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Energy

bc CO
MR WATSON
MR HOSKINS
MR MALTORS

TH

10 DOWNING STREET

From the Private Secretary

13 January 1981

In the course of a discussion the Prime Minister had yesterday with the Secretary of State for Energy, the Prime Minister expressed concern at the time it seemed likely to take to complete the PWR safety inquiry. She fully recognised the need to secure all the proper safety clearances if the PWR was to be acceptable; at the same time, she was concerned that, if the inquiry did not start until 1982, British industry's prospects of obtaining orders from abroad for the PWR would be jeopardised. If the inquiry could be completed earlier, then there might be the prospect of building the first PWR to take into account the lessons of Three Mile Island. Early completion of the inquiry and manufacture of the PWR would of course be beneficial to employment. Mr. Howell told the Prime Minister that the putting together of the necessary documentation by the Nuclear Inspectorate was time-consuming; but he too was extremely keen that the inquiry should get under way as soon as possible.

While understanding the pressures on the Nuclear Inspectorate, the Prime Minister would be very grateful if your Secretary of State would write to the Director of the Inspectorate urging that the work on the documentation should be completed just as soon as possible so that the inquiry can get under way.

I am sending a copy of this letter to Julian West (Department of Energy) and John Wiggins (HM Treasury).

T. P. LANKESTER

Richard Dykes, Esq.,
Department of Employment.

8p.

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1. NJS MS
2. Prime Minister
Energy

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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211-6402

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Rt Hon Michael Heseltine MP
Secretary of State for
the Environment
2 Marsham Street
London SW1P 3EB

27 March 1981

mt

John Nissen

SIZEWELL B PWR INQUIRY

I have been reflecting on this Inquiry in the light of the recent Report of the Select Committee on Energy. The Committee's views are summarised at Annex A. As you will know they also recommended that there should be a debate in the House on the Government's nuclear power policy.

In our correspondence last year resting with your letter to me of 28 July we were agreed that there should be adequate investigation and preparation for the Inquiry, and that Parliament should be involved in this process. The Select Committee took evidence from myself and the Generating Boards and the AEA, as well as from a wide spectrum of other opinion, including designers and manufacturers of power plant, some of the trade unions concerned with power station construction and operation, academic experts and a number of those critical of nuclear power. They have published this evidence, which constitutes a very important body of background information for the Inquiry. I made it clear in my evidence to the Committee that it was our intention to hold a wide-ranging inquiry.

I hope in the next few months to publish a reply to the Report in the form of a White Paper setting out the Government's nuclear power policy and replying as appropriate to the Committee's observations and recommendations. The House should then debate the Report and the White Paper. This debate will give the opportunity for Parliament to express a view on nuclear power policy, without of course prejudicing or pre-



judging the Inquiry which in this way will take place, as we would wish, against a settled policy background. The existence of such a background will be valuable to the Inspector. Sir Frank Layfield QC, whom I hope to appoint for this task, has said he attaches great importance to having a firm statement of Government policy.

I have received representatives from the CEGB, the National Nuclear Corporation, the Nuclear Installations Inspectorate and Suffolk County Council, all seeking an early decision on the form and scope of the Inquiry. As you will know I believe that a wide-ranging single-stage inquiry on the lines of those held for the Windscale and Belvoir proposals is the best way of carrying out our commitment to a full and thorough Inquiry. I remain opposed to the concept of a two-stage Inquiry, though I see virtue in a pre-Inquiry meeting to enable the Inspector, with the parties, to identify the main points at issue and commission any further work that may be necessary.

As for the scope of the Inquiry, I would propose to issue a "Rule 6" statement to the parties identifying points relevant to my consideration of the application and attach a draft at Annex B. This seeks to make it quite clear that the case for the station has to be made out by the CEGB and not the Government. I think you know that my officials are working with yours and with the Lord Chancellor's Department on the making of statutory Rules of Procedure for Inquiries under the Electricity Acts. We are pressing on as quickly as possible with these Rules, but I would like to issue my statement not later than May or June, even if the Rules have not been formally promulgated by them. I would propose to give the Government's view on the Inquiry and publish the "Rule 6" statement by means of an arranged PQ at that time.

