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SECRETARY OF STATE FOR ENERGY

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The Rt Hon Sir Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Whitehall
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31 January 1989

Dear Geoffrey,

GREENHOUSE EFFECT: GAS FOR ELECTRICITY GENERATION

At our recent meeting with the Prime Minister on Climatic change I was asked to let you have my views on whether we should seek to bring about the repeal of the EC directive constraining the use of gas in power stations.

With advanced technology each unit of electricity generated from natural gas produces less than half as much carbon dioxide as one generated from coal. Gas is currently economic in new capacity both for baseload and peak generation. Yet the Community has a policy of discharging the use of natural gas for electricity generation and this is effectively enshrined in the directive requiring Member States to consent to the construction of a gas fired power station or to a supply of gas for electricity generation only in special circumstances.

Those circumstances are in practice widely enough defined to enable us to consent to proposals for gas fired power stations which we currently know about.

But I am not so sure that all such consents are within the spirit of the directive and we could face problems if and when we approach the average Community level of gas burn in power stations. Moreover the existence of the directive and the bureaucratic controls it necessitates inhibit the development of schemes for gas fired power stations.

In the context of electricity privatisation, we see increased use of gas as a promising route to real competition in the market from generators independent of the big two. It would also make an important contribution to weakening British Gas' monopsony and,



in opening up a new market for gas, contribute to UKCS development. It is perhaps worth noting that new technology enables us to recover more gas from our North Sea fields than was the case when the directive was introduced. Our estimates of total reserves have also risen in recent years. We have therefore put repeal of the directive high on our list of objectives in the context of completing the Community's energy market. Our remonstrances have succeeded to the extent that the Commission is reviewing the directive and I understand there are good prospects that it will appear on the agenda of the next Energy Council. I am most grateful for the help your officials and particularly UKREP have given to secure this progress.

Substitution of natural gas for other fossil fuels is not as effective a remedy for energy's contribution to the greenhouse effect as is the use of nuclear. But it is likely to be a lot quicker to implement and in many circumstances more economic and more acceptable internationally than nuclear. It will be a lot more economic than widespread use of new and renewable energy sources and again much quicker to implement. It is particularly suited to urban CHP schemes where it can achieve an overall efficiency of 90%. Apart from the greenhouse question, natural gas is regarded as a generally benign energy source. Reserves in the North Sea, the Soviet Union and elsewhere appear adequate to meet the demand in the foreseeable future; indeed one effect of market restrictions such as that intended by the directive is to remove the incentive to discover new reserves.

So long as the directive remains on the books, the Community will be in a poor position in international discussions on the greenhouse effect. I should therefore be very glad of your continuing advice and help, in Brussels and capitals of Member States, both in energy and environmental fora, to achieve the objective of repealing the directive. There will be determined opposition to repeal, for different reasons, from France, Germany and the Netherlands. I suggest that our officials meet to consider the tactics for overcoming that opposition. Meanwhile we can use our concern about possible climate change in public justification of our opposition to the directive.

I am sending copies of this letter to the Prime Minister, Nicholas Ridley, David Young, Kenneth Baker, John MacGregor, Paul Channon, Peter Brooke and Sir Robin Butler.

*James East,
Cecil*

CECIL PARKINSON

ENVY AFFAIRS: AC. J. R. R.

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