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PRIME MINISTER

MOVEMENT OF COAL TO POWER STATIONS

David Howell sent me a copy of his minute of 10 June seeking agreement to his proposal to ask both the NCB and the CEBG to take action right away to advance 1½ million tonnes winter coal deliveries into the summer. He indicated that to try to move more coal, for example, the 4-5 million tonnes referred to at our meeting at No.10 on 14 April, would involve costly and obtrusive measures.

2. I think that we were aware at our April meeting that moving coal from NCB stocks to power stations might be obtrusive, but as I recall, we agreed that the industrial risks were manageable. There is nothing in David's letter which alters that view, especially if, as he suggests, the increase in stocks was presented as an endeavour to prevent pit stock build-up. Despite the industrial risks involved, I would certainly be in favour of trying to move more coal in addition to the 1½ million tonnes proposed, provided that this can be done within the resources already agreed.

3. I have already agreed with David and George Younger that up to £10 million should be added to the NCB's EFL agreed by E Committee in order to accommodate the cost of moving coal to both CEBG and SSEB power stations. I am also prepared to agree that this £10 million should take the form of additional deficit grant, as David proposes in paragraph 8(ii) of his minute. I would be most reluctant to see yet a further increase in the NCB's EFL for this purpose. But it appears from the figures in David's minute that it would be possible to move extra coal beyond the additional 1½ million tonnes proposed within the

£10 million

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£10 million which I have already agreed. Paragraph 4 of his minute suggests that the extra costs of moving the 1½ million tonnes in summer compared to winter is perhaps only of the order of £3-4 million, although costings at this stage must inevitably be approximate. There ought therefore to be some money left over within the £10 million to move 1 million tonnes or so more. If there is not, or if it is decided that more coal should be moved than the £10 million can accommodate, the Generating Boards should be asked to pay the extra costs involved. After all, they have the strongest interest in building up coal stocks for what could be a difficult winter for power supplies.

4. David's minute raises some other points:

(i) It is clearly right that the coal should be delivered on deferred payment terms with the price paid by the CEBG related to the "normal" timing of delivery. This would avoid imposing on the NCB the loss of £4 million, referred to in paragraph 3 of the minute.

(ii) It is suggested that we would have to consider compensating the <sup>CEGB</sup>~~CEBG~~ for the up to £5 million needed for them to build up ancillary material stocks commensurate with the increase in their fuel stocks. This should be resisted strongly. We are in effect warning the CEBG of the risk of industrial action next winter which could affect their capacity to meet their customers' requirements for electricity. Surely in those circumstances the CEBG have a duty to take action, on a contingency basis, which would help them safeguard electricity supplies. The Board would be in an indefensible position if, during a coal strike they had to reduce electricity generation because of a shortage of ancillary materials while they still had coal stocks left. I am sure that David Howell will

/impress





impress these points on the CEBC and resist any attempts by them to claim compensation for the extra £5 million expenditure, which is a very small part of their total expenditure.

5. I am sending a copy of this minute to the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Industry, Employment, Energy and Scotland, the Minister of Transport and to Sir Robert Armstrong.

*R. G. Torkien*  
*Pro.*

(G.H.)  
15 June 1981

(Approved by the Chancellor and signed in his absence)