

Transco Seminar



Lattice

THE INFRASTRUCTURE TECHNOLOGY GROUP



Transco Seminar

Steve Lucas

Executive Finance Director

Lattice Merger Update

■ Regulatory clearance almost complete

- Secretary of State June
- Competition Commission July
- Modifications to Transco & UK Grid Licences
- SEC Approval

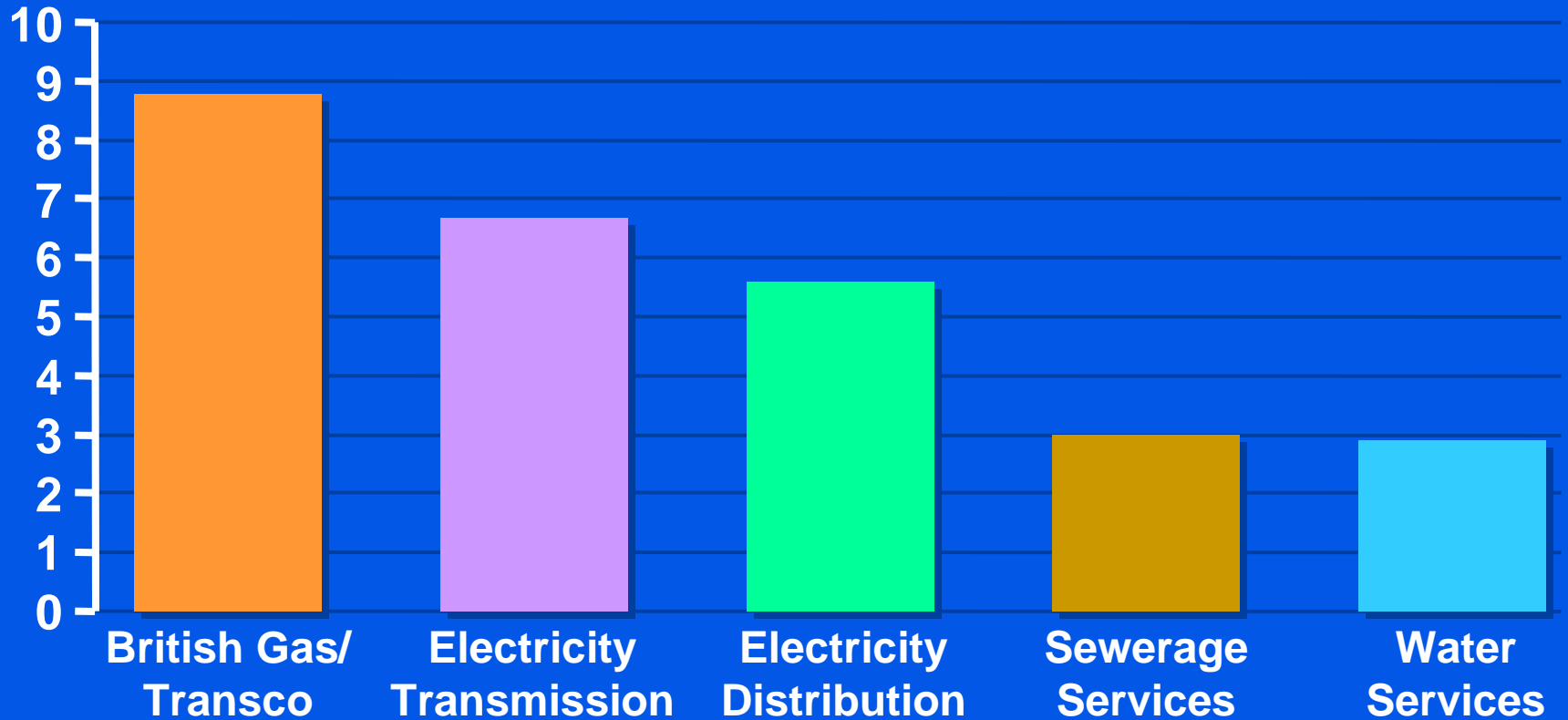
■ Merger still expected to complete in Autumn

Lattice Key Features of Transco Business



- Low risk, asset based business
- Stable regulatory framework
- Strong underlying profits & cashflow
- Transparency in numbers
- Superior cost management - Enhancing shareholder value

Compound Annual Reductions in RUOE (%) since Privatisation



RUOE: Real Unit Operating Expenditure

(Data sourced from Mazars Neville Russell - Transco Price Control Review 2002 - 2007, 7th September 2001)

Lattice Transco - New Regulatory Contract



- **Strategic priority - delivery of Regulatory Contract**
- **Well defined plans, good progress**
- **Confident in further outperformance**

Over-riding Priority – Delivering Transco ‘contract’

- Opex down to monthly target → March 2003
- £50m above Ofgem target in 2002/3
- Restructuring programme - £230m
- Net outperformance cover restructuring cost

Lattice Agenda

- 
- **Transco restructuring - Colin Matthews, Group Managing Director, Transco**
 - **Performance Demonstrations**
 - Chris Murray, Network Director, Transco
 - Jon Butterworth, Network Director, Transco
 - **2002 to 2007 price control - David Rees, Finance Director, Transco**
 - **Performance Demonstration**
 - Brian Popplestone, Network Director, Transco
 - **Closing remarks**

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Lattice Closing Remarks



- **Transco's Strategic priority - delivery of Regulatory Contract**
- **Undisputed track record**
- **Concrete steps to achieve**
- **Merger provides further opportunities**

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2002 to 2007 Price Control

David Rees

Finance Director

Transco Seminar
Thursday 12 September 2002

The Price Control Review “contract” sets the targets for the next five years and defines ...

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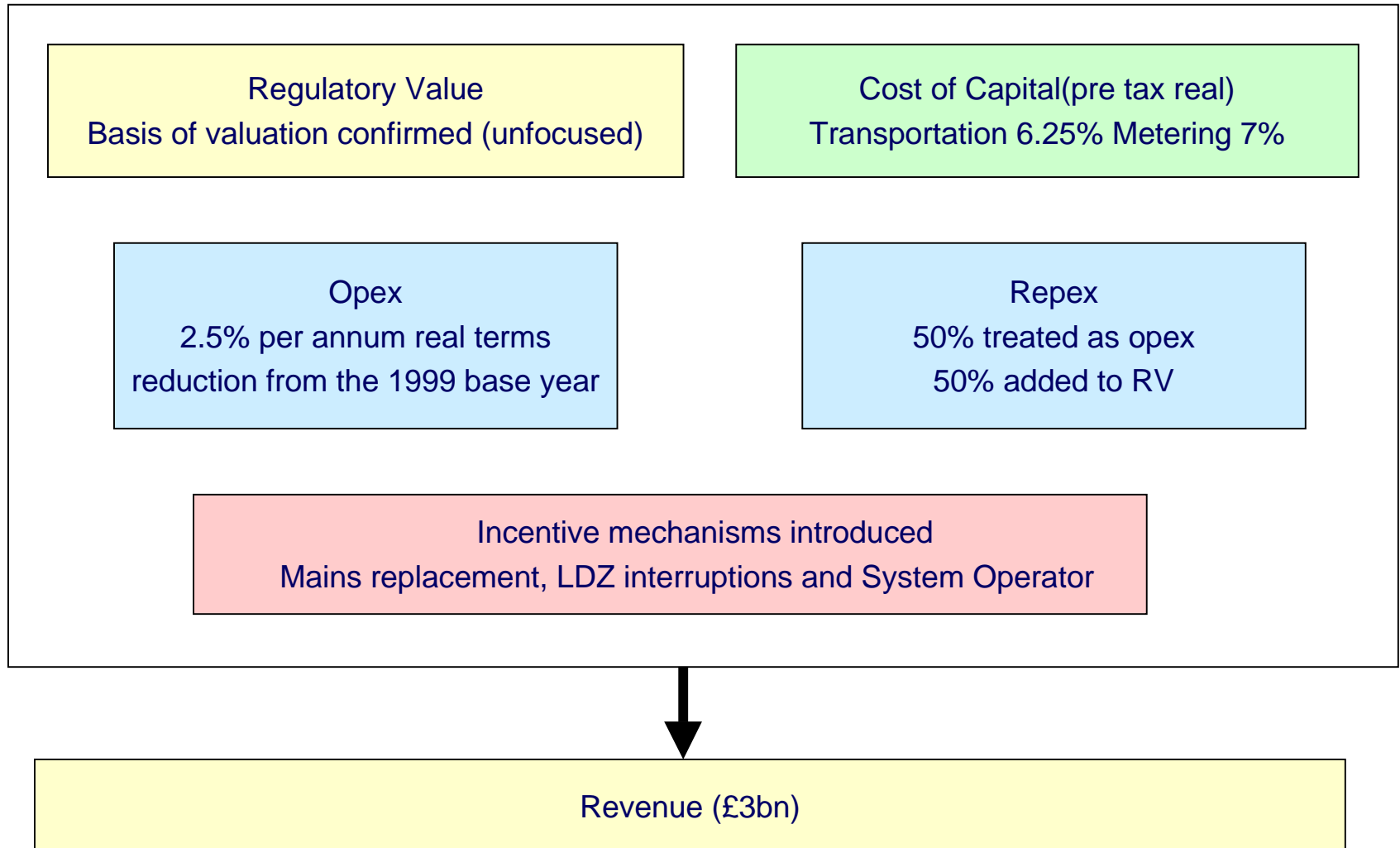
**What is delivered
to customers**

