

Mick Bates AM
Chair, Sustainability Committee
Cardiff Bay
CF99 1NA

November 13th, 2008

Dear Mick,

Legal & Regulatory

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Thank you for your letter dated October 27th. I'm glad the committee found the session useful and I look forward to maintaining a constructive dialogue with the committee in future.

Regarding the points you raised in your letter, I must apologise for the inclusion of a sum of money awarded to Bristol Debt Advice Centre in our breakdown of measures implemented to assist Fuel Poor customers in Wales. This was an error and should obviously have been omitted. For your reference, please see attached a revised appendix to this letter detailing the measures which have been implemented to date along with cost.

In terms of actual spend on fuel poverty, British Gas will spend approximately £4m during tax year 2008-9 in Wales on its tariff for fuel poor and vulnerable customers, *Essentials*. Furthermore, looking at the combined commitment over the next three years of spending on the Home Energy Savings Programme (announced by HMG in September 2008) and on CERT, projected spending in Wales to the end of 2011 will be £325m.

Regarding mandation of social tariffs, British Gas maintains its position of opposition. We believe the voluntary agreement reached between the energy suppliers and HM Government earlier this year which saw a significant increase in supplier spend to £250million over the next three years and more recently the Government's September announcement to increase energy suppliers' contribution to CESP and CERT now overrides the case for the mandation of social tariffs.

Energy suppliers currently have in place a range of initiatives and products to specifically assist those customers that need help most, reflecting the diversity of the customer base who may be deemed to be fuel poor and / or vulnerable. Any move to mandate social tariffs could distort the market and could result in a "one size fits all" approach which would limit energy suppliers' ability to offer innovative schemes which address fuel poverty in a targeted way. Mandating the provision of social tariffs to one specified eligible group (e.g. those customers on Pension Credit), is likely to be untenable to support. The consequential impacts of doing so may preclude other customer segments from benefiting from some form of tariff relief as a result.

Prescribed social tariffs risk stifling the diversity we currently see within energy suppliers' support programmes, as suppliers may be driven to reduce cost to serve to offer lowest cost tariffs for certain customer segments. Any move to mandate energy supplier's "lowest cost solution" may actually adversely impact the number of customers assisted by such schemes, as the cost to support becomes more expensive.

With regards to customers on our *Essentials* tariff being taken off the fuel poor list, regrettably, we are unable to guarantee that this is the case. However, all of the 530,000 customer accounts currently benefiting from our Essentials Extra programme are receiving a cohesive package of measures. As part of these measures, Essentials customers have not been impacted by our most recent price increase which has been held off until April 2009 offering an average saving of £214. They also benefit from a free home Energy Efficiency Audit together with free Energy Efficiency measures. Being an Essentials Extra customer will not however preclude their eligibility for other measures we offer. The committee doubtless appreciates that the systematic identification of individual households which require assistance is a challenge which must be addressed jointly by energy suppliers, local authorities and Government agencies. British Gas is working with the DWP over better data sharing so that households requiring assistance are readily identifiable.

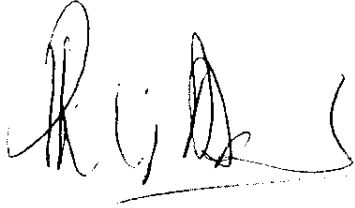
In respect of pricing, from the transcript (line 164 and 165), you will note that Scottish Power volunteered to provide further information on pricing structures. This is not something to which we would have agreed due to the commercially sensitive nature of this information. I will, however, make some general comments on the issue of lags in gas price reductions.

Wholesale gas prices have not fallen in line with oil for two reasons. Firstly, there have been numerous supply issues such as uncertainty over volumes of gas which can be delivered from Norway this winter and continued strong demand for Liquefied Natural Gas (LNG) from Far East markets. Secondly, there is a lag of between six and nine months of gas prices under the terms of oil-indexed continental and international gas contracts. In fact, looking ahead to 2009, the average wholesale gas price is higher than it is now and for 2010 is higher still.

Against this background, suppliers must still buy large quantities of their gas requirements well in advance on the open markets. Given substantial forward buying at high prices to lock in sufficient supply, there will inevitably be a lag before any downward movement in wholesale prices can feed through to domestic markets. If market conditions soften sufficiently for a price cut, then British Gas has demonstrated previously that it will lead the market in this respect. It was the first supplier to announce cuts following significant falls in wholesale gas prices in 2007 and was the only supplier to make two price cuts. Over 2m customers were protected from price rises last July because they had previously fixed their tariffs.

Please do not hesitate to contact me should you have any other questions relating to the evidence submitted by British Gas to the committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Arend', with a horizontal line underneath.

Philip Arend
Senior Regulatory Manager

Breakdown of spend on non-mandated fuel poverty measures in Wales

Essentials Tariff

Approximately 25,000 households in Wales are registered for our Essentials tariff.
This represents an approximate cost to British Gas of **£4m**.

British Gas Energy Trust

An independently administered grant providing assistance to organisations and individuals who have difficulty in paying household bills

Grants to individuals and families in Wales:

2005:	36 awards	£14,781
2006:	81 awards	£31,371
2007:	152 awards	£96,013
2008 to date:	94 awards	£49,865

Organisational Grants supported:

1. Merthyr Tydfill 2005-2008:	= £79,134
2. Caerphilly County CAB 2005-2007	= £71,259
3. Flintshire CAB 2006-2008	= £50,000
4. Canoflan Cynghori Bro Dyfi 2007 – 2008	= £70,000

Total BGET awards £462,513

Total approximate spend on voluntary measures in Wales = £4,462,513