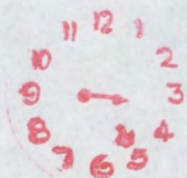
Looking well ahead, it may be desirable, as the Select Committee have again suggested, for there to be a Parliamentary debate after the Inspector has reported. I am advised that this can be arranged by means of a procedure which separates consent under Section 2 of the Electricity Lighting Act 1909 from the deemed planning permission under Section 40 of the Town and Country Planning Act 1971 which would normally accompany it. No decision on that is needed now, though the possibility should clearly be mentioned to the Inspector when he has been appointed.

I should be glad to know that you agree with the way I propose to proceed.

I am copying this letter to the Prime Minister, the Lord Chancellor and the Secretary of State's for Scotland and Wales.

*Your
D.A.R.*

27 MAR 1981



VIEWS OF THE SELECT COMMITTEE ON ENERGY

In paragraphs 165-167 of their Report, the Select Committee make the following points:-

- (a) a balance must be struck between the desire to do full justice to all points of view and the need to avoid a proliferation of evidence on an ever widening range of technical issues.
- (b) PWR safety considerations will be a principal issue.
- (c) it would be unreasonable to exclude mention of costs and electricity demand projections.
- (d) the Government should take steps to ensure that the CEGB and the NII publish a maximum amount of information about the nuclear site licence application.
- (e) all parties need to have adequate time before the inquiry to study the NII's findings; it would be reasonable to allow 4 months for this process.
- (f) the Secretary of State would be justified in setting a time limit on the inquiry, though this should be a generous one.
- (g) if a PWR programme is adopted future public inquiries should be site specific and need not reopen the wider issues of principle covered at the Sizewell inquiry.
- (h) while safety issues not related to siting fall to the NII to determine, and their findings would not in normal circumstances be open to challenge at an inquiry, this would be an unduly restrictive approach to adopt for Sizewell. The NII must remain independent, but safety issues should not be excluded from the inquiry on that account.

PWR INQUIRY: RULE 6 STATEMENT

In considering whether the proposed power station should proceed, the Secretary of State will take into account the economic, environmental and safety factors which would be involved as well as planning aspects. On the information so far available to him it appears that the following points will be relevant:

- a) the CEGB's requirement for the power station in terms of the need for secure and economic electricity supply [and against the background of the Government's long-term energy strategy and its policy for nuclear power];
- b) the safety features relevant to the ^{design,} construction and operation of the station and in particular the views of the NII on its licensability;
- c) the effects of the construction and operation of the proposed station [including the transport of fuel and spent fuel for reprocessing], on the local community, environment and economy including -
 - i) employment opportunities
 - ii) agriculture and fisheries
 - iii) water supply
 - iv) visual and other amenities
 - v) housing and public services
 - vi) tourism and recreation

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Energy

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Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1

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20 March 1981

See Keith
I refer to your letter of 23 February.

It raises thorny issues. The CEGB have recently come under considerable criticism for paying over the odds for UK plant. The Select Committee on Energy have for instance publicly criticised them for apparently being resigned to accepting a heavy cost penalty for building a PWR in UK conditions. The Monopolies and Mergers Commission seem also to have felt that the Board's policy of buying British plant has involved a cost penalty. Glyn England's remarks should I think be viewed against this background. You accept that he is entitled to complain.

The vexed question of the role of CEGB specifications and programmes in the troubles of British manufacturers has of course been discussed by our Departments on various occasions in the past. Specific evidence of trouble from specifications is hard to find. The manufacturers themselves have not come forward with satisfactory evidence. Further, manufacturers' own performance (affected by the low domestic ordering rate in recent years), the exchange rate, credit terms offered by competitors and other factors must play an important part.

By and large the MMC's Report on the CEGB, which we are in the process of analysing, does not appear to be particularly critical of the CEGB in this area. On the question of over-specification, for instance, the Commission say that they were impressed by the number of models the Board used for the optimisation of design, and the range of the engineering and economic factors taken into account. They were satisfied that these calculations were directed towards the stated objective of minimising the lifetime cost of power stations. As to whether the CEGB adopt standards differing unnecessarily from British and International Standards Organisation (ISO) standards, the Commission say that CEGB standards appeared to differ from British Standards only in that they specified certain matters which the BS left unspecified. With regard to ISO, the difference was due to the ISO's specifically catering for less concentrated electricity systems. ISO and CEGB standards are now more closely aligned.

