



MS Sean
 dc 5v

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 LONDON SW1P 3EB
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My ref: H/PSO/14384/82
 Your ref:

18 June 1982

Dear Secretary of State

POLICY LETTER FOR THE NEW CHAIRMAN OF THE CENTRAL ELECTRICITY GENERATING BOARD

I have two comments to make on the draft policy letter and, subject to you accepting these minor amendments, I would not press for a discussion.

The first sentence of paragraph 4 of the draft seems to me to pre-judge the use of nuclear power at a time when we have said we have an open mind in listening to arguments to be produced at the Sizewell public inquiry. I would prefer the sentence to read "..... you should ensure that the Board is in a position to make successful use of nuclear power".

My second proposal is for the insertion of a new paragraph between paragraphs 4 and 5 (ie dealing with all CEGB activities, not just nuclear) as follows:

"You should ensure that the Board achieve the best practicable environmental standards in its developments and operation."

I am copying this to the Prime Minister, Geoffrey Howe and other members of E(NI).

Yours sincerely,
 Helen Ghosh

MICHAEL HESELTINE

(approved by the Secretary of State & signed in his absence)

The Rt Hon Nigel Lawson MP

JH 641



Secretary of State for Industry

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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17 June 1982

Julian West Esq
Private Secretary to the
Secretary of State for Energy
Thames House South
Millbank
London SW1

Dear Julian

The Secretary of State has seen a copy of your Secretary of State's E(NI) Paper on the draft policy letter for the new Chairman of the Central Electricity Generating Board (E(NI))(82)17). Mr Jenkin has also seen Mr Lawson's letter of 14 June asking for comments on the draft.

2 As you are aware, my Secretary of State would like to suggest that paragraph 1(d) of the draft letter should be amended to read:

"the Board should maintain and develop policies to secure supplies of both fuel and equipment at the lowest cost consistent with its view of its long term interest in the health of its UK suppliers, their export requirements and their international competitiveness."

3 I am copying this to the Private Secretaries to E(NI), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely

GRAHAM AUSTIN
Private Secretary

16 JUN 1982



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17 June 1982

MR SCHOLAR

Prime Minister

①

Agree the policy letter subject to X?
On Y would it be better for me simply to say

Yes no
cc Mr Walters
Mr Mount

DRAFT POLICY LETTER TO THE CHAIRMAN OF THE CEGB

that you warmly endorse Mr Lawson's intention to speak to

X |

We have only one comment (suggested by Alan) on the draft letter itself, enclosed with Mr Lawson's paper for E(NI). That is that we delete the phrase "on a continuing basis" from paragraph 6, so as to leave room for appropriate pricing policy. Otherwise, we have discussed the draft with the CPRS, and their point about the corporate plan reflects our own views; we see no need for a meeting.

Y |

But one important point does arise from the second paragraph of Mr Lawson's covering paper. Mr Lawson indicates his intention to discuss with Dr Marshall the resumption of coal imports in due course at economic levels. We accept - just as we have accepted it in the NCB context - this cannot be spelt out in the policy letter. But it does raise the question of how this approach of doing good by stealth will be pursued. The Prime Minister may feel that you ought, in indicating to Mr Lawson's Private Secretary that she is content with the letter, to ask what time scale Mr Lawson has in mind for resuming coal imports; and whether, and if so when and how, he proposes to arrange for the expansion of our capacity to import coal.

JOHN VEREKER

0-4 - 1 agree

Sir W Dr Marshall

in his sense?

MCS 18/6

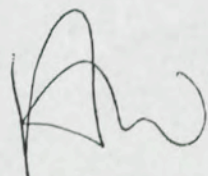
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MR. VEREKER

DRAFT POLICY LETTER TO THE CHAIRMAN OF THE CEGB

1. I agree with your memo of 14 June. Most of it is unexceptionable. However, there is of course the inevitable exception. Para 6 talks about the Board setting its prices "so as to reflect the costs at the margin of meeting demands on a continuing basis". I think this would be interpreted as setting prices at long run marginal costs. Yet we know that long run marginal cost is only an appropriate basis for policy when it is equal to short run marginal costs, which is only under the following conditions:
 - (a) there are long run constant costs in producing electricity;
 - (b) the investment programme is exactly adjusted to demand;
 - (c) there is no deviation between projected and actual demand; and
 - (d) there is no "lumpiness" in the assets structure of the industry.
2. Of course all these conditions are violated in practice. And we have seen one particular example recently when, because of the reduction in demand and the fact that there was a great deal of surplus generating capacity, it was suggested that the price be cut roughly down to the fuel cost of electricity. We did not quite get that far but we went some part of the way. Very sensible too.
3. Obviously we can't go into all these details in this letter, but I suggest that we eliminate the phrase "on a continuing basis". This will then leave room for appropriate manoeuvres of pricing policy.

