



ScottishPower

Energy Supply

Mr Andrew Cowe
 Chief Executive
 North Lanarkshire Council
 P O Box 14
 Civic Centre
 Motherwell
 ML1 1TW



Bill Landels
 Managing Director

Your ref

Our ref

Date

28 May 1996

Contact/Extension

Dear Mr Cowe

ScottishPower Offer for Southern Water

I am writing to inform you that ScottishPower has today announced that it has made an offer for Southern Water and that it is in discussions with Southern Water with a view to seeking a recommendation for the offer from Southern Water.

The acquisition of Southern Water will be a further major step in our strategy of building businesses and will help us to maintain our position as one of Britain's most competitive firms. The group headquarters will remain in Glasgow and this acquisition will therefore turn a Scottish-based company into a leading UK multi-utility group, with some five million customers across Scotland, England and Wales. We also expect the merged group to be in a strong position to market its combined talents overseas.

The government has taken several steps in recent years to encourage the development of competition in utility markets. This began with telecommunications and is being extended fully to gas and electricity for 1998. There are proposals to include water in due course. You will appreciate that, as one of Scotland's leading companies, we need to respond to these competitive forces - and we believe that our acquisition of Southern Water will help us to maintain our competitive position.

ScottishPower already operates as one of the lowest cost electricity businesses in the UK. The integration of the regional electricity company, Manweb, which we acquired last year, has proceeded well and we are winning a growing number of electricity customers in the competitive market. We are now supplying gas and telecommunications services and our announcement today is the next step to enable us to build on our success by bringing us as a competitive force into the water sector as well. Our aim will be to make improvements both in terms of overall performance and services to customers. One particular benefit we expect to see is that the combination of the two companies' project management skills will enable ScottishPower to become an effective local competitor for water and sewerage projects in Scotland, where the water industry is of course structured differently.

ScottishPower is always aware that we are providers of essential services to the public, and we are fully committed to maintaining the highest standards. In our Scottish business, we have substantially enhanced the quality of our customer service, meeting the stringent standards set by OFFER and have achieved high levels of customer satisfaction, recognised by a number of awards for customer service. Our plans to provide improving services and value in Scotland will in no way be impacted adversely by the proposals for Southern Water. Indeed exchange of complementary skills are likely to assist. We will be raising further the standards of service which apply in the Southern Water area. For example in our electricity business we are currently investing heavily to improve customer service through the development of a new customer call centre and better billing systems. We also recognise the importance of operating to the highest environmental standards throughout our businesses and how essential this will be in the water sector. In electricity, we are investing in excess of £100 million in a programme of environmental improvements in the generation side of our business, which will allow the continued burning of Scottish produced coal at our power stations at Longannet and Cockenzie.

The Government has recently reaffirmed that its policy on acquisitions of this sort is guided principally by the effect on competition. We believe this merger does not raise any competition issues since the two companies are in different sectors and are not contiguous geographically. Indeed, we believe the merger will increase competition in the utilities sector by enabling us to offer Southern Water's customers a competitive choice in electricity and gas and by enhancing our ability, in combination with Southern Water, to be an effective competitor for water related projects in Scotland. We also note that the regulatory issues raised by our merger with Southern Water are very similar to those which arose in the previous mergers between Swalec/Welsh Water and Norweb/North West Water, which were cleared by the Government last year. We shall offer appropriate assurances to meet any regulatory requirements in the same way as assurances were given in relation to the two previous mergers.

In conclusion we believe today's announcement will be good both for our existing customers and for those in the Southern Water region. We would be happy to respond to any questions you may have and to meet to discuss the issues with you.

Yours sincerely



Bill Landels
Managing Director, Energy Supply