

May 2002

**TXU Europe Group plc's completed  
acquisition of the UK electricity  
and gas supply and trading  
businesses of Amerada Hess  
Limited**

**A consultation paper**

# 1. Introduction

## *Purpose of this document*

1.1 This document:

- ◆ gives details of the completed acquisition of the UK electricity and gas supply and trading businesses of Amerada Hess Limited by TXU Europe Group plc;
- ◆ explains the merger control process for this transaction; and
- ◆ requests comments on the issues arising from the transaction.

1.2 Ofgem will make recommendations to the Director General of Fair Trading (DGFT) in relation to the merger. In order to allow comments to be considered Ofgem needs to receive these not later than **5pm on Monday 27 May 2002**.

## 2. Details of the completed acquisition

- 2.1 Amerada Hess Limited (“Amerada”) is a subsidiary of Amerada Hess Corporation, which is a major oil and gas company involved in the exploration, production, refining, transportation and marketing of petroleum and natural gas around the world. Amerada has licences to supply gas and electricity to domestic and non-domestic customers and to ship gas in Great Britain (GB). It also trades gas and electricity. The business comprises the following companies: Amerada Hess Gas Limited, Amerada Hess Gas (Domestic) Limited, Amerada.Co.Uk, Amerada Hess Gas Shipping Services Limited and Midland Gas Limited, together with certain subsidiaries, and includes a small telecommunications business.
- 2.2 On 1 March 2002, TXU Europe Group plc (“TXU”) completed the purchase of the UK electricity and gas supply and trading businesses of Amerada. TXU informed the Office of Fair Trading of the completed transaction on 8 May 2002.

### 3. Merger control process

- 3.1 This transaction falls within the scope of UK merger control law since the value of Amerada's assets exceeds the £70 million threshold under the Fair Trading Act 1973 (FTA). The transaction will therefore be assessed under the provisions of the FTA and the Secretary of State for Trade and Industry may refer the transaction to the Competition Commission if the transaction may, in the Secretary of State's opinion, give rise to significant competition concerns.
- 3.2 It is the responsibility of the Office of Fair Trading (OFT), headed by the DGFT, to advise the Secretary of State as to whether a transaction should be referred to the Competition Commission. In accordance with the concordat between the OFT and Ofgem, the OFT will consult Ofgem before advising the Secretary of State. Where the OFT advises that the transaction should be referred to the Competition Commission, the OFT may in lieu of such a reference advise that the Secretary of State invites binding undertakings from the parties to the transaction which would remedy any adverse effects on competition identified by the OFT.
- 3.3 If the Secretary of State decides to refer the transaction to the Competition Commission, the Competition Commission has to consider whether the transaction operates, or is likely to operate, against the public interest. If the Competition Commission finds in favour of the transaction, the Secretary of State must clear the transaction. However, if the Competition Commission makes an adverse finding, the Secretary of State may (but she does not have to) take remedial action.
- 3.4 If the transaction is cleared, Ofgem will need to consider what modifications might be needed to the licences held by TXU and Amerada and whether any assurances and/or undertakings are necessary.

## 4. Details of the parties

### *Amerada Hess Limited*

- 4.1 Amerada Hess Limited is a subsidiary of Amerada Hess Corporation, which is a major oil and gas company involved in the exploration, production, refining, transportation and marketing of petroleum and natural gas around the world.
- 4.2 A full list of the licences held by Amerada is included in Annex 1. At the time of the acquisition, Amerada's principal businesses in Great Britain included:
- ◆ **gas supply** – Amerada's wholly owned subsidiaries, including Amerada Hess Gas (Domestic) Limited and amerada.co.uk, supplied 311,000 domestic customers, and 22,500 non-domestic customers (by number of meter points);
  - ◆ **electricity supply** – Amerada's wholly owned subsidiaries, including Amerada Hess Gas (Domestic) Limited and amerada.co.uk, supplied 89,500 domestic customers and approximately 500 industrial and commercial (I&C) customers in GB (by number of meter points). Virtually all of Amerada's domestic customers are located in England and Wales (E&W), with a higher concentration in the Midlands and the South East of England. Similarly, almost all of Amerada's I&C customers are located in England and Wales.
  - ◆ **energy trading** – Amerada traded 116 TWh of gas and 0.25 TWh of electricity in 2001<sup>1</sup>; and
  - ◆ **gas shipping** – Amerada's wholly owned subsidiaries, including Amerada Hess Gas Limited and Amerada Hess Gas Shipping Services Limited, shipped 4,806 mcm of gas through the National Transmission System (NTS) in 2001/02.
- 4.3 In February 2002, Amerada supplied 1.5 per cent of the domestic gas sector and 5.7 per cent of the non-domestic gas sector by number of meter points. Its

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<sup>1</sup> Figures supplied by TXU/Amerada.

electricity supply accounted for 0.3 per cent of the GB domestic supply sector and a negligible proportion of the I&C sector.

