

PRIME MINISTER

NCB/SSEB NEGOTIATIONS

You will wish to be aware of the very difficult situation which is developing in relation to the Scottish coalfield.

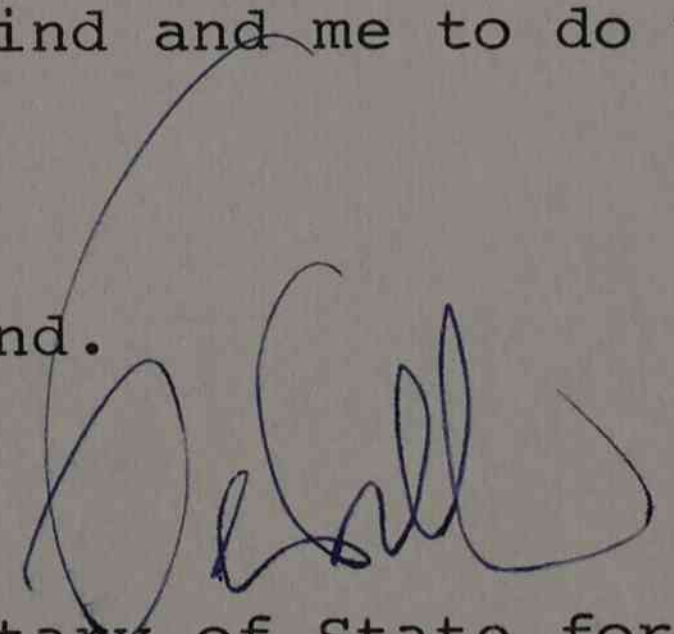
Following the agreement between the Coal Board and the CEGB on coal prices, Ian MacGregor has also to negotiate a new coalburn arrangement with the SSEB. These negotiations have not been made any easier by the Chairman, Mr Miller's precipitate decision to switch to increased oilburn, which has led to a build-up of unsold coal stocks in Scotland.

The future for the Scottish coalfield already looks bleak. The NCB advise me that, whatever happens on the SSEB's coalburn, the collieries at Seaford Francis, Comrie and Killoch Baroney are likely to close in the next two years with the loss of about 2½ thousand jobs. The first announcements could be in two to three weeks time. If the SSEB maintain a high level of oilburn this will necessitate in addition the early closure of Monktonhall and severe cutting back of Longannet. That would mean the loss of a further 1,000 plus jobs, and a marked acceleration of the pace of redundancies.

The SSEB are currently demanding as the price for resuming coalburn a deal which would be almost twice as expensive (relative to quantity) as the agreement reached with the CEGB. There is of course no way that the SSEB can be given terms which are more advantageous than those agreed with the CEGB without re-opening the CEGB deal, with potentially serious consequences for public expenditure.

Ian MacGregor has asked both Malcolm Rifkind and me to do what we can to help smooth the negotiations.

I am copying this minute to Malcolm Rifkind.


Secretary of State for Energy

13 June 1986

PRIME MINISTER

NCB/SSEB NEGOTIATIONS

I am told by Mr. Walker's Private Secretary that this minute has ^{two} ~~three~~ purposes:

i) to encourage Mr. Rifkind to get on with his negotiations with the Chairman of the SSEB - he is apparently not taking this seriously enough;

ii) to warn of these impending redundancies both for themselves and for their implications for seats in Scotland.

Agree that the SSEB has to fall in line with the CEGB and that Mr. Rifkind should bend every effort to bring this about?

Yes not

DLH

not

DAVID NORGROVE

13 JUNE 1986

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10 DOWNING STREET

From the Private Secretary

16 June 1986

NCB/SSEB NEGOTIATIONS

You will have received a copy of the Secretary of State for Energy's minute of 13 June to the Prime Minister about the negotiations between the NCB and the SSEB. The Prime Minister agrees strongly with Mr. Walker that there is no way the SSEB can be given terms which are more advantageous than those agreed with the CEGB. She hopes that your Secretary of State will be making this very clear to the SSEB. The Government must now do everything possible to achieve an agreement on the same basis as that agreed with the CEGB.

