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MR GREGSON

POWER STATION ENDURANCE

Thank you for your minute of 3 December, to which was attached a copy of the report, dated 3 December, of the Official Group on Coal (MISC 57). The Prime Minister has seen these papers. Subject to the views of her colleagues, she agrees to the recommendations in paragraph 17 i. - vii. of the report.

I am sending copies of this minute to John Halliday (Home Office), John Kerr (HM Treasury), Richard Mottram (Ministry of Defence), Muir Russell (Scottish Office), Jonathan Spencer (Department of Industry), Richard Bird (Department of Transport), Julian West (Department of Energy), Barnaby Shaw (Department of Employment), Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

MCS

6 December, 1982

file

Prime Minister

①

MR SCHOLAR

cc Mr Mount

Agree, subject to colleagues,

to the recommendations in para 17
of the note attached to Mr Gregson'sPOWER STATION ENDURANCE

minute (at flag A)?

I am sure that the recommendations in the latest report of MISC 57, sent to you under cover of Peter Gregson's note today, are right. But there is one particular judgement in the report itself upon which much depends.

MLS 3/12

That is the question of the likelihood of a national strike in the new year over pit closures (paragraph 9). There were some differences of view about this within MISC 57, the Department of Energy being inclined to see a slightly greater risk than the Department of Employment. My own view is that a national strike is very unlikely over pit closures, unless the NCB play their hand much worse than they have so far.

Nonetheless some risk remains, more than justifying the Group's recommendation to rebuild coal stocks at the maximum feasible rate early in the new year. And we must always bear the sensitivity of the pit closures issue in mind when addressing other issues arising in the coal industry.


3 December 1982



cc JV

SECRET AND PERSONAL

P.0905

MR SCHOLAR

POWER STATION ENDURANCE

Your letter of 3 November 1982 to the Private Secretary to the Secretary of State for Energy instructed the Official Group on Coal (MISC 57) to report to Ministers urgently on the target level of power station coal stocks for autumn 1983; the adequacy of the facilities planned for next autumn for the storage and manufacture of ancillary materials at the power stations and the steps that might be taken to increase these; and the steps that might be taken to induce coal-burning industry to build up its stocks over the summer.

2. The Group's report on these questions is attached. Its conclusions are summarised in paragraph 17.

3. The attached report deals only with the position up to next autumn. Further work is required before Ministers can be in a position to decide on the desirable level of power station coal stocks in the longer term. The Group will be reporting further to Ministers on this early in the New Year. This report will also cover the question, which was raised at the Prime Minister's meeting on 28 October, of whether more extensive dual-firing of power stations should be considered. Although this was discussed in the report by MISC 57 circulated with the minute of 22 June 1982 from the Secretary of State for Energy to the Prime Minister, it would be useful to look at it again in considering options for the longer term.

4. It would be helpful to have decisions as quickly as possible on the proposals in paragraph 17 of the report on which early action is necessary, ie the proposed extra power station coal stocks next autumn and extra stocking capacity, the increased coal delivery rates after Christmas, the increased stocks of ancillary materials next autumn and the proposed discounts to promote stock building by coal burning industry.



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5. I am sending copies of this minute and the attached report to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Scotland, Industry, Transport, Energy and Employment and to Mr Sparrow and Sir Robert Armstrong.

Pg

P L GREGSON

3 December 1982

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WITHSTANDING A COAL STRIKE IN 1983

Report by the Official Group on Coal (MISC 57)

INTRODUCTION

The Prime Minister asked the Official Group on Coal (MISC 57) to prepare a report for Ministers urgently on:

- i. what should be the target level of power station coal stocks next autumn (including if necessary an increase in coal storage facilities) and the steps necessary to achieve this by next autumn;
- ii. the adequacy of the storage and manufacturing facilities for ancillary materials planned for the power stations by next autumn and the steps that might be taken to increase these in the light of i.;
- iii. what further action might be taken to induce coal burning industry to build up its stocks in the later summer of next year.

This report also considers the rate of coal deliveries this winter, on which an early decision is required.

