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PRIME MINISTER

POWER STATION ENDURANCE
MEETING AT 3 PM ON 24 JULY 1985
WITH SECRETARY OF STATE FOR ENERGY AND CHANCELLOR OF THE EXCHEQUER

INTRODUCTION

The purpose of this meeting is to discuss the following three issues
--- in Mr Walker's minute of 19 July:

(i) The future level of coal stocks at CEGB power stations
(paragraphs 2-10).

(ii) Strengthening of the Scottish Interconnector
(paragraphs 11-13 and Annex 1).

(iii) Progress on endurance recommendations made by the
--- Official Group on Coal in their report on the lessons of the
miners' strike (Misc 57(85)9, paragraphs 14-15 and Annex 2).

MAIN ISSUES

(a) Coal Stocks

2. There are two issues here:-

(i) progress on building up stocks in the short-term;

(ii) the target level for the longer term.

3. On the short term, Mr Walker reports that the CEGB and NCB are
on course to achieve the level of 23 million tonnes (equivalent to
six months endurance) which you set in March. You will, however,
wish to assure yourself that:



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- all foreseeable events that might prejudice this target
eg coalfield holidays, have been taken into account;
- contingency arrangements have been made to cater for unexpected events eg for moving coal quickly by road if there is industrial action on the railways (as press reports indicate there might be);
- contingency plans are in hand to resume additional oil burn and continuous running of nuclear stations should the need arise;
- there are no problems about availability of ancillary materials.

4. On the longer term, the central issue is what level of endurance, and thus what level of coal stocks at power stations, should be achieved by October 1986. Mr Walker reports that, barring industrial disruption, it should be physically possible to achieve stocks of about 31 million tonnes at power stations by October 1986 (virtually equivalent to one year's endurance). This would, however, have substantial financial implications. First, there is the additional interest cost (put at over £50 million a year) of carrying higher stocks than the industry judge necessary for normal commercial purposes. In principle, this would have to be met either by the taxpayer (through meeting the increased NCB deficit) or by electricity consumers (which seems reasonable, since they will be protected). Mr Walker floats, only to reject, the possibility of deliveries from the NCB on deferred payment terms. Second, there is the opportunity cost of revenue from export sales foregone. This would be a cost to the PSBR in the sense that it would otherwise accrue to the NCB and improve their finances. Mr Walker puts this at some £85 million, although I understand the Treasury believe the figure could be much higher (they think export sales foregone could be double Mr Walker's figure of 3 million tonnes).



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5. In addition to these financial costs, a decision on whether to ask the industries to plan for an endurance target of 12 months will also turn on:-

(i) the assessment of risk. What are the prospects of further industrial action in the coalfields and elsewhere over the next 12 months or so?

(ii) the degree of enhancement to endurance from additional oil burn, nuclear power output, and use of the Anglo French Interconnector (see further paragraph 8 below).

You will want Mr Walker's assessment on both these points. If you do decide to plan for coal stock levels of more than the 23 million tonnes (6 months) which is likely by the end of October 1985, you will need to ask Mr Walker and the Chancellor of the Exchequer to bring forward proposals separately on the financial and other details. It would, of course, be possible to plan for a stock level between 6 and 12 months endurance (say, 9 months); thus reducing the financial problems.

(b) Scottish Interconnector

6. The study in Annex 1 concludes that given the severe technical problems, expenditure of £60 million to increase capacity from 1000 to 1250 mw could achieve only an additional 9 days endurance, in any 12 month period, and not before November 1987. Any more substantial uprating could not be achieved before 1992-95 and would cost up to £320 million. Mr Walker therefore recommends against these options. His conclusion on the first option seems sensible - the £60 million could surely be better employed in other ways - but you may wish to consider whether further work should be undertaken on the longer term options.

(c) Progress on other Endurance Recommendations



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7. Mr Walker has been considering with the CEGB the check list of options for further increasing power station endurance in the MISC 57 report. He concludes that, on the short term, no immediate decisions are required on his progress report in Annex 2, but that he should monitor the forthcoming commercial discussions between the CEGB, BR and NCB. These will deal with such matters as the quinquennial review of the BR-CEGB contract for moving coal to power stations by train (due in January 1986) and the effects of the current CEGB-NCB joint understanding that restricts the CEGB's facility for importing additional coal. On the longer term, Mr Walker simply suggests that he should return to the future of the cross channel link and the development of the nuclear programme "at the appropriate time", but that no decisions can be taken now.

8. On the short term, I shall be preparing a progress report in MISC 57 in the autumn on all the follow-up action stemming from the earlier report on the lessons of the Miners' Strike. We shall need to take account of Mr Walker's "monitoring" of the CEGB's commercial discussions in this. On the longer term, although Mr Walker is probably right in saying that no decisions can be taken now, I wonder whether it is sensible to delay consideration of a further Cross Channel Link with France for 2 to 3 years? It might also be worth considering the possibility of taking more from the existing link than the 1000 MW due to be available from the end of October (which represents only half its capacity) and of negotiating forward contracts (there are at present no contracts beyond 2 years). You may wish to probe Mr Walker on these points.

HANDLING

9. You will wish to ask the Secretary of State for Energy to lead on the individual items for discussion, with the Secretary of State for Scotland and the Chancellor contributing as appropriate.



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CONCLUSIONS

10. You will wish to decide:

(i) whether to ask the coal and electricity industries to plan for an endurance target of 12 months, or some shorter period, and, if so, how the financial implications should be further handled;

(ii) whether to proceed with the option for increasing the capacity of the Scottish Interconnector from 1000 to 1250 MW, at a cost of £60 million;

(iii) whether any further action (eg further study of the Cross Channel Link) needs to be taken now on the other short or longer term options that Mr Walker has under review.

J B UNWIN

23 July 1985
Cabinet Office