

PO-CH/NL/0303

PART A

Part A.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 21/7/89
Ends: 24/7/89



PO -CH /NL/0303



PART A

Chancellor's (Lawson) Papers:

RETENTION OF MAGNOX
POWER STATIONS

DD's: 25 Years

D. Allister

25/10/95

PO -CH /NL/0303

PART A



Ch.

This is a (pirated)
copy of the ppt. which went to
Mr Parkinson last night.

It boils down to a recommendation
that the Magnox stations should be
transferred to BNFL.

2. Draft statement is flagged
at the bank.

J

" 24/7

CONFIDENTIAL

21/7/89

MAGNOX COMPANY

Mr Taylor - we spoke

I'm broadly content with the recommendation, but there will have to be safeguards (eg on BNFL transparency). Mr Parkinson will be worried by the industrial relations aspects.

Introduction

This paper considers how to implement Ministers' decision to retain the Magnox stations in the public sector, preferably allowing the associated 4500 employees to be transferred to the private sector. LHM 21.7

2 There are considerable legal and practical uncertainties about this approach. While this paper incorporates the best advice available in the time, its conclusions cannot be definitive. Further detailed work will be required, including consultation with CEGB/NP, whose active co-operation will be essential. We have not yet been able to work out the detailed financial or other implications for the remainder of National Power's nuclear business.

Financial Background

3 The company will own the 9 Magnox power stations now owned by CEGB and SSEB, and benefit from the associated revenue from sale of electricity. During the next few years, this revenue should more than cover expected levels of cash expenditure, including payments to BNFL associated with earlier generation. But they will be completely

inadequate to meet all the longer term liabilities in relation to pre-vesting Magnox generation and decommissioning. These range from £5.2bn to £11.8bn depending on the assumptions used. (Annex A) On our present understanding of the potential calls on Clause 98 and Schedule 12 of the Bill, there is headroom to allow the government to make grants to the company should that be necessary.

4 Under present plans all Magnox stations will be closed down by 2002; the business as it stands does not therefore provide a long term career for its employees.

Options

5 We have identified three chief options, all of which involve the creation of a Magnox company under the Bill's powers to restructure the CEGB/SSEB

(i) a wholly independent Magnox company

(ii) a Magnox company owned by BNFL

(iii) an independent Magnox company with NP operate the stations under a management contract.

In all cases the operational staff for the company would be those currently running the Magnox stations; the differences arise from who employs them and who manages them. We also need to consider whether a nuclear site licence could be made available and how to resolve any conflicts of interest that may arise.

SPECIFIC ISSUES

6 This section considers in more detail the major issues which affect the choice of options.

Split of Assets

7 The Company would own the Magnox stations now the property of CEGB and SSEB and the associated liabilities for reprocessing and decommissioning. Other assets (and liabilities) including those relating to a single site would need to be divided. How easy this is can only be determined after discussion with the CEGB. It is doubtful whether the accounting systems exist to perform such a division; it would require considerable senior management time which will also be needed on other matters. There must be a real danger that preparation of the transfer scheme on this basis would delay Vesting day. In any case, it can only be achieved with the active co-operation of the CEGB.

8 However this split of assets is unavoidable, given the decision to retain Magnox in the public sector and will be virtually the same whichever of the options is adopted. The only difference would come if CEGB/NP and the senior staff concerned were less (or more) likely to co-operate in implementing one of the options.

Other practical issues

9 Whoever provides the day to day management of the stations, the Magnox Company will need to take commercial decisions and recruit staff for this purpose. It will have to negotiate contracts to sell its power, to reprocess its fuel and, if necessary, with National Power to operate its stations. All these are complex issues and it would inevitably take time for a completely new organisation to come to grips with them. This could introduce significant delays into the process.

