

## **Introduction**

Centrica plc was formed in February 1997 when the former British Gas plc was demerged to form BG Group and Centrica. It is the UK's largest energy supplier, supplying around 10 million gas and 6 million electricity customers in the domestic sector. Centrica also owns upstream gas production and power generation assets to support its supply businesses.

British Gas is a major employer in Wales with around 2700 employees, of which 1700 are based at our Cardiff office. In addition we also have an upstream presence in Wales. Our 230MW gas-fired power station in Barry employs 30 people and provides enough electricity to power around 200,000 homes.

British Gas welcomes the opportunity to submit written evidence to the Welsh Assembly Government Sustainability Committee as part of its evidence session into fuel poverty in Wales.

## **Background to Rising Energy Prices**

Britain has been a net importer of gas since 2004 and with sources of UKCS declining, is increasingly dependant on international and more expensive sources of energy.

Britain has a highly liquid, competitive energy market, however as we import more gas from the continent we are now linked with highly illiquid, uncompetitive European energy markets, resulting in volatility in the wholesale price of gas.

Following increases in wholesale energy prices, British Gas took the difficult decision to increase the retail cost of gas and electricity by 15% in January of this year.

In the Spring of last year, British Gas was the first supplier to pass on reductions in wholesale prices to consumers by reducing retail gas prices twice by a total of 20%. However, since then wholesale energy prices have once again risen sharply and the forward gas price for 2008 has increased by 47% and electricity by 54%.

In the last six months of 2007, higher wholesale costs have reduced our operating margins to around one per cent and with wholesale price at their current levels, British Gas would have been loss making in 2008 without increasing prices.

It is vital that British Gas – and Centrica as a group – continues to generate profits in order to fund future investments in gas and power supplied for our customers. Centrica has committed to investing £900 million in this year alone in new sources of gas and electricity and this will rise to £2 billion by the end of 2009.

### ***The UK's Energy Market***

Research by the energy consultancy Oxera released by the Government earlier this year shows that the UK energy market is the most competitive in both the EU and G7 and that UK consumers have consistently benefited from amongst the lowest energy prices in Europe.

As the Government has acknowledged: “While it is true that wholesale energy prices are rising, greater choice and transparency are clearly the best protection against these costs being disproportionately passed onto consumers<sup>1</sup>.”

There have been record levels of switching with in excess of 100,000 domestic consumers switching supplier each week, and over 4 million (some 20% of customers) switching in 2006 alone<sup>2</sup>. This is in comparison with only 9.2% domestic electricity customers who have switched in Germany and only 1.3% of total gas volumes (no customer figures published)<sup>3</sup>.

Since 2001, the UK’s energy market has been reviewed on numerous occasions including by the European Commission, Ofgem, BERR and the House of Commons’ BERR Select Committee and the problems have consistently shown to be with Continental energy markets rather than the UK<sup>4</sup>. In fact the European Commission itself has found Europe’s energy markets to be “dysfunctional” and is currently pushing a third set of directives through to ensure full liberalisation.

### ***The Importance of European Liberalisation***

Centrica has been calling for faster progress on liberalising energy markets in Continental Europe to break the historic link between gas prices and oil prices and provide greater long-term price stability to the UK energy market. Within the energy sector, the Government estimates suggested that insufficient liberalisation of EU gas markets cost European energy consumers an estimated £40 billion in 2007<sup>5</sup>. A recent study by Copenhagen Economics estimated that market opening in electricity could reduce prices in the EU15 by 13%<sup>6</sup>.

## **Fuel Poverty - Overview**

Much progress has been made in recent years in tackling the problem of fuel poverty. Since 1996 there has been a reduction in the number of fuel poor from 4 million in 1996 to 2.5 million in 2005, which is the most recent year for which figures are available. According to the latest figures available, there were 130,000 households in Wales living in fuel poverty in 2004 (11% of total households), compared to 360,000 in 1998<sup>7</sup>.