POWER STATION COAL STOCKS: THE PRESENT POSITION

2. By the autumn of this year coal stocks at power stations had been built up to the maximum possible within existing storage capacity. In Central Electricity Generating Board (CEGB) power stations these stood at about 26 million tonnes.* This is equivalent to about 20 weeks endurance, so long as there is no constraint about the availability of ancillary materials.

* NOTE: This is consistent with the 29 million tonnes shown in the weekly statistics circulated by the Department of Energy, since these are on a Great Britain basis.

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POWER STATION COAL STOCKS: AUTUMN 1983

3. Further work by officials will be required before Ministers can usefully consider the desirable level of power station coal stocks in the longer term. In particular, careful consideration will be required of the scope for increasing power station coal stocking capacity well above the present levels, so as to extend power station endurance from November into May/June, when coal consumption drops significantly. The Group will report to Ministers on this early in the New Year. Meanwhile, this report considers what might be done to increase power station coal stocking capacity by autumn 1983.

4. We concluded that it might be possible, subject to further work by the CEGB in examining the feasibility, to accommodate an extra 4-6 million tonnes at CEGB power stations by November 1983 using land within the power stations, some of which may currently be devoted to recreational or amenity purposes. The Scottish Office is exploring the scope for a parallel increase of 0.5 million tonnes in the coal stocking capacity of Scottish power stations. Local authorities would have to be consulted about the proposed change in use of the land involved, and some work would have to be undertaken. It would seem however, subject to further investigation, that the additional stocking capacity would be available by the early summer. A much longer timescale would be required for the acquisition of new land. The planning procedures and site preparation work involved are such that any additional stocking capacity on new land would be unlikely to be available by the autumn of 1983.

5. The additional stocking capacity on existing land of 4-6 million tonnes seems likely to increase endurance by about 4-5 weeks, ie to the beginning of May in the event of a miners' strike beginning in mid-November. The cost of increasing coal stocking capacity by this amount and of transporting the extra coal to the power stations over the summer would be about £40 million; an increase in the industries' external financing limits (EFLs) would therefore be required. There would not seem to be any objections, on industrial relations grounds, to taking such measures. Although the proposed change in the use of land would become known both to power station workers and to the miners, it would be difficult for the miners to object to extra power station purchases of coal at a time of over-production.

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6. We therefore recommend that Ministers should agree in principle that, subject to further work on feasibility, the CEGB should increase coal stocks by autumn 1983 by a further 4-6 million tonnes above the existing maximum level of 26 million tonnes, or to the maximum extent which proves practicable, by increasing coal storage capacity on existing land; and that the SSEB should similarly seek to increase coal stocks by about 0.5 million tonnes above the present maximum of $2\frac{1}{2}$ million tonnes. If, contrary to present expectations, it were to prove possible to increase stocking capacity further by the use of new land by autumn 1983, this should also be done; otherwise such proposals would be put forward for consideration by Ministers in the context of the study of optimum coal stock levels in the longer term.

THE RATE OF COAL DELIVERIES THIS WINTER

7. At present the Electricity Boards are taking delivery of coal at the normal commercial rate. Between now and Christmas the rate of delivery is expected to be approximately equal to the rate of coal burn so that maximum power station coal stocks should be maintained until then. If the normal commercial rate of coal delivery were to be maintained, CEGB power station coal stocks would fall to 22-24 million tonnes by the beginning of March, as the result of the seasonally high electricity demand early in the New Year and the fall in coal deliveries over the Christmas holidays, and would be rebuilt to 26 million tonnes by September 1983. The position in Scotland is broadly similar. Ministers need to consider whether the Electricity Boards should be told to rebuild power station coal stocks faster than presently planned. In considering this question they will need to weigh the physical constraints on doing so against the possible risks of industrial action in the coal industry during this winter.

