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Copy No 1 of 4

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01 211 6402

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London  
SW1

8 March 1985

*Dear Andrew*

REBUILDING POWER STATION COAL STOCKS

I attach a paper for the discussion which the Prime Minister is due to have on Monday with my Secretary of State and the Chancellor.

Copy number 2 goes to Rachel Lomax and copy number 3 to Peter Gregson.

*Yours sincerely  
Michael*

M F REIDY  
Private Secretary

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REBUILDING POWER STATION COAL STOCKS

Even before the strike ended the CEGB had, with my agreement, stopped entering into new long term contracts for delivery of oil. With the end of the strike we have agreed that they should run down extra oil burn and this they are now doing. The purpose of this note is to set that decision in the broad context of the need to rebuild power station coal stocks.

CEGB coal stocks stood at 11.0 mt at the end of last week. I see two main alternative approaches to rebuilding stocks, both offering 6 month's endurance by the autumn of 1985:-

- A. to maximise the coal flow to power stations and continue oil burn at an enhanced level. We could then expect to achieve 6 month's endurance by, say, early June and could then either discontinue the oil burn or continue it to go well beyond 6 month's endurance. But the additional cost to the PSBR by June would already be nearly £1 billion.
  
- B. to maximise the coal flow so as to produce six month's endurance, but maintain the present plan to run down extra oil burn as quickly as possible. Maximising coal flow includes the largest possible movement of NCB stocks and new-wrought coal, making as much use as possible of British Rail. It assumes somewhat larger than usual deliveries of non-vested coal and the use of the CEGB's Rotterdam stockpile to supplement seaborne deliveries from the North East to South Eastern power stations, making full use of coal-handling facilities there.

This option seems likely to give 6 month's endurance by end-October/early November 1985, taking account of the availability during this winter of the first stage of the Cross Channel electricity link to France and an expected increase in nuclear output. There would be some extra costs from extra private transport and from winding down the oil burn. The PSBR costs of stock rebuild under this option are however modest - perhaps £50 million to £100 million -

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because it relies on moving existing public sector stocks, much of them by public sector transport. A board analysis of the probable contributions to stock rebuild under this option is at Annex A.

The following factors seem to be relevant to the choice between these options, and to any variant of them:-

- (i) it looks very unlikely that the miners would attempt any widespread strike in the winter of 1985/86;
- (ii) rebuilding stocks by oil burn is fiendishly expensive;
- (iii) fresh choices could be made along the way which would extend endurance, if for any reason the industrial climate seemed to require it. Some oil burn could be re-introduced, for example, though massive resumption of oil burn would no doubt be conspicuous.
- (iv) the endurance estimates in paragraph 2 assume total discontinuance of coal supplies to power stations ie no Nottingham coal.

My conclusion is that Option B yields a very respectable level of endurance for the 1985/86 winter without imposing further heavy financial burdens on the nation. It would leave us able to review in the Autumn, and again in the Spring of 1986, whether six month's endurance was sufficient for the 1986/87 winter or needed further reinforcement; and with, of course, the possibility of earlier review if circumstances required it (eg industrial relations, or failure to achieve stock movement).

If this is agreed I will make arrangements in confidence with the NCB and the electricity supply industry to plan accordingly. I may need the help of colleagues in giving effect to certain aspects of the rebuild:-

- (a) maximum assistance will be needed from British Rail in coal movements, especially in moving stocks from the North East to Yorkshire power stations;



- (b) extra oil burn in Scotland has ended but the CEGB would hope to use the interconnector fully to draw on coal-fired generation in Scotland, equivalent to transferring Scottish coal stocks south;
- (c) the CEGB will need to adapt its merit order for power generation at modest cost in order to accommodate the redistribution of coal stocks.

The stock movement will of course become evident during the Spring and Summer but a stock rebuild will be expected and it will not be possible to deduce any particular level of endurance target from these movements, at least for many months.

There are of course important longer term questions on endurance such as the extent of dependence of deepmined NCB coal, the possibility of dual firing at coal-fired power stations and many other aspects of the scope for diversified sources of power generation. The immediate need is however for a decision on stock rebuild in 1985.

#### Conclusion

This note seeks agreement that the decision to run down oil burn as soon as possible should be confirmed and that discussions should be held with the CEGB and the NCB to maximise the flow of coal to the CEGB as described in Option B above.

Secretary of State for Energy  
March 1985



## POSSIBLE PATTERN OF COAL STOCK REBUILD

Stock at end March 1985	11-11½	mt
Deliveries to power stations to end October 1985		
- NCB coal	43-45	mt
- Non-vested coal	2½-3	mt
- Imports	1-1½	mt
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Total	46½-49½	mt
CEGB coal burn	36½-39	mt
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Stock at end October 1985	21-22	mt

The stock level required to give six month's endurance (now reduced by extra nuclear capacity, the forthcoming Channel Link and experience during the strike) varies throughout the year, ranging from some 21 mt in October to some 19 mt at the end of March.