Licensing issues

10 Before granting a licence, NII would need to be satisfied that the company was technically competent, and that management and communication mechanisms were in place throughout the organisation to ensure that safety issues were dealt with effectively including at Board level. It would be difficult, but not necessarily impossible, to create this infrastructure from scratch and the Chief Nuclear Inspector has a clear preference for licensing an

organisation with an existing safety tradition and with a long term commitment to the nuclear industry.

11 In this respect the NII would prefer the transfer of Magnox stations to BNFL. BNFL already has site licences for Magnox stations. The company's attitude towards safety is now good, as was the standard of its Health and Safety Department. Its performance is improving accordingly. The H & S Department would have to be strengthened if the Magnox stations were transferred, but that should be achievable without too much disruption.

12 In addition the NII thought it is highly desirable that the staff who operate the Magnox stations should be employed directly by the licence holder. Operational staff seconded to the Magnox company, or working under a management contract but employed by National Power could have divided loyalties, and be less well motivated to achieve high standards of safety and performance.

Employees

13 The announcement will come as a surprise to the workforce and cause them considerable uncertainty, if not anxiety. It would go back on assurances made in the White Paper that all who work in the industry should be offered a stake in their future and freedom from government.

interference. It would have clear implications for industrial relations and would need changes to the current negotiating machinery. It would have implications for the future of the ESPS.

14 Under the Transfer of Undertakings (Protection of Employment) Regulations 1981, employees have to move with the relevant undertakings and thus NP's Magnox operators would be transferred to the new public sector company. However there would be legal mechanisms for securing that the relevant employees remained with National Power, if that was desired. This would probably be the option preferred by Magnox employees.

15 Transfer to a new public sector company or to a subsidiary of BNFL might be viewed as unattractive to the staff, in both financial and career terms. Their current conditions could be protected and it should be possible to devise a financial package equivalent to the benefits they would have obtained from flotation of NP. Some thought would need to be given to their future when Magnox stations ceased operating and it might be necessary to provide a right to return to NP.

16 The details of any offers would be best left to the management of the new company to negotiate with NP and the appropriate unions. If the employees remained in the public

sector, one of Ministers' preferences for the transfer would not be met. (It should be noted that formally BNFL is classified as the private sector - although this classification might be changed following acquisition of the Magnox stations.) On the other hand the Nuclear Inspectorate would have more difficulty if the licensee did not itself directly employ the operatives necessary to run the stations and provide health and safety support.

Company's trading position

17 Although in the short term the company will have an operational cash surplus, its liabilities (debts plus provisions) far outweigh its assets. Directors would want to protect themselves against charges of fraudulent or wrongful trading and would need some assurance that the government will stand behind the company. So would its bankers. The Bill does not provide powers for the Secretary of State to give a contractual guarantee of the order of £6bn to the company. Ultimately it would be for the individual directors to decide what degree of assurance they required although non binding assurances have been accepted in previous cases this issues would be less problematic if BNFL acquires the Magnox stations.

Public Expenditure

18 Any public expenditure implications follow chiefly from the decision to retain Magnox stations in the public sector and there are unlikely to be major variations between the three options, assuming that payment for provisions is made as the liabilities fall due rather ^{than} those in an initial lump sum and that payments are made net of the cash flow surplus arising from operation of the stations.

✓

Conflicts of Interest

19 The NFFO would require the purchase of a certain amount of nuclear generated power. Thus there would be no direct competition on the supply of nuclear power, at least until the end of the current planned life of the Magnox stations. If however the Magnox stations were to prove to have a longer economic safe life, there would be the possibility of competition between NP and the Magnox company. This would be unlikely to be promoted by NP.

we could then
redefine the
NFFO.

20 Moreover, if NP were to manage the Magnox stations without a performance linked or fixed price contract they would have no incentive to reduce operating costs. The contribution of a management contract to NP's profits even with performance bonuses would always be small in relative terms and top management might well judge that it was more trouble than it was worth. There would be a tendency to load any joint costs on to Magnox rather than the AGR or

CONFIDENTIAL

PWR; and there would be no incentive for NP to manage tightly the contracts with BNFL.

