

Energy Intensive Users Group

British Cement Association
British Glass Manufacturers Confederation
Gypsum Products Development Association
Major Energy Users Council
UK Steel Association

British Ceramic Confederation
Chemical Industries Association
Kaolin and Ball Clay Association
The Paper Federation of Great Britain
Energy Information Centre

Lisa Vango
Ofgem
9 Millbank
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22 April 2002

Dear Ms Vango

Response to Consultation – RWE's Proposed Acquisition of Innogy

We have three primary concerns about the acquisition of Innogy by RWE: the potential for creating dominant players at a European level, the impact of creeping consolidation within the UK electricity market, and the impact on demand-side participation in the UK.

1. Dominance within the European Market

EIUG expects the European Commission to take a robust line when determining whether this acquisition would strengthen a dominant position within the European energy market. RWE has a position of considerable market power within Europe and acquiring Innogy would clearly enhance that position. EIUG questions whether further consolidation around a few very large, vertically integrated utilities is conducive to the development of a competitive European energy market.

2. Consolidation in the UK Electricity Market

The recent trend has been towards greater consolidation in the UK electricity markets. The statement made about competition in section 5 of the consultation document ("Competition in the GB energy markets has generally developed well and is continuing to develop") therefore appears to be out of date. EIUG is concerned about creeping horizontal and vertical integration, each stage of which may initially seem innocuous but which, when taken as a whole, can be expected to inhibit effective competition in the longer term.

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3. Impact on Demand-side Participation

In response to the consultation on the acquisition of Yorkshire Energy by Innogy a year ago, we warned that there would be adverse consequences for demand-side participation in the electricity market. Subsequent developments have proved that our concerns were well founded. There were signs that RWE Trading might resurrect the innovative role previously played by Yorkshire Energy in encouraging and facilitating demand-side participation, but this must now be in doubt given the commercial interests of the much larger Innogy generation and supply business with which it will effectively merge. We believe that the impact on future demand-side participation ought to be taken into account when determining whether the acquisition should be allowed to proceed.

Yours sincerely

Jeremy Nicholson
Economic Adviser