



## CONFEDERATION OF UK COAL PRODUCERS

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Ms Lisa Vango  
Strategy and Corporate Transactions Manager  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Ms Vango

### **Proposed Merger of National Grid Group plc and Lattice Group plc to create National Grid Transco plc**

#### **A consultation paper**

The Confederation of UK Coal Producers (Coalpro) represents member companies who produce over 80% of UK coal output. The great majority of this production is sold to the electricity generation industry. Coalpro therefore takes a close interest in all developments affecting that industry and has supported the introduction of NETA and Ofgem's objectives in maximising competition in the electricity and gas industries.

Coalpro is of the view that the proposed merger would be fundamentally anti-competitive and raises serious regulatory issues. Such a merged company would have an interest in maximising the transmission of both electricity and gas through the respective networks. It would therefore be in its interests to maximise the production of electricity from gas fired power stations and to so arrange charges for electricity transmission, and the operation of the electricity transmission network, to achieve that objective. The opportunities for cross-subsidisation are obvious. This would operate to the disadvantage of generators who use other fuels, including coal.

Coalpro recognises that NGC and Transco are subject to non-discriminatory licence provisions and that Ofgem monitors the behaviour of market participants. It is Coalpro's view, however, that the degree of transparency under the present arrangements would be wholly insufficient to permit the detection of all the profit-maximising and anti-competitive behaviour that such a merger would encourage.

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Director General: Brian J Rostron  
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**Para** 5.13 of the consultation paper asks whether the increased potential for information sharing between the two network businesses might operate to the disadvantage of other parties. Coalpro's view is that it is likely that such information sharing would be used against the interests of those electricity generating stations not **fuelled** by gas. It would also, therefore, act to the disadvantage of coal producers. **Coalpro** does not believe that there can be an adequate remedy to this probability other than the prevention of the proposed merger.

On regulatory issues, **Coalpro** considers that, if the merger is allowed to proceed, it is imperative that the system operator functions of both network businesses be fully divested as legally separate, not-for-profit organisations with no compensation payable. **Coalpro** has already raised this issue in relation to **NGC's** SO functions in relation to **BETTA**. It is appreciated that such separation may be technically and **organisationally** difficult but it should be incumbent on the respective businesses to produce schemes which are satisfactory to **Ofgem** and market participants as a condition for the merger being allowed to proceed.

Full divestment of the system operator functions will go some way to alleviating the competition concerns expressed above. Notwithstanding this, **Coalpro** remains of the view that the opportunities for anti-competitive behaviour are such that the merger should not be allowed to proceed.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B J Rostron', with a long horizontal flourish extending to the right.

Brian J Rostron  
Director General