21 It would also be very difficult to establish proper monitoring of such arrangements. Without considerable resources, the government would not be in a position to determine whether NP were managing the stations to the best advantage of the taxpayer. This position would be difficult to defend to Parliament. These arguments also apply, although with somewhat less force, even if NP's involvement is confined to the provision of operational staff. There would be a natural tendency for NP to retain the best staff for itself.

*We lose one
source of
pressure on
BNFL.*

*if BNFL have ✓
cost plus contracts
for magnox
reprocessing
but fixed price
for AGR reprocessing they will want to load costs onto magnox.*

22 Conversely if BNFL were to own the company, there might be less incentive to manage reprocessing contracts tightly and a potential lack of transparency about costs. They would however have every incentive to reduce station operating costs particularly those that were still dependent on NP.

Plutonium

23 Keeping Magnox in the public sector means that the associated plutonium would also remain in the public sector. While it would continue to be stored at BNFL, a new public sector owner would have to develop its own plutonium

accounting service and make any necessary contribution to the work of implementing safeguards. Assurances had previously been given that the plutonium would be owned by the privatised companies.

European issues

24 Support for the Magnox company, even though in the form non legally binding assurances, could be construed as a state aid and therefore subject to clearance with the Commission who would also have an interest in the competition issues. This applies to all the options.

CONCLUSIONS

25 We have found no insuperable legal or practical barrier to any of the three options. However they all present real difficulties both of implementation and presentation.

26 All three options have the common characteristic that existing Magnox operatives will be required to run the stations, whether employed directly by NP or not. The difference is in how they are managed. A new company with no previous nuclear experience, would have difficulty obtaining the necessary licence. The options come down to two, management largely by NP, albeit with some external shadow management, and management by BNFL.

27 Management by NP is bound to lead to conflicts of interest and to difficulty in establishing proper accountability to the government and Parliament.

Establishing a contract that gave NP real incentives, including to establish a real competitor to itself, would be difficult and time consuming. An independent company placed between NP and the distribution companies would be in a very weak bargaining position. This solution might however be the most attractive to the employees who could be assured of a career in National Power after the closure of the Magnox stations.

28 By contrast BNFL have a real economic interest in securing the best management of the Magnox stations and prolonging their useful life. Indeed we know in general terms that they would like to do so. This follows from the involvement in all stages of the fuel cycle. They already have experience of running 2 small Magnox reactors and there would be the prospect of their developing as an additional competitor to NP, particularly in the nuclear field, provided such competition was fair.

29 It would not however be easy for BNFL to take this on. Their management is already overstretched; the Chairman and Chief Executive recognise this and they are taking steps to strengthen it. Nevertheless, if they had responsibility for Magnox power stations as well, further strengthening

would be required, and first rate financial and commercial directors would be necessary. Moreover while its image has improved recently, its health and safety record has not been above reproach, though the problems relate to reprocessing rather than its operation of Magnox reactors. It would be necessary to solve the industrial relations problems but, at this stage it might be left to BNFL and National Power to make proposals to the unions. Some additional financial incentives would probably be necessary.

30 Some of the uncertainties, could be resolved by consultation with NP and if necessary BNFL. In particular this would establish the extent of the practical difficulties and whether they were prepared to co-operate actively in dealing with them. A key determinant will be the attitude of the workforce and the extent to which it is possible (or desirable) for the present Magnox staff to remain employees of NP or at least to have rights of return when Magnox stations cease to operate. This can only be determined by negotiation between the parties involved, including the nuclear inspectorates.

Recommendation

31 On balance, provided that steps are taken quickly to strengthen its management, officials recommend that the responsibility for Magnox stations should be transferred to

CONFIDENTIAL

BNFL. Urgent consideration would also need to be given to how to reassure the Magnox employees.

