PA XP R20/10

THE RT HON JOHN WAKEHAM MP

SECRETARY OF STATE FOR ENERGY

Department of Energy
1 Palace Street
London SW1E 5HE

01 238 3149

Prime Minister
You will wish to see this assessment. Given the comment at X below, content that none of the extra exercises in the note attached should be undertaken?

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

Yes mt

19th October 1989

PRG 20/10

Dear Paul,

When my Secretary of State met the Prime Minister on 12 September, she asked about the possibility of increasing coal stocks.

The Department has investigated this with the CEGB and I enclose a copy of their assessment of the position. I leave you to decide whether or not the Prime Minister would wish to see this. You will see that the CEGB take the view that only a small increase in stocks would be possible by the end of the year and that could not be achieved without the risk of this coming to public attention and having an adverse impact on the industrial relations position.

X The CEGB have assured us that they are confident that with stocks at present levels they can maintain power supplies in the event of a strike by the NUM for a period which to all intents and purposes is indefinite. The CEGB believe that they can maintain supplies for nine months even if all deliveries from BCC, including those from UDM mines, are stopped.

Yours ever,

Stephen.

S HADDRILL
Principal Private Secretary

Confidential

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CENTRAL ELECTRICITY GENERATING BOARD

*Sudbury House, 15 Newgate Street, London EC1A 7AU. Telephone 01-634 5111*

*From:* *G. A. W. Blackman, CBE, F. Eng.*
*Deputy Chairman*

ADDRESSEE ONLY

Mr. C.C. Wilcock
Under Secretary
Electricity Division A
Department of Energy
1 Palace Street
LONDON
SW1E 5HE

2 October 1989

Dear Mr. Wilcock

Coal Stocks

Together with my colleagues in both National Power and PowerGen, I have considered the situation with regard to CEGB coal stocks and the opportunities which might exist for adding to them during the forthcoming winter period. This note addresses exclusively those possibilities and in no way deals with consequential cost increases. You will understand of course that the privatisation process will throw into high relief the balance sheet for 1989/90 and the levels of coal stocks will have implications for the opening accounts of successor companies.

Currently we see the central estimate of coal stocks at 31 December 1989 being 23.6m tonnes. This is in line with the profile of stocks which connects 27m tonnes at the end of October with 22m tonnes at the end of March.

There are three ways in which stocks might be increased. They are:

(a) Within a given requirement for electricity production, reduce the requirements from fossil fuel plant, increasing the non-fossil fuel contribution.

(b) Within a given requirement for production from fossil fuel plant, reduce the coal burn by increasing oil burn.

(c) Within a given requirement for coal burn, to increase coal deliveries.

(a) <u>Reduce Production from Fossil Plant</u>

With nuclear plant output at the maximum achievable, there remains only increased transfers from EdF and SSEB. There is a shortage of water in Europe and, in consequence, a reduction of hydro output. This has lifted the threshold price demanded by EdF, the situation being further aggravated by a late return of EdF plant from overhaul. The consequence has been that in general transfers are limited to the 1500 MW contract with the 500 MW option not being utilised.

We are generally floating on the Scottish interconnectors and imports into the CEGB network would be at a price above our own marginal cost of production.

The value in terms of coal stocks in both the EdF and the SSEB possibilities would be about 200k tonnes in each case.

(b) <u>Increased Oil Burn</u>

We are currently operating a policy of "minimum" oil burn, which is somewhat higher than that which we consider normal, as a result of a combination of increased demands in the South of the country coupled with lack of Southern generation and various transmission constraints. There is, however, scope for increased oil burn subject to a very careful entry into the oil purchase market so as to minimise the undoubted effect that our activities would have on oil prices.

An increase in oil burn of 60k tonnes per week would increase coal stocks by 1m tonnes by the end of December. That level would however be high profile and would have a significant effect on oil prices.

(c) <u>Increased Coal Deliveries</u>

We are currently pressing ahead to maximise deliveries from BCC sources, but we are having difficulties in maintaining the phased programme. The reasons are a shortage of low chlorine coals in South Yorkshire, low output from Selby, and our insistence that the coal we take is of suitable quality. On that latter point let me be clear; there is no way in which we would take unsuitable coal into stock simply to increase the stored tonnage. No amount of BCC advocacy would have any effect on that policy, which is based on the Board's considerable experience of burning coals in its power plants.

There are further actions which can be taken with BCC and BR, such as weekend working, which would enhance the level of deliveries. We would, however, be struggling to get an additional 50k tonnes a week into power stations in order to make another 0.5m tonnes of coal in stock.

The short term opportunities for enhancing deliveries of imported coal are limited. On the Thames, coal plant programmed work at Kingsnorth means that deliveries are only possible to West Thurrock and Tilbury in the immediate future, and their capacity to receive coal is taken up by deliveries of Northern coal and committed imports. In addition, any spot cargoes which we were able to purchase for delivery by the end of the year would have to be routed to inland stations. We would not wish to assume more than a nominal 100k tonnes delivery to power stations by the end of the year.

There are sources of UK private coal which have been rejected as a result of our high commitment to BCC. If we were to take increased quantities now, then the origin (South African?) of some would be open to serious question. An estimate is that we could perhaps enhance deliveries by about 150k tonnes by the end of year.

Merit Order Consequences

We would undoubtedly have to make some major adjustments to the current merit order operation if we were to ensure that the increased possibilities for coal stocks were to be realised, and to ensure that the increase was reasonably distributed. This applies particularly to any increase in oil burn which, without merit order adjustment to coal plant, would merely reduce coal burn at low and mid merit plant whereas we really need the alleviation at high merit plant. Drax, for example, would need to reduce burn to bring the stock levels up.

'000 tons
200 EdF
200 Scotland
1,000 oilburn
500 deliveries
100 imports
150 private
2,150 max

Conclusion

Almost any action taken now to make a significant increase in coal stocks by the end of the year would be high profile and would undoubtedly attract comment. The above analysis suggests that we would be struggling to increase coal stocks by 2m tonnes and even that is vulnerable to public comment. The conclusion, therefore, is in very broad terms:

(a) Perhaps an additional 1m tonnes of coal stock could be achieved by the end of the year, with increased costs and with a moderate public profile.

(b) An additional 2m tonnes of coal stock would be difficult to achieve by the end of the year, costly, and would involve a high profile with significant risk of public comment.

Costs

I must emphasise that this note contains an analysis of ways and means, and does not in any way recommend action. The consequences for costs and resultant coal stocks within the privatisation scenario demands that any adjustment to the adopted operational plan for winter 1989/90 must be a decision for the designate Boards of the successor companies to the CEGB.

I have copied this note to the three designate Chief Executives concerned.

Yours sincerely

J.W. Blackmon.

NAT IND: Gas
+ Electric
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LONDON SW1A 2AA

mr pm

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cc PC

*From the Private Secretary* 23 October 1989

**COAL STOCKS**

Thank you for your letter of 19 October which the Prime Minister has seen, together with the attached assessment. In the light of this, the Prime Minister is content that none of the possible extra measures set out in the assessment should be undertaken.

**PAUL GRAY**

Stephen Haddrill, Esq.,
Department of Energy.

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