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The Commission also comment that they were impressed with the results the Board had obtained by insisting on the adoption by contractors of improved quality assurance procedures for the manufacture of power station equipment.

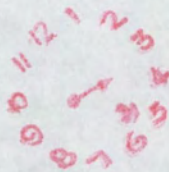
I suggest that we further consider the Board's purchasing policies when we have digested the MMC's findings. Meanwhile I think it fair to point out that CEGB assistance, given through BEI, is a major feature of the Castle Peak project and is expected to continue to be so if we are successful in securing the Castle Peak B order. I understand that Exxon attach particular importance to it.

I am copying this letter to the recipients of yours.

D A R HOWELL

James
James

19 MAR 1981



CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

23 February 1981

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

of the byline

I can David .

B

COMPETITIVENESS OF POWER GENERATION EQUIPMENT

27/2

John Biffen and I were concerned to read the report on 31 January of Glyn England's remarks in Manchester and our worries are only increased by seeing the CEGB handout (copies attached). Such general and contentious carping would be unhelpful at the best of times, but the report was particularly damaging in coinciding with the precise day that we were submitting our proposals for a negotiated contract on the Castle Peak "B" station.

2 Of course Glyn England is entitled to complain. However, the CEGB should recognise that in the eyes of industry, and many independent observers, the Board is its own worst enemy and, through its specifications, erratic programmes and procedures, largely responsible for the problems that British manufacturers encounter in gaining export Business.

3 We would ask that you take this up with Glyn England. But to turn the issue to a constructive purpose, we would suggest that the Departments of Trade and Industry should join, with industry, in the Board's review of its procurement functions, particularly with a view to seeing how these can be adjusted to improve, rather than hinder, UK industry's ability to win export orders.

4 I am copying this letter to the Prime Minister, Peter Carrington, Geoffrey Howe and John Biffen.

Carroll / Kern

CONFIDENTIAL

CEGB Press Information



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NOT TO BE PUBLISHED OR BROADCAST
BEFORE 14.00 HRS ON 30 JANUARY 1981

PR 707
30 January 1981

TACKLING HIGH COSTS

Extracts from an address by Mr. Glyn England, Chairman, Central Electricity Generating Board, to the North Western Fuel Luncheon Club, Manchester, on Friday, 30th January 1981.

A series of far-reaching measures taken by CEGB to tackle the high costs of electricity generation, made up of 60 per cent fuel costs, 20 per cent capital charges and 20 per cent staffing, plant repair and other costs - were outlined by Mr. England.

"We in the CEGB take the view that while some costs are more controllable than others, every element of cost is subject to scrutiny and influence", said Mr. England.

"We can and do influence fuel prices. The most notable example of this is our very valuable Understanding with the National Coal Board, which guarantees the NCB a substantial market for coal provided that prices to us do not increase faster than the rate of inflation. Our coal imports, marginal in amount, provide a valuable competitive edge to our coal purchasing.

"We also exploit the inherent flexibility of our system by concentrating production on the lowest-cost plant. We are making the maximum use of our nuclear stations, the most economical producers of all.

"And we have minimised our use of oil, now the most expensive of our fuels, reducing consumption from roughly 11 million tonnes in 1970 to around 5 million tonnes this year.

"An indication of the extent to which this policy is paying off is that, had we not been able to increase the output of our nuclear stations beyond the 1970 level, our fuel bill last year alone would have been £100 million higher.

"At the same time we have made significant improvements in power station efficiency, in particular by increasing the availability of our large conventional power stations. Again taking a ten-year look, our fuel costs last year would have been £260 million higher if no improvements in power station efficiency had been achieved since 1970.

