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Dr Philip Nolan, Chief Executive, Lattice Group plc - Speech to the First Lattice Group Annual General Meeting

Introduction

Thank you John, and good morning ladies and gentlemen. It's a great pleasure to be with you at today's AGM.

Needless to say, the last six months has been all go. So today provides a good opportunity to draw breath - to take a step back and review the progress and prospects of the Lattice Group and its businesses. As John has said, the overall picture is one of impressive progress and achievement, although we are constantly striving to improve our performance and service standards.

Transco

First, let me turn to Transco, substantially the Group's largest business. As you saw in the video, Transco provides the physical infrastructure, the commercial arrangements and the complex information systems for Britain's fully competitive gas market – the largest and most advanced in Europe.

The British gas industry is facing a period of far-reaching change as it makes the transition from being largely self-contained and self-sufficient to a state of increasing linkage with the rest of Europe. Looking ahead to Britain's increasing dependence on gas imports, the gas infrastructure will take on the additional task of providing the flexible transportation capacity to enable British wholesalers to procure gas competitively from a diversity of sources. We will also need to manage the increasing inter-dependence between the gas and electricity supply networks as gas becomes the main fuel for electricity generation.

Transco has been an international leader in the development and application of technology and this has underpinned our drive for the highest standards of safety, reliability and efficiency in Transco's operations. Although Transco's roots go back to the 19th Century, today it is very much a 21st Century company, and a leading exponent of information technology and the Internet. It carries out roughly a million e-transactions each day, and operates one of the largest databases in the world.

The demand for gas transportation services has grown at an average rate of 8% a year over recent years. Last year saw an increase of 10%. Transco is now responsible for transporting about half the country's primary energy, more in winter.

Not only are we delivering more gas, but we are doing so more efficiently. As you can see, the unit operating cost for delivering gas has fallen steadily – 11% a year in real terms.

As well as this, we have maintained our already high standards of safety and customer service – for us, a prime objective.

Bear in mind that Transco's network includes some 24 million pipes laid in 800,000 streets which is why we are wholly committed to public safety and the continuous improvement of our safety management.

Last year, we accelerated the replacement of ductile iron mains with newer technology polyethylene pipe. In all, we replaced over sixteen hundred kilometres of mains and 154 thousand service pipes at a cost of some £250 million.

Reflecting the effectiveness of our drive to improve the safety of Transco's workforce, last year we reduced the rate of Lost-Time Injuries by 34%. One significant factor behind this was Transco's Safety Charity Challenge, which links the reduction of injuries and the identification of workplace hazards with donations to MENCAP/ENABLE, the charity for people with learning difficulties. By the end of 2000, the Challenge had raised almost one million pounds, and led to our winning an Industry Achievement Award for Investment in People.

At Group Board level we have reinforced our governance of safety by forming a Safety Committee under the chairmanship of non-executive director Sir David Davies, one of the country's foremost engineers and safety experts

And now to customer service standards where we again improved on Transco's already high performance levels. During the year, the three Call Centres that provide Transco's National Gas Emergency Service dealt with over six million calls for advice or emergency help. Despite the increased workload, the average response time was a few seconds, with 95% of all calls being answered within thirty seconds.

To deal with gas escapes and potential emergencies, we sent out our engineers on some four million visits. Again, Transco's engineers performed well, reaching 98% of uncontrolled gas escapes in less than an hour, and also 98% of controlled escapes within two hours. The target levels set by our Regulator, Ofgem, are 97%.

However, we profoundly regret that there were two fatal gas explosions during the year. They are still the subject of enquiries by the investigating authorities. This tragic reminder of the inherently hazardous nature of gas operations underscores our overriding commitment to be at the forefront of good practice in all aspects of safety.

Regulation

As the Chairman said, one of the Company's prime business objectives is to obtain a satisfactory outcome from the regulatory review which will set Transco's price control for the five years from April 2002. From the outset of the review, our aim has been to seek alignment between Transco's business objectives and the Regulator's priorities.

As part of this process, Transco has recently submitted its Strategic Business Plan for the next six years. This shows how Transco plans to deliver targeted improvements in safety, reliability of supply and customer service while continuing the drive for operational efficiency. The Plan addresses the wider structural and public policy issues facing the industry and their practical consequences. Against a background of considerable change and uncertainty, it foresees the need for a new cycle of infrastructure investment. This in turn reinforces the need for a stable, predictable forward-looking regulatory framework.