I am copying this letter to Geoff Dart (Department of Energy).

(DAVID NORRGROVE)

Robert Gordon, Esq.,
Scottish Office

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PRIME MINISTER16 June 1986NCB/SSEB NEGOTIATIONS

Peter Walker accuses Donald Miller and the South of Scotland Electricity Board (SSEB) of jeopardising the Scottish coal field by precipitately switching to cheap fuel oil and then being unreasonably hard-nosed in the negotiation with the NCB.

This is unfair. Unlike the CEGB, the SSEB was consuming no oil prior to the recent collapse of oil prices. Fearing a pre-emptive legal challenge by electricity customers wanting to benefit from cheap oil, Donald Miller and his Board cautiously decided to bring one of their five mothballed oil-fired units into operation from 1.4.86. Even with this and cheaper coal supplies from 1.7.86 (see below), the SSEB can only afford to give Scottish consumers a discount of 0.15 pence per kwh compared with the CEGB's equivalent discount of 0.2 pence per kwh.

Donald Miller tells us that the NCB's coal supply offer - consistent with the CEGB's deal - looks satisfactory; when it comes into effect on 1.7.86 the SSEB's one oil-fired unit will be taken off baseload operation and the oil consumption halved.

The real threat to uneconomic coal production capacity in Scotland is the Torness nuclear power station, the first unit

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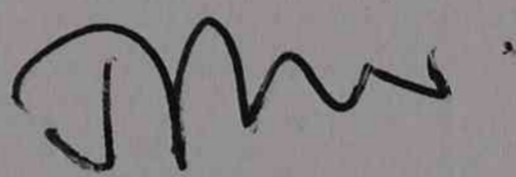
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of which is due to be commissioned next Spring. Allowing for Torness, SSEB are still planning on continued use of their relatively modern coal-fired stations at Longannet, Cockenzie, and Kincardine.

Conclusion

You don't need to worry or intervene. Scottish electricity consumers will benefit from lower oil prices, much like those in England and Wales. Provided the NCB operates the remaining Scottish pits efficiently, the SSEB will be long-term customers with a coal requirement of some 5 mtpa.



JOHN WYBREW

SECRET



cc R. Loxton (HMAT)
38

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Prime Minister

Prime Minister 2

DW
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NCB/SSEB NEGOTIATIONS

I have seen Peter Walker's minute to you of 13 June and your Private Secretary's letter to mine of 16 June about the discussions between the SSEB and the NCB about coal purchases.

I have no desire to see the NCB/CEGB agreement reopened. SSEB naturally seek comparable benefits for Scottish consumers but there are very sound reasons why the negotiations to this end need not follow a precisely similar path.

The SSEB have been able to put themselves in a position to achieve a broadly similar tariff reduction (around 3.5% on average) by operating only one of the three modern and highly efficient oil-fired generating sets available to them. At the same time they have maintained a substantial coal burn; but they are perfectly willing to increase their coal burn and reduce oil-burn proportionately if coal can be made available at a price which will enable them to achieve the desired tariff reduction. The Boards are required by statute to minimise their costs of production and we expect them to behave commercially.

I saw Ian MacGregor, Bob Haslam and Kenneth Couzens on 3 June and as a result saw the Chairman of SSEB on 10 June. He told me then that he was about to start negotiations with the NCB following an initial proposal from them which he thought unacceptable. I am acutely aware of the difficulties which the NCB face in Scotland and shall certainly maintain contact with the Chairman of the SSEB about the progress of negotiations; but it is in my view very desirable that we

should allow the two sides to pursue negotiations without direct Government
intervention.

It should be possible for the two sides to reach a satisfactory agreement provided
we leave them with some reasonable scope for manoeuvre.

I am copying this minute to Peter Walker.

MR

M R

18 June 1986

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 June 1986

NCB/SSEB NEGOTIATIONS

The Prime Minister was grateful for your Secretary of State's minute of 18 June about the discussions between the SSEB and the NCB about coal purchases.

I am copying this letter to Geoff Dart (Department of Energy).

DAVID NORRGROVE

Robert Gordon, Esq.,
Scottish Office

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