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*Watt. Inds.*

*cc A. Dwyer*

Ref. A02799

PRIME MINISTER

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CEGB Winter Fuel Stocks; and NCB and CEGB External  
Financing Limits in 1980-81

(E(80) 76 and 86)

BACKGROUND

In E(80) 76 the Secretary of State for Energy explains that there is a risk that the electricity (England and Wales) EFL for 1980-81 of £187 million could be overrun because of higher than expected fuel stock holdings following reductions in demand forecasts.

2. There are considerable uncertainties over the likely rundown of stock over the winter. But if they take no action on stocks the CEGB could overrun the EFL by up to £200 million.

3. The Secretary of State advises against action to reduce NCB deliveries of coal to the CEGB. This would simply shift the problem on to the NCB's EFL. Moreover it would break the CEGB/NCB understanding that the CEGB will take coal at the rate of 75 million tonnes a year provided the price does not rise in real terms. He argues that the ending of this agreement would remove an important restraint, through the price condition, on the miners and so have an adverse effect on the coming pay settlement. In his second paper (E(80) 86) the Secretary of State advises that, provided the coal sales agreement with the CEGB is maintained, the NCB should find the necessary economies to stay within their 1980-81 EFL of £834 million, though he admits that the prospects for 1981-82 are much more uncertain.

4. He also advises against asking the CEGB to reduce their coal imports. This would give the wrong message to the miners; it would reduce sources of supply; and it would lose the CEGB cheaper coal. He similarly advises against reducing oil deliveries.

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5. The Secretary of State recommends that, while at this stage fuel deliveries should not be reduced, the situation should be reviewed later in the year when the outcome of the miners' settlement is known. He recognises that this involves a risk that the Electricity Industry's EFL would be breached by £100 million or more. He recommends that in no circumstances should the CEGB be allowed to reduce their winter peak endurance below six weeks of stocks.

HANDLING

6. After the Secretary of State for Energy has introduced his paper you will wish to invite the Chief Secretary to comment on the risks of overrunning the EFL. The Secretaries of State for Scotland and for Wales may also wish to comment.

7. The Chief Secretary recorded in his minute of 15th July to you that he and the Secretary of State for Energy are firmly against dealing with this problem by setting up special financing arrangements outside the EFL to cover contingency coal stocks. The financing of adequate stocks should be a normal responsibility of the industry, and one for which the consumer pays.

8. The Committee may feel however that this particular problem is different from the general run of difficulties over nationalised industries' EFLs. It would be possible for the CEGB to take action now - by cutting coal and oil purchases - to keep within their EFL. But, quite apart from the effect on the NCB's EFL, it would not be in the national interest if they were to run down their stocks unduly or if there were to be adverse repercussions on the miners' pay negotiations.

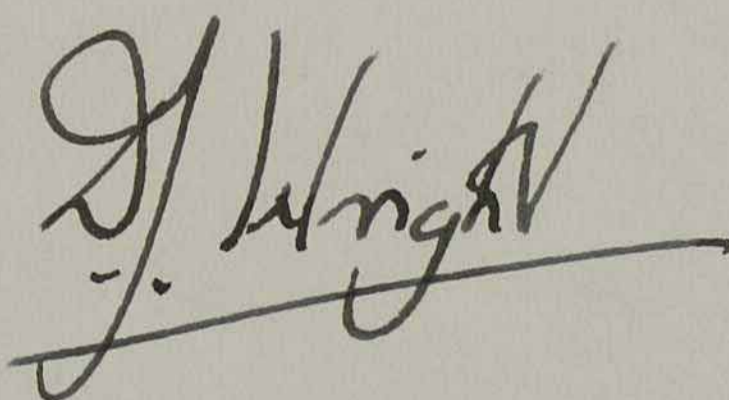
9. The Committee will wish to consider therefore whether in these circumstances it might be right to accept the Secretary of State for Energy's recommendations and to run the risk of an overrun of the Electricity EFL. This could however be on the understanding that the CEGB took all possible steps to stay within their EFL; that the position would be kept under review; and, possibly, that it should be made a condition that the maximum overrun which would be acceptable would be, say, £100 million.

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10. The Committee will have an opportunity to return to this subject in September when the Secretary of State for Energy will be putting forward a paper on the investment and the financing of the NCB up to 1983-84. It will then be possible to look at the 1981-82 EFL and to consider in more detail the tactical questions raised in Mr. Hoskyns' minute to you of 25th July.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions on:-
- (i) whether the Committee accepts the recommendations of the Secretary of State for Energy in paragraph 13 of E(80) 76 that for the time being the CEGB should not reduce fuel deliveries and that in no circumstances should they allow winter peak endurance stocks to drop below six weeks;
  - (ii) any points on the limits to overrunning the EFL which might be acceptable;
  - (iii) taking note of the assessment in E(80) 86 that, provided the CEGB take their 75 million tonnes, the NCB should keep within their 1980-81 EFL;
  - (iv) agreeing to resume discussion of these questions when the Committee discusses the Secretary of State's further paper on the coal industry in September.



(Robert Armstrong)

*(Approved by Sir R Armstrong  
and signed on his behalf)*

1st August 1980