How much it will cost

**How Transco
will be paid**

The key features of the new Price Control are ...

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Set against spend over the last 5 years the new Price Control looks challenging

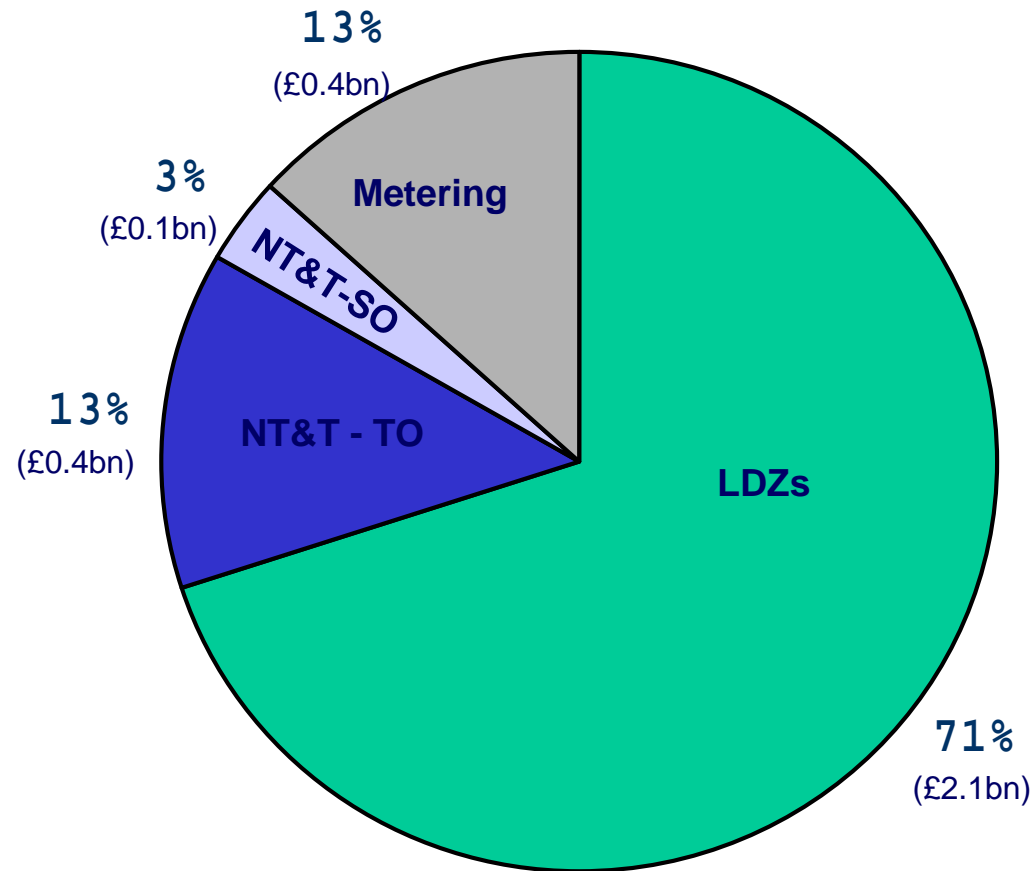
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£ billion – 2000 prices	Actual spend (97/98 – 01/02)	Price Control (02/03-06/07)	Change
Controllable Opex	5.7	4.6	-19%
Replacement Expenditure	1.3	2.1	+62%
Capital Expenditure	3.1	2.3	-24%

Transco's annual allowed revenue of around £3bn is subject to a number of separate price controls...

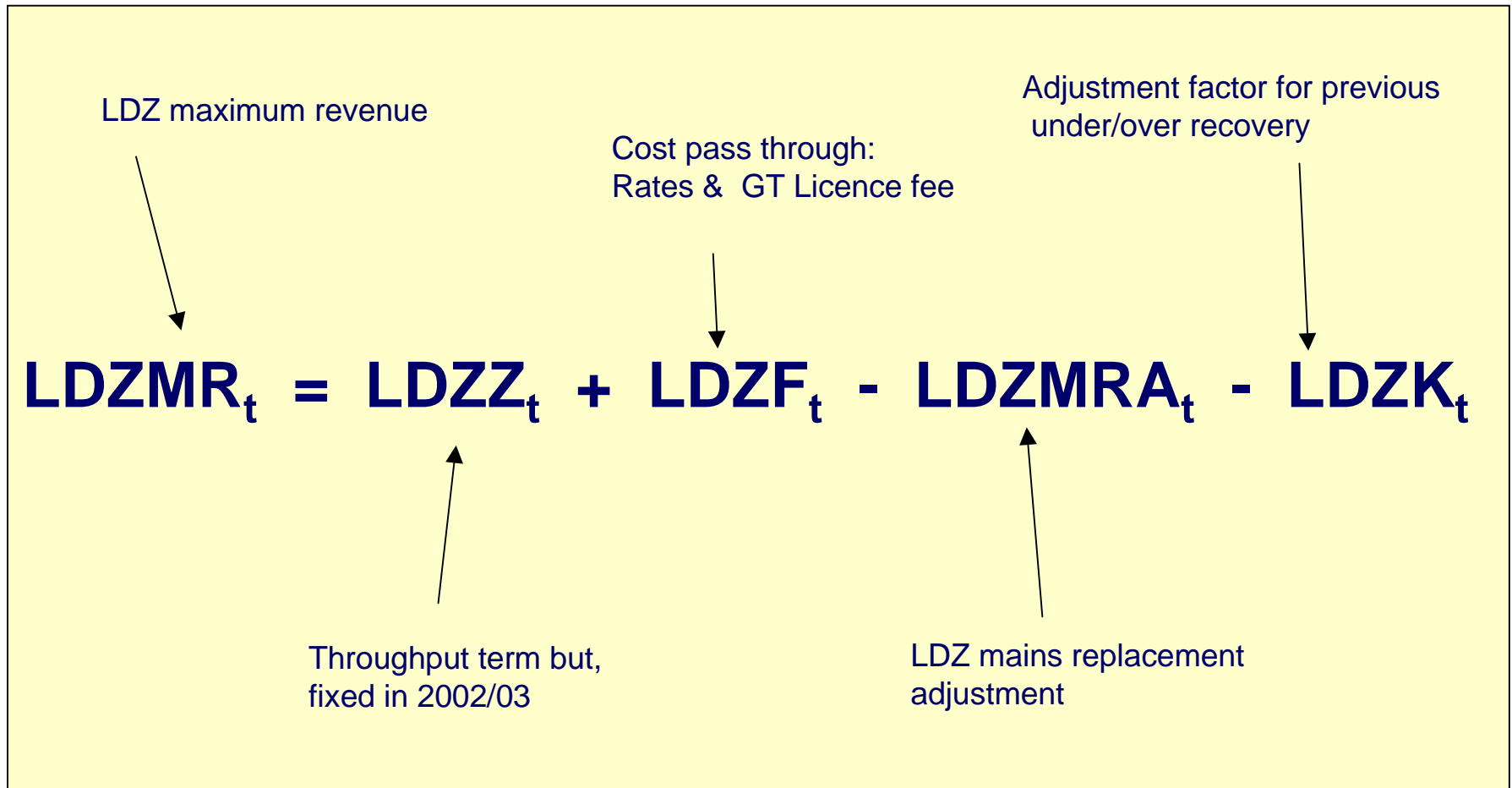
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*Ofgem currently consulting on separating into 8 regional controls

