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PRIME MINISTER

13 December 1985

COAL STOCKS AT CEGB POWER STATIONS

For once, Energy and Treasury are at one, and we would support them in aiming for 27 million tonnes of coal stocks at CEGB power stations prior to the Winter of 1986/87.

On current plans, the NCB will maintain a high rate of coal deliveries to the CEGB over this Winter. That creates the option next Spring, either to prepare for the worst, or drop back to a normal mode of operation. Barring a rapid deterioration of the industrial relations climate - against all the trends - Peter Walker wants to revert to a normal pattern of coal deliveries from next Spring.

This implies 9 months' power station endurance, assuming siege conditions from the start of next Winter. More realistically, in the gloomiest scenario we might encounter, NACODS/NUM would initially pull out the UDM, but would then lose their grip as UDM members put pressure on their colleagues in NACODS and return to work. In that case, the endurance would be over 2 years from the start of next Winter.

Peter Walker's proposal has the virtue of being PSBR neutral. Moreover, there are good reasons against departing from the normal pattern of coal deliveries to power stations - either up or down. To lower the rate of deliveries next Summer means dropping our guard with no net benefit to the

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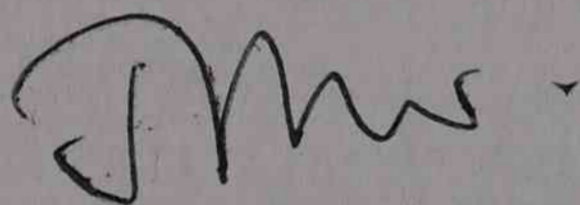
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PSBR. To raise it, would create difficulties over funding the additional working capital. Moreover, there is the arguable point that, to go on building coal stocks beyond a certain prudent level, could give the wrong signal to the UDM. Certainly, if they saw it as an implied threat, the exercise would be counterproductive.

We can take further comfort from the operational changes and engineering modifications made since the coal strike to increase power station flexibility and endurance. Apart from directly enhancing endurance, they increase the ability rapidly to build coal stocks once trouble is foreseen.

We support Peter Walker's coal restocking policy. It may still be worth meeting to reach and record a clear understanding on the conclusions of the report on the lessons from the coal strike.



JOHN WYBREW

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