



## CONFEDERATION OF UK COAL PRODUCERS

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Lisa Vango  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Ms Vango

### Regulatory issues arising from merger of NGC and Lattice to create National Grid Transco – Initial proposals

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 generating industry. Coalpro therefore takes a close interest in **all** developments affecting that industry.

In Coalpro's response of 23 May 2002 to Ofgem's consultation paper on the proposed merger between NGC and Lattice, we raised the specific issue that the merged company would have a strong financial interest in promoting the generation of electricity from gas through manipulation of the electricity system operator function in order to maximise the throughput of gas through the gas transmission system. This would act to the disadvantage of other fuels for generation, including coal but also renewables, and that the proposed merger was therefore fundamentally anti-competitive. We further argued that, if the proposed merger was allowed to proceed, both the gas and electricity system operator functions should be divested.

Now that the merger has been approved by the competition authorities, it is extremely disappointing to find that Ofgem's initial proposals for dealing with the regulatory **issues** that arise completely fail to address this fundamental issue. The proposals are wholly inadequate in **this** respect.

**As** a result, we must request a specific response from Ofgem as to how they propose to ensure that the operation of the **electricity** transmission system will be



made wholly and transparently independent of any incentive to maximise the volume of gas moved through the gas network.

We look forward to hearing from you at your earliest convenience.

Yours sincerely

A handwritten signature in black ink, appearing to read "B J Rostron", written in a cursive style.

**Brian J Rostron**  
**Director General**