Physical Constraints

8. A rapid rate of rebuilding of power station coal stocks early in 1983 could result in logistic difficulties for the railway system over the summer, as well as for the Electricity Boards and the National Coal Board (NCB). If power station coal stocks were already at their maximum level at the beginning of the summer, the rate of coal delivery would be determined by the rate of power station coal burn, which over the summer is relatively low and variable. Rapid fluctuations in delivery rates would cause severe operating problems for the railways. However, the logistic problems involved would be eased somewhat if it

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were to prove feasible to increase power station coal stocking capacity as discussed in paragraph 4 above.

Industrial Action This Winter

9. The issue of pit closures is likely to come to a head in the first part of next year. There is a high likelihood of local or regional strikes particularly in Scotland, South Wales and Kent, the areas which will be most affected by closures; however, this level of industrial action would not seriously affect electricity supplies. There is also the possibility that a national strike might be threatened, although there must be some doubt about whether there would be sufficient or continuing support for this in areas not immediately affected by closures.

10. In the event of a national strike starting early in March, power station endurance would be more than 20 weeks (subject to the adequate availability of ancillary materials) on the basis of the present rate of coal delivery; and endurance would be greater than this if a strike were to start later in the year, because of the decreasing rate of power station coal consumption throughout the spring. Power station endurance is unlikely to be significantly less than 20 weeks (subject, again, to the availability of ancillary materials) in the event of a strike starting in January or February. Nevertheless, since the situation is uncertain and could easily change quickly following a controversial closure announcement, it seems prudent to rebuild power station coal stocks as quickly as is practicable in the New Year. The costs involved in accelerating deliveries above planned levels would be relatively modest. We therefore recommend that the rate of coal deliveries after the Christmas holidays should be such as would rebuild coal stocks at the maximum feasible rate early in the New Year consistent with the operation by the Electricity Boards, the NCB and the British Railways Board of a practicable delivery programme over the spring and summer. This delivery programme should be such as to permit the adoption in due course of rates of delivery which would permit CEGB stocks to be increased to 30-32 million tonnes and SSEB stocks to about 3 million tonnes by the autumn of 1983 (depending on the further work to determine additional stocking capacity on existing land).

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ANCILLARY MATERIALS

11. At present storage facilities for most ancillary materials are sufficient for only 9 weeks. As agreed by Ministers, the Electricity Boards are currently working urgently to increase storage and manufacturing capacity so as to provide for 20 weeks endurance by autumn 1983. If it turns out that coal stocks can be increased to around 25 weeks endurance by autumn 1983 it would ideally be desirable to provide for similar endurance in respect of ancillary materials. The Electricity Boards' current view is that modifications to the existing plans could put in jeopardy the achievement of the 20 week target by autumn 1983 (for example, if this involved fresh survey or design work, or revisions to orders already placed with suppliers).

12. The Group consider that the first priority should be to achieve the 20 week target. The shortfall should not have a serious effect on overall power station endurance. Measures to conserve the most bulky ancillary material, lighting-up oil, would probably reduce endurance by only about 1 week (out of 25), and some replenishment of the less bulky ancillary materials should prove possible. Nevertheless we recommend that the Electricity Boards should be encouraged to take such steps as would be feasible to increase endurance in respect of ancillary materials to 25 weeks by autumn 1983, subject to the constraint that no action should be taken which would jeopardise the achievement of the 20 week target. The cost of doing so is likely to be in the range £25-35 million. If the Electricity Boards could not absorb these costs, their EFLs would have to be increased. Further consideration of the optimum level of stocks of ancillary materials should be undertaken as part of the longer term study.

13. The one ancillary material for which increased storage provision is not planned is carbon dioxide, which is required as a coolant in nuclear power stations. Storage capacity of this is sufficient for only 3 weeks. In the past pickets have always been prepared on safety grounds to allow supplies of carbon dioxide to be replenished. In reality safety is not a problem, since, if stocks of carbon dioxide were to run low, nuclear power stations could be closed down. If this were to happen to all nuclear power stations, power supplies would be reduced by perhaps 15 per cent. The cost of increasing storage facilities for carbon dioxide to 20 weeks would however be of the order of £40-60 million. Since it seems very probable that replenishment would be

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possible during industrial action, we do not recommend that the Electricity Boards should be asked to increase storage capacity of carbon dioxide. Officials will however explore further the arrangements for replenishment during industrial action and will report to Ministers if it seems likely that more serious problems could arise than those currently envisaged by the Electricity Boards.

