

MR TURNBULL11 January 1984SIZEWELLProgress

The Sizewell Inquiry has now been going for one year. The hearings on the economic case have now been completed. The hearings on the safety and environmental case are likely to last until the Summer or early Autumn. The Inspector's Report could be delivered by the Spring of next year although these timings remain uncertain. If the project is approved, construction is expected to last six years.

We shall need to reconsider our general approach to public inquiries of this type when the present investigation is completed. In the meantime, the progress of the Sizewell Inquiry is entirely in the Inspector's hands.

Balance of Argument

It is difficult at this stage to predict the likely eventual outcome of the Inquiry.

The CEBG's economic case has stood up reasonably well during the first year of the Inquiry. The argument does not depend upon electricity demand justifying a new station but rather on the cost savings which would result from replacing some of the existing coal capacity with pressurised water reactors (PWRs).

The main doubts which have arisen are on the future trend in coal prices, where expectations of real growth have been revised downwards, and on the CEBG's ability to build the project to time and to budget. The latter point is important given the project's sensitivity to capital cost and the possibility that this could be increased by greater safety requirements.

The establishment of a successful nuclear power programme with a construction performance markedly better than has been

achieved so far is still likely to be our best chance of achieving internationally competitive electricity prices in the longer term. As the electricity supply industry progresses down the learning curve, the costs of any subsequent PWRs are likely to be more favourable than those forecast for Sizewell.

There is also the further important point that greater nuclear capacity will reduce our dependence upon coal-fired stations.

On the other hand, we shall need to consider whether we should continue to invest heavily in all energy industries, given the pressures on public expenditure.

Early Ordering

Peter Walker may raise the question of early ordering of equipment.

The CEGB wish to place an immediate £12 million order for reactor forgings for the Sizewell reactor. They argue that failure to do so would delay the total project by perhaps 12-18 months longer than necessary. They consider that a proper commercial assessment of the likely costs and benefits, including the possibility that Sizewell may not be approved, points to early ordering.

This is probably a sound commercial argument. The reactor forgings are a special case with long lead times. They represent less than about 1% of the total cost of Sizewell. It would be normal commercial practice to proceed even if the final sanction of the project is in doubt.

However, the decision would have political implications. Opponents of Sizewell will claim that the Government is pre-empting the outcome of the Inquiry. Although about £90 million has already been spent on design and development costs, this would be the first example of expenditure on hardware. As such it would be capitalised rather than written off to R&D.

On balance, we consider that the CEGB should be allowed to proceed provided that Peter Walker confirms that the urgency of ordering now is fully justified. It should also be clearly understood by the CEGB that this decision would not be a Government

endorsement for the project.

The decision should be presented as a matter for the CEGB's commercial judgement rather than a question for the Government. It should be clearly demonstrated by the CEGB that this is a special case which does not pre-empt the outcome of the Sizewell Inquiry.

We would not expect the Inspector to comment on the decision but the Prime Minister could discuss with Peter Walker whether a critical response is possible.

DLP.

DAVID PASCALL



10 DOWNING STREET

Prime Minister

Initially this meeting was requested to allow Mr Walker to take your mind on advance ordering of equipment for Sizewell. But he may under the discussion to cover the way the enquiry is going and how the case for Sizewell is standing up.

The Electricity Council is due to meet on 16 January to consider the proposals for a 2% increase on domestic prices and a freeze, apart from the fuel price adjustment, on industrial prices.

You could impress on Mr Walker the need to get this settled and to use his influence to achieve this

AT 11/1