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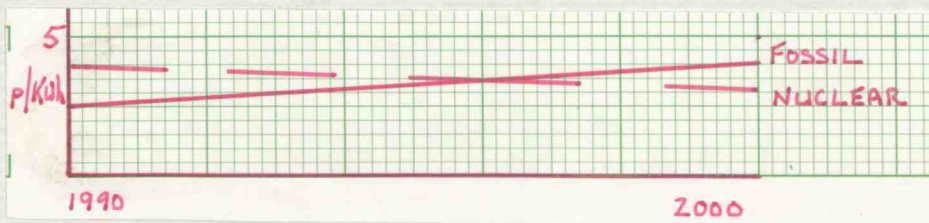
6 November 1989

ELECTRICITY PRIVATISATION AND NUCLEAR POWER

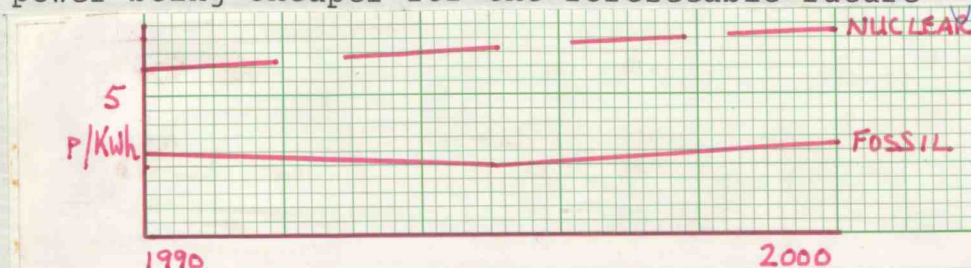
The 1987 Conservative Manifesto stated:

"We intend to go on playing a leading role in the task of developing abundant, low-cost supplier of nuclear electricity, and managing the associated waste "products".

Before the last election, you were led to believe that nuclear power, if not already the cheapest form of generation, would be soon. At Chequers in September 1987, you were shown a graph which showed nuclear prices crossing over fossil-fuelled prices in the mid-1990s.



The reality is somewhat different with no likelihood of nuclear power being cheaper for the foreseeable future



Nuclear power is quite simply uneconomic. The market perception is that costs in the nuclear industry are uncontrollable. The contractual, financial and political risks; because of the huge uncertainties; are far too high for the private sector to take on, even with the Government creating an "artificial market" for nuclear power via the NonFossil Fuel Obligation (NFFO).

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The nuclear issue is jeopardising electricity privatisation. John Wakeham is therefore proposing to remove the remainder of the nuclear stations from the privatisation and to curtail plans for building Hinkley C and the other two proposed PWRs.

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WHY HAVE PRICES RISEN?

In the past, it has always been in the CEGB's interests to hide the true costs of nuclear power in order to ensure more stations were built. Therefore, the costs presented to successive Secretaries of State always concentrated on the marginal cost of producing electricity from nuclear fuel.

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However, on digging into the accounts of the CEGB, DEN first found one omission, then another. The main liabilities not fully accounted for were:

fuel reprocessing  
waste disposal  
decommissioning

Other charges have also emerged associated with:

financing  
construction  
certain operations

Indicative PWR prices (all in 1989 pence) have moved from:

3p/Kwh at the Sizewell "B" Inquiry in 1982,  
to  
4.13p/Kwh at the Hinkley "C" Inquiry in 1988,  
to  
7.3p/Kwh today

The last price still assumes that the Government picks up the majority of the risks and is the lower end of the range.

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DECISIONS TO BE TAKEN

To achieve vesting by 31st March 1990, agreement on prices of coal, nuclear and conventional electricity, and the size of the nuclear levy, must be known by the beginning of December. DEn also need to make progress on the establishment of the Magnox Company or (depending on the decision of colleagues) the Nuclear Company.

There is virtually no chance of achieving the originally desired privatisation in the time left. Indecision at this stage will cause further slippage, probably leaving the whole of National Power in the public sector by default.

Assuming the original plans cannot be met, we must decide to:

- (a) Retain all the nuclear stations in the public sector and then float the remaining conventional components;

or

- (b) retain the whole of National Power (including its fossil stations) in the public sector for further restructuring followed by later flotation of the fossil component.

The first option is being recommended by John Wakeham as it delivers all of the ESI privatisation objectives (except privatisation of nuclear power) this Parliament.

The second option would allow more time to achieve the majority of the privatisation objectives and also would give the opportunity to split National Power (Fossil), which is twice as big as Powergen, into two components.

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Quite separately from the decision to retain nuclear power in the public sector is the decision:

- to curtail the PWR programme after the completion of Sizewell B.

John Wakeham's paper argues that on both economic and diversity grounds, we should stop the PWR programme. I believe that this is the correct decision as nuclear power is now clearly uneconomic (when all the costs are counted) and diversity is coming faster through market forces than was ever before thought possible.

#### PRESENTING A CHANGE OF POLICY

Britain is the first country in the world to investigate all of the costs associated with nuclear power. It was only through the privatisation process that we were able to get the facts. Most other countries' figures are hidden in the complexities of nationalized industry accounting or covert subsidy arrangements with private sector companies.

In the very long term, nuclear power will have its part to play as it is the only major generating source which does not produce carbon dioxide. In the meantime, energy policy will concentrate on investing in energy efficiency and conservation, which while not sources of power in their own right, nevertheless must be followed up to the fullest extent possible before further investment in nuclear power.

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CONCLUSIONS AND RECOMMENDATION

The price for electricity from nuclear power stations is going to be 2-3 times the price of fossil fueled electricity for the foreseeable future.

There are too many contractual, financing and political risks associated with nuclear power to attract the investment needed to float National Power complete with the AGRs and PWRs.

To enable most of the privatisation objectives to be achieved this Parliament, John Wakeham recommends:

- (a) Retaining all nuclear power in the public sector,  
and
- (b) curtailing the PWR programme after Sizewell "B".

I believe that this is the correct decision.

You may alternatively wish to retain the whole of National Power in the public sector as it would possibly buy more negotiating time, and allow dividing into two, National Power's fossil component which is twice the size of Powergen. Privatisation of the electricity supply industry would now take on a phased approach. Flotation of the last two generating companies would proceed next Parliament.

GREG BOURNE

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