The LDZ formula, as set out in the proposed licence...

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The key features of LDZ throughput term ...

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Set on forecast composite demand growth of around 1% per annum

2002/03

Core LDZ revenue fixed at £1.9bn

2003/04 onwards

65% fixed : 35% variable

Variable element impacted by

- 2002/03 transported volumes
- outturn composite demand (impacted by weather, volume growth etc)

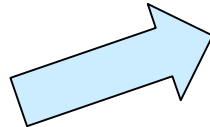
Mains replacement incentive mechanism...

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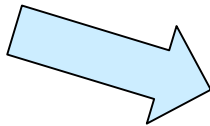
Based on non PE mains abandoned

Actual length
abandoned
multiplied by Ofgem
unit cost to give
“matrix cost”



If Transco's actual cost < matrix cost

- 33% retained by Transco
- 67% returned to Shippers



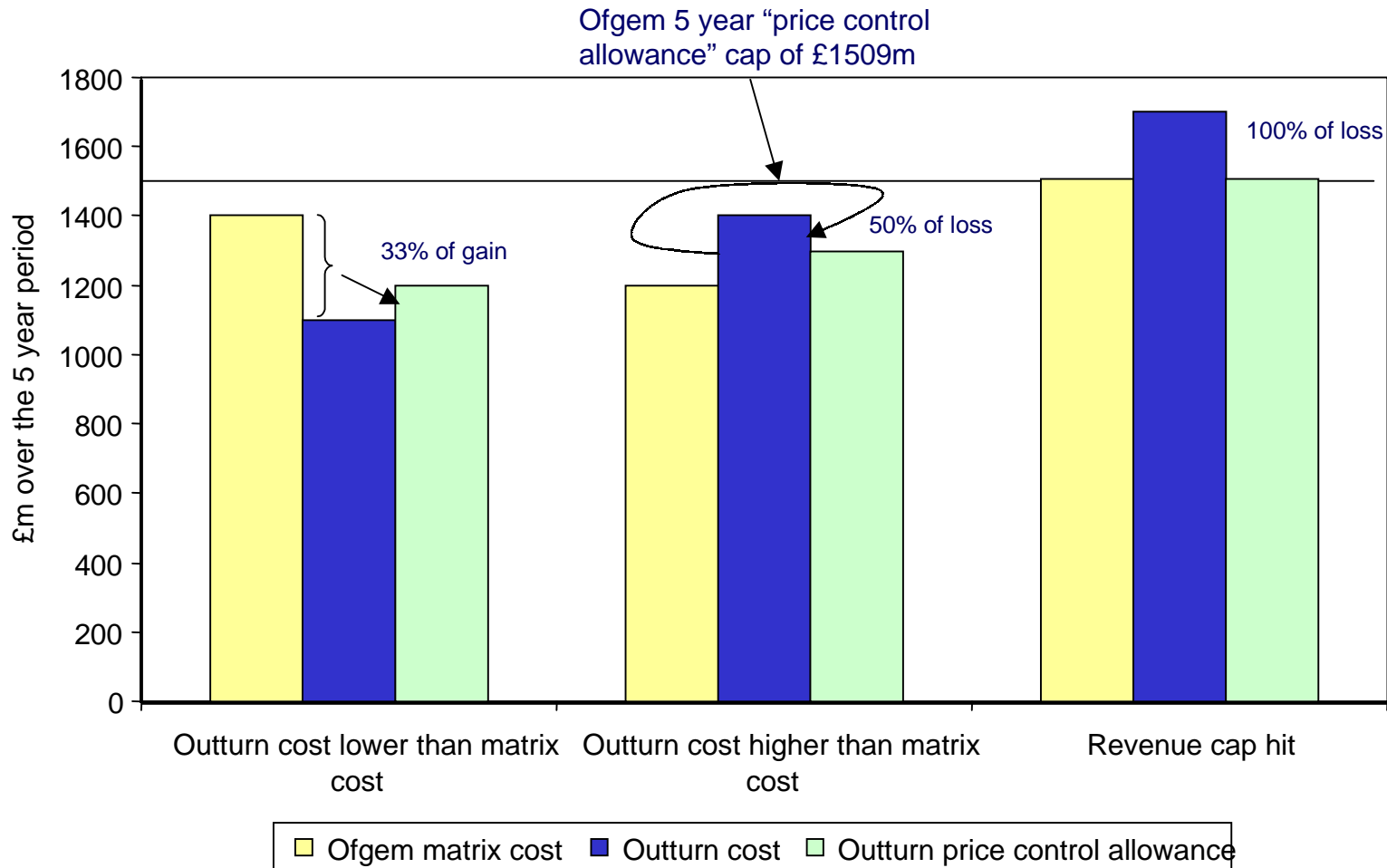
If Transco's actual cost > matrix cost

- 50% of loss retained by Transco
- 50% of loss passed to Shippers

Subject to an overall cap of £1.5bn over the 5 year price control period

Transco shares gains and losses except where the “price control allowance” cap is breached

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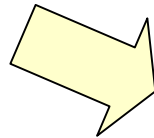
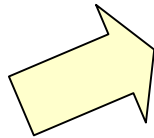


Turning to NTS-TO income

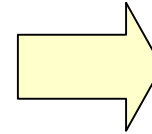
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**£400m p.a. rolled
forward on an
RPI-2% basis**



Entry capacity income
generated via auctions



Any excess
revenues returned
to Shippers

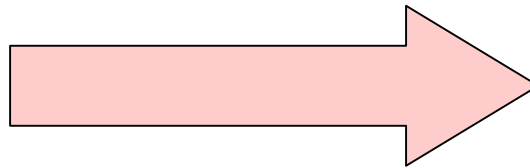
Exit capacity income
generated by
administered charges

NTS-SO income is far more complicated

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NTS-SO target revenues are subject to an incentive regime