"In order to produce electricity and supply it to our customers, we at the Generating Board have, of course, to be the customers of others - not only of fuel suppliers but the suppliers of plant and equipment. And the rising costs of plant and equipment, particularly the high price levels associated with negotiated contracts which, for one reason or another, have increased in number and value in recent years, are of increasing concern.

"The problem can be put in a broader setting by international comparisons which show that UK plant and construction costs are among the highest in Europe. Even allowing for the very real difficulties of making such comparisons, the general inference is that price levels for plant purchased and constructed in the UK are substantially higher than those in France and Belgium.

"As part of our continuous process of modernisation we close older, less-efficient power stations. We recently announced the closure of 3,400 MW of plant. Our modern plant produces on average 60 per cent more electricity from one tonne of coal than the stations we are closing.

"This closure and modernisation plan saves fuel use and fuel cost and contributes to reductions in manpower. In 1970 our workforce totalled more than 70,000; today it is little more than 60,000. Without these cuts, our salary costs in the last financial year would have been £65 million higher.

"Furthermore, over those ten years our productivity, expressed in terms of units supplied per employee, has risen by 48 per cent, compared with the national average, of output per person employed, of 27 per cent.

"We want people to know the dilemmas we face, and to be able to assess for themselves the logic of our responses. In particular, we want them to realise that the Board has for some time been putting pressure on all controllable costs, so that further internal economies become more difficult. Consequently, future fuel price increases will be reflected almost directly in the costs of producing electricity. The fact is that our prospects for holding down our costs depend very much on the prices we have to pay for fossil fuels and on our ability to bring into service additional nuclear generating plant with its lower production costs."

SMALL OILFIELDS in the North Sea could be made commercially attractive if the Government waived its royalty take, according to the UK Offshore Operators' Association.

The submission was made at meetings of a Department of Energy study group set up in 1979 to review the definition and exploitation of marginally economic fields. Details of its findings were given in the Commons yesterday by Mr. Hamish Gray, Minister of State for Energy.

Some of the assumptions have been overtaken by events. For example, the group, including representatives of the Treasury and the Inland Revenue, worked on hypotheses that there would be either a constant real oil price of \$28.20 a barrel at mid 1980 values, or a real increase

of 3.5 per cent a year from that level. But North Sea prices have already risen to a reference level of \$39.25 a barrel, making many small fields attractive.

The study group reviewed 37 undeveloped fields with a total of 2.4bn barrels of reserves, about a sixth of UK oil reserves. All were regarded as marginal in mid-1979.

At a constant price of \$28.20 fields with 50m-75m barrels of recoverable reserves or less, and even some with 100m barrels, were likely to need financial assistance, the group concluded. Assuming price rises of 3.5 per cent a year, fields of 100m barrels and less would probably be commercially attractive.

If financial assistance was thought desirable royalty refunds were the "most appropriate and effective" way of helping oil companies.

Document ruling reserved

BY OUR LAW COURTS CORRESPONDENT

LAWYERS in court cases can properly show their own, or their opponent's, confidential documents to a journalist, if such disclosure is necessary to enable the journalist to write a fair and accurate report of the case in which the documents have been used, counsel for the Home Office suggested in the Court of Appeal yesterday.

Such a disclosure would not be contempt of court by the lawyer, said Mr. Simon Browne.

He was opposing an appeal by Miss Harriet Harman, a solicitor and legal officer of the National Council for Civil

Liberties, against a High Court ruling last November that she was guilty of contempt of court in showing confidential Home Office documents to a Guardian journalist after they had been read in open court.

Judgment was reserved until a later date.

Mr. Browne said Miss Harman had been guilty of contempt because she had known that the Guardian reporter did not want to write a report of the court proceedings, but a feature article about Home Office policy.

Such use of documents was not permissible because of the implied undertaking.

UK plant costs worry CEBG

By Martin Dickson, Energy Correspondent

THE Central Electricity Generating Board is growing more concerned at the rising cost of British-built generating plant and equipment. It is among the most expensive in Europe, Mr. Glyn England, Board chairman, said yesterday.

He told a Manchester luncheon club that the Board intended to mount a joint study with its manufacturers and contractors into ways of containing costs.

