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A Dignid

1/2 million ton just
isn't enough. - I addressed
that - such an amount will
already be needed & will
Manda.
why not?

SECRET

PRIME MINISTER

Prime Minister


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Mr Howell is now proposing
to move and only an extra
1/2 m tons of coal, against 4-5
m tons considered feasible. The
Hoskyns (Fly A) argues that this is
totally inadequate; I agree. But I
think you will want Robin Hobbs'
view, which I will get. I fear
another meeting may be
needed.

MOVEMENT OF COAL TO POWER STATIONS


I have consulted the NCB and the CEGB about the movement of
additional coal from NCB pithead stocks to CEGB power stations
during the summer months. The Boards, who have together given
careful and discreet consideration to the possibilities, have now
advised me that in their view it would be possible to move an
additional 1 1/2 million tonnes of coal before 1 November without
having to arrange for costly and obtrusive overtime working at the
mines and stocking sites at weekends, loading trains for delivery.
Both the Boards consider that this tonnage should be secured by
advancing deliveries from the winter programme to the summer: during
the course of the year 1980/81 the CEGB would take no more than their
agreed 75 million tonnes of coal but would hold a higher stock at
1 November. This proposal must be considered against a background
of sluggish electricity sales. The latest estimates show that coal
stocks at power stations could well be over 1 million tonnes higher
on 1 November than we thought at first. This factor taken together
with advancing 1 1/2 million tonnes of deliveries from the winter to the
summer ought together to raise endurance by about 1 1/2 weeks at 1
1 November compared with the 2 weeks estimate we discussed earlier.

2. My view is that we should ask the Boards to go ahead on this
basis as soon as possible. It is becoming clear that the CEGB are
likely to have difficulty this year in absorbing 75 million tonnes
of NCB coal (the agreed level under the terms of their understanding
with the NCB) and they could well find themselves with very high coal
stocks next March if there is no disruption to coal supplies. If
those stocks were to be further built up to an exceptionally high
level they might well find it impossible to take 75 million tonnes
from the NCB in 1982/83 with consequences for NCB sales that we must
bear in mind.


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3. By advancing winter deliveries in this way the NCB could lose the benefit of higher prices for delivery after the next price increase and could also incur additional costs. Depending on the precise date of the next price increase the loss could be of the order of £4 million and will affect the NCB's capacity to meet its EFL.
4. I gather that British Rail have the capacity to carry this tonnage of coal in the summer, although NCB (and CEGB eventually) may incur more than average transport costs, perhaps of the order of £3-4 million.
5. While the capacity to move and to stock more coal than this 1½ million tonnes is available we must take into account two important factors:
- (i) the effect on the NUM of abnormal and visible action to build up power station stocks. (This would need to be presented as an endeavour to prevent pit stock build-up);
 - (ii) the costs and benefits in terms of extended endurance. A further 2 million tonnes of coal would be more costly to move (incurring overtime) and would represent less than 1 week of endurance at expected peak winter fuel consumption.
6. As you will recall, the Home Secretary has commissioned a study of how to withstand a coal strike as effectively as possible; one way is to increase oil burn in power stations. When considering the tonnage of additional coal that might be moved in summer we must bear in mind that oil-fired capacity is under utilised to a material extent and could be brought on stream quite quickly if more oil is made available to the CEGB. No doubt the CEGB would ask for compensation for increased oil burn which is more costly but it is a flexibility at our disposal.



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7. I have also approached the CEGB on the need to build up ancillary material stocks commensurately with fuel stocks. There appears to be no physical difficulty in doing this, but the Board has said that they would wish to be compensated (up to £5 million). It would be difficult for us to do so without publicity if we draw on the contingency reserve, although it might be possible to delay action on compensation until much later in the financial year after a settlement has been reached with the NUM.

8. If you agree, I would propose to ask both the NCB and the CEGB to take action right away to advance 1½ million tonnes winter deliveries into the summer. On the financial consequences of the operation I would suggest proceeding to discussion on the following basis:-

- i) that coal would be delivered on deferred payment terms, but the price paid by the CEGB would relate to the "normal" timing of delivery, ie the NCB and not the CEGB would gain the advantage of stock appreciation for the 1½ million tonnes if coal prices go up this winter;
- ii) that if we are satisfied additional costs will be incurred by the NCB or CEGB in their own handling operations, or in BR's transport charges, these should be met by an increase in the NCB/EFL and deficit grant;
- iii) I would discuss the position on ancillaries first in the hope of persuading the Board to carry the cost of raising ancillary stocks on its EFL. If however, they will not accept this, we shall need to consider compensation.

9. I hope that similar arrangements would be acceptable for the South of Scotland Electricity Board.



S E C R E T

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10. I am copying this letter to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Home Secretary, the Secretaries of State for Industry, Employment and Scotland, the Minister of Transport and to Sir Robert Armstrong. + Robin Hood

J.A.
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Blind - Verker
Hoskyn
Wolfram
Lester

Secretary of State for Energy

10 June 1981