Income is recovered through commodity charges

There are seven SO incentive schemes

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PURPOSE

Optimise value from investment decisions

Optimise daily system operation

Minimise internal costs

INCENTIVE SCHEMES

Entry capacity investment

Exit capacity investment

Capacity buyback

Residual gas balancing

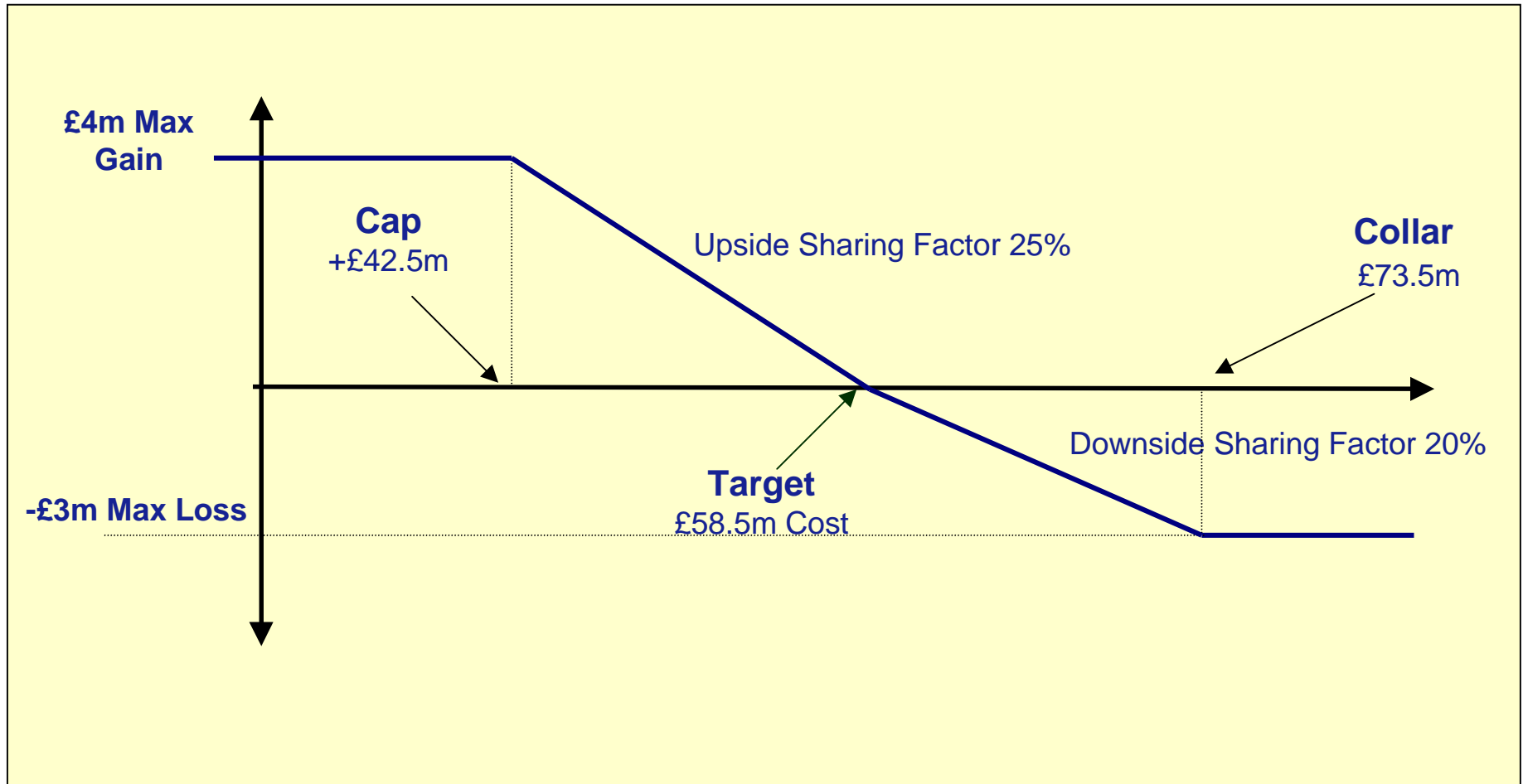
System balancing-gas cost (Shrinkage)

System balancing - system reserves

Internal costs

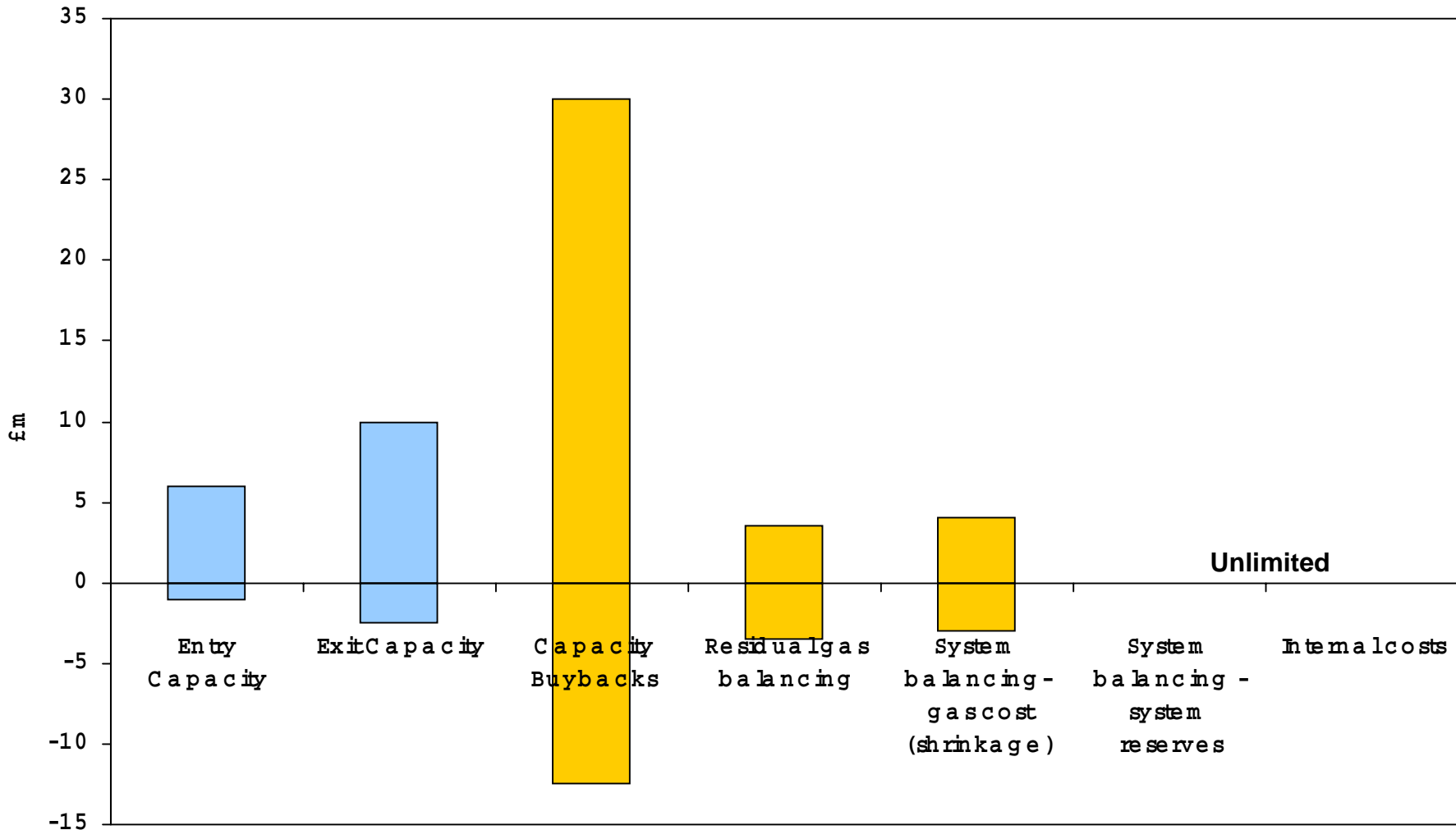
By way of illustration, the impact of shrinkage gas cost incentive

