

CONFIDENTIAL

CEPC

ob

THE RT HON JOHN WAKEHAM MP

Prime Minister

①

Wrote



Department of Energy
1 Palace Street
London SW1E 5HE
071 238 3290

Mr Wakeham is seeking permission to reduce coal stocks next year. This will help successful privatisation of ~~the~~ electricity generators. Treasury are content - ~~there~~ are no unacceptable financial implications. Content to proceed as Mr Wakeham proposes.

Barry Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

17 December 1990

BHP

19/12

Dear Barry,

The Electricity Act 1989 gave powers to require the privatised electricity industry to hold stocks of fuel and to enable the Government to direct the operation of individual power stations. The powers were designed for use in the event of a prolonged miners' strike, or any other event which might cause complete disruption of coal deliveries from British Coal.

The powers also enable my Secretary of State to require the National Grid Company (NGC) to prepare advice on levels of fuel stocks (and to direct the operation of the grid during a strike). A direction was issued to NGC in March this year, requiring them to prepare annually a fuel security plan in consultation with the industry. At the same time, directions were given to National Power (NP) and PowerGen (PG) requiring them to comply with the stocking profile in the plan.

For 1990-91, the obligations on NP and PG under the endurance plan required stocks of 22m tonnes of coal for April and 27 tonnes for November. These were some 5m tonnes above the technical stocking requirement judged necessary by the industry to meet the 9-month endurance target, but were thought necessary by Ministers to guarantee that there would not be a shortfall. The higher figure also reflected to some extent the inflexibility of coal deliveries over the year within the contracts agreed between the generators and British Coal. This additional requirement costs the generators £20-30m a year in stocking costs.

However, the situation is now changing. In 1991-92, the generators expect to obtain increased supplies of imported and non-vested coal and, in addition, they have increased their oil burn capability. In recognition of this increased flexibility,

CONFIDENTIAL

CONFIDENTIAL



NGC have presented a Plan for 1991-92 which follows the profile of the technical requirement to meet the 9-months obligation. This gives a profile requiring stocks of 18m tonnes in April and 22m tonnes in November.

My Secretary of State is disposed to accept the industry's Plan. The possibility of a prolonged miners' strike is remote and, even if war should break out in the Gulf, we do not believe that there is likely to be any shortage of oil for that reason in 12 months' time. The Heavy Fuel Oil which the generators use is currently in surplus on the market and considerable quantities are held in stock at Rotterdam. To permit the lower level of stocks recommended by NGC will in no way reduce the endurance capability, not least because of the minimum take provision in the generators' contracts with British Coal, but will recognise greater diversity and flexibility in the generators' systems.

We need to settle the details of the 1991-92 Plan very soon so that they can be reflected in the prospectus for the sale of the generators, which is due in February. While there will be no immediate benefit to NP and PG because they are both committed to purchasing fixed volumes of coal from British Coal over the next two years, it will help us to secure suitably upbeat wording in the prospectus if the generators can see that they are likely in the future to be able to reduce stocks to the benefit of cash flow.

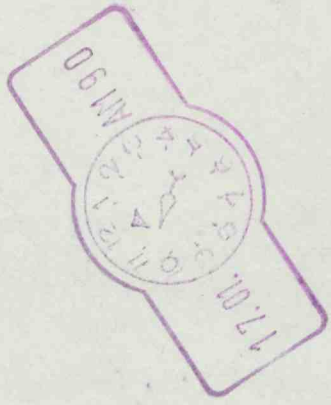
I should be grateful therefore for confirmation that the Prime Minister is content for the industry to plan to meet the stocking requirement they regard as necessary, so that my Secretary of State can formally endorse the 1991-92 Plan.

I am copying this letter to the Private Secretary to the Chancellor of the Exchequer.

*Yours
John*

J S NEILSON
Principal Private Secretary

CONFIDENTIAL



COMMUNICATIONS



COMMUNICATIONS

CONFIDENTIAL



c/economic/neilson

file

bcPU

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 December 1990

Thank you for your letter of 17 December indicating that your Secretary of State wished to accept the reduction in coal stocks next year proposed by British Coal.

I understand that Treasury Ministers are also content with the proposal. Accordingly I submitted the letter to the Prime Minister over Christmas.

The Prime Minister is content to proceed as the Energy Secretary proposes.

I am copying this letter to John Gieve (H.M. Treasury).

BARRY H. POTTER

John Neilson, Esq.,
Department of Energy.

CONFIDENTIAL

J.