

Our Ref: MWF/CO:935800.1

22nd April, 2002

Ms Lisa Vango  
Ofgem  
9 Millbank  
London SW1P 3GE

Dear Ms Vango,

## **RWE Group's proposed acquisition of Innogy Holdings plc - Ofgem consultation paper**

This is the response of RWE AG (*RWE*) to the Ofgem consultation paper issued on 17th April, 2002 entitled "RWE Group's proposed acquisition of Innogy Holdings plc".

You indicate in the consultation paper (paragraph 5.4) that RWE's proposed acquisition of Innogy does not appear to raise concerns in any of the relevant sectors in which overlap occurs, namely electricity generation, electricity supply, gas supply and gas shipping. RWE agrees with that assessment. Indeed, in RWE's view it is clear that this transaction will have no adverse effect on competition in any markets within Great Britain, as the extent of overlap between RWE and Innogy is plainly *de minimis*. It follows that there will be no change in market structure as a result of the transaction. Nor does RWE believe any other competition or regulatory issues arise from the points mentioned in the consultation paper.

Although there is little doubt that convergence between British and continental European energy markets will increase in the future with increasing physical interconnection, RWE's view is that at present we are some way away from a Europe-wide energy market. For the foreseeable future, RWE considers that there is no scope for RWE to use its continental businesses to influence competition in Great Britain.

Moreover, given the very limited presence of RWE in the relevant upstream markets, RWE does not consider that the very modest increase in vertical integration to which this transaction gives rise will have any effect on competition in any markets in Great Britain. The increase in vertical integration resulting from RWE's indirect ownership (through Thames Water) of generation assets in Great Britain is negligible (less than 0.06%), whilst RWE's gas exploration and production market share is also extremely small (less than 0.05% of EEA natural gas production).

Similarly, RWE does not believe that any competition issues arise in relation to water metering services.

Yours sincerely,



**M.W. Friend**

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