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cc NO
Prime Minister (2)
To note, ~~and~~ X - para 5
in particular.

AT 1715

mt

Prime Minister

NORTHERN IRELAND ELECTRICITY GENERATION:
CONVERSION OF KILROOT POWER STATION

I am writing to let you know of my intention to authorise the Northern Ireland Electricity Service (NIES) (a) to proceed with the conversion of Phase I of Kilroot Power Station (600MW) initially to coal-firing (and possibly later to lignite firing); and (b) to enter the preliminary planning stage of a new power station to be commissioned in the early/mid 1990s.

2. You will already be familiar with Northern Ireland's heavy over-dependence on oil for electricity generating purposes; 90% of existing power plant is oil-fired. This is the reason for the high cost of generating electricity in the Province, and for the commitment to subsidise electricity prices in Northern Ireland at the level of the highest in England and Wales. The need to reduce its oil-dependence is therefore critical to NIES.

3. The options for reducing oil-dependence have been extensively examined by Government officials, NIES and independent energy experts, and their conclusion was that the cheapest and quickest way of achieving this would be to convert the first phase of the oil-fired Kilroot power station initially to burn coal. They also concluded that the conversion should be designed in a way which did not preclude the burning of processed lignite from near Lough Neagh at a later stage, (should this prove to be economic). New plant will also be needed to replace other existing plant which will have to be retired progressively throughout the 1990s; because of the relative cheapness of lignite compared with coal and oil it has been recommended that the new generation of plant should be lignite-fired.

4. An investment appraisal of the Kilroot conversion project was carried out in 1984. This showed that the project was economically sound; it had a high and positive net present value

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and a rate of return in excess of 15%, well above the Treasury discount rate for public sector projects.

5. In considering the Kilroot conversion proposal during the coal strike I obviously had some natural reservations about increasing Northern Ireland's dependence on the NCB for coal.

x | As safeguards against a repetition of an NUM strike, the converted station will retain the option of burning oil, if and when needed (this can be achieved at relatively little expense). I propose that while the station will operate initially on coal supplied from pits in Scotland, the NIES should be able to turn to other sources of coal supplies, should the NCB be unable to supply coal in the required amounts and at the right price. After prolonged discussion Peter Walker, George Younger and Peter Rees are content with these proposals.

6. The capital cost of the project is estimated at £94M (October 1984 prices) and I have found the necessary funds to finance the conversion from within my own resources. NIES estimate that the conversion will result in savings of some £25 - £30M per annum in fuel costs when the station is recommissioned in 1989.

7. To reap the maximum benefit from the project NIES want to start work straight away. A decision to proceed with the conversion will enjoy widespread political support within Northern Ireland. I therefore intend to announce my decision to the House as soon as possible by means of an arranged Parliamentary Question. A copy of the proposed parliamentary question and answer is attached.

8. The Statement also notes that NIES have been given authorisation to proceed with preliminary studies related to the planning of a new lignite-fired station at the mine-mouth, to be commissioned in the mid-1990s, while making it clear that Ministers are not committing themselves at this stage to building a station, which is for separate

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and later decision. I am also exploring the possibilities for involving private sector finance in the development of such a station.

9. I am copying this to E(A) colleagues and to Sir Robert Armstrong.

D.H.

17th May 1985

D.H.

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FUTURE GENERATION STRATEGY IN NORTHERN IRELAND

ARRANGED WRITTEN PARLIAMENTARY QUESTION AND ANSWER

Q. To ask the Secretary of State for Northern Ireland if he will make a statement on his plans for future capital investment in the electricity industry in Northern Ireland?

A. Some 90% of the usable generating capacity in Northern Ireland is oil-fired. This heavy oil-dependence is the main reason for Northern Ireland's high electricity generating costs, and for the decision to provide a substantial Government subsidy to keep Northern Ireland electricity tariffs in close association with the highest Area Board in England and Wales. The cost of that subsidy - estimated to be more than £95 million in 1985/86 - is becoming an increasing burden on the Northern Ireland public expenditure block. The Government and the Northern Ireland Electricity Service have therefore been anxious to explore how best the oil-dependence of the Northern Ireland electricity system might be significantly reduced.

