

COMPETITION IN THE ENERGY MARKETS; A PERSPECTIVE FROM CENTRICA

1. This document:
 - provides an overview of the Centrica Group, and an understanding of how we interact with our customers, and the energy markets more broadly;
 - sets out our views on how competition is operating in those markets;
 - provides information by way of follow-up to our initial meeting with the CMA; and
 - sets out our views on the key topics and theories of harm raised in the Statement of Issues. These are flagged as appropriate in the text and drawn together in summary form in the conclusion.
2. In summary, we welcome the scope of the Statement of Issues. A narrowly constructed market investigation reference would fail to provide a comprehensive analysis of current concerns and public debates surrounding energy supply. If the investigation does not “clear the air”, then the current uncertainty surrounding the industry will not be dispelled, and an opportunity to restore market confidence for consumers and investors will have been missed.
3. We believe it right for the CMA to examine the workings of the wholesale electricity markets, vertical integration, and market power in electricity generation alongside competition questions in retail markets. On retail competition we welcome in particular the explicit focus on regulatory interventions.
4. As for topics the CMA is not minded to investigate further, we agree that wholesale gas markets are important for the overall context of this investigation without needing to be the focus of a theory of harm. We agree that there is no need for focus on gas interconnection and storage.
5. On network regulation, while network charges are a contributing factor to increases in customers’ energy bills and therefore wider public perceptions regarding the effectiveness of competition in the sector, we accept the reasons for not including a review of network revenue regulation within the scope of this competition investigation. But it is right that charging for network access and transmission constraints is examined by the CMA.
6. It will be apparent from what follows in this document that Centrica’s experience is contrary to a number of the hypotheses put forward in the theories of harm. In saying so we make no criticism of the approach proposed in the Statement of Issues, which is clear that a theory of harm is solely a hypothesis to be tested, with no prejudgement of an adverse effect on competition. We respond to the Statement of Issues in that spirit.

EXECUTIVE SUMMARY

7. Centrica competes across the upstream and downstream energy markets in Great Britain, striving to provide security of supply of affordable energy for our customers. At British Gas, we have a primary focus on meeting the diverse needs of our customers. We aim to provide excellent customer service, and give our customers an informed choice and control over the products and services we offer.
8. Energy suppliers play a complex role, providing on-demand supply at whatever volumes are consumed by customers at a retail price set in advance. Achieving this successfully requires the management of large and complex financial risks. We believe this has had little consideration by Ofgem and others to date, and warrants further attention by the CMA.
9. Overall, we believe that energy companies such as Centrica face strong incentives to compete in Great Britain's energy markets, as evidenced by price levels, quality of customer service and range of propositions. Competition therefore continues to deliver benefits for GB consumers.
10. While this is the case, we recognise there are problems in the retail energy market today. The most serious of these is the low level of trust in energy suppliers, driven by a range of related factors, the most significant of which is price increases. Public concerns over the transparency of the wholesale electricity market are similarly damaging.
11. Despite this, there are encouraging signs of consumer engagement in the retail energy market, particularly when looking more broadly than levels of inter-supplier switching, and relative to other sectors. As such, we do not believe there is sufficient evidence to support the hypotheses outlined in theory of harm 4.
12. Consumers now have the widest range of suppliers ever from which to choose (and more than in any other utility sector by far), helped by significant new entry to the domestic and non-domestic retail markets in recent years. The emergence of a range of accredited switching sites and collective switching has also had a positive effect on competition, enabling consumers to compare supplier offerings more easily and by providing a low cost platform through which suppliers are able to compete.
13. The increasing importance of switching sites has also served to emphasise the national nature of the retail energy markets¹. In addition, most of our residential customers are now dual fuel and by definition have actively engaged with the market to change supplier for one or both fuels. Dual fuel supply has emerged from both a consumer desire for convenience, and an effort by suppliers to convert previously single fuel customers to dual fuel.

¹ Recent research published by Ofgem shows that 44% of consumers who switched supplier used a price comparison website <https://www.ofgem.gov.uk/ofgem-publications/89113/ofgemrmbaselinefinalpdf.pdf>