INITIAL LIABILITIES OF MAGNOX COMPANY
(as at 31 March 1989: includes Hunterston A and
Chapelcross SSEB liabilities)

	<u>£ million</u>			
	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>	<u>Case 4</u>
Payments to BNFL for future reprocessing etc of fuel relating to previous generation and decommissioning of Calder Hall and Chapelcross	4200	5400	6400	7400
Decommissioning of Magnox power stations inherited from CEGB and SSEB and related waste disposal	1000	1000	1300	4400
TOTAL	5200	6400	7800	11800

Notes

Case 1 assumes payments to BNFL on a 'lowest prudent price' basis, ie cost plus with 100% of risk of increases borne by Magnox company, and decommissioning costs take account of AEA report without introducing additional pessimism or any tax effect.

Case 2 assumes payments to BNFL on basis of offers made in recent months, ie BNFL assumes substantial share of risk and charges a premium.

Case 3 assumes significant transfer of BNFL overheads to Magnox cos on account of NP not signing up for further AGR reprocessing, and all certain other costs arising both for payments to BNFL and decommissioning: it is CEGB's mid range estimate.

Case 4 is CEGB's "upper limit" it assumes further cost increases due to "linkages" in BNFL offers and also a negative real post-tax rate of return on moneys set aside in decommissioning provisions.

Source

CEGB figures as per earlier TR/Departmental analysis, plus Hunterston figures extracted from BNFL offers (£600-700 million) and Chapelcross station decommissioning figure in line with AEA report (£200 million). Station decommissioning figures - earlier figures increased by 10% to include Hunterston A.

DRAFT MINUTE TO PRIME MINISTER

Following our meeting on Tuesday, I have considered how best to implement our decision to retain Magnox stations in the public sector. Three options have been identified.

(i) a wholly independent Magnox company

(ii) a Magnox company owned by BNFL

(iii) an independent Magnox company with National Power operating the stations under contract.

It is essential that the new company satisfy the Nuclear Inspectorate of its competence to operate the stations safely. The Inspectorate's clear preference is to license BNFL who already operate two Magnox stations. They would also be very concerned about an arrangement whereby the operatives responsible for running the station were not employed directly by the licensee. I must give due weight to these views.

In any case I see possible conflicts of interest if National Power is too closely associated with running the stations of what ~~may~~ may in future become a competitor and in which they have no clear financial interest. In addition any company supplying power to the distribution companies but completely dependent on National Power for its operation would be in a very weak bargaining position.

Although a wholly independent company, with transparent relationships with BNFL, NP and others has obvious attractions, it would clearly be very difficult to set it up from scratch in the timescale. Its short life might also make it unattractive to staff. Taking account of the Inspectorate's concern, I have rejected this option.

This leaves ownership by BNFL, a company which already has considerable interest in Magnox and a long term commitment to the nuclear industry. The move would amount to complete vertical integration with a consequent danger of lack of control of reprocessing costs. I think we have to run the risk and there will be the advantage of having a potential nuclear competitor to National Power.

Nevertheless BNFL's management is already overstretched and needs strengthening. This is recognised by the Chairman and Chief Executive but a change of the size envisaged would ~~be~~ give even greater immediacy. At the very least first rate commercial and financial directors will be needed.

The industrial relations need to be considered very carefully, particularly since the employees will have expected to share in the flotation of NP. It ~~sho~~uld of course be possible to construct a financial package equivalent to the benefits of shares. However at this stage, I believe it would be best to leave BNFL and NP to consider how

best to deal with the employees' legitimate concerns in a way that meets the requirements of the Nuclear Inspectorate.

I am copying this minute to the Chancellor, Malcolm Rifkind and Sir Robin Butler.

22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

The Secretary General

DRAFT STATEMENT

I have made clear to the House on a number of occasions the Government's determination to introduce transparency into the cost of nuclear power. It is important that Parliament and the electricity consumer should be fully aware of the price associated with security and diversity of fuel sources.

