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Prime Minister (2)

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SECRET AND PERSONAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1

13th July 1982

Handwritten signature: Sir Geoffrey Howe

Handwritten initials: MS

OIL BURN DURING A RAIL STRIKE

Thank you for your letter of 6 July agreeing that the extra costs of CEGB oil burn during the rail strike could be financed by means of a grant. I accept that in the first instance this should be limited to one month. I will write later on the timing of oil burn and hope to make early announcements to Parliament about the grant and any change in the industry's EFL.

However, I cannot agree that we should not pay grant for what you describe as "voluntary" oil burn. There are major presentational advantages in the decision to burn oil being the CEGB's and not the Government's. Your proposals would result in their never taking that decision since, from their point of view, the financial arrangements for a Government instruction will always be more attractive. I suggest, therefore, that instead of planning to penalise the CEGB for good behaviour, we should take the line that they themselves wish to burn oil and that the Government is paying a grant to protect the electricity consumer.

I agree that the ground rules for oil burn should, if possible, be agreed between our officials before it begins. I have also asked my officials to consider urgently the question of taking statutory powers to pay compensation for oil burn in future in the context of the Electricity Bill planned for the next session.

I am copying this letter, for the usual limited circulation, to the Prime Minister, Willie Whitelaw, Patrick Jenkin, David Howell and George Younger, and to Sir Robert Armstrong and Mr Sparrow.

Handwritten notes: Mr Am, Nig



Prime Minister

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MUS 6/7

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

original filed on: -

6 July 1982

Max Ind. Coal: 166

The Rt. Hon. Nigel Lawson, MP
Secretary of State for Energy

Nigel Lawson

OIL BURNING DURING A RAIL STRIKE

As suggested in your Private Secretary's letter of 24 June, our officials have considered further how to finance maximum power station oil burn, should that prove necessary.

It is, I think, agreed that the cost of maximum oil burn (some £20m - £30m a week gross) should not be passed on to consumers through prices. I assume that there is no prospect of persuading the CEGB to absorb any of these costs while making compensating savings elsewhere. The cost will therefore have to be financed from the Contingency Reserve.

3. On financing these costs, there are two options:-

- (i) An Exchequer grant, as agreed during the earlier ASLEF dispute and as we have recently agreed for the extra costs of maximising Scottish electricity imports during this rail strike.
- (ii) The CEGB could charge the extra costs to their profit and loss account, and accept a lower profit, which the Government would recognise by reducing their financial target. The Board would finance the extra cash flow needed to pay for the oil by higher borrowing (which would be reflected in their higher EFL).

The second course is clearly preferable if the CEGB can be persuaded to adopt it. It avoids recourse to Parliament for what could prove to be a controversial grant and is some recognition by the industry that theirs is the responsibility to ensure coal supplies to power stations. This makes presentation easier and is more in accord with our general policy of distancing ourselves from the rail strike.

/Your Department



Your Department believe that the CEEB will resist the second course and would insist on special grants, as were agreed during the ASLEF dispute earlier this year. This is disappointing since the industry do have a responsibility to ensure the continuity of coal supplies to the power stations. Nevertheless, if it is agreed that we should go to maximum oil burn, a debate with the industry about finance would lead to delay in the start of the oil burn programme. In these circumstances I accept that the Generating Board can be told that we are prepared to pay them a grant to finance the extra costs of additional oil burn. My agreement is subject to the following conditions:-

- (i) Parliament should be told, through a Written Answer, of your intention to pay the grant, subject to the normal supply procedures. The earlier oil burn grant has been announced so that this further announcement ought not to cause visibility problems. There will also need to be an early announcement of the increase in the Board's EFL. (The EFL increase will, of course, be greater than the cost of the grant. The grant will reflect the extra costs of burning oil compared to coal while the EFL increase will reflect the cost to the CEEB of the extra oil purchases, not just the difference in cost between burning oil and coal.) It should be made clear to the CEEB that this increase in the EFL is "earmarked" for oil burn, etc; any unspent balance cannot be used for other purposes.
- (ii) Your officials should agree with mine ground rules for the payment of the grant. These rules, which should be agreed before the oil burn programme begins, should be drawn as tightly as possible.
- (iii) The agreement to pay grant should be limited to a specified time, e.g. one month. It can, of course, always be renewed. But we ought not to agree straightaway to an open-ended payment. If there was to be a long rail strike, the Generating Board would, at some stage, presumably increase oil burn on their own accord. We should not pay grant for such "voluntary" oil burn.

Finally, could I suggest that you should consider taking, at a convenient legislative opportunity, specific powers to pay oil burn etc. grant in the future. This grant, like the earlier ASLEF oil burn grant, will rest upon the authority of the Appropriation Act. That is legitimate for "one-off" occasions, but I think that the PAC would rightly take the view that if grants for oil burn are to be paid, they ought to rest upon specific legislative authority. Could I ask that you consider

/taking



taking powers at a convenient legislative opportunity, perhaps in the Electricity Bill which you plan for the next Session.

I am sending a copy of this letter, for the usual limited circulation, to the Prime Minister, the Home Secretary, the Secretaries of State for Industry, Transport and Scotland, and to Sir Robert Armstrong and Mr. Sparrow.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style. There are some horizontal lines above and below the signature.

GEOFFREY HOWE