However, recent figures show that the number of households in fuel poverty has been rising and now stands at around 4 million. Projections on 2004 data for 2005 and 2006, estimate that there were 166,000 households in fuel poverty in 2005 and 243,000 in 2006 in Wales<sup>8</sup>. The Welsh Assembly Government’s target to eradicate fuel poverty amongst vulnerable households, “as far as reasonably practicable,” in Wales by 2010 therefore looks increasingly challenging.

---

<sup>1</sup> BERR Press Release, 31<sup>st</sup> January, 2008

<sup>2</sup> Ofgem Domestic Retail Market Report, June 2007

<sup>3</sup> Monitoring Report 2007 published by the Federal Network Agency, November 2007

<sup>4</sup> These include: DTI November 2001- Consultation into concerns about gas prices and possible improvements to market efficiency; March 2002 European Commission Investigation into the operation of the IUK gas pipeline; Nov 2003 Ofgem investigation into wholesale gas price rises; Nov 2003 - FSA investigation into price fluctuations; November 2004 - Gas Probe into flows of gas from Sean fields; June 2005 EU Competition Directorate sectoral inquiry into EU's gas and electricity markets

<sup>5</sup> HM Treasury Press Release, 30 January 2007

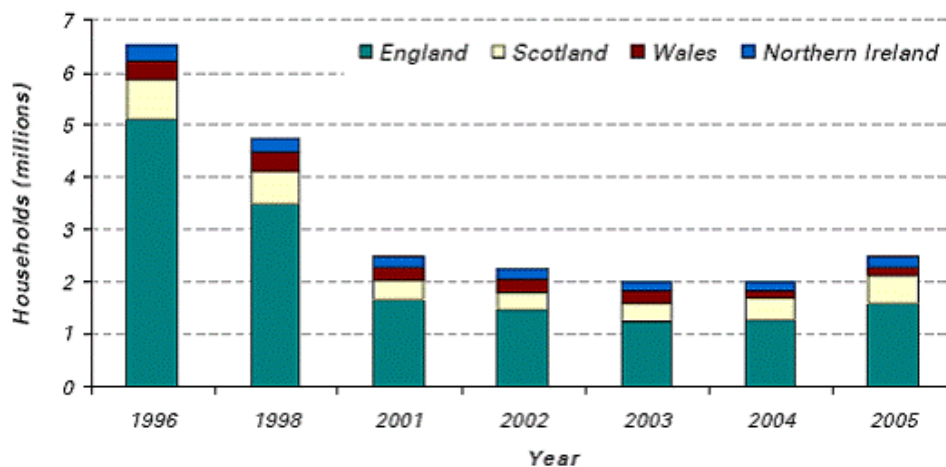
<sup>6</sup> “Europe: Its Your Business, the Economic Case,” BERR, January 2008

<sup>7</sup> UK Fuel Poverty Strategy 5<sup>th</sup> Annual Progress Report, BERR, 2007

<sup>8</sup> Ibid.

## 1. The number of households in fuel poverty

### a) Estimated total number of households in fuel poverty



(Fuel Poverty Monitoring – Indicators 2007,” annex to “UK Fuel Poverty Strategy Fifth Annual Progress Report 2007”

It is important to remember that fuel poverty is caused by a complex interaction of quality of housing stock, household income and energy prices. As the UK becomes increasingly dependent on international and more expensive sources of energy, we can no longer rely on cheap energy prices to reduce fuel poverty rates as in the past.

### Centrica and Fuel Poverty

Centrica is firmly committed to playing its part in helping vulnerable and fuel poor customers through voluntary programmes as part of our corporate social responsibility agenda. Since 2002, we have helped over 1.3 million fuel poor customers.

We contribute the most of all the energy suppliers towards fuel poverty measures. In fact, around £7 in every £10 spent by energy suppliers on vulnerable customers initiatives is spent by British Gas.

A recent report from energywatch reviewing the six main energy suppliers voluntary initiatives for vulnerable and fuel poor customers found that “British Gas has and will have made the most significant voluntary commitment to measures to reduce the impact of fuel bills on its vulnerable customers.” In addition, the report found that at 0.49%, British Gas already contributes the largest proportion of turnover of all suppliers with the next highest, Edf at 0.16% and npower and SSE at 0.07%<sup>9</sup>.

