

Ref: A01768

PRIME MINISTER

AGRs AND THE GOVERNMENT'S NUCLEAR POLICY

✓ E(80) 30

BACKGROUND

1. This paper from the CPRS was circulated rather late, but has been retained on the agenda because it would not have been possible to arrange another meeting of the Committee before Sir Kenneth Berrill's departure from government service. The Department of Energy will have had very little time to consider the paper, and if there is any substantial disagreement between colleagues, it would be desirable to use this meeting for a "second reading debate", with final decisions deferred until later. But it may be that the recommendations of the paper will gain general acceptance.

2. The basic conclusion of the CPRS is that the programme is now so far advanced that postponement, even for two years, would result in the collapse of two of the specialist suppliers, and would destroy the capability of building AGRs for a good many years. Thus postponement is essentially equivalent to cancellation, and to opting out of the AGR possibility. Since the timing of the first PWRs is inevitably uncertain, because of possible safety and procedural delays, removal of the AGR option would seriously affect the Government's commitment to a programme of regular orders for the nuclear industry.

3. The arguments for postponement are given in paragraph 3 of the paper. The effect on the PSBR in the next couple of years is relatively small. The figure of £3 billion is the total cost; it arises because they have assumed that, if the stations are delayed, they will replace rather than add to the early stations in the "basic programme" announced by the Government last December. The section on investment appraisal does not demonstrate that these stations are a bad bargain; the adoption of the 25 per cent premium on the cost

of capital, on the grounds that it is "inessential investment", is not a standard premium adopted elsewhere in the public sector. It merely gives an idea of the sensitivity of the decision to the desirability of savings of capital in the short term. Essentially it is a repeat of the PSBR argument. The question of repeatability of design seems marginal. It is to be hoped that the PWR will replace the AGR before many further stations are built, and in that case the letter to the Department of Energy at Annex B shows that the Nuclear Inspectorate would be willing to license another one or two AGRs with the present designs.

4. The case against postponement, is covered in paragraph 4. The arguments essentially come down to those accepted by the Committee in December, when the "basic programme" of regular nuclear orders was agreed. It would cause serious damage to the nuclear industry if these stations were now cancelled.

5. The case for postponing only one of the AGRs (Annex C) is weak, because the potential savings are less than pro rata, while the effect on confidence in the industry, and on the morale of the nuclear protesters who have opposed the Torness station, would be considerable.

HANDLING

6. You might ask Sir Kenneth Berrill to introduce the paper, and then seek comments from the Secretaries of State for Energy, Scotland and Industry, and from the Chief Secretary, Treasury.

7. Your handling of the discussion might then depend on the degree of divergence of views that have been presented. If it seems likely that colleagues will be in a position to reach agreement, on the basis of the CPRS recommendations you could move to consider these in detail (they are in paragraph 9 of the paper).

i Early announcement?

Since the review by the CPRS has been widely reported in the Press, it is desirable to dispel doubts by a clear announcement.

ii Priority call on funds?

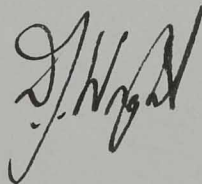
This needs to be argued through. Given that EFLs are going to cause problems for the industry in 1980/81 (problems made more difficult by a decision not to postpone the AGRs) the choice is between in effect saying that EFL issues will not impinge on the AGRs or leaving the decision finally to the industry. On balance the arguments are likely to favour the CPRS view that the priority accorded to the AGR's should be made clear.

iii Safety aspects

Although the Chief Inspector says, in his letters, that he sees "no difficulty in licensing one or two more AGRs similar to the Heysham II design", his remarks about the 'gas baffle' might cause problems with the anti-nuclear lobby. The CPRS suggestion that the position should be clarified is therefore well worth pursuing.

CONCLUSIONS

8. If views prove seriously divided, you can postpone decisions until a future meeting, and invite the CPRS to produce a fuller report as the basis for such decisions.
9. If the Committee is prepared to accept the CPRS's general thesis, you will want to record specific conclusions on each of the recommendations made in paragraph 9 of E(80) 30.



ROBERT ARMSTRONG

(approved by Sr. R. Armstrong
and signed in his absence)

21 March 1980