I have decided that the first step in reducing Northern Ireland's oil dependence should be the immediate conversion of the first phase of Kilroot Power Station to solid fuel-firing. In the first instance the station will be converted to coal-firing, although provision will be made in the design to retain the existing oil-fired capability, and to allow the future burning of a processed form of lignite at the station, should this prove to be technically feasible and economic. For this purpose I have made funds available within the Northern Ireland Public Expenditure block which will support the investment and enable the Northern Ireland Electricity Service to carry out the necessary works. The initial cost of the project is estimated at £94 million (at October 1984 prices), and the station is expected to be taken out of service in the years 1986 to 1988, and to be

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E.R.

re-commissioned in 1989. After Kilroot is re-commissioned as a coal-fired station, it is estimated that Northern Ireland Electricity Service fuel costs could be reduced by some £25 - £30 million per annum, which will represent a significant saving in public expenditure.

At the same time I am very conscious of the contribution which cheap local lignite might make to reducing Northern Ireland Electricity Service generating costs, and the fact that a substantial proportion of total existing NIES capacity - as much as 35% - will be progressively retired throughout the 1990s. We have therefore given considerable thought to how Northern Ireland's future generating capacity needs should be met, and the extent to which lignite might feature in these plans. Our current assessment is that the most economically effective use of lignite would be in a purpose-built mine-mouth power station, and that lignite-fired plant would offer the cheapest option when new generating capacity is required in the 1990s. As an initial step therefore I have authorised the Northern Ireland Electricity Service to enter into the preliminary planning stages of a new lignite-fired power station to be constructed at the mouth of the lignite mine, and work on such studies has now begun.

It should be realised, however, that the capital expenditure involved in the construction of a new power station will be substantial. Detailed assessments of the phasing of such capital expenditure and of its economic implications have to be carefully examined before a final decision on construction would be taken. In that context I am examining in depth the scope for private sector involvement in the development of lignite-fired electricity generation.

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Prime Minister 15

Open "determined efforts"
Don't think "every possible effort"

Ref. A085/1321

MR POWELL

Agree to
RTA's revised
suggestion?

in any better than
every effort. I'm sure of the
new text unless we could fall back

CDP 13/5

to every effort if

Anglo-Irish Relations: Northern Ireland

they would accept 'determined' not
Thank you for your minute of 13 May.

2. On the first point, I understand the difficulty about the phrase "every effort". I suggest that we might use "determined efforts": for some reason that seems slightly more appropriate to a text of this kind than "strenuous efforts".

3. I wonder, however, whether the Prime Minister would give me discretion to fall back on "every possible effort". This would have the advantage of being slightly nearer to the text in our paper of 21 January (which included the phrase "every effort"), while preserving the thought that we should not be prevailed upon against our own better judgment.

4. On the second point, I will of course try to persuade Irish officials to accept the text now proposed. But it was the phrase "the British Government would retain full responsibility for decisions" which most stuck in their throat last time: they felt that it "rubbed their noses" in it. I take it from the penultimate paragraph of your minute that I have discretion in the last resort to drop the phrase.

5. But I should like to suggest one other possible alternative to the Prime Minister. That is to move the whole of the sentence in question to the end of the paragraph, so that it follows the references to action in both parts of Ireland, and to make it even-handed between the two Governments, so that the sentence would read: "There would be no derogation of sovereignty on the part of either the United Kingdom Government or the Irish Government, and each would retain responsibility for the administration of government within its own jurisdiction." I believe that I have a reasonable chance of persuading the Irish to accept such a phrase so placed.

[Equally we could underline it in red for the Unionists] CDP