- 4.4 In 2001/02, Amerada shipped 4.4 per cent of the total gas shipped through the NTS. Amerada estimates that its gas trades in 2001 accounted for approximately 3.5 per cent of all gas trades<sup>2</sup>. Its share of electricity trades was negligible.

### ***TXU Europe Group plc***

- 4.5 TXU Europe is a wholly owned subsidiary of TXU Corporation, an investor-owned holding company headquartered in Dallas, Texas. The principal activities of the TXU Corporation are the provision of services in the gas and electricity sectors, energy trading, energy marketing and telecommunications. These activities are carried out by subsidiaries primarily in the United States, Europe and Australia.
- 4.6 TXU Europe, whose principal businesses are the generation of electricity, supply of gas and electricity and energy trading, carries out TXU Corporation's European activities. TXU Europe operates primarily in the UK, where it has interests in power stations, gas supply businesses and two electricity supply businesses (the former regional monopoly suppliers in the Eastern and Norweb areas). It is also active in continental Europe, where it has generation plant, holdings in energy supply and retail companies, energy trading licences and trading and retail joint ventures.
- 4.7 A full list of the licences held by TXU is included in Annex 1. TXU Europe's principal businesses in GB include:
- ◆ **electricity generation** – TXU Europe Power owns outright three generation stations in the UK (not including Shotton, a 240MW combined heat and power (CHP) plant which provides power to a local paper mill, exporting any excess power onto the system), which have a combined capacity of 2,914 MW. Since NETA go-live it has generated 7,291 GWh of electricity. TXU also has a small stake in Barking Power Station, which has a capacity of 1000 MW;

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<sup>2</sup> Figures supplied by TXU/Amerada.

- ◆ **electricity supply** – in GB, TXU UK Limited, Norweb Energi Limited and TXU Direct Sales currently supply about 3.8 million domestic customers and 330,000 I&C customers by number of meter points. The large majority of these are in E&W;
- ◆ **gas supply** – wholly owned subsidiaries including NB Gas Limited and TXU UK Limited currently supply 1.2 million domestic gas customers and 35,000 I&C customers (by number of meter points);
- ◆ **energy trading** – TXU Europe Energy Trading is involved in the sale and purchase of electricity and gas in the wholesale and forward markets. TXU Europe Energy Trading is one of the largest energy traders in the UK. In 2001 it traded 308 TWh of electricity and 406 TWh of gas in total<sup>3</sup>.
- ◆ **gas shipping** – TXU Europe Energy Trading Limited shipped 929 mcm of gas through the NTS in 2001/02.

4.8 Following the sale of its West Burton power station, TXU's generation business accounts for 2.2 per cent of total GB output and 3.6 per cent of total GB (4.3 per cent of E&W) capacity.

4.9 TXU's supply businesses supply 15.0 per cent of the GB (16.6 per cent of E&W) domestic electricity sector and 12.8 per cent of the GB (14.1 per cent of E&W) I&C electricity sector. It has 5.9 per cent of the domestic gas sector and 8.8 per cent of the I&C gas sector (by number of meter points). As a result of its acquisition of Amerada, TXU now supplies 15.3 per cent of the GB domestic electricity sector and 12.8 per cent of the I&C electricity sector. In relation to gas, TXU now supplies 7.4 per cent of the domestic gas sector and 14.5 per cent of the I&C gas sector. The latter is its only significant increase in sector share (from 8.8 per cent to 14.5 per cent).

4.10 TXU shipped 0.9 per cent of gas flowed through the NTS in 2001/02. Following its acquisition of Amerada, it now accounts for 5.3 per cent of gas shipped in GB. TXU estimates that it traded about 12 per cent of total trades in gas in

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<sup>3</sup> Figures supplied by TXU/Amerada.

2001<sup>4</sup>. Adding this to Amerada's trading would produce a total of 15.5 per cent of trades. TXU made approximately 9 per cent of total electricity trades in 2001.

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<sup>4</sup> Figures supplied by TXU/Amerada.