INDUSTRIAL COAL STOCKS

14. The Group considered the steps that might be taken to improve industrial endurance of a miners' strike both immediately (bearing in mind the possibilities of industrial action discussed above) and by next autumn.

15. There appears to have been a substantial building up of coal stocks prior to 1 November, and the NCB believe that a large proportion of their industrial customers stocked up to the limit of their normal stocking sites. These stocks now appear to be being drawn down rapidly, because the perceived threat of a coal strike has diminished, and for financial reasons. The NCB believe that much of industry will have cut stocks to an average of 2-3 weeks burn by mid-January. There is thus a danger that a coal strike in the first few months of 1983 could find industry ill-prepared. The NCB believe that they will need to offer discounts of about £3/tonne on additional deliveries to appropriate customers, and extended credit terms to BSC, in order to persuade industry to continue to carry high stocks throughout the winter. We recommend that the NCB should be authorised to do so. About three-quarter million tonnes of coal deliveries to industry might be accelerated in this way. The total cost to the NCB would be up to £2.5 million. The financing of this will have to be discussed between the Treasury and the Department of Energy.

16. The Departments of Energy and Industry will be discussing further with the NCB the measures that might be taken to encourage a build-up of industrial coal stocks in advance of 1 November 1983. Possible measures include financial inducements to increase stocks held by coal depots and merchants and to persuade industrial consumers to stock coal away from their normal stocking grounds. The Group will report on this early in the New Year and on the steps that might be taken in the longer term to encourage industry to install more substantial coal stocking facilities (eg in the form of silos).

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CONCLUSIONS

17. Ministers are invited:

- i. to agree that, subject to further work on feasibility, the CEGB should increase coal stocks by autumn 1983 by a further 4-6 million tonnes above the existing maximum level of 26 million tonnes, or to the maximum extent which proves practicable, by increasing coal storage capacity on existing land within power stations; and should take any opportunity to increase stocking capacity further by the use of new land if, contrary to present expectations, this were to prove possible by autumn 1983; and that the SSEB should similarly aim for an increase of 0.5 million tonnes to a maximum of 3 million tonnes; the cost of doing so would be about £40 million, necessitating an increase in the industries' EFLs;

- ii. to agree that the rate of coal deliveries after the Christmas holidays should be such as will rebuild coal stocks at the maximum feasible rate early in the New Year consistent with the operation by the Electricity Boards, the NCB and the British Railways Board of a practicable delivery programme over the spring and summer; this programme should be such as would permit the adoption in due course of the delivery rates necessary to achieve the increase in power station coal stocks referred to in i. above;

- iii. to agree that the Electricity Boards should be encouraged to take such steps as would be feasible to enable stocks of ancillary materials to match in endurance the target level of coal stocks referred to in i., subject to the constraint that no action should be taken which would jeopardise the achievement of the existing 20 week target; the cost of doing so would probably be in the range £25-35 million and if this could not be absorbed by the Electricity Boards their EFLs would have to be increased;

- iv. to note that no action is being proposed to increase stocks of carbon dioxide at nuclear power stations above the present level of 3 weeks but that officials will explore further the arrangements for replenishment during industrial action and will report to Ministers if it seems

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likely that more serious problems could arise than those currently envisaged by the Electricity Boards;

- v. to note that the Official Group will be doing further work to determine the optimum level of power station coal stocks and stocks of ancillary materials in the longer term;
- vi. to agree that the NCB should be authorised to offer the discounts to some industrial customers discussed in paragraph 15 above; and to note that the Treasury and the Department of Energy will consider how the costs involved of £2.5 million should be financed; and
- vii. to note that the Group will report further to Ministers early in the New Year on possible measures to extend industrial endurance by autumn 1983 and in the longer term.

Cabinet Office
3 December 1982

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