

## Powergen's proposed acquisition of Midlands Electricity

On 21 October 2003, Powergen UK plc (Powergen), a subsidiary of E.ON, announced that it has agreed terms for the acquisition of Midlands Electricity plc (Midlands) for a total price of £1.146 billion. The price includes a payment of £36 million to Midlands' owners Aquila Inc and FirstEnergy Corp of the US, together with £626 million to the bondholders in AEPH, the company through which Aquila and FirstEnergy own Midlands. Powergen will also assume £484 million of existing debt.<sup>1</sup>

The acquisition is subject to European merger control provisions, and the European Commission, in considering the proposed acquisition, will consult with the Office of Fair Trading (OFT). The OFT will inform the European Commission of any competition concerns that the proposed acquisition may raise for the UK, and in preparing its advice in relation to mergers and acquisitions within the energy sector, will consult Ofgem.

Powergen is a vertically integrated energy company with 7GW of generation capacity,<sup>2</sup> around 6 million domestic and small business electricity supply customers, a large number of domestic and I&C gas supply customers and an electricity distribution business which distributes to 2.4 million customers in the East Midlands distribution service area. Powergen also has interests in gas shipping and telecommunications.

Midlands' principal business is electricity distribution, with 2.4 million customers in the Midlands distribution service area. It also has generation interests, representing less than 1% of total capacity in England and Wales,<sup>3</sup> and a small number of (mainly I&C) gas supply customers. It is active in gas shipping and also owns metering and connections businesses.

Ofgem's policy on electricity distribution mergers<sup>4</sup> identifies a detriment to consumers that arises from the impact of distribution company mergers on comparative regulation in the sector. In order to compensate customers for this detriment, it specifies a one-off charge of £32 million payable over five years and spread equally across all distribution companies in the merged group. This policy was applied for the first time in relation to the London Electricity-Seeboard merger in November 2002. Ofgem intends to apply its distribution mergers policy should this transaction proceed, to deal with regulatory issues arising in respect of comparative regulation of electricity distribution businesses.

Ofgem will take into account information and views from interested parties in preparing its advice to the OFT, and will forward any submissions to the OFT (interested parties may also contact the OFT directly). Submissions to Ofgem should be sent to Ben Woodside ([ben.woodside@ofgem.gov.uk](mailto:ben.woodside@ofgem.gov.uk)) and must be received **by 5pm on Friday 31<sup>st</sup> October**. Submissions will be placed on Ofgem's website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) unless respondents request otherwise.

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<sup>1</sup> All figures in this document from Powergen website ([www.powergenplc.com](http://www.powergenplc.com)), unless otherwise stated.

<sup>2</sup> NGC's seven year statement 2002/3

<sup>3</sup> Based on capacity numbers from NGC's Seven Year Statement 2002/3

<sup>4</sup> Mergers in the electricity distribution sector, Policy statement, Ofgem, May 2002