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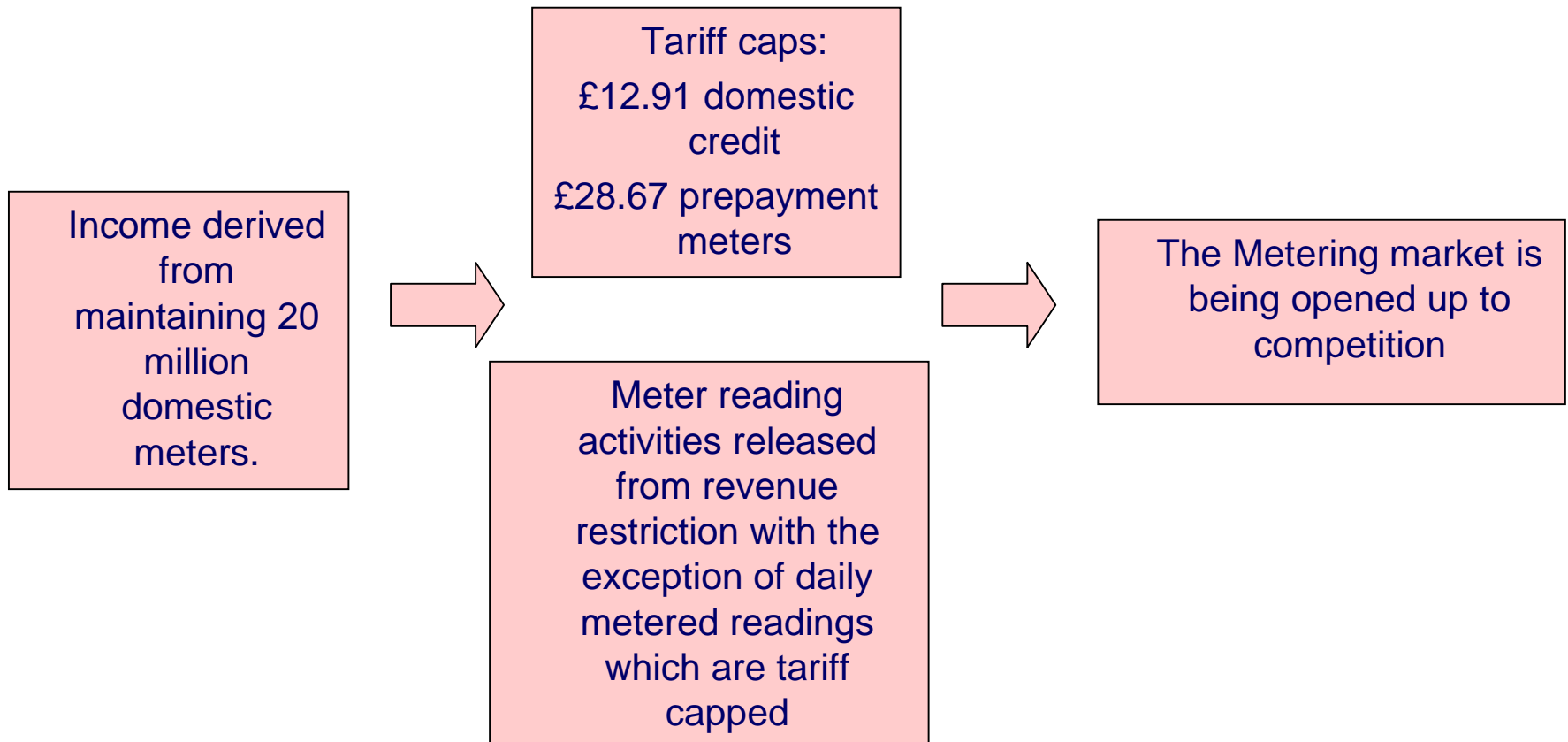
So what are the potential upsides and downsides ?

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Metering income

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Transco Restructuring

Colin Matthews

Group MD

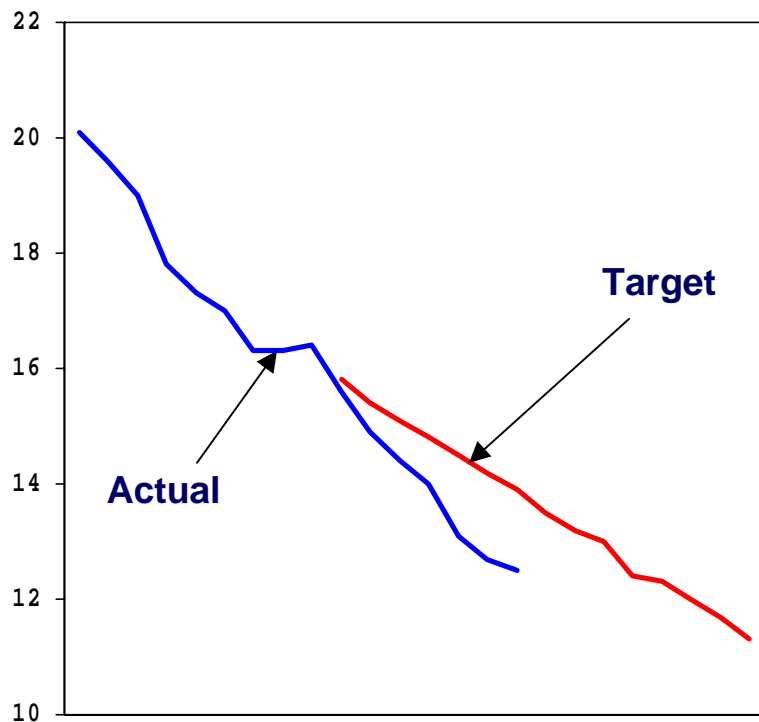
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Safety remains Transco's number one priority...

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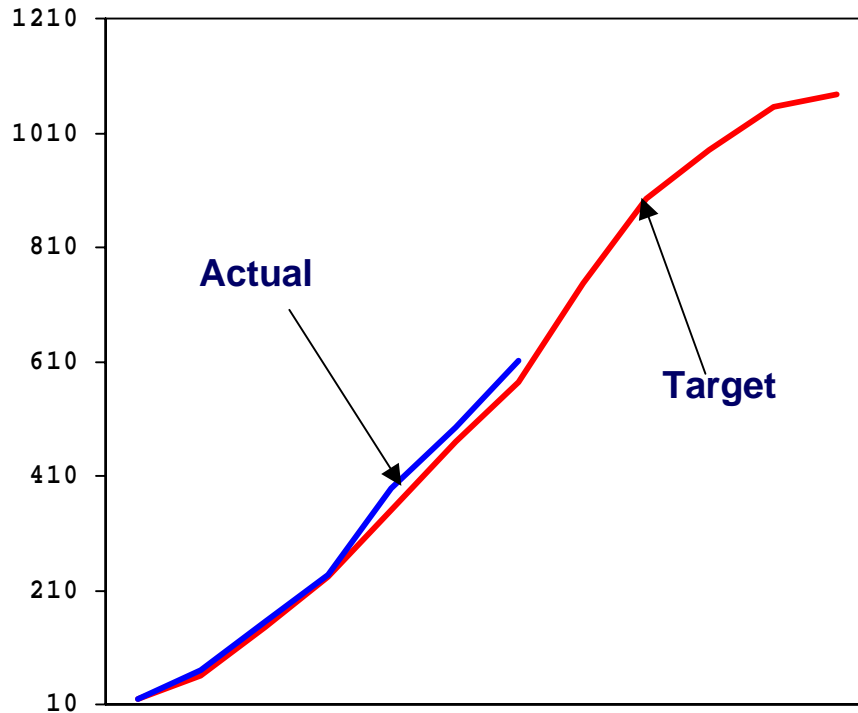