Energywatch has calculated that if all other energy suppliers matched British Gas’s spend as a percentage of turnover, another £72.3million would be spent on fuel poverty<sup>10</sup>.

<sup>9</sup> “Proportionality of social tariffs and rebates paper for energywatch”, Cornwall Energy Associates (Jan 2008)

<sup>10</sup> Ibid.

### ***Carbon Emissions Reduction Target (CERT)***

CERT is a replacement for EEC (Energy Efficiency Commitment) and requires all Energy suppliers to commit income to implementation of Energy Efficiency measures. This is part contribution towards the Government's stated target of reducing carbon emissions by 60% by 2050.

Energy suppliers currently offer a range of programmes through the Carbon Emissions Reduction Target (CERT) programme to support the fuel poor. Under CERT, vulnerable households are eligible for free insulation and energy efficiency advice from their energy suppliers. The UK Government is anticipating that 2.5 million insulation measures will be installed in vulnerable households during the CERT period from 2008-2011 under a doubling of the previous programme. This could potentially save householders up to £200 per year on their fuel bills, a significant saving for a fuel poor household.

***Outlined below are some of the specific measures which Centrica has in place to tackle fuel poverty and help its vulnerable customers.***

### ***Essentials Social Tariff***

British Gas's *Essentials* social tariff is the largest on the energy market and offers up to 750,000 of our customers access to our lowest offline direct debit tariff rates. We also delayed the recent price rise for the 340,000 customers currently on our *Essentials* tariff, until after the worst of the winter months.

Our *Essentials* tariff is open to customers in receipt of at least one of a number of Government benefits which include pensions credit, disability living allowance and income support. We have previously written to all Assembly Members to make them aware of the tariff and to urge them to make sure their constituents who may be eligible apply to the *Essentials* tariff.

### ***British Gas Energy Trust***

We have also extended our financial commitment to the British Gas Energy Trust for a further four years, bringing our total investment in the Trust to £21.3 million. The Trust provides grants and sustainable advice to help customers on debt pay their utility bills.

The Trust, established in 2004, is run independently of British Gas and is a registered charity. In 2006, the Trust awarded around 4,000 grants with a total value of £1.5 million. To date, over £5m has been awarded to over 12,000 applicants needing help with their bills.

### ***Warmer Winter Initiative 2007-2007***

This winter we have also offered 25,000 of our most vulnerable elderly customers an additional support package. This initiative includes free loft and cavity wall insulation, a credit of up to £90 and advice for customers on how to manage their energy use and finances.

### ***'here to HELP'***

'Here to HELP' is a unique coalition between the public, private and charity sectors and is the largest social initiative of its kind in the UK. The scheme offers free insulation, a benefits assessment and other free products and services from our charity partners, depending on individual circumstances. The charity partners we work with are as follows:

- Help the Aged - the leading national charity working on behalf of older people
- RNIB - the UK's leading charity offering practical support and advice to anyone with sight problems
- Scope - the national disability charity, focusing on people with cerebral palsy and related disabilities. In Scotland, it is working with Capability Scotland, the leading disability charity in Scotland
- National Debtline - part of the Money Advice Trust. It provides a free, confidential and independent telephone helpline for people with debt problems in England, Scotland and Wales
- Save The Children - the leading international children's charity working to make a lasting difference to the lives of vulnerable children

To date the scheme has signed up over 580,000 homes, helping 1.9 million individuals throughout the UK and has found unclaimed benefits totalling nearly £10.4 million. On average, qualifying applicants are over £1,400 a year better off as a result of the benefit health check alone.

In Wales, there are 10 here to HELP schemes. To date, we have delivered 45,000 household improvements. In Cardiff, we have also recently exceeded the £1m mark in assisting residents to claim previously unclaimed benefits.

### ***Free Insulation to those Aged over 70***

To help reduce the impact of rising costs and address carbon emissions from the domestic sector, British Gas has rolled out a new free insulation programme. Under CERT, British Gas is offering to insulate any UK home belonging to someone who is over 70 years old at no cost to the householder. The 'no means testing' approach to the scheme could see up to 1.7 million homes receiving free roof and cavity wall insulation.