As a result of our preparations for privatisation, the Government has recently become aware that the cost of reprocessing and waste treatment of spent nuclear fuel, especially magnox fuel, is likely to be substantially higher than has been charged in electricity prices and set out in the accounts of the CEGB and SSEB. Since the magnox stations are drawing to the end of their lives, most of these costs relate to electricity already generated and paid for. We believe it would be wrong for future customers to have to bear such costs in their electricity bills. Equally, these costs, which relate to the legacy of the past, would present a major drain on the cashflow of the nuclear generating companies, at a time when the energies of the companies should be directed towards ensuring that their existing stations are run efficiently and at lowest cost and, in the case of National Power, when the company will, subject to planning and other consents, be building new PWRs. In order to enable the nuclear generating companies to focus their attention on the future of nuclear power, the Government has decided that it would be appropriate for the extra costs, over and above those already charged to electricity consumers, to be met from public funds.

OK

this is wrong

The Government has considered carefully how best to give effect to this decision. It has decided that a further successor company should be created under the transfer schemes to be drawn up under Clauses 67 and 68 of the Bill. This

company will take over all the assets and liabilities relating to the magnox stations belonging to the CEGB and SSEB. This company will remain in the public sector [and its shares will be transferred to BNFL]. In this way, the profits arising from the continued operation of the magnox stations can be used to contribute to the costs associated with past electricity generation and the need for grants under Clause 98 and Schedule 12 of the Bill will be reduced.

? assumes
re classification
of BNFL

I had previously told the House that grants under Clause 98 would be used only to meet costs which were unforeseen. This was the Government's view at the time but will clearly no longer be the case, although the ^{business is} costs now identified were not foreseen at the time the electricity was generated. It is only right that the House should be aware of this change in Government policy.

But what
taking over
all the
provisions

No changes to the Bill are needed to bring the Government's decisions into effect. The Bill is designed to establish a new licensing regime for the electricity industry and the establishment of successor companies to the existing Boards. This remains our policy. There will be a greater need than previously anticipated for grants under Clause 98, but the Government is satisfied that the amounts available under the Bill will be adequate for some time to come. The Government will return to Parliament to seek approval to an increase when this becomes necessary.

The White Paper, "Privatising Electricity", said that "the Government is determined that public confidence in the nuclear programme should be maintained". This remains our priority. The new company will inherit, under the transfer schemes, the nuclear site licences for the magnox stations. We shall ensure that the company has access to the resources needed to meet its obligations under these licences. There will be no

reduction in the high standards of safety and environmental protection that presently obtain.

[It is our intention that to the maximum extent possible, the staff of the new company should be seconded to the company from National Power and the Scottish Nuclear Company. This will ensure continuity of employment and the opportunity for a long-term career in the private sector. Negotiating and pension rights will be unaffected by the change. Some direct recruitment to the company may be needed. This will be on a voluntary basis. There will be no compulsion].

*Have a
secondment
considered.*

OR

[Under the transfer scheme, relevant CEGB employees will become employees of the new company. This will ensure continuity of employment and preserve pension [and negotiating] rights. [BNFL and National Power will consider how best to ensure the long-term future for the employees concerned. There will be the opportunity to staff to be assimilated into BNFL's employment and pension arrangements. The companies will also wish to consider arrangements for secondment of staff].

These proposals differ from those in the White Paper. The Government makes no apology for that. Preparation for privatisation has brought new information to light and the Government has taken the right decision on the way to deal with the issue. The problems arise from the nuclear industry's past and have little bearing on its future performance. It is right to separate the problems of the past from the prospects for the future. The nuclear generators will be able to concentrate their efforts on building a new generation of PWR stations and improving the performance of the AGRs. On the basis of the presently planned life, by 2002,

the last magnox station will have closed. Thereafter, nuclear power generation will be wholly in the private sector. This is where it should be and where it will flourish.

sk399

CONFIDENTIAL

FROM: M L WILLIAMS (PE1)
(4769)

