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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
 Secretary of State for Energy
 Department of Energy
 Thames House South
 Millbank
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19 July 1985

AEA: CAPITAL STRUCTURE

Thank you for your letter of 19 June about the content of the AEA Bill.

Naturally I am disappointed that you feel unable to support a capital structure for the AEA including public equity capital. I still believe it would be the most appropriate basis for the AEA's move to trading fund status.

However, I accept that the case is less strong if the AEA will be a net borrower over its early years, making debt freedom a more distant prospect. Therefore, provided that the AEA's detailed financial projections for the next few years justify your expectations, I should be prepared to go along with an opening balance sheet without PEC.

Instead, I envisage that the AEA's capital structure would comprise simply debt, reserves and provisions. There would be no specific insurance reserve. Instead, the Authority would be expected to cover its own everyday losses up to the amount set aside in provisions. This would include routine third party claims. Beyond that we should have to consider claims - whether losses by the Authority or substantial third party claims - case by case on their merits.

There will still remain a possibility, however remote, that the AEA might become debt free at some point in the future. It is important that we are clear at the outset that we should guard against loss of control of the Authority's finances. We should need to consider the case for requiring payments in lieu of dividends, using the

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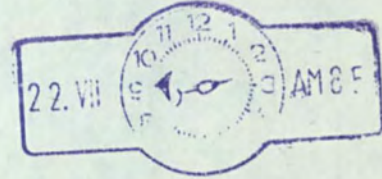
existing powers you mention, if the AEA's net debt begins to fall in real terms.

On that understanding, I should be prepared for officials to refine details of this simple outline structure for the AEA's capital base in order that the Bill may be ready for early introduction in the next session of Parliament.

I am copying this letter, as yours, to the Prime Minister, the Lord President, Members of E(NI) and Sir Robert Armstrong.

*Yours man
Peter Rees*

PETER REES



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