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NUCLEAR POWER

I understand that Parkinson will send a two-page minute tonight for tomorrow morning's meeting. It now emerges that the decommissioning liabilities for the eight Magnox plants are £4bn plus £1bn for Scotland. I understand these total figures include AGRs. Such a liability on the balance sheet of National Power would make it insolvent before it is floated. There is therefore great urgency in deciding how to proceed.

Three courses have been identified:

- (a) A £4bn special equity injection into National Power. This is the line which Parkinson will support;
- (b) The Magnox reactors to remain in the private sector but with the State taking over the liabilities. This sounds like a mish-mash with no clear division of responsibility. Neither the Treasury nor the Department of Energy are enthusiastic;
- (c) Leave Magnox in the public sector and float National Power exclusive of Magnox. This is the route favoured by the Treasury and the Scottish Office.

COMMENT

I have not tracked the detailed background and what follows is therefore an instinctive reaction rather than adamant advice.

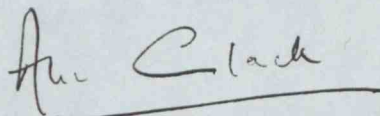
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We should not agree an injection because it would mean recognising a net deficit on the sale of electricity, thereby bringing it into the Rover and Shorts category of a distressed sale of a national disaster! Furthermore, the amount provided might not be enough and would leave the Government open to future claims, possibly legal and certainly moral, if decommissioning costs actually exceeded the injection.

Investors would want some protection against the capital provision being inadequate. This could harm the multiple at which the shares would subsequently trade and therefore seriously jeopardise the flotation.

RECOMMENDATION

The Government is in this mess principally because of bad advice from the Department of Energy over the past two years. The least damaging route seems to be to leave Magnox in the public sector and therefore to ring-fence its attendant costs from electricity privatisation. Parkinson and other Ministers may try to delay this decision beyond the recess. This would be a mistake and we must focus on this extremely serious problem now. The Prime Minister should therefore insist that this matter is at least resolved in principle before the recess. The detailed numbering can then come later.



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