



From the Deputy Director General for Scotland

The Chief Executive  
North Lanarkshire Local Authority  
PO Box 14  
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Motherwell  
ML1 1TW

26 July 1995

Dear Sir/Madam

**SCOTTISH POWER PLC BID FOR MANWEB PLC**

On 24 July 1995, ScottishPower plc announced a bid for Manweb plc.

I attach a copy of a consultation paper which Professor Littlechild issued today. Your comments on the consultation paper are invited.

Yours faithfully

*Audrey M. Conway*

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26 July 1995

**SCOTTISHPOWER BID FOR MANWEB plc: A CONSULTATION PAPER BY THE  
DIRECTOR GENERAL OF ELECTRICITY SUPPLY**

Following the announcement on 24 July by ScottishPower concerning the possible acquisition of Manweb plc, Professor Stephen Littlechild, Director General of Electricity Supply, issued a consultation paper today on the regulatory issues involved.

A copy of the complete text is attached.

Media Enquiries - OFFER Press Office - 0121 456 6208/6234

# SCOTTISHPOWER BID FOR MANWEB plc: A CONSULTATION PAPER BY THE DIRECTOR GENERAL OF ELECTRICITY SUPPLY

## Introduction

In the light of the announcement by ScottishPower of 24 July, concerning an offer for the shares of Manweb plc, I have decided to issue a consultation paper about the regulatory issues involved.

The Fair Trading Act 1973 provides that the Secretary of State may refer a proposed merger or acquisition to the Monopolies and Mergers Commission (MMC). It is the responsibility of the Director General of Fair Trading (DGFT) to advise the Secretary of State as to whether a merger or acquisition should be referred to the MMC. In accordance with the concordat between the Office of Fair Trading and OFFER on regulatory issues, the DGFT will consult me before advising the Secretary of State.

In addition, I need to consider whether to propose changes to the electricity licences of Manweb or ScottishPower, or to exercise any of my other powers under the Electricity Act 1989, in order to take account of issues arising from the proposed acquisition.

## Statutory Position on Mergers

If the DGFT recommends that the Secretary of State refer the merger to the MMC, the Secretary of State may make a reference or instead invite the DGFT to seek binding undertakings from the parties concerned which would correct the adverse effects or the problems which the DGFT had identified. The Secretary of State may then accept such undertakings.

If a merger reference is made to it, the MMC has to consider whether the merger is likely to have effects adverse to the public interest. If it concludes that a merger would be against the public interest, the Secretary of State has the power to prohibit the merger, or to seek other remedies. There is no power to prohibit a merger if the MMC does not identify any detriment to the public interest.

## Electricity Act Considerations

In considering these issues I am guided by statutory duties. In particular, I must consider the possible implications of a merger or acquisition for the satisfying of all reasonable demands for electricity; the ability of the licensee to finance its authorised activities; the promotion of competition in generation and supply; the protection of customers in respect of price, continuity of supply and quality of service; and a variety of other considerations set out in Section 3 of the Electricity Act.

The Electricity Act and the public electricity supply licences impose a large number of significant obligations on licensees. These obligations include a duty to develop and maintain an efficient, co-ordinated and economical system of electricity supply, and more detailed requirements concerning price controls, separate accounts, discrimination, cross-subsidy and Codes of

Practice. These obligations need to be met regardless of ownership. I also need to ensure that the ability to regulate effectively is not impaired.

#### Issues for consideration

In a number of respects the bid by ScottishPower for Manweb raises issues similar to those raised by the bids by Trafalgar House for Northern Electric and Southern Investments UK plc for South Western Electricity. In particular, if the takeover were to proceed, a public electricity supply licence would be held by a subsidiary company rather than by a parent company. In my view additional measures would be necessary in order to provide continued protection to customers and to maintain regulatory effectiveness. On 14 July I issued a consultation paper on possible licence amendments to deal with this situation.

The proposed takeover of Manweb by ScottishPower also raises a number of additional issues that did not require to be addressed in the case of the takeover bids for Northern Electric and SWEB. This takeover bid is the first to be made by one electricity licensee for another. If it were to go ahead it would imply a greater degree of concentration in the electricity supply industry, with possible implications for competition in the supply and generation of electricity. Given ScottishPower's significant involvement in generation, the takeover would represent an increase in the extent of vertical integration in the electricity industry in England and Wales. One issue that will need consideration is the condition in Manweb's licence that limits the company's involvement in generation. The takeover would also reduce the number of independent comparator companies available for regulatory purposes, such as appraising company performance and considering how best to protect customers.

#### Comments invited

I shall want to consider these issues in more detail, and any other relevant considerations, before giving my views to the DGFT. In forming my views I should find it helpful to receive comments from interested parties by 18 August 1995.

Replies should be addressed to Mrs Tracey Hall-Roberts, OFFER, Hagley House, Hagley Road, Birmingham, B16 8QG. Replies will be placed in OFFER's library for public inspection unless clearly marked "In Confidence - Not for Disclosure". Any comments relevant to the responsibilities of the DGFT should also be sent to the Office of Fair Trading.

PROFESSOR S C LITTLECHILD  
DIRECTOR GENERAL OF ELECTRICITY SUPPLY

26 July 1995