

CC/BG
✓
cc JW
✓ PMT

PRIME MINISTER

✓ at 11.45
Your Private Secretary's letter of 4 August asked for my views on energy strategy.

Our approach to the energy industries is fully consistent with the Government's overall objectives and we have in place a framework which, subject to the constraints and uncertainties that exist, encourages the development of a liberalised UK energy market.

We have maintained that approach in our dealings with the oil industry, in spite of pressure on us from OPEC and others during the recent uncertainty about oil prices.

Privatisation of British Gas, together with the establishment of an appropriate regulatory regime will be a major step forward.

The Energy Act, 1983, has encouraged the private generation of electricity, although we never expected that to lead to radical changes in the electricity supply industry. Major changes in organisation there and the introduction of private capital on an extensive scale are tasks for the next Parliament.

The near term issues concerning the electricity supply industry were referred to in my minute of 23 July; the power station capital investment programme and the relationship with the coal industry as that industry continues with its rationalisation.

I will send you a full analysis of the power station programme based on the growth in demand now envisaged and of the new plants thought likely to be required. My analysis will provide the basis for decisions about future power station investment, whether for nuclear power or fossil fuelled stations.

But no decision at all can be taken until I have received Sir Frank Layfield's report on Sizewell B and discussed it with colleagues. Only then can we see what mix of nuclear and fossil fuelled stations is feasible over the next few years. Layfield has told me recently that he still aims to deliver his report in



September, or very soon afterwards, so we should be able to address these issues later this year.

I will have full regard to the maintenance of our industrial capability. But it would not be consistent with our policy objectives more generally to contemplate power station orders without a demonstrable economic need as expressed by the Generating Boards as customers.

As for offshore construction, I have discussed this at some length in my minute of 23 July. I am discussing with the Chancellor the implications of lower oil prices for the fiscal regime applying to oil and gas activity.

Your Private Secretary's letter referred to retrenchment in the coal industry. As I said in my 23 July minute, that is proceeding more rapidly than any of us could have anticipated. The new management team is performing excellently and responding well to the severe challenge represented by the collapse in oil prices. Productivity is at record levels; output per man shift is now running at 3.1 tonnes. Some 50,000 have either left the industry or are under notice to do so.

Even if a more rapid run down were feasible, from an operational viewpoint, it would require the abandonment of the pledge of no compulsory redundancies and the abolition of the Independent Review Body. That would be politically damaging and would give Scargill a plausible rallying cry.

My judgement, therefore, is that the first priority must be to complete the current effort to rationalise the industry and to put it on a profitable basis. Only when this has been achieved will it be possible to examine changes in the organisation of the industry, including the possible introduction of private capital. In the short term, I believe it would be a mistake to believe that any other option would improve the security of supply to the electricity supply industry.



Energy policy for the period between now and the election will be dictated by two factors - both outside our control:-

1. The Sizewell Inquiry Report;
2. The price of oil.

A handwritten signature in dark ink, appearing to read 'A.R. Sullivan'.

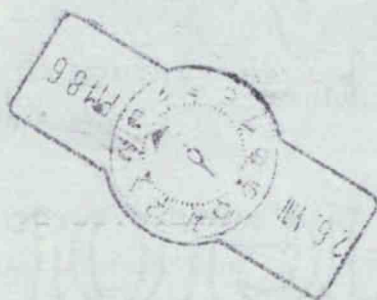
PP

Secretary of State for Energy

26 August 1986

(Approved by Secretary of State
and signed in his absence).

NAT. IND. : coal pt 20.



CONFIDENTIAL



bc BG

BM

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 September 1986

ENERGY STRATEGY

The Prime Minister was grateful for your Secretary of State's minute of 26 August about policy towards energy and looks forward to seeing the full analysis of the power station programme foreshadowed there.

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy

CONFIDENTIAL

BM

MR NORCROVE

Prime Minister

Peter Walker's letter is a brush off, but I don't think he will be pushed into a better response. The analysis of the power station programme

10 September 1986

ENERGY POLICY

will cover much of the ground (or should do so). Agree to write as proposed? DWS 11/9

You will have seen Peter Walker's response to points which the Prime Minister agreed should be raised on his minute of 23 July regarding 'energy strategy in general'.

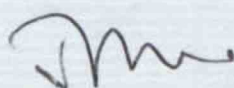
In effect Peter Walker has declined the invitation to involve colleagues in reviewing energy policy as a coherent whole. There seems little point in pressing the matter without the co-operation of the Department of Energy.

The important thing now is to ensure that the interlocking decisions which the Government faces over the next few months:

- Sizewell B, in the light of the Layfield Inquiry Report;
- the case for extending the operating lives of Magnox nuclear stations, which have reached or are approaching their nominal 30 year lives and yet show no sign of deteriorating integrity and safety,
- the case for new coal-fired capacity to help fill an electricity supply gap foreseen in the 1990s,
- and the question of retrofitting 2 - 3 existing power stations to reduce sulphur emissions,

are taken as a coherent whole which recognises the considerable uncertainties and reflects the Government's objectives and priorities. We will certainly be giving attention to this aspect.

I would suggest that you briefly acknowledge Peter Walker's note of 26 August and say that we await with considerable interest the "full analysis of the power station programme based on the growth and demand now envisaged and of the new plants thought likely to be required".



JOHN WYBREW

file *LB*

MR. WYBREW (on return)

Mr. Walker has now responded to the points the Prime Minister raised on his minute of 23 July. I attach a copy of his minute, and I should be grateful for your comments on the points he makes.

I have also sent a copy of the minute to the Treasury.

MARK ADDISON

26 August 1986



10 DOWNING STREET

LONDON SW1A 2AA

4 August, 1986.

From the Private Secretary

The Prime Minister was grateful for your Secretary of State's minute of 23 July about energy strategy. She has noted the various developments to which the minute refers. She believes there is now a good case for a general review of energy policy, not with the aim of formulating definitive strategy, but to ensure that the framework around a liberalised UK energy market is consistent with the Government's objective. Such a review might usefully cover aspects such as an explicit definition of the objectives of UK energy policy and their relative importance; a recognition of the very considerable uncertainties to which plans and decisions in the energy field are exposed, and consideration of the number of strategic questions. These might include:-

- Given the increased uncertainty over the contribution of nuclear power to electricity supplies in the 1990s, the number of coal and oil-fired stations approaching retirement in a bunch, and the growing evidence of an increase in the underlying demand for electricity, what should the CEGB be doing to keep the lights on in the 1990s?
- What are the implications for the British coal industry and the process of retrenchment to a core of economic capacity?
- What assumptions is the CEGB to make about the security of supplies of British coal? (If the British coal industry is restructured and put onto a diverse private sector basis there should be less need for substantial coal imports.)
- How much weight should be put on the potential damage to British industrial capability caused by the cycle of feast-to-famine-to-feast, for example in the construction of power stations and now the development of offshore oil and gas?

CONFIDENTIAL

- 2 -

BF||

The Prime Minister would be grateful for your Secretary of State's views on these points.

Timothy Flesher

Geoff Dart, Esq.,
Department of Energy.

CONFIDENTIAL