



Lisa Vango  
OFGEM  
9 Millbank  
London  
SW1P 3GE

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Our Ref : I:\energy\gas\johnm\natgridtransco

Corus  
Hampton House  
20 Albert Embankment  
London SE1 7TJ  
United Kingdom  
T +44(0) 20 7975 8347  
F +44(0) 20 7975 8322  
John.mathers@corusgroup.com  
**John Mathers**  
Manager, UK Energy Contracts

Dear Sirs

Re: Regulatory Issues arising from the merger of National Grid Group plc and Lattice Group plc to create National Grid Transco plc

With reference to OFGEM's "regulatory issues" consultation on the merger of NGC and Lattice we wish to respond as below:-

1. From the consultation document it would appear that OFGEM's approach to the merger is to make the minimum necessary changes to the current regulatory regime. In our view this is disappointing because OFGEM's proposals (as set out in the consultation document) may represent a missed opportunity.
2. We suggested in our response to OFGEM's initial consultation on the NGC / Lattice merger that the first part of any merger synergies should be for the benefit of customers rather than shareholders. Whilst we recognise that re-opening existing price controls for NGC and Transco would be burdensome for OFGEM, at the same time we don't feel that it is appropriate for customers to be put to the back of the queue. This appears to be the position as OFGEM proposes to consider the issue of passing back merger efficiency savings to customers only when the respective existing five year "TO" price controls end in 2006 (for NGC) / 2007 (for Transco). It may be that OFGEM is concerned as to the potential impact of re-opening existing price controls on National Grid Transco's cost of capital. If this is the case, then it would appear that OFGEM's proposals are inconsistent with its recently announced policy for mergers of electricity distribution companies ("Mergers in the electricity distribution sector - Policy Statement" - May 2002). According to this policy statement, if two or more distribution companies merged, OFGEM considered that it was appropriate to reduce the regulated

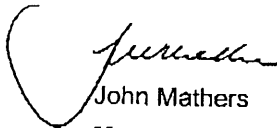
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Registered Office 30 Millbank  
London SW1P 4WY

revenue of the merged distribution companies by £32 million (in 2001/2 prices) over a period of 5 years, from the time of merger completion. As a result OFGEM may wish to consider its proposed regulatory strategy in respect of NGC Transco so that it incorporates an early return to customers of all or part of the prospective merger synergies.

3. We welcome OFGEM's recognition that National Grid Transco's ownership of EnMo "give[s] rise to concerns that that Transco would be able to access information about the prices and volumes traded by other participants". However, from our point of view the solution to the problem should be that National Grid Transco divests itself of EnMo so that market participants do not have to rely on the effectiveness of the proposed licence condition amendment.

In the event that you have any queries on our submission please call me

Yours faithfully,



John Mathers

**Manager, UK Energy Contracts**