



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

POWER STATION ENDURANCE

I have seen Mr. Gregson's minute of 3 December covering a report by the Official Group on Coal (MISC(57)) and Michael Scholar's subsequent minute of 6 December.

2. The case for increasing endurance further is strong. I agree, therefore, with the conclusions in paragraph 17 of the Group's report. But we must do everything possible to minimise the cost to the Exchequer. To that end we should take the following steps:-

- (i) The Boards should be asked to plan on the assumption that the cost of £40 million, referred to in paragraph 17(i), for increasing coal stocks by a further 4 million-6 million tonnes above the existing maximum level of 26 million tonnes, should be absorbed within existing EFLs. We should tell the industries now that if they can convince us that that is impossible, we should be willing to consider the case for increasing EFLs in September or October next year on the basis of the latest monitoring information. If it is clear at that stage that the industries cannot absorb the cost, then in the last resort up to £40 million should be made available from the Contingency Reserve for this purpose. My officials will need to discuss with the Department's officials the precise details of the costings if claims on the Contingency Reserve or increases in the NCB's deficit grant become necessary.



It should be made clear to the industries that if their EFLs have to be increased, any "unspent balances" at year-end cannot be diverted for other purposes. The NCB's deficit grant can, if necessary, be increased to reflect costs falling on that Board, provided that this expenditure is subject to the normal ground rules.

- (ii) These conditions should apply equally to the proposal in paragraph 17(iii) of the Group's report that some £25 - 35 million should be made available to enable the Electricity Boards to increase stocks of ancillary materials to match in endurance the agreed level of coal stocks. The CEGB have so far been prepared to absorb within EFLs the extra costs for ancillaries and they ought to do so in this case. Moreover, the industry undershot its EFL substantially last year and would have done the same this year but for the decision to bring forward part of the cost of next year's price standstill. In these circumstances, I do not see any need in this case to signal any advance willingness to reconsider existing EFLs.
- (iii) Treasury officials have now discussed with Energy officials the financing of the £2.5 million which is said to be the cost to the NCB of encouraging industry to carry high coal stocks throughout the winter. We have agreed that this will not require any specific increase in the EFL or in existing deficit grant limits. But there might be a case for increasing the amount of deficit grant payable in total this year. Officials can consider this further when the details of the costs are clearer.

3. Finally, I note the Group's intention of covering in their next report the question of more extensive dual firing of power stations. The difficulties here are no doubt horrendous but I



certainly agree that this is something that we should consider very carefully. I also agree that officials should consider further the question of carbon dioxide supplies to the nuclear stations.

4. I am sending a copy of this minute to the Home Secretary, the Secretaries of State for Defence, Scotland, Industry, Transport, Energy, Employment and to Sir Robert Armstrong, John Sparrow and Mr. Gregson.

G.H.

13 December 1982