

Prime Minister

PRIVATISATION AND NUCLEAR POWER

When we met on 4 July you asked the Chancellor and me to consider urgently the best solution to the problem of nuclear costs and to prepare urgently any amendments needed to the Electricity Bill.

2. The CEBG make provisions in their accounts against the future costs of reprocessing spent fuel, management of nuclear waste and decommissioning nuclear plant. At 31 March 1988, these provisions stood at £3.2 billion, a figure which our advisers believed would not prejudice a flotation. In the last two months, National Power have told us that the figure for 31 March 1989 could be anything between £6.6 billion and £12.7 billion. The reasons are the identification of costs not previously provided for, the effect of BNFL's offers in relation to future fuel cycle work, and the CEBG's consideration for the first time of tax effects on long-term provisions for decommissioning power stations. My officials are working hard to reduce the uncertainties, and negotiations with BNFL are underway to reduce their prices to the lowest prudent level. My officials are also considering solutions to the tax problem with the Treasury and the Inland Revenue, probably based on making use of index-linked gilts.

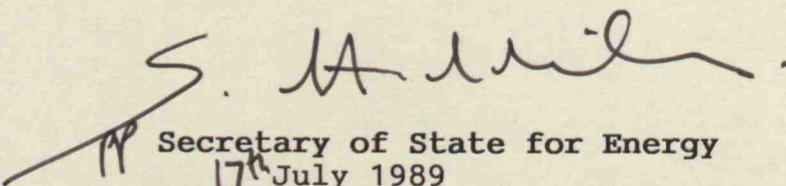
3. But even after removing these uncertainties and reducing the figures as far as possible, it is unlikely that National Power's provisions can be reduced much below £6.5 billion. My financial advisers are firmly of the view that it would not be possible to float National Power unless this figure is reduced by up to £4 billion.

4. I have been considering with the Chancellor how best to deal with this problem. The two main options we are considering are a cash injection into National Power using powers that exist in the Bill already, and keeping the Magnox stations in the public

sector. A third option, which I think would be politically damaging, is to keep the Magnox liabilities, but not the actual stations, in the public sector. None of these options would need an amendment to the Bill. The issues are complex and the presentational implications of both the main options are difficult. Both need to be considered very carefully, to see that we have solutions to all the major problems involved. There will need to be further discussions between my Department, the Scottish Office and the Treasury before firm recommendations can be put forward. The Chancellor and Malcolm Rifkind favour retention of the Magnox stations in the public sector or possibly the liabilities only. I do not rule this out but I do not think that we can decide firmly now which option to choose. There is also a serious risk that by announcing a major change in policy during Commons consideration of Lords' amendments we would wreck our chances of securing the passage of the Bill before the Summer recess.

5. I therefore propose that when the Bill returns to the Commons, I should make it clear to the House that preparation for privatisation has revealed a substantial under-provision for past reprocessing and decommissioning and that I would make arrangements to deal with this within the powers available under the Bill. I would need to make it clear that we would have to use the powers not merely, as we previously said, to meet unforeseen costs. This would prepare the way for whichever option we eventually adopt.

6. I am copying this minute to the Chancellor, Malcolm Rifkind, and, on a personal basis, to David Young, and to Sir Robin Butler.


Secretary of State for Energy
17th July 1989
(Approved by the Secretary of State
and signed on his behalf)