Rolling 12 month Lost time injuries rate
(per 000 employees)



April 2001- March 2002

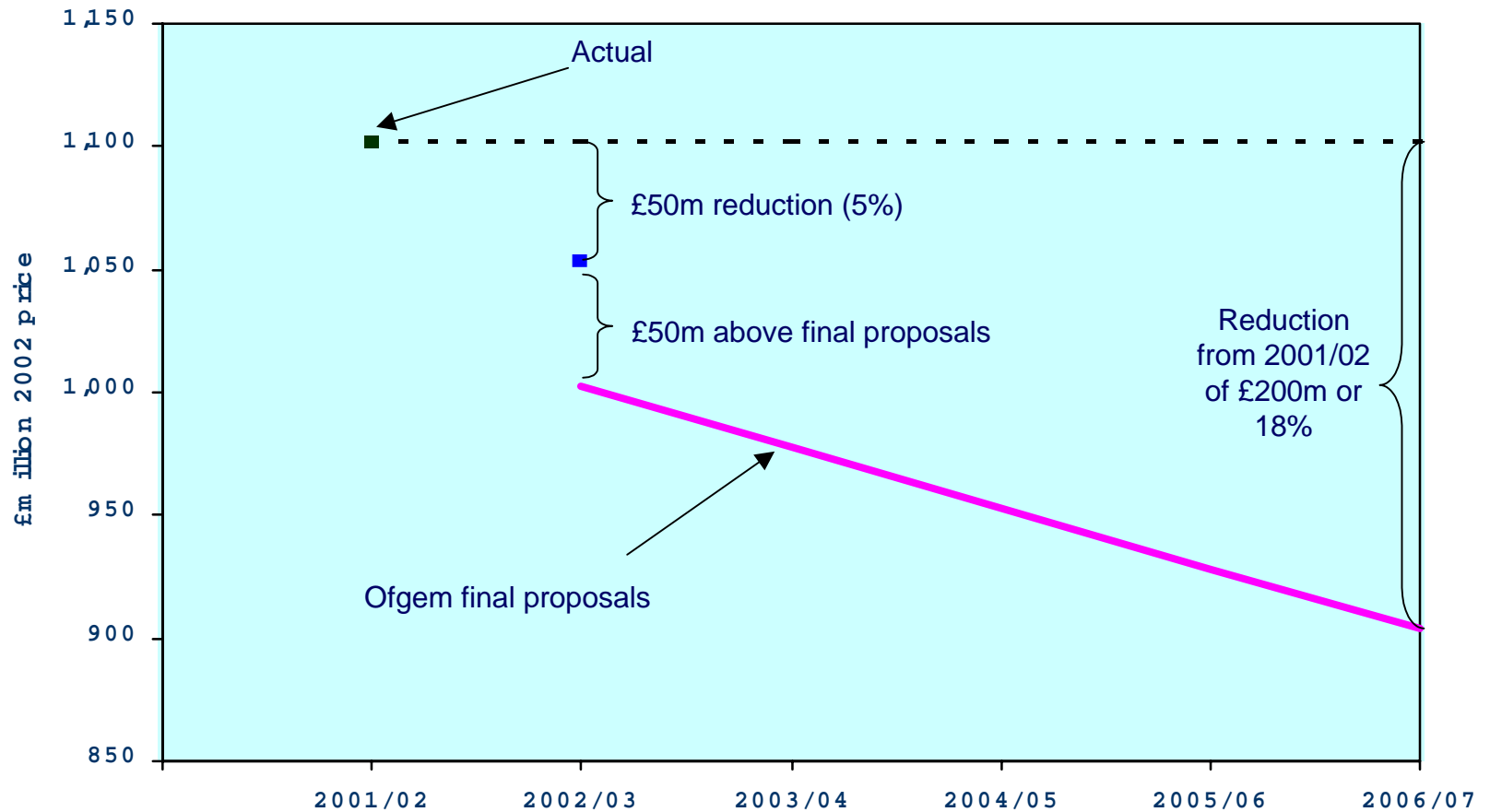
M P D I m a i n s d e c o m m i s s i o n e d
(K m)



January-December 2002

The opex challenge facing Transco is significant...

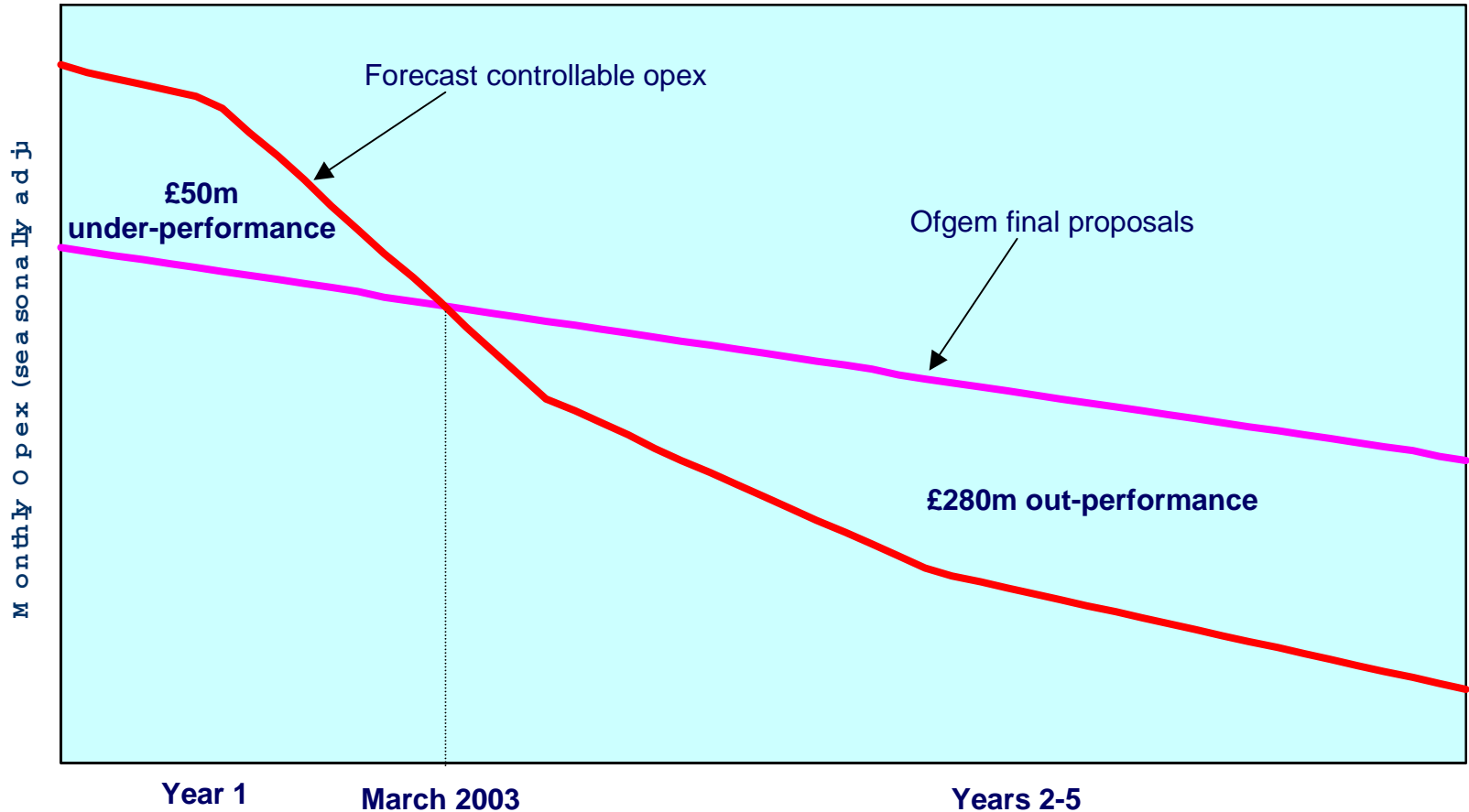
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Based on Controllable Costs excluding one-offs