Although it was difficult to make international comparisons, he said: "The general inference is that price levels for plant purchased and constructed in the UK are substantially higher than those in France and Belgium."

Deadline on ATV Midlands

ATV MIDLANDS, the wholly owned subsidiary of Associated Communications, yesterday met the Independent Broadcasting Authority deadline for producing proposals to cut Associated's holding in its stock to 51 per cent.

The full Authority will meet next week to examine the proposals.

The ATV proposals were in broad terms and came because of a month's work by the company and consultation with IBA officials.

It is up to the authority to decide whether these discussions have produced the right formula—and it seems unlikely that it would overturn anything other than the finer points of its officials' recommendations—and then detail work will start.

Littlewoods job losses will total 1,300

THE RETRENCHMENT policy being carried out by Littlewoods, the mail order, retail and football pools group, will involve a net loss of between 1,200 and 1,300 jobs over the next two and a quarter years and not the 2,200 reported in later editions of the Financial Times on January 29.

The company said about 400 of the job losses would be enforced redundancies and the majority of the losses would be covered by natural wastage and voluntary redundancies.

Littlewoods plans to close its mail order office at Earlmill in Oldham, Greater Manchester, by mid-1982, although 300 addi-

tional new jobs will be created in Preston.

The company said the mail order business at Derby Lane, Liverpool, would be closed by the spring of 1983, affecting 1,150 people. Some 600 new jobs will be created at an existing Littlewoods site at Crosby, Merseyside.

The group is to cut its headquarters staff at Liverpool by 10 per cent, which will involve 300 jobs. A new project, however, will create between 100 and 140 new jobs. Two Littlewoods London stores in Brixton and Islington will close this summer with the loss of 50 jobs.

Chorus in tune on need for national

Jason Crisp on calls for more co-ordination on information technology

THIS MONTH has been notable for the chorus calling for a national policy for the electronics industry—especially in information technology. The calls have come from remarkably different sources and yet have sounded uneerily in tune.

Senior industrialists, politicians and civil servants at the Industry Department have been extolling the virtues of a better co-ordinated national approach to the fast-growing electronics industry.

There is common concern that Britain's electronics industry is competing strongly against itself in some areas but has little or no presence in others. It is an industry where companies have to be internationally competitive to succeed.

There is also increasing awareness of the rapid growth in information technology industries—the meeting point of cheap computer technology and telecommunications. There appears to be widespread agree-

ment that public purchasing is a key factor in the success of any country's electronics industry.

Early this month Mr. Kenneth Baker MP, was appointed Minister for information technology as part of Mrs. Thatcher's reshuffle. The month also saw the reconstitution of the Electronics Economic Development Committee with a strong presence from industry.

Although some companies were initially sceptical of the committee's effectiveness, a number have revised their attitudes.

Since several member companies have been vigorously supporting the idea of a national consensus and policy for electronics.

January has also seen the setting up of joint Parliamentary and Industry committee

on information technology (PITCOM) under the chairmanship of Mr. Ian Lloyd MP.

This week, Mr. Roy Croft, deputy secretary at the Industry Department, spelt out the main strands of Government policy on information technology.

By comparison with international competitors it is late in the day for Britain to be agreeing on the need for a national policy on electronics, let alone establishing what it is or even how it might be implemented.

A paper prepared by the Electronics EDC on UK competitors' policies towards their electronics industries serves to highlight the problem.

The four countries examined were Japan, West Germany, France and the U.S. It finds there are some common themes

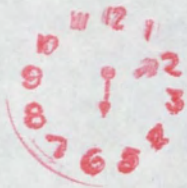
running through all four which have contributed to the success of their respective electronics industries.

It says the four nations share common views of the state's role in stimulating growth within their market economies. But, particularly in the electronics industry it reports that the state in each country spent a greater proportion of gross national product in electronics industries (computers, telecommunications and semi-conductors) than the UK.

In addition, it says the quality of expenditure is better because those countries have a greater sensitivity to industrial needs, use greater selectivity and higher levels of co-ordination.

Sir Henry Culliver, vice-chancellor of Cranfield Institute of Technology and chairman of the electronics committee, is con-

21 FEB 1981





10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister has read your letter of 4 February about the PWR enquiry and the Nuclear Installations Inspector's role in relation to it. She was grateful to have this report, but hopes that the timetable set out will not slip.

