

20th June 2003

Ben Woodside
Strategy and Corporate Transactions Manager
Ofgem
9 Millbank
London
SW1P 3GE

Dear Ben,

Scottish and Southern Energy plc's proposed acquisition of Midlands Electricity plc

Centrica welcomes the opportunity to comment on the proposed Scottish and Southern (SSE) acquisition of Midlands Electricity.

It has been widely reported that the acquisition will make SSE the largest electricity distribution company in Great Britain with over 180,000 km of cable and 5.7 million customers. Ofgem will need to keep this level of distribution activity under a single corporate ownership under close supervision.

The acquisition has been well publicised in the media and Centrica has no significant objections to it proceeding. Centrica would, however, highlight the fact that SSE is already a large and significantly vertically integrated energy group.

Although we welcome Ofgem's application of its distribution company mergers policy to the transaction, we are surprised that little attention seems to have been paid to potential vertical and discrimination issues that may arise from this transaction.

In particular, we would advise Ofgem to scrutinise how the ownership of significant power generation capacity with an equally significant presence in power distribution may be used to leverage the downstream supply markets. Additionally, we have consistently argued that there must be free, open, transparent and non-discriminatory access to distribution networks. Therefore, in line with our previous position on merger activity in the GB market, this must remain the focus of regulatory scrutiny in this transaction.

We look forward to the next revision of the price control for Distribution Network operators when we will expect to see the economies of scale that arise from the merged companies to be reflected in the price control.

Yours sincerely,

John Lang
Regulatory Strategy Manager