C JV Prime Minister (2) 27

For Monday's meeting.

MCS 17/6

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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
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THE RAILWAYS

Your minute of 10 June to the Prime Minister referred to the potentially high costs to Government finances of a long rail dispute. You drew attention to the contribution of maximum oil burn in power stations and asked for an assessment of the effects of lower levels of burn or a later start.

The Note circulated on 11 June by the Chairman of the Official Group on Coal (MISC 57) shows the level of coal stocks at 1 November in relation to the duration of a rail strike and the degree of co-operation obtained from the miners. On the assumption of maximum oil burn, full co-operation from the NUM in increasing deliveries of coal by road would be needed if we are to see out a 12 week rail dispute and recover to 24 million tonnes of CEGB coal stocks by 1 November (the level which, with supporting measures, would give about 20 weeks' endurance or better in the event of a miners' strike). Less than full co-operation from the NUM would result in stocks significantly below 24 mt following a 12 week strike, even with maximum oil burn.

If we wish both to have maximum physical stocks of coal at power stations on 1 November and to face out a rail strike of as long as 12 weeks, then maximum oil burn from the start will be necessary. Conversely, a decision in favour of less than maximum oil burn would mean that we would have less than maximum physical coal stocks at power stations by November in the event of a long railway dispute.

Apart from the question of cost, there may be tactical and presentational considerations which would point to delaying oil burn until a little into a rail strike. One factor is the attitude of the CEGB. I shall be seeing the Deputy Chairman very shortly but I understand that the Board's likely view is that, with the present high level of coal stocks, they would not of their own free will contemplate starting oil burn until quite a long way into a rail strike. There is also the question of whether early oil burn would provoke the NUM and lead to a greater degree of non-cooperation than we might otherwise expect during an all-out rail strike. I am exploring this further with the NCB. At the time of writing, I am not convinced that either of these considerations outweigh the very strong case for maximising oil burn from the start.

An important question is who pays for any extra oil burned - the electricity consumer or the taxpayer. Extra costs passed on to consumers would affect industrial users quickly, through the monthly price adjustment mechanism, though domestic consumers would not be affected until tariffs were next due for increase. My own view is that the extra costs of oil burn should not be passed on to consumers, given the general position regarding the level of UK electricity prices to industry. Moreover, compensation to the CEGB for the extra costs of oil burn, along the lines of the scheme we agreed earlier this year during the ASLEF dispute, would make it easier to prompt the Board to burn oil earlier than they are contemplating at present, if we should so decide.

I should add that purchasing electricity from Scotland via the interconnector involves the CEGB in some extra costs, compared with burning its own coal, and it would be right on this occasion to compensate them for this as well.

In summary, there is a strong argument for maximising oil burn if we are both to see out a long rail strike and be in a position to face a miners' strike this year. We will need to consider carefully tactics and presentation but in any event we should, I believe, be prepared to offer the CEGB proper compensation for the additional costs of such coal-saving measures as we decide to adopt.

I am copying this minute, for the usual limited circulation, to the Prime Minister, the Home Secretary, the Secretaries of State for Industry, Transport, Trade and Scotland, to Sir Robert Armstrong and Mr Sparrow.

Yours

Nigel

NIGEL LAWSON