I am sending a copy of this letter to Richard Dykes (Department of Employment), John Wiggins (HM Treasury) and Jim Buckley (Lord President's Office).

T. P. LANKESTER

KhB

Julian West, Esq.,
Department of Energy.



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ
 01 211 6402

Ami M... 2
You discussed
this with Mr Hamble
a few weeks ago:
a follow-up report.

T P Lankester Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 LONDON
 SW1

I hope the timetable
will not slip
not 4

R.
 4 February 1981 *6/2*

Dear Tim,

I am replying to your minute of 13 January in view of my Secretary of State's responsibility for the PWR inquiry and the Nuclear Installations Inspectorate's role in relation to it.

Last June my Secretary of State established with the nuclear industry and the Inspectorate a timetable for their preparation of the documentation needed for a Public Inquiry to start in the summer of 1982. It was accepted then by all parties that it was essential to get to the inquiry stage as quickly as possible, subject to a full safety examination, and that this timetable, while ambitious, was feasible. Last week my Secretary of State saw representatives of the industry and the NII to receive an up-to-date progress report; to impress upon them the Government's determination to see the work done as soon as possible; to examine what scope there was for advancing the timetable; and to ensure that the timetable was not hampered by shortage of resources at the NII.

The present position is that the NNC and the CEGB are working closely with Westinghouse to finalise the main features of the PWR reference design, taking account of UK safety requirements and developments in Westinghouse's thinking in the light of Three Mile Island. There are now only two outstanding points and the industry expect to resolve these during this week. This will enable work on more detailed aspects of the design to proceed.

The NII are working as far as possible in parallel with the NNC, considering design features as soon as they are formulated and not waiting for formal documents to be prepared. The Inspectorate's progress is limited at present by the rate at which this design information becomes available and my Secretary of State has been assured that their staff shortages are not holding up the programme at present. However, their role will become more critical as the design reaches its final stages. There is no doubt that their staff are already fully stretched and my Secretary of State will therefore be writing shortly to the Secretary of State for Employment and other colleagues on the urgent need to examine ways of easing the recruitment difficulties of the NII.



Finalising the reference design has taken longer than expected, and Industry will be looking for ways to make up the lost time later on. But they have always regarded the existing programme as tight, and even with the Government's full support over resources, they do not expect to be able to advance the date by which the safety documentation becomes available for the inquiry.

This is unfortunate, but the industry have made it clear that they regard it as inevitable given the work that still has to be done.

In the light of all this my Secretary of State has asked the Industry to submit a revised timetable as soon as possible. This should be available in the next few weeks, when my Secretary of State will be in a position to provide the PM with a rather clearer assessment. He will in any case be closely monitoring the Industry's progress.

If, however, the industry can get the PWR design right, there is every prospect that it will be the first of a new generation of post Three Mile Island Westinghouse based PWRs. The design changes now being discussed are very much along the lines of those Westinghouse will themselves introduce in launching their post TMI design. The current international economic climate has inevitably affected the prospects for exporting PWRs, and it must be recognised that any export orders are very much a long term possibility, depending both on the successful building of the Sizewell PWR and the establishment of sufficient management strength and capacity in the industry to expand overseas while maintaining the UK programme. But when the market does improve the thoroughness of the design evaluation and safety examination of the PWR will be important for its sales potential.

I am copying this minute to Richard Dykes in the Secretary of State for Employment's office and John Wiggins (HM Treasury). It is also being copied to Jim Buckley with a copy of your minute.

Your ever,

J D WEST
Private Secretary



4 FEB 1961

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CONFIDENTIAL

PA Dismissed
meeting with
Mr. Howell



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

2
PRIME MINISTER

12
12/1

T P Lankester Esq
Private Secretary to
The Prime Minister
10 Downing Street
SW1

This is for
completeness - there is
no sign whatever of
doing anything
about the matter

To see. This is a very thin
analysis of a very important
problem, and I do not find
it particularly reassuring for
the future programme.

