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10 DOWNING STREET

24 July, 1985

From the Private Secretary

Dear Geoff.

The Prime Minister held a meeting today to discuss power station endurance. Present were the Chancellor of the Exchequer and the Secretaries of State for Energy and Scotland. Also present were Mr. Gregson, Mr. Manley and Mr. Unwin. The meeting had before it the Secretary of State for Energy's minute of 19 July.

i. Coal Stocks

The Secretary of State for Energy said the current objective was to raise power station stocks to 23mt by October 1985. Despite a colder spring and summer than average, the build-up of stocks was running to schedule as deliveries had been better than expected. No pits were being kept open simply to produce for the build-up of stocks.

23 mt would provide about six months endurance. It was very close to the figure of 24 mt which was in place at the start of the strike in March 1984. Ministers needed to consider whether to raise stocks to around the maximum of 31 mt which would provide around twelve months endurance. The Secretary of State for Energy believed that the extra interest cost of carrying the extra stock was a reasonable price to pay for the additional insurance.

In discussion, it was argued that the costs to the PSBR of building up stocks would be substantial. The cost of carrying higher stocks should be borne by electricity consumers as it was they who had benefited from continuity of supply during the strike and who stood to benefit again in future. Against this, it was argued that the electricity industry would strongly resist being made to pay these extra costs. At present, they were resisting the costs even of the six months target, though it was likely they could be persuaded to accept it. There was little prospect, though, of securing agreement to bearing the costs of a twelve months objective. The unions, whose co-operation had so far been secured, would object to additional costs which they would see as damaging the prospects for the electricity industry.

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Summing up this part of the discussion, the Prime Minister said it was not necessary to take a decision now on the ultimate objective. An intermediate objective would be to maintain deliveries at their maximum rate through the winter which would maintain stocks at about 22 mt by March 1986. This would keep open the option of moving 31 mt by October 1986. Ministers should return to the issue in December 1985.

ii. Scottish Interconnector

The Secretary of State for Energy reported that the CEBG had examined the case for expanding the Scottish interconnector but had concluded that it was not cost-effective. Expenditure of £60 million would add only nine days to endurance and had the disadvantage that it involved a period in which the capacity of the interconnector had to be reduced. It was agreed that this option should not be pursued further at present.

iii. French Interconnector

The Secretary of State for Energy reported that the first cable of the interconnector would be in operation by October 1985 and the second cable a year later. The CEBG had entered into a two-year contract to import electricity which would utilise the first cable fully. No contracts had yet been signed for use of the second cable.

It was argued that the CEBG should contract as soon as possible to use the second cable fully; to delay until a dispute was in progress would weaken its negotiating position. Against this it was argued that there were strong disadvantages in presenting a policy of maximum imports. There was no need to sign a contract quickly as the French had surplus electricity and would always be ready to supply. It was agreed that two-year rolling contracts should be entered into for imports fully utilising both cables but the Secretary of State for Energy and the CEBG should exercise discretion about the timing of such contracts.

iv. Oil Burn

The CEBG's plans to improve the flexibility of switching from coal to oil and for widening the scope of what was considered normal working were approved. It was noted that there was little scope for extra storage of oil.

v. Transport

It was noted that substantial amounts of coal were being moved by road. This was helpful in establishing the handling of coal delivered to power stations by road as part of the normal working practice. The agreement between the CEBG and BR was due to be renegotiated in January 1986. This also should establish some road deliveries as part of the normal working.

vi. Imports

The CEGB was currently importing from the stock of coal held at Rotterdam. Under the contract with Australia, further imports would be made. Smaller amounts of coal from other sources were also being imported.

I am sending a copy of this letter to Rachel Lomax (HM Treasury), John Graham (Scottish Office), Richard Hatfield and Brian Unwin (Cabinet Office). I would be grateful if it could be shown only to those concerned with the work of MISC 57.

*Yours sincerely  
Andrew Turnbull*

(Andrew Turnbull)

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