14. Innovation is another way that British Gas seeks to compete, with consequential benefits for consumers through providing a range of propositions that better meet their needs. Smart meters are already benefiting consumers today and, as the smart meter rollout accelerates in coming years, promise greater levels of innovation and engagement across all customer groups, as well as a transformation of the customer experience.
15. Competitive activity in the retail energy market, particularly the domestic market, has been shaped by the regulatory regime. The nature of competition has therefore been heavily affected by changes in the regulatory framework, sometimes adversely, even where these interventions have had an objective of increasing the effectiveness of competition. We therefore consider it appropriate that the CMA has identified regulatory intervention as a specific area for consideration². These changes have become increasingly frequent, large scale and interventionist in recent years. Indicators of the effectiveness of competition therefore need to be interpreted carefully, and we would expect that establishing the link between regulation and market behaviours will be a priority for the CMA.
16. Vertical integration is an efficient business model for energy companies. For example, a vertically integrated energy company with a good credit rating can mitigate some of the normal costs of operating in the energy market, such as meeting credit and collateral requirements. However there are other ways of achieving a good credit rating to realise these same efficiencies. Therefore we do not believe that vertical integration will be found to be detrimental to competition (as tested through theory of harm 2).
17. There is evidence of effective competition upstream and in wholesale markets. For example, gas wholesale markets typically trade volumes of gas 10-20 times the level of actual demand (so-called “churn”). While electricity churn is lower (at three times total demand) this is generally sufficient to meet the needs of market participants. We do not believe that liquidity acts as a barrier to entry in either retail or generation as suggested in theory of harm 1. We also agree that, while the wholesale gas market is an important part of the supply chain, it would not be appropriate for this market to be the focus of a theory of harm.
18. We have a strong interest in ensuring wholesale markets are sufficiently liquid, particularly given that our level of electricity self-supply in 2013 was only around 14%, and we therefore have to rely heavily on wholesale markets to meet our customers’ demand. Importantly, any self-supply within the Centrica group is therefore completed at market prices³. We consider that these facts are inconsistent, from Centrica’s viewpoint, with the hypotheses of customer or input foreclosure set out in theory of harm 2.

² Hypothesis 4c.

³ For bilateral contracts pricing is predominantly indexed to published market referenced prices, and adjusted for transfer of risks, cost of carry and administration. The prices of Over the Counter broker supported market (OTC)

19. With regard to the hypothesis in theory of harm 1 that wholesale power prices are opaque, we actually observe transparent and easily accessible wholesale power prices. Most 'over the counter' broker supported (OTC) transactions are executed using broker screens where the full range of bid / offer prices are visible to market participants at any time. Furthermore, our analysis suggests that, contrary to theory of harm 3, market fundamentals and not market power are driving price movements.
20. More broadly with regard to transparency, Centrica prides itself on being the most transparent energy company in the sector. We recognise that providing clarity over how and where we make profits is an important driver of trust in energy companies. We have therefore taken the lead in the transparency of our financial reporting, for example, including voluntary information on power trading results in our Consolidated Segmental Statements (CSS), and the fact that these are fully audited and published at the same time as our prelims.

and Exchange trades (for example ICE, APX, and N2EX) are at prices representative of the market at the time of execution.

INTRODUCTION

In the following sections we set out:

- an **overview of Centrica**, including information on our operations today, and the evolution of our organisation;
- information about **our downstream businesses**, and our views on competition in the retail energy market;
- information about **our upstream businesses**, and our views on competition in the upstream and wholesale energy markets; and
- a **summary** of a number of key issues we consider will be relevant to the CMA's investigation, and our response to the Statement of Issues.

AN OVERVIEW OF CENTRICA

Centrica's history

21. Centrica was formed in 1997 from a demerger of British Gas plc. Ahead of demerger, upstream, network and international assets were allocated to BG Group plc⁴, and the gas customer base and services business and the Morecambe gas field came to Centrica. Centrica's origins are therefore as a downstream gas supply and a services business, with the interests of retail customers at its core, unlike many of our larger competitors whose origins are in electricity generation. Since liberalisation, we have sought to develop our share of the retail electricity market (domestic and non-domestic) as a strategic priority.
22. Since 1997, we have developed interests in gas exploration and production, and power generation. By the end of 2013, we had built a diverse range of power generation assets, from Combined Cycle Gas Turbines (CCGTs) and renewables, to our interest in nuclear⁵. We had also by then agreed nearly £50 billion of commitments to import gas to Great Britain from a range of global counterparties, in deals which will last until 2038. Such commitments on Centrica's part are of fundamental importance to the long-run energy security of Great Britain.
23. Over time, we have also expanded internationally, as we have sought to build upon our experience of competitive energy markets. We entered the North American and several European markets in 2000 and 2001. Although we ultimately withdrew from continental European markets as they failed to adopt a competitive model, our North American business has grown strongly. We are now a national non-domestic supplier across the

⁴ BG Group later demerged its network assets to National Grid.

