Subject ec Master   RA cc MTS RECORD ELECTRICITY

NOTE FOR THE RECORD

PRIME MINISTER'S MEETING WITH THE SECRETARY OF STATE FOR ENERGY

The Secretary of State for Energy came to see the Prime Minister on 23 February.

COAL

The meeting opened with a discussion on the BC pit closure programme. The Secretary of State explained that out of 58 pits closed so far only 5 had involved UDM members. The new programme now under way would affect a further 20,000 miners at 20 pits, but only some 10 per cent of these would involve the UDM. The Leadership of the UDM had, albeit reluctantly, accepted the case for closure of Sutton and Blidworth. The Secretary of State stressed that he was mindful of the need to lend support where appropriate to the UDM, with a particular eye to endurance policies. It was not clear, however, whether the UDM was of a sufficient size to have a long term viable future as an independent union; there was the possibility of moves towards a link-up with the Electricians Union.

The Secretary of State said that as a consequence of the current closure programme, there was a question mark over whether any capacity should remain in Scottish pits. Barony and Bilston Glen were likely to close, which would just leave Longannet. This pit had been subject to prolonged negotiations of a supply contract between BC and SSEB, in which neither party wished to be seen to be responsible for actions that led to Longannet's closure. At the end of the discussion, the Secretary of State said that he was exploring the possibility of these negotiations leading to a three-year supply agreement running to 1992.

The Secretary of State said that the future scale of BC operations would depend on the attitude of the newly privatised electricity generating companies to purchasing domestically produced coal. Both National Power and Powergen were likely to want to import some of their coal needs and to diversify their fuel sources. His latest assessment was that their purchases from BC might be something over 60 million tonnes, compared with the present 90 million tonnes. If that was correct it could lead to a requirement for a further round of pit closures, involving some pits which, if extra domestic demand existed, would be "economic". That would be a very difficult position to handle.

The Prime Minister stressed the importance of maintaining large stocks of coal after privatisation. The Secretary of State said that the Electricity Bill made suitable provisions for that.

The Secretary of State said that he had now asked Sir Robert Haslam to continue as Chairman of BC until the end of 1990. Meantime he would be considering whether the newly appointed Deputy Chairman would be an appropriate successor. Sir Robert Haslam's task was, however, made more difficult by the inappropriate financial structure of BC, which provided no equity capital. The Secretary of State might wish later this year to propose a financial restructuring of BC.

The Prime Minister expressed concern about the reliability of supplies from the Selby coalfield. The Secretary of State said that the national supply position would remain secure given the continuing high level of production in Nottinghamshire. In response to a query from the Prime Minister the Secretary of State agreed to provide a note on where the coal from Betteshanger Colliery in Kent was marketed.

ELECTRICITY

The Secretary of State gave an upbeat presentation of developments on electricity privatisation. Good progress was being achieved with the Bill, and he was hopeful that this might be got through without recourse to the guillotine. A number of minor concessions in the Bill were being held back c

for possible use in the Lords.

He was also encouraged by the attitude of key staff in the new generating companies. It was now clear that National Power and Powergen would compete fiercely with each other; and there were as many as twenty companies interested in the possibility of private generation. All concerned in the industry, including Lord Marshall, were working hard to plan and implement the new arrangements. Assets would be vested on schedule on 1 January, with the new generation arrangements in place for testing by the Autumn. The grid would operate on a system of daily bids - the "ski lift" system - which required a complex settlement system but which was operationally simple. This element was crucial to the development of a new competitive system in electricity supply. Orders for some £30 million of British computer software had now been placed for the settlement system.

The Secretary of State said that the main difficulty at present was in presenting the case why electricity prices had to rise while at the same time stressing that the new competitive system would bring benefits to consumers. He anticipated that price increases in April 1989 would average some 6 per cent compared with 9 per cent last year. The position had been aggravated because in the last three-year cycle a number of the Area Boards had more than achieved the required rate of return in the first two years, and had then held or reduced their prices in the third year. That meant that the current three-year cycle started from an artificially low base. Criticisms of electricity price increases could however be countered by emphasising that the current three-year target still only involved the current cost return of 4.75 per cent, well below the position of industry generally, and by pointing to the need to finance high levels of investment.

PRG.

PAUL GRAY
24 FEBRUARY 1989

Prime Minister 2

PRCB 2/3

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
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01 211 6402

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

28th February 1989

Dear Paul,

— meeting record attached

BETTESHANGER COLLIERY

The Prime Minister asked at her meeting yesterday with my Secretary of State about the markets served by Betteshanger.

The colliery, the last in Kent, produces around 400,000t a year. Up to 75% of this is shipped to the BSC coke ovens at Scunthorpe where it is an important part of the coking blend; the remainder goes to the Thamesside power stations. Costs are high because of awkward geology and poor industrial relations. Profits are low because the coking coal sales in particular are aligned to world prices. However the colliery is sheltered from the effect by British Coal's accounting convention of averaging prices across all collieries.

British Coal has agreed to reduce its exposure to the unprofitable BSC market. Once the Joint Understanding with CEGB ends later this year imported coal will be freely available to the Thamesside power stations. British Coal's accounting for prices is being reviewed in the light of the recent MMC report on the Corporation's investment planning. Although Betteshanger is not proposed for closure in 1989, its medium term prospects are poor without a significant improvement in performance.

Yours ever,

Stephen.

S HADDRILL
Principle Private Secretary

CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 March, 1989.

BETTESHANGER COLLIERY

The Prime Minister was most grateful for the information set out in your letter to me of 28 February.

Paul Gray

Stephen Haddrill, Esq.,
Department of Energy.

Subject cc Master 11

FILE

MRM.

cc MTS Record Electricity

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 February 1989

Your Secretary of State came to see the Prime Minister yesterday to discuss the latest position in the coal industry and progress with electricity privatisation.

It may be helpful if I record a few points that were agreed:

The present British Coal closure programme was proceeding well. Your Secretary of State did not plan to provide for a memorandum of understanding between British Coal and the privatised electricity industry, and it would be for the two parties to reach a commercial agreement on the scale of future coal purchases for the power stations.

Your Secretary of State said he was considering bringing forward a proposal later in the year for a financial restructuring of British Coal.

Your Secretary of State would let the Prime Minister have a short note on where the coal produced at Betteshanger Colliery in Kent was marketed.

Any criticisms of proposals for increased electricity prices could be countered by the fact that the current financial targets for the industry involved a CCA return of only 4.75 per cent, substantially below that being achieved by the generality of the private sector companies; and the need to finance large scale investment programmes.

Your Secretary of State would let the Prime Minister have a selection of his recent speeches on energy and privatisation policies.

PAUL GRAY

Stephen Haddrill, Esq.,
Department of Energy

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