## 5. Issues arising from the acquisition

### *Competition in the GB gas and electricity sectors*

- 5.1 In examining mergers, acquisitions or other comparable transactions it is important to consider what effect a transaction may have on the level of competition present within any relevant part of the GB energy sector.
- 5.2 In particular, a merger or acquisition might raise concerns for Ofgem when the purchaser and the companies that it is acquiring have overlapping activities within GB as the overall level of competition within a particular sector may be reduced if two companies combine.
- 5.3 TXU's acquisition of Amerada's gas and electricity supply and trading businesses has resulted in some overlap of activity in the following areas:
- ◆ gas supply – TXU's share of the I&C gas supply sector has increased from 8.8 to 14.5 per cent (in terms of meter points) as a result of this transaction. Its share of the domestic sector has risen by 1.5 per cent, to 7.4 per cent;
  - ◆ electricity supply – TXU's supply to electricity customers has not increased significantly in either the domestic or I&C sectors as a result of acquiring Amerada. The transaction has had a negligible effect on TXU's share of the market in its supply service areas: Amerada supplied about 12,000 domestic customers in the Eastern area, compared with the 2.1 million supplied by TXU (by meter points). In the Norweb area, Amerada supplied 3,000 domestic customers, against 1.3 million supplied by TXU;
  - ◆ energy trading – this transaction has increased TXU's share of the gas trading sector by about 3.5 per cent, to 15.5 per cent, while its share of the electricity trading sector remained the same;
  - ◆ gas shipping – TXU increased its NTS shipping activities significantly by acquiring Amerada, from 0.9 per cent of the sector to 5.3 per cent. This is still a relatively small sector share.

- 5.4 Ofgem considers that competition in gas supply, electricity supply and gas shipping is generally well developed and that it is continuing to develop<sup>5</sup>. Ofgem also considers that competition in energy trading is well developed, with low barriers to entry and a number of major players. Amerada's activity within each of these areas of activity was relatively small, its most significant sector shares being 5.7 per cent of the non-domestic gas supply sector, 4.4 per cent of gas shipped and 3.5 per cent of gas trades.
- 5.5 It is Ofgem's initial view that TXU's acquisition of the electricity and gas supply and trading businesses of Amerada Hess Limited does not raise any significant competition concerns, given the small increases in market share in the relevant sectors, and in view of the level of competition present in these sectors.

### *Views*

- 5.6 Ofgem would welcome views on whether the acquisition raises issues with respect to competition in the GB gas and electricity sectors.

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<sup>5</sup> 'A review of the development of competition in the Industrial and Commercial gas supply market', Ofgem, August 2000; 'A review of the development of competition in the Industrial and Commercial electricity supply market'. Ofgem, December 2000; and 'Review of domestic gas and electricity competition and supply price regulation: initial proposals', Ofgem, November 2001.

## 6. Conclusion

- 6.1 Ofgem is seeking the views of interested parties on the acquisition of Amerada by TXU, so that it may make recommendations to the DGFT.
- 6.2 Responses will normally be made available in the Ofgem library and on the Ofgem website unless respondents request that they should remain confidential. Respondents should mark any part of their response (or the whole response) as confidential, if this is the case. Where possible respondents should consign any confidential material to appendices.
- 6.3 Comments on the acquisition should be sent, by **5pm on Monday 27 May 2002**, to:

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## Annex 1 – Licences held by TXU and Amerada

### Amerada

#### Electricity Supply

Amerada Hess Gas Ltd  
 Amerada Hess Gas (Domestic) Ltd (I&C and domestic)  
 amerada.co.uk (I&C and domestic)  
 Midlands Gas Ltd (I&C and domestic)  
 Ownlabel Energy Ltd (I&C and domestic)  
 Severn Trent Energy Ltd (I&C and domestic)  
 Western Gas Ltd (I&C and domestic)

#### Gas Supply

Amerada Hess Gas Ltd  
 Amerada Hess Gas (Domestic) Ltd (I&C and domestic)  
 amerada.co.uk (I&C and domestic)  
 Midlands Gas Ltd (I&C and domestic)  
 Ownlabel Energy Ltd (I&C and domestic)  
 Severn Trent Energy Ltd (I&C and domestic)  
 Western Gas Ltd (I&C and domestic)

#### Gas Shipper

Amerada Hess Gas (Domestic) Limited  
 Amerada Hess Gas Limited  
 Amerada Hess Gas Shipping Services Ltd  
 Amerada.Co.UK.Limited  
 Hess Energy Power and Gas Company (UK) Limited  
 Midlands Gas Limited  
 OwnLabel Energy Ltd  
 Severn Trent Energy Ltd  
 Western Gas Ltd

### TXU

#### Generation

TXU Europe (Partington) Limited  
 TXU Europe Drakelow Ltd  
 TXU Europe High Marnham Ltd  
 TXU Europe Ironbridge Ltd  
 TXU Europe Merchant Generation Ltd  
 Shotton Combined Heat and Power Ltd  
 Peterborough Power Ltd  
 Anglian Power Generation Ltd

#### Electricity Supply

TXU Direct Sales Ltd (I&C and domestic)  
 TXU UK Ltd (I&C and domestic)  
 Norweb Energi Ltd (I&C and domestic)

#### Gas Supply

TXU UK Limited (I&C and domestic)  
 NB Gas Limited (I&C and domestic)

#### Gas Shipper

TXU Europe Energy Trading Limited