British Gas also offers a sliding scale of subsidy for the installation of insulation to those aged under 70s, relative to their ability to pay.

### ***Social housing scheme***

British Gas is committed to working with social housing providers not only in tackling fuel poverty but also the championing of the efficient use of energy. The British Gas Social Housing Scheme is a fully flexible national programme, which is adaptable to local authority requirements and we work with providers to ensure eligible households receive free energy saving products and services. To date, British Gas has partnered with 33 social housing providers throughout Wales to deliver over 50,000 material improvements to vulnerable households.

### ***British Gas Home Energy Care Register***

The British Gas Home Energy Care Register provides essential services for some of our most vulnerable customers. Almost 560,000 customers now benefit from the service, which provides free annual gas safety checks and specially designed appliance controls and adaptors for older people, people with disabilities and those who are chronically sick. It also provides a password scheme for added security.

### ***British Gas ExtraCare***

British Gas has given a voluntary public commitment not to disconnect anyone we know to be vulnerable. Extracare is the process we have adopted to proactively identify signs of vulnerability among our customers. Once we identify someone as being an ExtraCare customer, we will:

- Encourage the customer to take advantage of our fuel poverty / energy efficiency measures

- Promote our social initiatives such as Essentials and Here to Help
- Encourage customers with an energy debt to seek financial grants from the British Gas Energy Trust
- Promote membership of our Home Energy Care scheme
- Refer the customer to Social Services if appropriate, for additional support

### ***Home Heat Helpline***

The national Home Heat Helpline was launched in 2005, offering help to customers struggling to pay their energy bills. The service is run by the Energy Retail Association and is funded by British Gas and other major energy suppliers. It gives one point of contact, connecting customers to advice and help from their energy supplier. A specialist British Gas team takes the calls from British Gas customers and connects them to the most appropriate support.

## **The Role of Government in Tackling Fuel Poverty**

Both government and energy suppliers have an important role to play in tackling fuel poverty. Fuel poverty is part of a wider problem of poverty and social exclusion which is an issue for government and requires a focus on increasing incomes and improving housing. However, suppliers play a part both through requirements placed on them by Government, such as the Carbon Emission Reduction Commitment (CERT), and through their corporate social responsibility (CSR) activity.

### ***Budget 2008***

In the Budget statement of the 12<sup>th</sup> March, the Chancellor announced that he wanted suppliers to increase their spend on social tariffs from £50million to £150million per annum. He also stated that 5 million customers on prepayment meters should be given “a fairer deal.”

This announcement reflects a worrying tendency towards short-term fiscal interventions or now even the suggestion of price controls for certain groups of customers in what is held to be a competitive market. Such intervention is contrary to the spirit of liberalised markets and could undermine investor confidence and even risk jeopardising construction of the critical generation and gas supply infrastructure we need. The announcement also comes at a time when the Government has recently reduced its spending on fuel poverty by cutting the budget for Warm Front which it acknowledges to be its main weapon for tackling fuel poverty by 20%.

We remain opposed in principle to any form of social tariff mandation; however, if legislation is brought forward and social tariffs are introduced in the Energy Bill we believe that our *Essentials* social tariff, referred to above, should be used as the industry standard. At the time of writing, discussions are ongoing between Government, Ofgem and energy suppliers in an attempt to reach a voluntary solution.

### ***The Importance of Data Sharing***

Whilst we remain opposed in principle to any form of social tariff mandation, however, if legislation is brought forward to mandate social tariffs, we believe that our *Essentials* social tariff, referred to above, should be used as the industry standard. Identifying vulnerable and fuel poor customers has always been a challenge for the industry and it is keen to share more data with Government Departments to help improve targeting. Currently there is huge wasted effort and associated cost from searching for these customers and without access to benefits data to more accurately target eligible households these costs will escalate substantially. We are

keen to work with the DWP in achieving a greater level of access to DWP benefits data to enable us to better target the fuel poor. This will help to ensure that a greater proportion of the money invested in addressing fuel poverty goes to providing financial assistance rather than to funding targeting and marketing initiatives. We would naturally welcome a constructive dialogue with the Sustainability Committee to identify ways in which more households in Wales can be more effectively targeted.