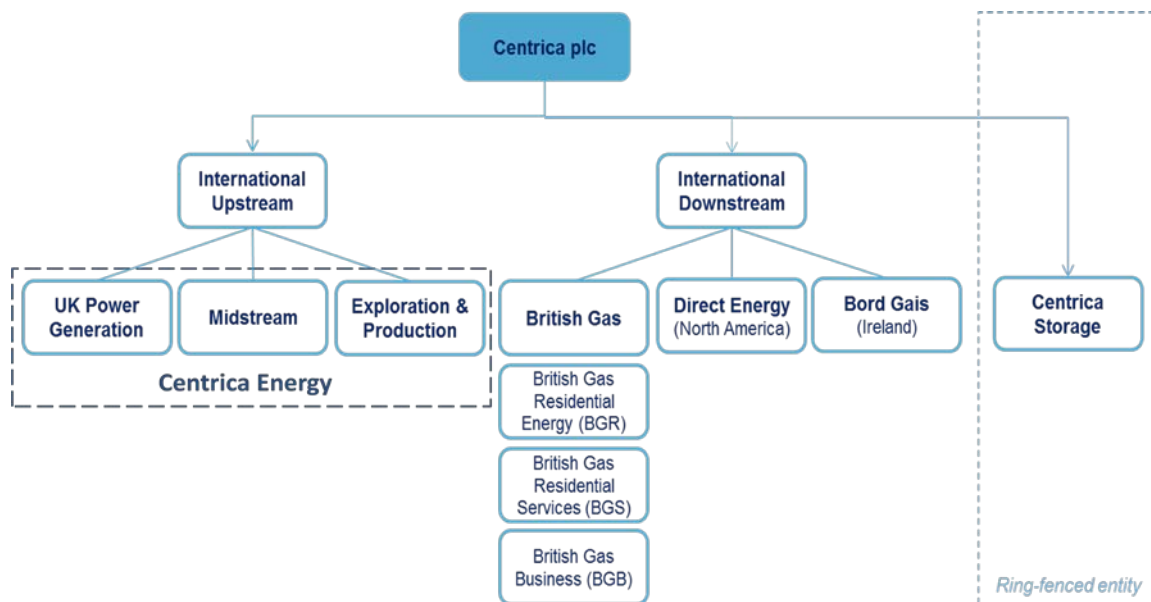
⁵ We obtained a 20% equity stake in the existing nuclear power stations owned by EDF following its acquisition of British Energy

US, a pan-North American services business, and a residential supply business focused on deregulated retail markets in places such as Texas and the North Eastern states.

Centrica today

24. Our strategy and vision is to become the leading integrated energy company in the markets we serve around the world, by providing competitive products and services to our customers across the full spectrum of need; from sourcing and supplying energy, to installing and maintaining gas and other appliances.
25. Our organisational chart is set out in Figure 1 below.

Figure 1



26. British Gas is our retail business in Great Britain, through which we supply 8.6m gas and 6.7m electricity domestic customers with gas and electricity each year⁶. We also supply 310k gas and 603k electricity non-domestic customers with gas and electricity each year.
27. British Gas also operates a nationwide residential home services business. This provides customers with a range of services (installation, maintenance and repair services) for boilers, kitchen and electrical appliances, plumbing and drains, as well as insurance for their buildings, contents, roofs and glazing. These services are delivered by around 9,000 field service engineers who collectively make 9m home visits each year. Customer engagement and satisfaction amongst our residential services customers is generally very high⁷.

⁶ Centrica 2013 preliminary financial results

⁷As measured by Net Promoter Score (NPS), which takes the percentage of customers who are Promoters and subtract the percentage who are Detractors. NPS for residential services customers (who have had contact with an engineer) is +65.

28. Through British Gas, we are also investing in technology which helps customers (both domestic and non-domestic) control their energy usage more efficiently, from smart meters to remote controlled thermostats. This is supported by operations which provide distributed generation⁸ and energy efficiency products to homes and businesses – from insulation to solar and biomass. We also help businesses manage and reduce their energy usage through energy efficiency advice and use of energy control systems.
29. Centrica's upstream and downstream businesses are run as standalone entities. Centrica Energy (which runs our upstream business in Great Britain) comprises:
 - a Power Generation business, which includes seven gas fired power stations, renewable generation assets and a 20% stake in existing nuclear power stations via a joint venture with EDF;
 - an Exploration and Production business, which has interests in 140 fields across Great Britain, Netherlands, Norway, Trinidad and Canada, and includes activities such as the exploration, development, production and processing of natural gas and oil assets; and
 - a Midstream business which trades on the wholesale markets on behalf of Centrica's UK energy businesses.
30. Internationally, we have 6m customer relationships in North America where we have operated since 2000 in domestic and non-domestic energy supply, and energy services markets. Our international presence has recently been extended with the purchase of Bord Gais in the Republic of Ireland, which serves 650k domestic and 30k non-domestic customers.

OUR DOWNSTREAM BUSINESS

In this section, we set out for our retail energy business:

- an overview of **our organisation and strategic rationale**; and
- our view of **competition in the retail markets**.

Our organisation and vision: British Gas

Our organisation

31. Our domestic supply business is organised to serve our customers. We employ approximately 12,000 people, with the majority working in either customer facing roles or roles that directly influence and impact our customer experience.
32. We serve customers from 9 customer service-oriented sites around Great Britain and a number of offshore locations (most of which are focused on back office functions).

⁸ Small generation plant, typically embedded within lower voltage distribution networks.