DATE: 21 July 1989

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Lomax (GEP)
Mr Moore (PE)
Mr Beastall (TOA)
Mr Holgate (PE1)
Ms Goodman (PE1)
Mr Tyrie

A tape to look for answers - but Mr P may telephone you about this over the w/e. 21/7

RETENTION OF MAGNOX STATIONS

1. I attach a draft of Mr Parkinson's statement for Monday. This draft has been prepared by officials; Mr Parkinson will be working on it over the weekend.
2. I am content with the draft, which reflects some comments I made on an earlier version. You see that it leaves open the eventual destination of these stations. If you have any comments on it, your office might like to pass them to Mr Parkinson's early on Monday.
3. The immediate work programme includes consideration of the public expenditure implications of the different options, i.e. an independent Government owned company, possibly contracting the management of the stations to National Power, or transfer of the stations to BNFL. As part of this work, we will be looking again at the classification of BNFL.

mlw

M L WILLIAMS

CONFIDENTIAL

DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement about electricity privatisation and nuclear power.

I have made clear to the House on a number of occasions the Government's determination to introduce transparency into the cost of nuclear power. As a result of our preparations for privatisation, the Government has recently become aware that the cost of reprocessing and waste treatment of spent magnox nuclear fuel ~~fuel~~ is likely to be a great deal higher than has been charged in electricity prices and set out in the accounts of the CEGB and SSEB. Since the magnox stations are drawing to the end of their lives, most of these costs relate to electricity already generated and paid for. These costs, which relate to the legacy of the past, would present a major drain on the cashflow of the nuclear generating companies, and would have major implications for the balance sheets of the two nuclear generating companies.

It is important that the energies of the companies should be directed towards ensuring that their existing stations are run efficiently and at lowest cost and, in the case of National Power, and, subject to planning and other consents, to the building of new PWRs. In order to enable the nuclear generating companies to focus their attention on the future of nuclear power, the Government has decided that it would be appropriate to relieve the companies of dealing with the problems of the past.

The Government has considered carefully how best to give effect to this decision. It has decided that a further successor company to the CEGB should be created in addition to National Power, PowerGen and the National Grid Company under

the transfer schemes to be drawn up under the Bill. This company will take over all the assets and liabilities relating to the magnox stations belonging to the CEGB and ESEB. This company will remain under Government control. In this way, the cashflow arising from the continued operation of the magnox stations can be used to contribute to the costs associated with past electricity generation.

The AGR stations will be assigned to National Power and the Scottish Nuclear Company, and will be privatised. These stations are mostly near the beginning of their generating lives. The problems that have dogged the construction and operation of some of these stations appear to be coming to an end. We have good reason to believe that the AGR's have a long and successful future in the private sector. National Power will continue to construct Sizewell B and, subject to obtaining the necessary planning approvals and satisfactory contractual arrangements, intends to construct and operate 3 more PWRs.

I had previously told the House that grants under Schedule 12 would be used only to meet costs which were unforeseen. This was the Government's view on the figures available to it at the time but will clearly no longer be the case, although the additional costs now identified were not foreseen at the time the electricity was generated. It is only right that the House should be aware of this development in Government policy.

No changes to the Electricity Bill are needed to bring the Government's decisions into effect. The Bill is designed to establish a new licensing regime for the electricity industry and the establishment of successor companies to the existing Boards. This remains our policy.

CONFIDENTIAL UNTIL 3.30 MONDAY

Much remains to be settled but I considered it right to inform the House of the Government's decisions at the earliest opportunity. The details will need to be thoroughly discussed with the parties concerned. In particular, there will be full consultation with the management and trade unions in the industry.

In order to ensure that the new company has the confidence to trade and to meet its liabilities when they fall due, Schedule 12 will be brought into force as soon as practicable and I shall be laying a draft Order before Parliament during the Autumn to increase the limit on amounts payable under the Schedule from the interim £1000 million to £2500 million. This will give the House an opportunity to debate our proposals in full.

