



**TXU Europe Energy Trading  
UK Trading**  
Wherstead Park  
PO Box 40, Wherstead  
Ipswich, Suffolk, IP9 2AQ England  
Tel: + 44 (0) 1473 554301  
Fax: +44 (0) 1473 555915  
Email: [brian.fisher@txu-europe.com](mailto:brian.fisher@txu-europe.com)  
Mobile: 07879 802134  
Web: <http://www.txu-europe.com>

Mr Iain Osborne  
Director Supply  
Office of Gas and Electricity Markets,  
9 Millbank  
London  
SW1P 3GE  
[Iain.osborne@ofgem.gov.uk](mailto:Iain.osborne@ofgem.gov.uk)

24th June 2002

Dear Mr Osborne,

**Consultation: Restriction on Self-Supply Initial Proposals**

Thank you for the opportunity to respond to this consultation.

The removal of the restriction on self supply in today's competitive electricity market is sensible, particularly given the abolition of price controls on supply. Also with increasing liquidity and competition in supply resulting in substantial changes in market share this constraint can only distort the market. For example, the restriction does not apply to British Gas Trading.

Given the large switching rates in the retail market, we do not believe that electricity suppliers are able to raise prices independently of the competition. Pricing decisions are taken according to market conditions and while a supplier's real operational and external contractual cost base will affect their behaviour and similar issues will affect the behaviour of others, there is no connection between any use of self-supply and these factors.

As the Ofgem paper points out, Ofgem's powers under competition law are the most effective means of addressing suspected anti-competitive behaviour.

I attach in the Annex to this response answers to the specific questions raised in the consultation paper.your

I hope you find this helpful.

Yours sincerely,  
Brian Fisher  
UK Trading Regulation Manager

## **Consultation: Restriction on Self-Supply Initial Proposals**

***Do you agree that all the arguments for retention or removal of the restriction are relevant?***

### ***Generation market power***

Given the volume of OTC trading since NETA was introduced it is unlikely that buying at prices above the market price will have an impact on market liquidity and prices

### ***Distributed generation, independent generation and suppliers***

Self-contracting is not a relevant issue in considering whether to purchase from small generators

### ***Disproportionate requirements for future enforcement***

We agree that there are potentially significant regulatory costs involved in policing this restriction, costs that inevitably will ultimately be borne by retail customers without any corresponding benefit

***Do you agree with the factual assessment Ofgem has used to evaluate these arguments?***

The arguments put forward by Ofgem are appropriate – the market has changed out of all recognition since the introduction of these restrictions. Well over 32% of customers have switched supplier and between April 2001 and March 2002 there were 26,755 reported OTC trades, accounting for 962 GW of volume across 341 contract types (corresponding figures for April 2000 – March 2001 were 8,445 OTC trades accounting for 280 GW of volume across 138 contract types)

***Can you assist Ofgem in quantifying the advantages and disadvantages of the restriction?***

This is difficult – but the rationale to remove the inequitable restriction prevails

***Do you agree with Ofgem's analysis of the non-enforceability of the restriction?***

The collection and analysis of market data to monitor the ongoing effectiveness of the restriction would presumably result in further increases in market monitoring personnel beyond those already dedicated to market surveillance at Ofgem. This would not be seen as an effective use of analytical resource. As the Ofgem paper points out, Ofgem's powers under competition law are the most effective means of addressing suspected anti-competitive behaviour.