



Mr Iain Osborne
Director, Supply
OFGEM
9 Millbank
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9th July 2002

Our Ref: I:\energy\elec\johnm\selfsupplyrestriction

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Dear Mr Osborne

Restriction on Self Supply Initial Proposals

We refer to OFGEM's consultation on the above. We write to advise we have reservations concerning OFGEM's proposals as detailed below:-

1. Wholesale Electricity Market Liquidity

Although liquidity in wholesale electricity trading may be currently sufficiently strong for OFGEM to consider removing self supply restrictions, we believe that OFGEM should also be mindful of what is likely to happen in the future as the enduring consequences of Enron's collapse become clearer. Our view is that liquidity in the wholesale electricity market may reduce sharply in future months due to widespread concerns over counterparty creditworthiness. We understand that there are already problems with a lack of liquidity in the German wholesale electricity market as a result of Enron's collapse, whilst in the UK it seems likely that consolidation among wholesale trading companies may occur which would add to problems resulting from counterparty creditworthiness concerns. If there is a sharp drop in the liquidity in the wholesale electricity market in the future, OFGEM may find itself removing self supply restrictions at a time when measures are most needed to support wholesale market liquidity from a competition and customer perspective.

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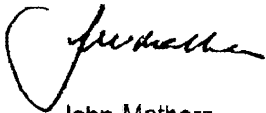
2. Industry Structure : Vertical Integration

At the time of electricity industry privatisation there was little or no vertical integration between generators and suppliers. In the years following privatisation, as OFGEM will be well aware there have been repeated mergers and / or acquisitions between generators and suppliers. As the consultation document points out, in order to protect the interests of customers and support the development of competition, OFGEM required suppliers who acquired generation capacity to agree to the self supply restriction. Today as vertical integration and supplier consolidation continues to be a major feature of the UK electricity market (eg Innogy with Northern Electric/Yorkshire Electricity/Midlands Electricity, TXU with Norweb etc) it is difficult to see how customers will materially benefit from OFGEM's proposal to remove existing self supply restrictions.

OFGEM may wish to consider retaining self supply restrictions until competition in electricity supply improves and also wholesale market liquidity is more assured following Enron's collapse.

If you have any queries on our submission please contact me.

Yours sincerely,



John Mathers
Manager, UK Energy Contracts