However, Transco still expects to out-perform the formula by £230m on a cash basis, excluding restructuring costs

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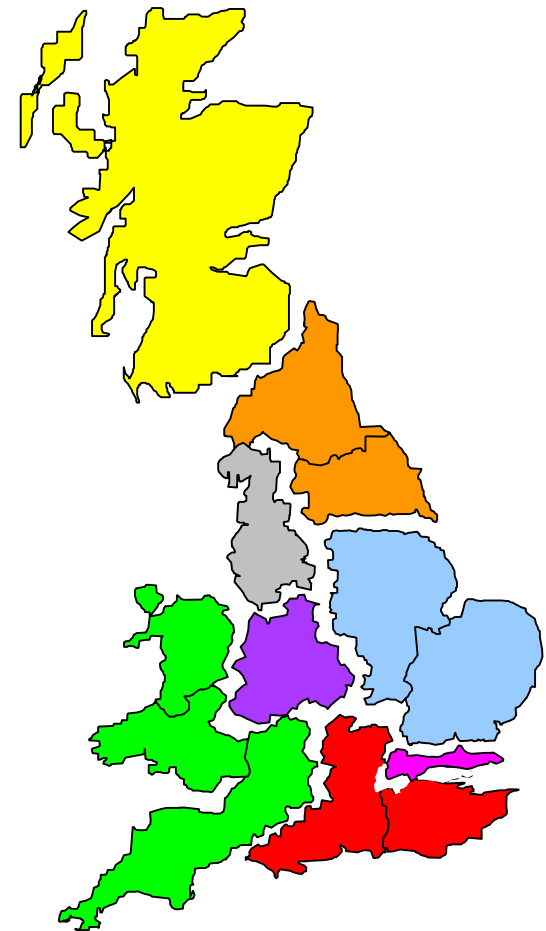


A significant element in achieving the targets will be the move to a National Transmission and Trading business plus 8 regional distribution networks

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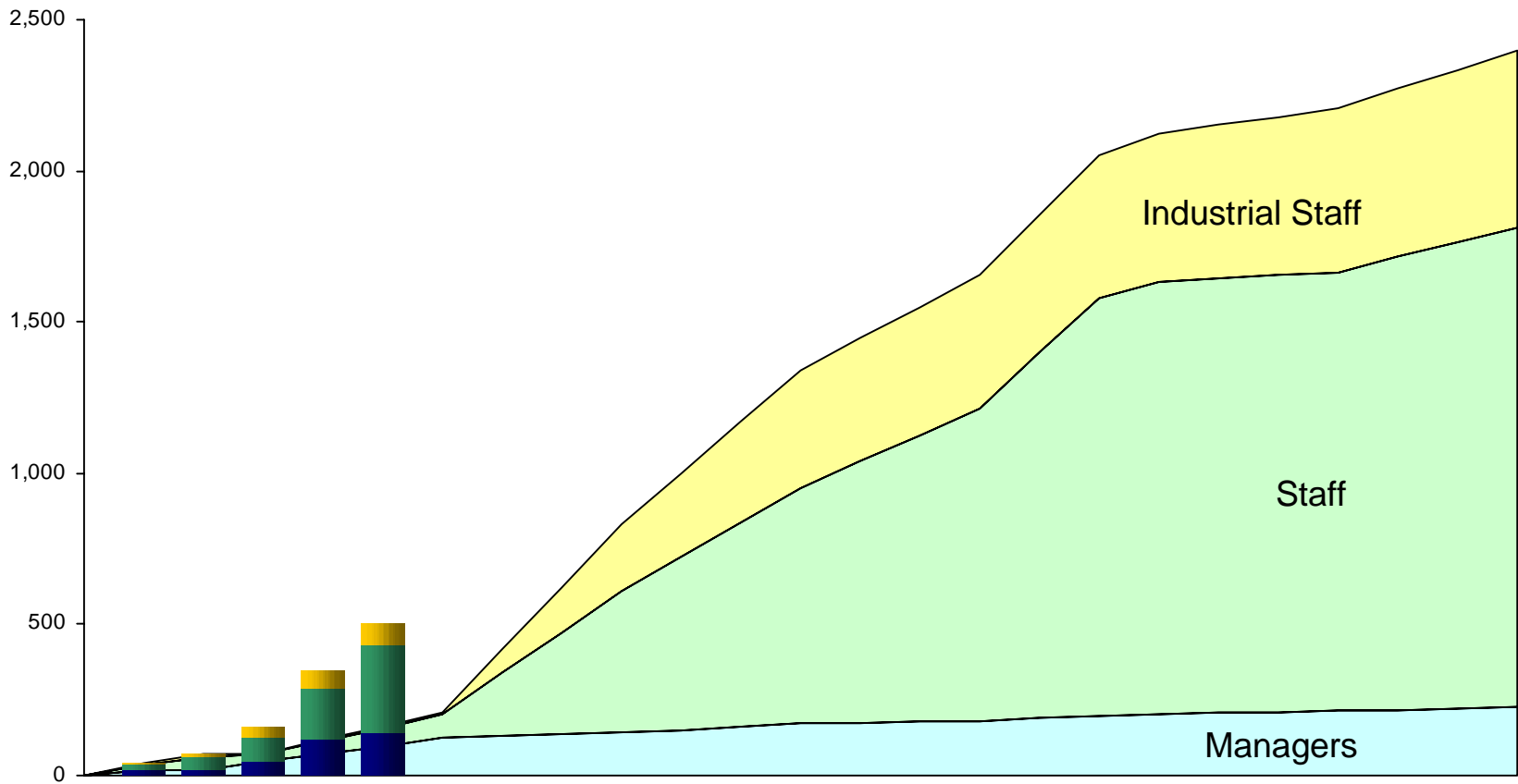
National Transmission