17 June 1982


ALAN WALTERS



Nat. Ind.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
 Secretary of State
 Department of Energy
 Thames House South
 Millbank
 London SW1P 4QJ

16 June 1982

Recs Secretary of State,

POLICY LETTER FOR THE NEW CHAIRMAN OF THE CENTRAL ELECTRICITY
 GENERATING BOARD (E(NI)(82)17)

TBM In your letter of 14 June you asked for comments on the draft
 of this policy letter.

Drafting a policy letter for the CEGB is difficult because we
 have still to settle several important policies towards the
 electricity industry. Inevitably therefore the letter has to be
 somewhat vague on some important issues. But within that con-
 straint, I think that your draft is helpful and should let Walter
 Marshall know what is expected of him.

My particular comments on the draft are as follows:

(i) Efficiency and cost control: I agree that it is right
 to make this the prime objective. On a detailed point, the
 Board are asked under this heading to

"... maintain and develop policies to secure supplies
 of both fuel and equipment at the lowest cost consistent
 with its view of its long-term interest in the health
 of its UK suppliers and their international competitiveness."

I understand that this passage would contravene assurances given
 very recently to the European Commission on public procurement
 policy. The Commission were told that Ministers do not regard
 the relationship between Government and the nationalised industries
 as permitting them to give directions on the latter's purchasing
 policy. The Commission remain unsatisfied with this assurance
 and are still pursuing the point with us. In these circumstances
 inclusion of a UK procurement objective in a policy letter, which
 could leak, could prove embarrassing.

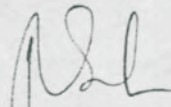
I therefore suggest that the passage should either be omitted or a passage should be agreed with the Treasury which would not conflict with Community obligations (though this may prove impossible to draft).

(ii) Competition and private risk capital: this objective asks the Chairman to make positive recommendations on the injection of private risk capital into areas of the Board's operations wherever possible. This objective would be given more weight if the Chairman was given a timetable for making his recommendations. This could be done by adding the words "and should let me have an interim report on possibilities by the end of the year" at the end of the second sentence of the second objective.

(iii) Nuclear power: Walter Marshall, with his unrivalled knowledge of the nuclear industry, may be tempted to build up the CEGB's capacity for building nuclear power stations at the expense of the already weak private sector nuclear power station construction industry. This would not be consistent with our general policy of relying on the private sector wherever possible. This point could be guarded against by adding at the end of the fourth objective ".,.,, and recognising the need to develop a stronger and more effective private sector nuclear industry".

I am sending a copy of this letter to the Prime Minister, Members of E(NI) and to John Sparrow and Sir Robert Armstrong.

yours sincerely



for LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

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CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7798

Qc.03065

15 June 1982

Act Secretary of State,

Policy Letter for the new CEEB Chairman

John Sparrow has been kept in touch with the drafting of the policy letter for the new Chairman of the CEEB, and in his absence *with MCS?* on leave I am responding to your request for comments on E(NI)(82)17. The CPRS has of course been closely involved in the preparation of the policy letter, and I confirm that we are content with the version now circulated. No doubt we can look again at the wording when a statement of objectives, based on this policy letter, is prepared and circulated in the autumn (perhaps along with the corporate plan) - there may be a need for sharper specification in that context.

2. The only point we would like to make now concerns the corporate plan. I understand that the Department of Energy, as well as the CPRS, is in principle in favour of a separate corporate plan for the CEEB. However, we recognise that the objective of developing a corporate plan for the ESI as a whole has not yet been fully secured and will itself be a major step forward. Paragraph 5 of the policy letter confirms this principle, and it will now be important to ensure that an industry corporate plan is developed as soon as practicable, and that it includes an acceptable section on the CEEB. The question of separate corporate plans for the major components of the industry, together with the question of separate EFLs, will need to be examined as a second stage.

3. I am sending copies of this letter to the other members of E(NI) and to Sir Robert Armstrong.

Yours sincerely,
A M Bailey
A M BAILEY

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

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MR. WALTERS

the word 'imports' does not occur in the letter so far as I can see; the resumption of imports at economic levels is only to be mentioned in Lawson/Marshall discussions about the letter. Can such a future approach result in action to improve import facilities & hence levels of imported coal?
c.c. Mr. Mount
fm 16/6

Draft Policy Letter to the Chairman of the CEGB

I think you ought to have a look at Mr. Lawson's paper, attached, for ENI containing his proposed draft policy letter to the Chairman of the CEGB.

I do not think it raises such difficult issues as we have been addressing in the case of the similar letter to the NCB; and, on the assumption that the CPRS and the Department of Energy between them have got the details right, I would be content with it. I was struck by the lower profile of the corporate plan in this draft, compared with the NCB one; the CPRS tell me that this is because the CEGB has not been in the habit of producing corporate plans, and the nearest we have to it at present is a medium-term development plan produced by the Electricity Council. So, the provision for a corporate plan at all is a considerable change.

J. M. M. VEREEN

R. Rownt

It's the same issue as arose in the context of the NCB policy letter; how far we dare go public on that intention. We have had to accept, I think, that of all the sensitive issues in the coal industry - pay, manpower, closures, safety, nuclear etc. - imports is one of the hardest to make progress on save by stealth.

14 June, 1982.

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17/6