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PRIME MINISTER

Cross-Channel Electricity Link

1. Peter Walker sent me a copy of his minute of 13 September to you about this. I have since seen Nigel Lawson's minute of 18 September and your views as set out in Andrew Turnbull's letter of 20 September.

2. My direct concern is the effect on our relations with the French. It will be important that in any negotiations the CEGB should leave Electricite de France, and through them the French Government, in no doubt about their position on the future utilisation of either link. It would be awkward if the French were to claim there was a commitment on the use of the first link after October 1987, or on the full use of the second link as Nigel Lawson suggests, if that were not the case. I am glad to see that Peter Walker stresses this consideration too.

3. I am sending copies of this minute to the Secretary of State for Energy, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster and to Mr Gregson in the Cabinet Office.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
24 September 1984

ENERGY
Cross Channel Link
Electricity
8/84

File

BRIEFING FOR PRIME MINISTER'S QUESTIONS

CEGB purchase of French electricity through Cross Channel Link

Line to take

1 The price at which electricity will be bought by the CEGB from Electricity de France is well below the average cost of electricity produced in the UK.

2 The link is designed for flows in either direction, and no agreement on supplies in either direction has been made beyond the initial two year period.

3 The volume of coal to be bought by the CEGB from the NCB during the two year agreement will be no less than it was before the strike.

Background (CONFIDENTIAL.)

1 Ministers agreed in September last year that the CEGB should negotiate a two year agreement with Electricity de France to import electricity via the Cross Channel Link. The Prime Minister was consulted and endorsed the proposal.

2 The CEGB and EdF concluded an agreement in January this year on that basis. No announcement was made during the miners' strike, because of the effect imports of electricity would be thought to have on the NCB. Department of Energy Ministers in answering PQ's have so far not disclosed their knowledge of the two year agreement and have said the operation of the link is a commercial matter for the two utilities.

3 The first stage of the link is due to be commissioned in October or November this year. The CEGB had not intended to make any announcement about their commercial agreement until nearer the time, but Mr Boiteux, Chairman of EdF, answered questions from Financial Times and Times journalists last week which caused the news to break. The FT got the story wrong (see Annex A). The CEGB issued a low key Press Release on Friday, with the Secretary of State's approval, to put the record straight. (See Annex B.)

EL 2

17 June 1985 CONFIDENTIAL

Reference ANNEX A.

FINANCIAL TIMES.

14 JUNE 1984.

Britain rejects French offer of cheap electricity

BY IAN HARGREAVES IN ATHENS

BRITAIN HAS rejected a French offer to supply cheap nuclear-produced electricity via the new Channel cable due to be in operation by the end of the year on the grounds that cut-price imports could damage the UK coal industry and provoke resistance from the country's power industry unions.

M Marcel Boiteux, chairman of Electricité de France, said yesterday that EDF had offered to send baseload power supplies across the undersea link when it was completed later this year.

This power, he said, was surplus to French requirements and could be offered at a price well below UK generating costs. Britain, he said, had turned down the proposal for social and political reasons.

Mr Fred Bonner, deputy chairman of the Central Electricity Generating Board, who, like M Boiteux, is in Athens for the triennial conference of the International Union of Producers and Distributors of Electrical Energy (Unipede) said that initially any proposed French supply would displace expensive fuel oil in power stations but would soon also have an impact on CEGB demands for coal.

"Once you start eating into coal you would have the problem of what it means to the National Coal Board," he said. Since the future size of the coal industry was still under discussion between the NCB and the Government it was difficult for the CEGB to make a commitment to EDF.

It is clear, however, that the UK electricity supply industry intends to use the EDF offer as a bargaining counter with the coal board in the latest round of negotiations over coal prices. Under a four-year rolling agreement between the coal board and the CEGB the electricity board is bound to take 95 per cent of its coal from the NCB.

In return the coal board raises prices annually at less than the going rate of inflation. However, the electricity industry now fears that in its anxiety for the coal board to meet its breakeven target in March 1987 the Government will be tempted to sanction higher coal prices. The pricing agreement expires in 1988.

The French offer is therefore of considerable significance for the pricing talks. The cross-Channel link's first stage will have a capacity of 1,000 megawatts—almost equal to the size of the proposed nuclear power station at Sizewell, Suffolk—and the link will be doubled in size by the end of next year.

Originally, the link was seen in Britain as a means of selling UK coal by wire to a France then weak in generating capacity. Since then, France's nuclear power programme has significantly changed the situation.

M Boiteux said France was willing to sell power to the UK under two different financing packages. One would offer a baseload or continuous supply at little over the French average nuclear generating cost of FFrs 0.24 (2p) per kilowatt hour.

A second possibility, already exploited in EDF agreements with other foreign buyers, would enable Britain to obtain additional power at peak periods at prices close to EDF's marginal cost of production.

EDF's marginal costs (i.e. cost not including capital charges and general overheads) for nuclear output are only FFrs 0.08 (0.7p) per kilowatt hour.

In practice M Boiteux said EDF normally splits the benefits of such deals with foreign purchasers so that a buyer whose own alternative marginal output involves buying coal, typically at a cost of FFrs 0.16 or 1.35p, would receive French supplies at FFrs 0.12 or 1p per kilowatt hour.

On either basis this would represent an extremely attractive offer to the UK. According to its recently published figures the CEGB's major coal stations generate electricity at between 2.32p and 2.56p per kilowatt hour. The figure for oil capacity is between 4.2p and 5.79p.

On the marginal costs [illegible] French supplies at 1p per kilowatt hour would be around half the cost of buying coal for equivalent output at a UK coal station.

Mr Bonner said he could not comment directly on these EDF figures but he acknowledged that the proposed EDF prices significantly undercut [illegible] UK costs.

He said that initially [illegible] was no question of [illegible] buying baseload power [illegible] France. The link would [illegible] for a two-way flow of [illegible]

Mr Bonner said [illegible] also be day-to-day [illegible] between the two countries [illegible]

The Jersey Electricity [illegible] pany, recently comp[illegible] own link with France [illegible] announced a 20 per [illegible] tariffs as a result.

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ANNEX B.

CEGB STATEMENT CLEARED WITH SIR WALTER MARSHALL 14 JUNE

In 1977 the CEGB and EDF agreed to construct a 2,000 MW cross-Channel link. Later this year the first half of this link will be available, the second half a year later.

The CEGB have now agreed with EDF commercial arrangements for operation of the first half of this link during the first two years. These involve the supply of 1,000 MW to the CEGB from surplus French capacity subject to stipulated provisions for interruption. (1,000 MW is equivalent to less than 2 per cent of existing CEGB capacity.)

The price at which the electricity will be provided is significantly below the average cost of electricity provided within the United Kingdom. The cross-Channel link is designed for flows in either direction and no agreement as to supplies in either direction has been made beyond the initial two year period.