Networks

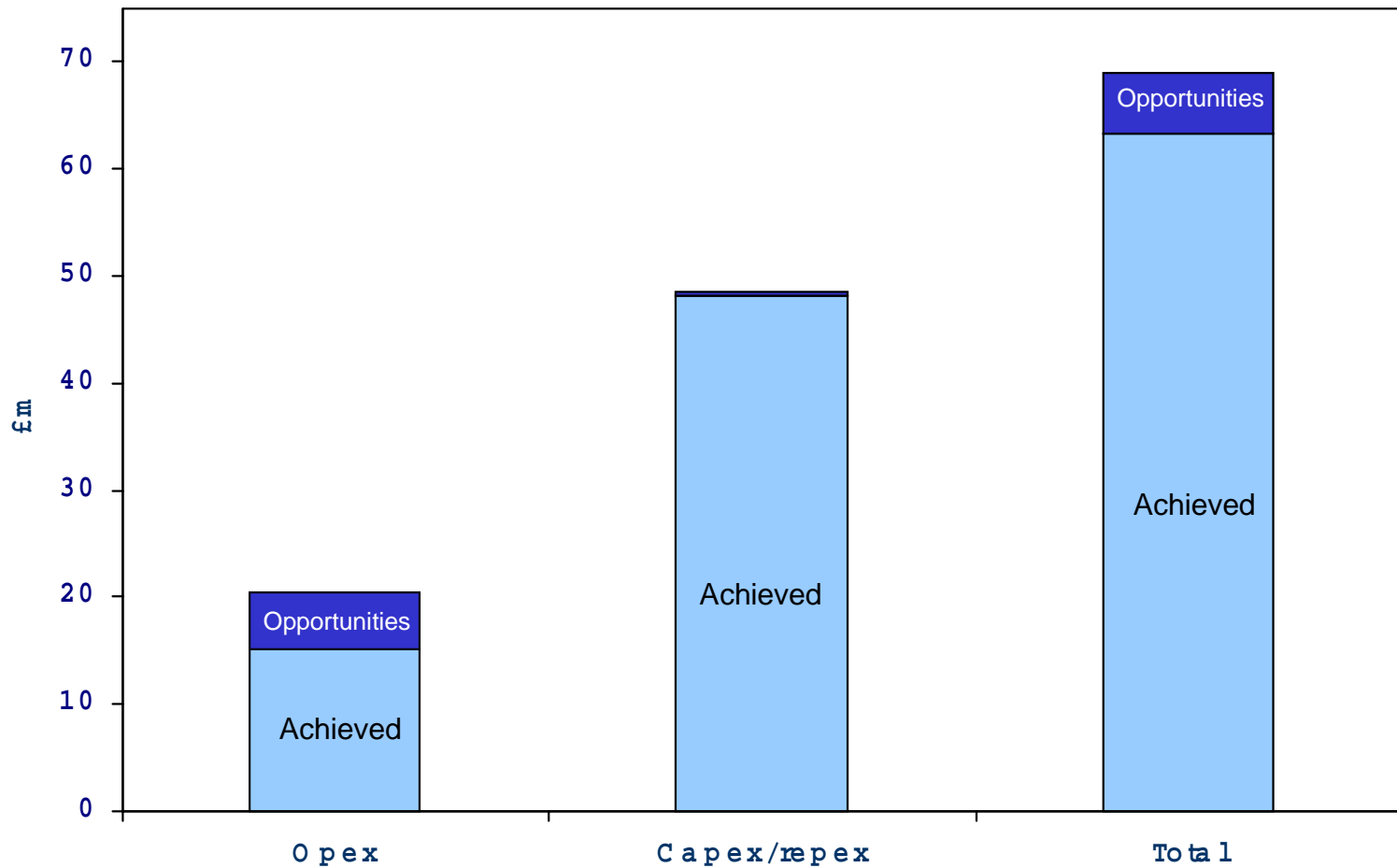
This will lead to a net reduction in direct resources of 2,400 by March 2004. Progress to date is ahead of target in all categories

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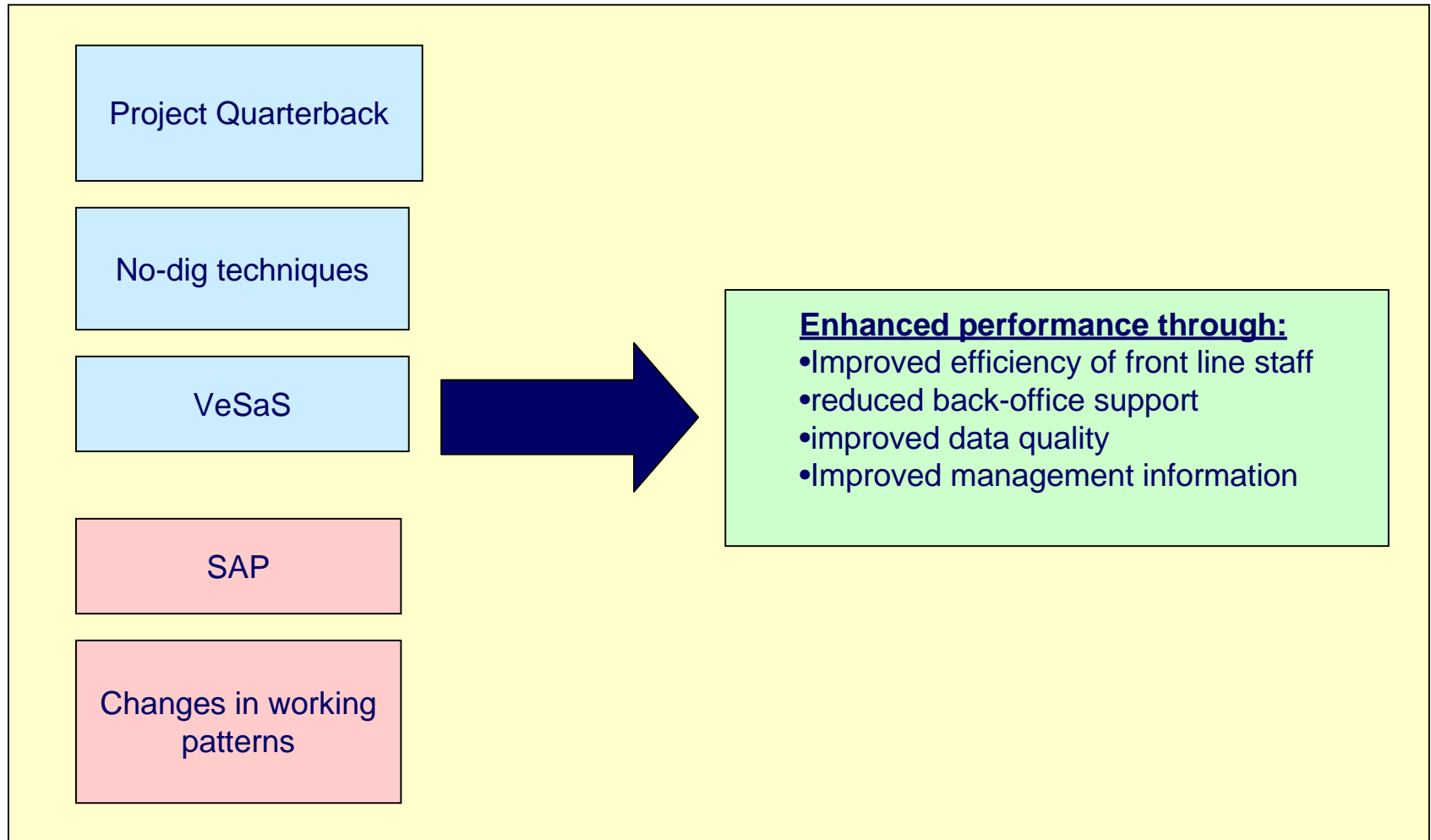
Further benefits will be delivered from the Procurement initiative. On an annual basis...

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Finally, we are using technology and changes in working patterns to achieve productivity improvements

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SAP provides an enhanced e-enabled “business infrastructure” which allows more efficient processes to deliver productivity benefits

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800 Professional Licenses

Paying 14,500 employees

7,000 Employee Self Service / Enterprise Buyer Professional Licenses

**Wave 1 implemented
20 May 2002 -
Replaced Support Services systems**

3,000 variable claims per month

12,000 purchase orders per month

15% of orders via catalogues, i.e. no buyer involvement

New working patterns will deliver further business benefits

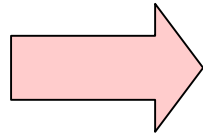
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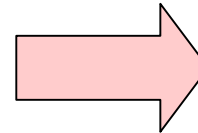
Currently

8.15am-16.30pm
Normal working hours

Outside of this
Stagger working or Overtime



Discussions with :
Trade Unions
Employees
HSE



Proposed

New working patterns will allow;

- a cost effective solution
- workforce flexibility
- Compliance with the Working Time Directive

Transco restructuring on track

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