Our strategic rationale

33. Our vision is to "help people today and secure energy for tomorrow". This means that we aim, through excellent customer service, to provide our domestic customers with:
- **informed choice.** We aim to provide our customers with a range of propositions that meet their needs, as well as ensuring they are able to easily understand which propositions are right for them. Our personalised "Tariff Checker" service means that we notify customers at least twice a year if there is a cheaper British Gas tariff for them, and how much they could save if they chose to switch tariffs (as well as key differences between the tariffs we offer). New and existing customers have access to the same range of our tariffs. Furthermore, any regional differences we have in our pricing are driven by differences in the cost structures between regions.
 - **control of their energy consumption.** We offer online consumption analytical tools, 'Smart Energy Reports' (for our customers with smart meters) and products such as Hive Active Heating⁹. Further details of these services are set out below.
 - **payment options.** We offer our customers a range of payment options, from paying in arrears by cash or cheque, prepaying through a meter, or regular payment schemes such as Direct Debit. We are at the forefront of improving the flexibility these payment methods offer, for example by allowing Direct Debit customers to take 'payment holidays', or through investing in smart prepayment meters which allow customers more convenient ways of purchasing energy.
 - **accurate information in formats that customers understand.** Although the content of an energy bill is largely prescribed by regulation, smart metering is enabling us to develop large improvements in the quality and clarity of information provided to customers (through for example In Home Display technology).
34. The "*secure energy for tomorrow*" element of our vision reflects our clear focus on being a reliable and responsible energy supplier. Given we are particularly exposed to volatile gas demand (and therefore commodity prices) this has important implications for the way that we source our gas for our customers, explored in more detail below.

Securing energy for our customers

35. As the CMA itself notes in the Statement of Issues¹⁰, energy suppliers play a complex role, providing on-demand supply at whatever volumes are consumed by customers at a retail price set in advance. This demand is subject to material movements; from half hour to half hour in the context of balancing obligations, as well as within day, across the year and between warm and cold years.

⁹ <https://www.hivehome.com/>

¹⁰ CMA Statement of Issues, paragraph 16, third bullet point.

36. Energy supply therefore involves providing our customers with the equivalent of ‘call options’, giving them the right but not the obligation to consume as much (or as little) energy as they want at a given price. This requires the management of large and complex financial risks by suppliers. We believe this particular feature of retail supply has had little consideration by Ofgem and others and warrants further attention by the CMA.
37. Risk in retail energy supply can be mitigated to some extent in energy supply through the forward purchase of energy. This “forward hedging” involves the gradual purchase of volumes of energy, months and sometimes years ahead of time, to meet an uncertain future level of demand. Forward hedging is a particularly complex task, given the many variables which can change between when the energy is purchased and when it is consumed (discussed in more detail below).
38. The core objective of forward hedging is to manage the level and volatility of commodity costs to reduce the impact on our customers, secure physical supply and deliver a competitive pricing position. In order to do this, we purchase energy in advance over time.
39. Final “on-the-day” gas and electricity demand will be influenced by a number of factors which British Gas only has limited ability to influence, still less to control. As a consequence, contracted gas supplies will need to be adjusted through to delivery to balance with anticipated demand. This demand, especially for gas, is highly seasonal, with a peak across the winter months of December to February. In addition, weather-driven demand variation is a major factor which influences how on-the-day demand is balanced.
40. In warmer than expected weather, gas (and electricity) may need to be sold back to the wholesale market if positions are hedged to a normal forecast of demand (Seasonal Normal Demand, or SND). As 2014 has been a warmer-than-normal year, residential gas demand was 24% lower in the first half of 2014 than the first half of 2013. During colder-than-expected weather, demand increases mean that additional gas (and electricity) may need to be purchased. This can sometimes impact near-term energy prices. In March 2013 for example, British Gas Residential saw periods where its gas demand doubled from SND, due to cold weather, which coincided with day-ahead spot prices almost doubling to over 100p/therm. Weather is therefore a key source of risk for British Gas.
41. Demand is also affected by customers joining and leaving British Gas. Throughout the year a number of customers would be expected to leave British Gas while other customers will join. This unpredictable rotation of customers with different consumption profiles means that the forecast demand for our customer base changes over time regardless of weather and other factors. British Gas customers can also choose to switch between our standard tariff product and Fixed Price Products (FPPs). As customers switch to or from these FPPs (which are separately hedged), there is a consequent impact on the forecast tariff demand. This demand uncertainty limits how far forward it is sensible for us to forward purchase energy in practice.

42. Forward hedging provides us, and our customers, with confidence that we will be able to supply our customers in the future, and reduces the price risk we would experience, were we to wait until nearer delivery to buy all our energy requirements. However it also introduces a lag between our underlying energy costs and “spot prices” (i.e. the current market price at which energy could be bought or sold for immediate consumption). Forward hedging underpins our ability to offer prices to customers that are much more stable than spot prices.
43. Furthermore, and although all other suppliers will also seek to forward hedge their energy requirements, we do not believe that there is symmetry of hedging strategies today, as hypothesis 4b postulates. The publicly available information we have seen, for example the Consolidated Segmental Statements (CSS) or public accounts of our competitors, suggest a range of active hedging strategies in the market today.
44. The energy and energy service needs of our domestic and non-domestic customers are very different. Because of this, British Gas Residential and British Gas Business are managed as separate business units within British Gas. The majority of businesses have higher average consumption than domestic sites, and most businesses tend to rely on one fuel more than the other. For example, retail businesses typically rely more heavily on electricity, whereas heavy industry relies more on gas. This means that the non-domestic market is a predominantly single fuel market, contrasting with the domestic market where customers tend to rely on both fuel types, and so contract with suppliers on a dual fuel basis.
45. Business customers also place a greater emphasis on longer-term price certainty, meaning the non-domestic market has become predominantly a fixed term fixed price market. Small businesses in particular are less able to absorb the cost of fuel price increases than larger non-domestic customers, and uncertainty over future fuel costs can prevent small businesses from being able to plan and grow their business¹¹. This tends to make fixed term contracts more popular in the non-domestic market than in the domestic market. Approximately 80% of non-domestic customers choose these types of products, compared with 20% in domestic.
46. For larger non-domestic customers, the choice of energy purchase contract will often depend on striking an appropriate balance between:
 - establishing stability and predictability of energy costs against a budget; and
 - ensuring that energy costs do not fall out-of-line with prevailing market conditions, and therefore potentially against competitors.