The White Paper, "Privatising Electricity", said that "the Government is determined that public confidence in the nuclear programme should be maintained". This remains our priority. The new company will inherit, under the transfer schemes, the nuclear site licences for the magnox stations. We shall ensure that the company has access to the resources needed to meet its obligations under these licences. There will be no reduction in the high standards of safety and environmental protection that presently obtain.

These proposals differ from those in the White Paper. The Government makes no apology for that. Preparation for privatisation has brought new information to light. The Government has taken the right decision on the way to deal with the issue. The problems arise from the nuclear industry's past and have little bearing on its future performance. It is right to separate the problems of the past from the prospects for the future. The nuclear generators will be able to concentrate their efforts on building a new generation of PWR stations and improving the performance of

CONFIDENTIAL UNTIL 3.30 MONDAY

CONFIDENTIAL UNTIL 3.30 MONDAY

the AGRs. On the basis of the presently planned life, by 2002, the last magnox station will have closed. Thereafter, commercial nuclear power generation will be wholly in the private sector. This is where it should be and where it will flourish.

sk399

CONFIDENTIAL UNTIL 3.30 MONDAY



FROM: J M G TAYLOR

DATE: 24 July 1989

MR M L WILLIAMS (PE1)

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mrs Lomax
Mr D J L Moore
Mr Beastall
Mr Holgate
Ms Goodman
Mr Tyrie

RETENTION OF MAGNOX STATIONS

The Chancellor was grateful for your note of 21 July, enclosing a draft of Mr Parkinson's statement.

2. He thinks the draft a trifle too long, and would be grateful if you could look for (and pass on to D/Energy) cuts. But he is otherwise content with it.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

pmf



For the Law
won't be
made!

Ch.

Infractingly, when I telephoned Mr P's office to press these points I got the reply: "frightfully sorry, we've already given the text to the Whips and the Opposition".

2. I made it plain that - substance aside - it is extremely disadvantageous to send over a speech so late that, even when it is forward round in the shortest poss. time, comments cannot be taken on board.

Gratifying contribution; but this is still v. bad. 24/7

CONFIDENTIAL

Pop

FROM: M L WILLIAMS (PE1)
(4769)

DATE: 24 July 1989

CHANCELLOR

cc. Financial Secretary
Mr Monck
Mr Gieve (IDT)
Mr Holgate (PE1)

Chy I am not sure about

Mr W's points at X + Z: we want Mr Parkinson to say that these relate to past costs.

WJL

Put in a gen. pt. as Mr. Gieve is to say this work is to be done, too.

RETENTION OF MAGNOX STATIONS

1. We have just received the attached copy of Mr Parkinson's statement, which incorporates his own amendments.

2. Three of these amendments are objectionable; and we have told DEN officials as such. But Mr Parkinson wants to include them.

3. They are marked at X, Y and Z on the attached.

4. X (the last two sentences of the paragraph, of which the last is most objectionable) and Z (the third sentence of the paragraph) make the same point. Mr Parkinson wants to imply that the reason for this decision is to relieve future customers from the burden of meeting these additional costs in respect of generation in the past. But it was never proposed that future customers should bear this cost (or at least the greater part of it). His other proposals, eg. a cash injection, would have taken care of that similarly. As well as being wrong, these sentences are an unnecessary hostage to fortune:

- (i) In some other areas (e.g. reprocessing of AGR fuel) there may be some element of past costs that it would be sensible to spread over all future customers. The amount can probably only be small, but it would be foolish to wholly dismiss the option.

CONFIDENTIAL

CONFIDENTIAL

- (ii) Similarly, we may want to spread some element of future unforeseen cost increases over future customers, rather than the full extra falling on the Exchequer.

5. Z is slightly better than X in that it refers to "this legacy of the past". The second sentence at X could be improved if it were reworded "It would not be right to burden them also with costs of the order that have arisen from past magnox generation." X

6. But I would much prefer a sentence that explained the rationale of this decision more precisely, along the lines of the sentence that Mr Parkinson has deleted "These costs would represent a major drain on the cash flow of the nuclear generating companies, and would have major implications for their balance sheets."

