



PRIME MINISTER

Mr. Sanders has not seen  
this.

Duty Clerk  
14.8.79

Treasury Chambers, Parliament Street, SW1P 3AG

14 August 1979

The Rt Hon David Howell MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1

WORK ON ENERGY POLICIES AND NUCLEAR POWER POLICY

I am writing in the Chancellor of the Exchequer's absence to comment on your minute of 10 August to the Prime Minister about nuclear power policy and on your letter of the same day to the Chancellor on work energy policies.

I entirely agree with you that we need to consider the development of our nuclear power policies in a systematic way and I am glad to see from your minute of 10 August that you accept that it would be useful for our officials to prepare for us a report as a basis for the investment decisions we shall need to take. As the Chancellor pointed out in his letter of 20 July, enormous costs are involved: two nuclear power stations or three years of coal investment are roughly equivalent to the total cost of the UK of the Concorde programme. And you point out yourself in your minute to the Prime Minister that a basic programme of orders, of say  $1\frac{1}{2}$  GW of new capacity per annum, could cost some £10bn. This represents an enormous investment of national resources which would be largely financed from public expenditure. Great uncertainties are inevitably involved. Much of the expenditure is indeed not incurred until after the end of the PES period, but this does not absolve us from taking decisions on the basis of a thorough assessment of the economic and financial case.

You suggest in your minute of 10 August that we could in September take decisions, with minimum financial risk, on a basic nuclear programme embracing some commitment to orders in earlier years together with a clear statement of a longer term need. It may be possible for officials to produce the assessment needed for such decisions by September, but I think that it would be a great mistake to rush the appraisals so that decisions are taken upon the basis of



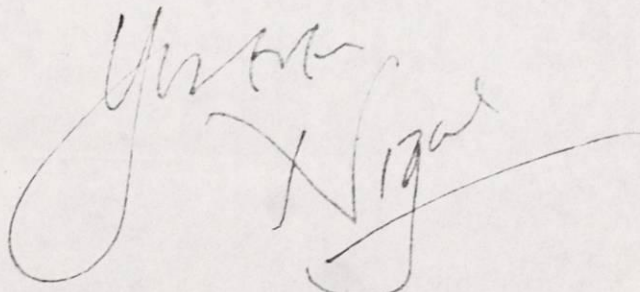
an incomplete assessment. However, I entirely agree that officials should be asked to complete their work quickly so that the question of the future ordering programme can be considered as soon as possible. Meanwhile, although I entirely agree that we should continue to affirm publicly that we see a growing need for nuclear power, it would be counter productive to build up any expectation in the nuclear industry to any particular size of ordering programme which was not supported by our eventual decision.

You also refer in your minute to the Prime Minister to the need to reorganise the nuclear industry, to press ahead with the PWR option announced by the last government and to the consideration of fast reactor policy. Again I agree that these are matters which we ought to consider collectively in the coming months so that we give a new impetus to nuclear power policy. But I ought to point out that these policies could involve public expenditure. I must therefore ask that no commitments are entered into until Ministers collectively have taken decisions.

I am glad of your agreement to carry forward the work on energy pricing and medium term financial targets for the gas and electricity industries for completion in the Autumn. I do not want to make an issue of which Department is in the lead in view of your agreement that the Treasury should take the initiative in examining possible tax implications. On that basis I agree that we should leave the co-ordination of the work to officials.

Finally, on the short term matters referred to in your letter I note that you will shortly be letting colleagues know of your contingency plans for dealing with oil shortages in the winter; that you will be offering further thoughts on petrol duty and on interaction of fiscal measures and energy policy more generally and that you may wish to contribute some suggestions about increasing Government take from the UKCS.

I am sending a copy of this letter to the Prime Minister, the Foreign Secretary and the Secretary of State for Scotland, Industry and Environment and to Sir John Hunt and Sir Kenneth Berrill.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style. The signature is positioned above the printed name.

NIGEL LAWSON

14 AUG 1979