¹¹See

<http://www.fsb.org.uk/policy/assets/uk%20voice%20of%20small%20business%20member%20survey%20report%20feb%202012.pdf>, page 7.

Competition in the retail market

47. Overall, we believe that retail competition continues to deliver significant benefits for consumers in Great Britain. In particular,
- many **market indicators** and trends suggest competition is effective;
 - competition demonstrably is **driving down costs, and improving customer service**; and
 - increasing **innovation** is an important benefit of competition.
48. While this is the case, we also recognise there are major challenges in today's retail energy market. Specifically,
- **trust** continues to be low (dampening customer engagement as a consequence); and
 - competition in the market continues to be defined by **regulation**, which has been critical in shaping the way competition has developed in recent years.

We explore each of these areas below.

Indicators of competition

49. We face effective competition from a range of competitors on a daily basis. Today, residential customers can choose between 25 active energy suppliers, the largest ever number, representing the widest choice of suppliers in any utility sector. Each of these suppliers fights hard to gain and retain customers. British Gas has in recent years lost between 1 and 2 million accounts every year, and we work hard to win from the market and retain as many customers as we are able.
50. The structure of the market continues to evolve rapidly. In recent years, we have seen a range of smaller new entrants gain a foothold in the market, to the extent that these are now a significant and increasing competitive force in the market. This trend is likely to be reinforced given recent announcements by DECC and Ofgem in support of the development of Challenger entrants¹².
51. The emergence and growth of smaller new entrants has been helped by exemptions from the cost of Government social and environmental policies, which is worth approximately £70 per household. However, we have also seen four suppliers (Utility Warehouse, Ovo Energy, Co-operative Energy and First Utility) grow to a scale which means they no longer qualify for full exemption from these Government schemes.
52. New entrants have also benefited from the growing importance and visibility of switching sites in the market. Unlike more traditional sales channels, these comparison sites provide customers with visibility of most energy offers in the market. There are now 11

¹²

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341310/Challenger_Businesses_-_Independent_Energy_Suppliers_FINAL_ACTION_PLAN.pdf

independent price comparison sites and numerous collective switching schemes. Our own analysis suggests that in 2013 switching sites accounted for almost 39% of market switches, compared to only 17% in 2008. This is supported by more recent Ofgem research which shows that 44% of consumers who switched supplier used a price comparison website¹³. These developments have helped maintain high levels of consumer awareness about the ability to switch¹⁴, and provide a low cost platform through which new entrants are able to win market share. Their existence also suggests that the market is now more clearly national than regional.

53. Another factor in assessing competition in the market is the extent of customer engagement and, in this respect, it is important to recognise there are a range of indicators of consumer engagement of which switching between suppliers is only one. Over the past decade, this switching has occurred at a rate of between 10% and 20% per annum. This is among the highest rates seen in any comparable energy market worldwide or comparable UK utility industry.
54. However, relying on switching data alone gives an incomplete view of consumer engagement, and a wider range of indicators needs to be considered to obtain a more accurate view of the level of engagement in the market. These are:
- **Taking dual fuel supply from a single supplier.** Most of our residential customers are now dual fuel, and by definition have actively engaged with the market to change supplier for one or both fuels. Dual fuel supply has emerged from both a consumer desire for convenience, and an effort by suppliers to convert previously single fuel customers to dual fuel by winning business from competitors. As a result, single fuel customers are a relatively small and decreasing customer group.

We telephone these customers on average between 2 and 3 times a year, to promote the benefits of dual fuel supply¹⁵ (and their electricity supplier likewise is doubtless trying to win their gas custom from us). In short, our gas only customers necessarily have a relationship with *two* energy suppliers, and we do all we can to try to encourage this group of customers to switch their electricity accounts to us.

- **Changing tariff or payment method.** Many customers who choose to stay with the same energy supplier can make savings by changing the tariff they are on, or the way in which they pay their bills. All our tariffs are available to all our customers and we price to be competitive. Because of this, customers who switch internally are also benefiting from competition. Such activity is therefore an equally important indicator of engagement as numbers of customers who switch supplier. In the course of a year, around 20% of our accounts will have a tariff change.