7. Y raises a different issue. It is an unnecessary hostage to fortune to say that employees' pension rights, their ability to benefit from the flotations, and their career prospects will be protected. We have not done any work on this. We would certainly not want to say now that they will have access to employee incentives on privatisation, not least because that would throw into jeopardy decisions that have been made on water (e.g. in respect of NRA employees). Moreover, under present legislation, if the employees are not members of one of the floated companies, any free shares etc. would be taxable. Far better to omit the sentence.

8. If you agree, may I suggest that your office speaks to Mr Parkinson's.



M L WILLIAMS

CONFIDENTIAL

CC Mr M Williams

DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement about electricity privatisation and nuclear power.

As a result of our preparations for privatisation, it has recently become clear that the cost of reprocessing and waste treatment of spent magnox nuclear fuel will be a great deal higher than has been charged in electricity prices and provided for in the accounts of the CEGB and SSEB. The magnox stations are drawing to the end of their lives. One is already closed, and most of the others are due to close within the next few years. Most of these costs therefore relate to the past, to electricity already generated and paid for. Future customers will be bearing the full cost of the electricity they consume. It would not be right to burden them also with costs arising from the past.

It is important that the energies of the companies should be directed towards ensuring that their existing stations are run efficiently and at lowest cost. National Power will, subject to planning and other consents, also be building new PWRs. In order to enable the nuclear generating companies to focus their attention on the future, the Government has decided that it would be appropriate to relieve the new companies of dealing with these substantial problems of the past.

The Government has considered carefully how best to implement this decision. It has decided that both the assets and liabilities relating to the magnox stations belonging to the CEGB and SSEB should remain under Government control.

The AGR stations will be assigned to National Power and the Scottish Nuclear Company, and will be privatised. These stations have many years of operation ahead. The operating performance of these stations has shown marked improvement and this can be expected to continue in the future. Therefore we have good reason to believe that the AGR's will have a long and successful future in the private sector. National Power will continue to construct Sizewell B and, subject to obtaining

the necessary planning approvals and satisfactory contractual arrangements, intends to construct and operate 3 more PWRs.

No changes to the Electricity Bill are needed to bring the Government's decisions into effect. I shall be laying a draft order before Parliament during the Autumn to increase the limit on the amounts payable under Schedule 12 of the Bill from the interim level of £1000 million to £2500 million. This order will be subject to affirmative resolution and will give the House a full opportunity to debate our detailed proposals. The order will enable grants to be paid to National Power and to the Scottish Nuclear Company for unforeseen costs, as previously explained to the House. These powers will also be used to ensure that the Magnox stations can continue to be operated and their liabilities to be met.

Y | I am most concerned that nothing is done to jeopardise the future of the employees concerned. Their pension rights, their ability to benefit from the flotations, and their career prospects will be protected. To this end I shall discuss the implementation of the proposal with all the parties concerned, including the unions.

We shall ensure that the necessary resources are available to maintain the present high standards of safety and environmental protection. We shall not take any steps which are not approved by the Nuclear Installations Inspectorate.

Z | Preparation for privatisation has brought new information to light. The costs for the Magnox stations, which have now become clearer, would present major financial problems for the two nuclear companies. They can only be paid for by the customer or the taxpayer. The Government does not believe that this legacy of the past should be borne by customers in the future. The Government has therefore moved rapidly to deal with the issue. It is right to separate the problems of the past from the prospects for the future. The nuclear generators will be able to concentrate their efforts on building a new generation of PWR stations and further improving the performance of the AGRs. On the basis of the presently planned life, the last magnox station will have closed by 2002. Thereafter, commercial nuclear power generation will

be wholly in the private sector. This is where it should be and where
it will flourish.

sk399