

Our Ref DB/lh/4100

05 March 2003

Dr Eileen Marshall
Managing Director – Competition and Trading Arrangements
Office of Gas and Electricity Markets
9 Millbank
LONDON
SW1P 3GE

Dear Dr Marshall

Electricity Generation Standard Licence Condition 18: - Generating unit availability. Consultation Document.

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce some 90% of UK coal output, the great majority of which is sold to the electricity generating industry. CoalPro therefore takes a close interest in all matters affecting that industry.

CoalPro understands the rationale behind Powergen's applications to disapply certain provisions of SLC 18. We cannot, however, accept Ofgem's provisional view to accept one of these requests.

Powergen's applications have validity only in the context of the present, highly fragmented, electricity generating industry. This fragmentation, together with the fall in wholesale electricity prices, has resulted in a number of companies finding themselves in financial difficulties.

A likely market response is that there will be significant consolidation in the industry. Power stations with owners in financial difficulties can only be acquired by the larger, financially strong, players. Indeed, such consolidation has already commenced as illustrated by Powergen's own acquisition of TXU's generating capacity.

It is probable, therefore, that there will be a re-emergence of significant market power concentrated in the hands of a small number of dominant companies intent on manipulating the market to increase prices. Power station closures and departures from planned availability represent two important mechanisms by which this could be achieved. CoalPro does not consider that Ofgem's other powers are adequate to prevent this occurring.

CoalPro is of the view, therefore, that option 4 represents the only way forward that will ensure proper safeguards remain in place and that SLC 18 should be "switched on" in all Electricity Generation licences.

Yours sincerely

D Brewer
Director General
Confederation of UK Coal Producers