¹³ See <https://www.ofgem.gov.uk/ofgem-publications/89113/ofgemrmbaselinefinalpdf.pdf>

¹⁴ Ofgem research estimates that 91% of customers are aware that they can change energy supplier. IPSOS/MORI Consumer Engagement Survey 2014

¹⁵ Those customers who have not opted-out of marketing calls.

- **Managing their accounts online.** A large proportion of British Gas domestic customers now manage their accounts online, and this is a growing trend. In 2013, British Gas customers made 27.6m account actions¹⁶ through our digital channels (i.e. website, mobile / app-based channels), a 16% increase on the year before. Most customer originated account actions are now completed through digital channels, with a large proportion of those starting from a mobile phone. Digital is now, by some distance, our highest contact customer service channel.
 - **Actively managing their usage.** We provide a range of tools that help our energy customers manage their usage more effectively. For example, around 1.75m British Gas customers have accessed their personalised comparative consumption profile so far this year. This is an online tool which allows our customers to compare their own consumption with other, comparable consumers. We provide even more useful consumption management tools for our smart meter customers (set out in more detail below).
55. We believe that each of these indicators demonstrates active involvement of consumers in the management of their energy expenditure, and the expression of consumer choice. They are therefore an appropriate indicator of active engagement, rather than only relying on the rate at which consumers change supplier.
56. When overall levels of engagement are measured, we consider that – as regards hypothesis 4a - consumers are exerting sufficient pressure on suppliers to compete effectively on price, innovate, reduce costs and improve service offerings in a number of ways. We expand on this further below.
57. Competition in the non-domestic market is also strong. There are now 31 electricity suppliers and 26 gas suppliers active in the non-domestic market, with 9 electricity suppliers and 11 gas suppliers having a greater than 1% share of the market¹⁷. The predominance of fixed term fixed price contracts, and the price differentials between acquisition and renewal contracts, has led to a significant increase in customer negotiation and switching at contract renewal.

Competition driving down costs and improving customer service

58. Competition is also delivering benefits for consumers by continuing to place pressure on energy suppliers to reduce costs, and deliver improvements in customer service.
59. Between 2009 and 2013 British Gas Residential achieved nearly £150m of cost savings, through a combination of system investments, process re-engineering and offshoring initiatives. In addition, British Gas Residential saved a further £50m in bad debt reductions through improvements to our credit management processes, and a greater

¹⁶ For example, submitting a meter reading or paying a bill.

¹⁷ Cornwall Energy market share data

focus on helping customers who have got into difficulty. We have 19% fewer customers in debt than a year ago.

60. British Gas Business is also embarking on a £100m cost reduction programme. This programme has been enabled by a £53m investment in new systems, which is delivering cost savings through simplifying operations and improved customer service.
61. Finding the right balance between remaining competitive on cost whilst also investing in customer service is not easy. Customer service is an important differentiator between suppliers and in order to attract customers to British Gas, we invested over £500m (between 2004 and 2012) in new billing and CRM systems, as well as in online sales and account management capability. Throughout this period of investment, we were successful at holding service levels constant.
62. Although numbers of complaints are an imperfect measure of levels of customer service (given they can be affected by a range of factors, including price events and level of media focus), we do take the levels of customer complaints very seriously, and use these as an important indicator of customer service. Between 2009 and 2013 we managed to reduce numbers of complaints by 50%, from 2.4m to 1.2m.
63. In addition to this, our leadership in smart metering – see further below – continues to improve service levels.

Competition driving innovation

64. A further important benefit that competition brings for consumers is an incentive for suppliers to bring innovative new propositions to market. We welcome that this has been explicitly recognised in the Statement of Issues, particularly with regard to smart meters. British Gas has made it a strategic aim, particularly in recent years, to take the lead in being the most innovative energy supplier, seeking to set ourselves apart from our competitors by bringing new value added and customer friendly products and services to market.

Smart Metering

65. The requirement that all households will have a smart meter by 2020 represents the single biggest technological change in the retail energy market since the conversion to natural gas. British Gas has taken the lead in rolling out smart meters, and we have already installed over 1 million domestic meters (around 75% of all smart meters installed so far), ensuring our smart meters are already delivering benefits to our customers.
66. Smart meters (and In Home Displays) give consumers the information they need to actively manage their energy consumption. An important enabler for this is the Smart Energy Report which we provide to our smart meter customers free of charge. These personalised reports include simple analysis showing how the customer uses energy, how their energy usage compares against similar households, and provides a history of their

energy spending to keep track of the impact of any energy efficiency measures they have installed, and identify where savings have been made. We provide a copy of a Smart Energy Report alongside this submission for reference, and would be happy to discuss this in more detail if that would be helpful.

