developing world are going to rise enormously as China, India and many other developing nations increase their industrial base. So Britain is not a major player in the situation, contrary to the posturing of some of our politicians and environmentalists.

One thing is already clear. Over the past decade, the money and efforts devoted to the predicted climate change and its solution could have been more effectively used to provide tangible contributions to offsetting foreseen effects by such measures as irrigation, flood defences and agricultural enhancements, as well as the large-scale adoption of nuclear power. Instead, we have created a huge meteorological research apparatus and adopted a range of renewable technologies which are both expensive and of little effect.

In the UK this foolhardiness has been facilitated by the wishful thinking of politicians unable to judge the validity of the arguments and unwilling to listen to the opinions of the dissidents from the prevailing fashionable view. These are precisely the errors committed over the past 20 years in the approach to privatisation of the electricity supply industry. Dreams may be comforting, but they rarely form the basis for successful national strategy.

The growing insecurity in electricity supply, the headlong expenditure on renewable energy and the necessarily incomplete examination of the climate change threat and its possible mitigation all stem from a lack of competence in understanding the assumptions on which decisions have been, and are, reached. The sheer incompetence of a procession of politicians in government and opposition renders the need for an informed analysis of the most major decisions in the energy and environmental fields. This is exactly the lesson of the past 50 years in the industry which I had the honour and pleasure to serve for much of my working life. I continue, in spite of contrary experience, to be optimistic that we will discover an escape route from this morass, despite the experience with the electricity supply industry over the past five decades, a deplorable record for which all three main parties share responsibility, though to varying degrees. This problem is examined in Chapters 8 and 9 in a more general consideration of the structural deficiencies of UK government. Suffice it to say here that the quality of government has not improved in recent years and offers little promise of doing so without extensive change.