### ***Benefits Take Up***

A recent study undertaken by the London School of Economics on behalf of the British Gas Help the Aged Partnership shows that individual pensioners could be losing up to £50,000 on benefits over a lifetime by not claiming their entitlement. These benefits currently sit in the Government's pot of £4.5 billion unclaimed benefits for older people, but 1 in 3 pensioners are not aware of who to turn to for help and advice on how to access these entitlements which could amount to between £5,000 and £50,000 per individual over a lifetime.

### ***Targeting the Winter Fuel Payment***

Currently everyone over the age of 65 receives an annual payment of £200 increasing to £300 for the over 80s, irrespective of income. This contribution goes some way to cover the annual cost of energy bills but often is not used to pay energy bills. We believe that winter fuel allowance should be paid directly to suppliers so that we can offset this against their energy bills.

### ***Equalisation of Prepayment meter tariffs***

It is important to note that prepayment meters are not synonymous with fuel poverty. According to Ofgem, only 25% of the fuel poor use prepayment meters whilst 75% of fuel poor customers pay by either standard credit or direct debit. Therefore 80% of PPM customers are not fuel poor<sup>11</sup>. Many customers choose pre-payment as a means to manage their bills. In addition, many pre-payment meters are used by those with second homes, in rented holiday homes, or in buy to let properties.

Pre payment meters have a higher cost to serve through renting the meters, collecting cash payments, providing a 24/7 contact service and managing higher call volumes. According to Ofgem figures, there can be as much as a £85 cost to serve differential for PPM customers compared to direct debit and around £65 difference for cash cheque<sup>12</sup>.

Since the majority of fuel poor customers do not use prepayment meters, equalising prepayment meter tariffs to monthly direct debit would actually mean that the majority of the fuel poor customers – those not on prepayment meters - would end up paying more for their energy. This is because it would become more costly for energy suppliers to offer such low direct debit and standard credit prices as they currently do if they were forced to offer the same price to prepayment customers also (given the higher costs of serving prepayment meter customers).

Ofgem has raised this as a concern and has estimated that equalisation would make the 3 million monthly direct debit and standard credit customers who are fuel poor worse off, while only benefiting the small proportion of fuel poor customers that are on prepayment meters better.

British Gas has sought to ensure that vulnerable prepayment meter customers are not disadvantaged by the higher costs associated with prepayment meters through

---

<sup>11</sup> Ofgem, Domestic Retail Market Report, June 2007

<sup>12</sup> Ofgem, Domestic Retail Market Report, June 2007

the introduction of our *Essentials* social tariff. We have 340,000 Essentials accounts to date and are committed to increase this to 750,000 by 2010.

Ofgem is currently conducting a review of price differentials and we are feeding into this process. They are also holding a summit on fuel poverty in April to which we will be contributing. We believe that this is the most appropriate forum for a proper and considered dialogue around the best and most appropriate way to help the fuel poor so that suppliers and Government resources are best targeted at those who need it most. Wider availability of DWP data would be a significant step forward in this targeting of the industry support

### ***Smart meters***

Going forward we believe that the roll out of smart meters will play an important role in combating fuel poverty, by offering the opportunity to eliminate the adverse cost differential between credit and prepayment meters.

Centrica has played a central roll in pushing for a mandated roll out of smart meters to all UK households within the next ten years and we have developed an industry model to deliver this as quickly and efficiently as possible.

We were disappointed that the Energy Bill contains no provisions to mandate the roll out of smart meters. We believe that failure to legislate for smart meters in the Energy Bill will potentially delay the introduction of a smart meter roll out. Every month that passes delays the benefits of smart metering in terms of reduced carbon emissions and improved customer service. Centrica supports the introduction of an enabling clause to the Energy Bill which will mandate the roll out of smart meters to UK domestic customers whilst retaining the ability to specify the exact form that this will take at a later date.

The Government has set out its ambition to roll out smart meters to all UK households within 10 years. Without a mandate from Government it is highly unlikely that energy suppliers would be able to facilitate a roll out to 45 million UK households in the timescale envisaged. A mandate would give the industry the "green light" it needs to initiate a coordinated and managed roll out programme.