8 January 1981

Dear Tim,

... Mr Howell has asked me to send you the attached note on power station construction costs, and the financial effect of delays, points which came up recently in discussion with the Prime Minister.

You will see that the effect of power station construction delays was assessed in 1979/80 as equivalent to about 3-5% on the CEGB's costs, largely as a result of the extra cost of generating from more expensive plant. The reasons for these delays are complex. Contributory factors include redesign (resulting from more stringent safety standards for nuclear plant) to the problem of low productivity on large construction sites, which afflicts industry and public authorities generally. The completion of the nuclear stations currently under construction is a matter of the highest priority for the CEGB and their contractors, led by NNC. The Board's latest assessment is that Dungeness "B" will begin to produce power this year, with Hartlepool and Heysham following in 1982. The Board are also doing all they can to extend the economic life of the Magnox stations.

With a challenging nuclear programme ahead, the Board are making special efforts to secure better construction performance by all concerned. They are developing a new strategy at Drax, a project which is so far still on schedule. The new strategy includes incentives to contractors for timely completion of work, and contractual commitment on their part to participate in and stand by the decisions of a site management group which will seek to harmonise bonus incentive schemes and disciplinary procedures across the site.

At the national level, the Board are taking part in negotiations for a national agreement covering large engineering construction sites; the aim here is to control and stabilise earnings growth by making a nationally negotiated basic rate the major element in wages, thus reducing the importance of site negotiated bonus schemes, which have been the cause of much friction. To minimise design-related delays, the Board require design to be well advanced before main hardware contracts are placed and site construction begins. This approach is being followed at Drax and Heysham II.

The Board believe that the tough stand they have taken at Grain has had a salutary effect. The dispute is not resolved, but lagging continues, and the Board have made it clear that if lagging stops,

MS
9/1
Dunlop Howell
etc.
me

T P Lankester Esq
January 1981

they will shut the site. So far the recalcitrant ladders have received no support at any other Board sites. At Ince, a substantial reduction in the workforce last year was followed by an improvement in the productivity of those remaining.

The Board are acting to reduce costs; eg their decision to take 22 power stations out of use in October this year. Over 3000 jobs are affected.

The Monopolies and Mergers Commission were asked, in their current investigation of the CEGB, to scrutinise the Board's ability to carry out new investment to time and cost. The Commission's Report is expected within the next few weeks.

Yours sincerely,

G S Dart
Private Secretary

Geoff Dart

Capital costs of the CEEB's power station construction programme
in relation to the industry's total costs

In 1979/80, the industry's total revenue costs (met through the tariff) consisted of

	£m
Fuel	2,940
Salaries	1,003
Other costs*	903
Interest	477
Depreciation	615
Rates	195
	<hr/>
	6,133

*purchase of electricity from outside sources, rents, insurances, materials other than fuel, services and general expenses

Capital expenditure (financed through internal resources and external borrowing) totalled £832m of which £447m was accounted for by power station construction.

The industry's self financing ratio in 1979/80 was 81%. Applying this percentage to the cost of the power station construction programme suggests that the cost was equivalent to approximately 6% of tariffs (or about 0.2 p/kwh). This year, when the self-financing ratio is expected to be 90% the construction programme is estimated at about 7% of revenue costs (or about 0.25 p/kwh). These are of course illustrative figures. The tariff level is not set by reference to capital costs but is determined in the context of the general financial regime, which in turn has regard to long-run marginal costs.

Effect of power station construction delays on costs and prices

Delays to the power station programme give rise to extra costs in two main respects: replacement fuel costs and extra capital charges. In 1979 the Price Commission estimated in its report on electricity prices that there were additional costs in the range £100-£200 m to be borne by CEEB in 1979-80 as a result of delays in power station construction. Of this, £25m was due to increased capital charges and most of the remainder to the higher cost of generating from less efficient plant. This £100-200m approximately equalled 3-5% of the Board's costs, with a maximum effect on tariffs of 2½-4%. The CEEB advise that somewhat lower figures (1½-3%) will apply for the current year, when the Board has moved to full replacement cost accounting.

but how much as a proportion of their capital costs?

9 JAN 1981