67. Smart meters also remove the need to provide customers with estimated bills (a key driver of complaints from customers who have conventional meters). Customers with a smart meter tend to be far more satisfied with their energy bills. 98% of energy bills received by customers with smart meters are based on actual rather than estimated meter reads.
68. The impact of smart meters on customers' experience of energy retail is profound, evidenced by the fact that customers with smart meters contact us 22% less and complain 21% less than customers with conventional meters. Smart meters also help customers manage their energy expenditure more effectively (dual fuel customers with smart meters reduce their consumption by an average of 2-3%).
69. The benefits of smart meters will only increase as the innovations that are enabled by smart technology reach the market. These include time of use tariffs, such as our "Free Saturdays or Sundays" offer which is currently being trialled (allowing customers to benefit from changes they make to the way they consume energy, by decreasing the proportion of energy they consume at peak times across the week). Smart technology will also deliver significant benefits for prepayment customers, for example through enabling new ways to pay for energy such as automatic 'top ups', new tariffs and alerts to warn people when their credit is running low (and we are currently trialling smart prepayment meter technology). A further benefit from smart metering is that losses from the theft of energy, and other unidentified losses (all of which currently lead to increases in supplier costs and so ultimately impact customers' bills) will be reduced significantly. Cost reductions enabled by smart technology will therefore further benefit consumers, as these are ultimately reflected in retail prices.
70. Finally, and as anticipated by the CMA in the Statement of Issues, smart metering will also transform how competition works in future. This will primarily be achieved through further improvements in the way that customers engage with their energy consumption, and increased visibility of price and billing information. Furthermore, the associated advances in industry processes will allow for much faster switching and settlement. Regardless of any assessment the CMA may take today therefore, we believe that the roll out of smart metering will deliver a framework that will result in higher levels of customer engagement and faster and easier switching.
71. Overall, our investments in smart metering are reducing energy usage, bills, errors, complaints and the number of times our customers need to contact us. This also feeds through to the extent to which consumers would recommend us; customers with smart

meters have a Net Promoter Score which is 14 points higher than those customers who have conventional meters.

Other innovations

72. In addition to the above investments in smart metering, we are also investing in technology which connects appliances in the home in ways which help customers manage or reduce their energy consumption.
73. Our drive to deliver and improve online account management has given customers the ability to submit their own meter reads, change their direct debit amount, and even request payment holidays from their monthly direct debit payments. We have now had 1.28m downloads of our mobile phone application (which provides this functionality to our customers), with over 310k active users each month.
74. We also continue to innovate with our energy tariffs. Our “Fix and Fall” tariff attracted 1.4m accounts in 2012 with a guarantee that prices would not rise above their current rate, but could fall. We were the first to introduce a ‘Tariff Checker’ service for our customers, telling them when we had a better deal available for them.
75. In October 2013 we introduced Hive Active Heating, a product which allows customers to control their heating and hot water remotely via a smart phone, tablet or laptop. This has been shown to have a profound impact on customer behaviour. This product can help customers save up to £150 per annum through more efficient energy usage (e.g. through the much more regular management of their heating thermostat). We have also started to trial a related connected boiler proposition which will increase customer control of energy usage further.
76. The increased control that Hive provides our customers has a marked positive impact on customer engagement and satisfaction¹⁸, with the majority reporting that they use the app at least once a day compared with an average of twice a year and 80% saying they would actively recommend the product.
77. We have also used partnerships to bring innovations from other industries into energy, for example by introducing the Nectar loyalty scheme in 2011 as a way of rewarding our domestic customers.

Trust and engagement – a critical challenge

78. While competition is delivering many benefits to consumers, we recognise there are problems in the retail energy market today. The most serious of these is the low level of trust in energy suppliers, which damages customer engagement. We believe this is driven by a range of related factors.

¹⁸ Customers with Hive Active Heating are being significantly more likely to recommend British Gas to a friend or relative (with an NPS of +42).

79. Our research suggests that the single largest driver of low trust is price increases¹⁹. Average annual prices for gas and electricity rose by 5.9% and 4.6% per annum respectively between 2009 and 2013, equivalent to a total dual fuel price increase of 24% over the period.
80. At the same time, the impact of price increases on consumers has been compounded by a series of colder than normal winters in 2010, 2012 and 2013, which forced up average winter consumption and therefore bills²⁰. These effects have been exacerbated by wider affordability concerns, with increases in the costs of energy coinciding with the economic recession. Two-thirds of consumers now cite gas and electricity bills as the single largest pressure on household budgets²¹.
81. The problem of rising energy bills is compounded by customers' uncertainty about the reason for increases in energy costs. Whilst we have made considerable efforts to explain the drivers of rising energy prices to our customers, these efforts have not been as successful as we hoped. In a recent survey by YouGov²², 76% of respondents thought that price rises were due to energy suppliers increasing their profits (amongst other reasons), whilst 57% believed that profit increases were the sole reason for price rises.
82. In fact, British Gas' profit as a percentage of an average dual fuel bill has declined since 2009. At the same time, underlying commodity costs have risen by 4% a year, transportation and distribution costs have risen by 7% a year and the costs of environmental and social schemes have increased by 17% a year. Movements in the component of a British Gas dual fuel energy bill over the period 2009 to 2013 are set out in Figure 2, below.

