

**Innogy plc**

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By e-mail only



Iain Osborne  
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8 July 2002

Dear Iain,

**Restriction on self supply: initial proposals (May 2002)**

This follows Chris Bowley's letter of 14 May enclosing the above document and his request for any comments by today.

In keeping with other parties and previous responses on this subject, Innogy welcomes Ofgem's proposal to remove the restriction on self-supply. Not least because when the restriction was introduced, PESs served all in-area domestic customers and suppliers and generators had only just begun to integrate. As Ofgem point out, the market place is much different now with competition well established in both retail and wholesale electricity markets. This evolving market has created distortions and inconsistencies as not all electricity suppliers with generation affiliates have a self-supply restriction and there is no equivalent restriction within gas supply licences where gas suppliers have related wholesale interests. Innogy firmly believes that these factors all support the restriction's removal.

In practice, companies with this restriction within their licences will probably have to modify existing IT systems and procedures in order to comply. This places an extra cost on those companies and increases the risk to them of making erroneous errors when sending contract and physical notification data. This is a restriction on competition rather than aiding it, which is the objective.

The prospect of Ofgem having to analyse masses of additional contractual information that it does not currently routinely collect goes against the trend of regulators withdrawing from areas where regulation is no longer appropriate. Instead Ofgem would require additional resources and licence conditions to retain a restriction which appears to be no longer relevant.

Innogy supports Ofgem's view that the general powers and sanctions under general competition law, available through the Competition Act and the general oversight of the NETA process, enable Ofgem to deal with any suspected anti-competitive behaviour more effectively than through a self-supply restriction. Furthermore this approach is consistent with both Ofgem and other regulators using more general legislative powers rather than sector specific ones within the licence regime to address competition issues.

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We hope you find the above comments helpful.

Yours sincerely,

Steve Hodges

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