This framework must, above all, enable Transco to finance its increased investment programme by delivering adequate and reliable returns to investors and maintaining an appropriate credit rating.

Meanwhile, we are pressing ahead with our plans to pursue the transfer of those Transco assets and activities which can be separated out and placed in the competitive arena – such as Connections and Metering. This will improve performance in the existing businesses and help us to create new opportunities for profitable growth.

As regards Transco's core regulated assets, we are planning to create nine separate self-sufficient businesses. This will sharpen management focus, stimulate innovation and reinforce the drive for efficiency. The individual businesses will also be more responsive to the needs and priorities of the consumers and the public at large in the regions which they serve.

Telecoms

The Group's telecommunications ventures, established in 2000, show how we are extending our leading network management skills into new fields of opportunity.

The first major objective for 186k, our new fibre-optic network company, is to establish a state-of-the-art network linking 12 major centres of demand for high capacity broadband transmission. 186k – shorthand for 186,000 miles per second – signifies the capacity of fibre-optic technology to deliver vast amounts of information at the speed of light. We expect this to be the lowest cost and most technically advanced fibre-optic backbone network in Britain. We also believe it will play a key role in providing the telecoms infrastructure for 'broadband Britain'.

A combination of the wettest twelve months since records began and the outbreak of Foot and Mouth disease has set back our network construction plans. But, by reorganising our construction efforts and concentrating in areas without Foot and Mouth restrictions, we have been able to minimise this impact.

Our fibre-optic business provides other good examples of the potential to create significant value by combining existing assets with new ideas. We have recently concluded a joint venture with Thames Water to use its sewers as a low-cost means of bringing our hi-tech broadband telecoms network into the heart of London.

Our joint venture with the American company, Spectrasite, was also established in 2000 to provide multi-user towers and masts for servicing the fast-growing mobile phone market as it gears up for the next generation of technology.

400 sites, including 270 of the 700 masts and antenna previously operated by Transco, have already been transferred to the joint venture. We are also working on the transfer of industrial and commercial property for many more sites.

The joint venture is set to have 1,500 towers and rooftop masts in commercial operation by the end of the year.

Clearly, there is some public concern over the number of telecoms masts required to meet the future needs of the mobile phone market. Our practice of locating multiple users on each tower has the advantage of reducing the total number of towers required by the industry – to the benefit of the company and the public.

Other businesses

Our reputation for being at the forefront of technology and innovation is reflected in the awards won by Advantica, our research and technology services subsidiary. These have included:

- the prestigious Queen's Award for Enterprise;
- the Institute of Materials' Prince Philip Award for Polymers in the Service of Mankind;
- and, for the third year in succession, an Advantica employee was presented with the Engineer of the Year award.

This proud record is in the best traditions of the British gas industry.

A brief look across the achievements of the Group's other businesses shows the breadth and depth of our strengths. The Leasing Group has won a £320 million contract for the provision of vehicles, equipment and maintenance for the London Fire Authority over the next twenty years.

Lattice Property continues to reclaim contaminated sites that were previously used in the gas industry – returning them to beneficial use in the community – usually on a commercial basis but in some cases, as part of the process of maintaining good relations with the communities in which we work. For example, under the Millennium Parks Project, a park in Withernsea, Humberside was donated to the local community. The contribution made by Lattice Property and its staff was fittingly recognised when Phil Kirby, its General Manager, received an OBE in the Birthday Honours List for his work for the Government's Environmental Task Force.

Eastlands and Lattice Energy Services, two of our newer businesses, have been expanding their commercial operations to take advantage of growing opportunities in their respective sectors of integrated energy solutions and the outsourcing of pensions and payroll services.

At all levels in the Group, we are deeply committed to performance and delivery and, above all, we want to be judged on our record. To this end our businesses have successfully been achieving accreditation against the exacting requirements of both the British Standards Institute and the International Standards Organisation. Transco has maintained certification of its Environmental Management System to ISO 14001. Lattice Energy Services and Lattice Property have also now achieved certification. In addition, Lattice Property has achieved accreditation for ISO 9001, the Quality Management standard. And Eastlands has achieved accreditation for its Information Management and Security, ISO 11779.

Conclusion

The achievements I have spoken of today have only been made possible because of the efforts of the employees of the Group and its businesses. On your behalf, I would like to thank all of my colleagues who have shown such impressive commitment, dedication and professionalism in managing the changes and laying the foundations for the future success of the Lattice Group.

Thank you.