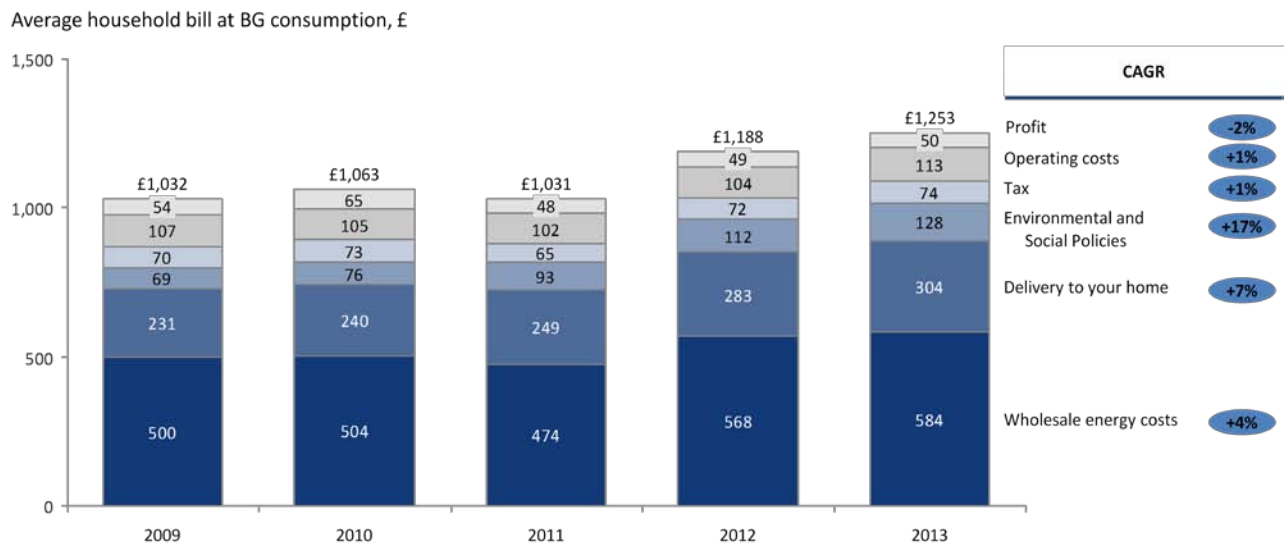
¹⁹ UKCSI July 2013 breakdown by industry

²⁰ Although winter 2014 has been considerably milder, resulting in a fall in consumption of 24% in the first half of 2014 compared to the first half of 2013.

²¹ GQRR research for British Gas, 2014

²² YouGov, *Energy Politics and the Consumer*, April 2014

Figure 2



Source: British Gas internal analysis

83. Finally, our own research suggests that low trust and disengagement can also be driven by a sense that consumers are not in control of their energy usage, or the cost of the energy they use. Part of this stems from confusion over energy bills. Rather than setting out the costs of energy usage in a clear and intuitive way, the gas bill in particular is frequently merely seen as a demand for payment. This is largely because it is expressed in units required by regulation (kWhs) which customers find difficult to relate to metered units, and so feel disempowered to influence.
84. We continue to look for ways to address this issue. Our rollout of smart meters will help given this will bring an end to the need for estimated bills. However, much clearer bills will require regulatory change, given that the majority of information provided on energy bills is required by conditions set out in the energy supply licences.

Impact of regulation on competition

85. We welcome the CMA's intention to assess the impact of regulation on competition as reflected in theory of harm 4. We firmly believe that competitive activity in, and consumer engagement with, the retail market (particularly the domestic market) has been shaped by the ever changing regulatory framework. As a consequence, indicators of the effectiveness of competition in the domestic retail market today need to be interpreted carefully. Observed supplier behaviours and indicators of competition should not be assumed to be those of a market that would have arisen were suppliers able to compete more freely than permitted by regulation.
86. The impact of regulation on supplier behaviour has been more profound in recent years. Specifically, since 2009, there has been an increasing focus by Ofgem on delivering

equality of competitive outcome as an objective of regulatory change²³, as opposed to purely more effective competition. This change was driven by an increasing view that the benefits of competition were not reaching all consumers (and in particular, that some consumers were disadvantaged by price discrimination)²⁴.

87. Regulatory changes since 2009 that have impacted competition include new rules introduced to reduce differences in the price of energy tariffs across regions (where these were not justified by cost differences)²⁵. These non-discrimination rules could well have resulted in the withdrawal of competitively priced “out of area” offers by incumbent electricity suppliers, subsequently reducing the financial incentives available to customers from switching their supplier. While these rules were introduced so as to promote greater fairness in pricing, they could have had a wider impact on the nature of competition in the retail energy market (a tension that exists in other areas of new regulation introduced by Ofgem in recent years²⁶).
88. More recent interventions, such as those introduced as a consequence of the Retail Market Review (RMR) have further prescribed the way in which suppliers have been able to compete. The imposition of a cap on the number of tariffs suppliers are able to offer is the clearest example, given this has led to a number of ‘niche’ products designed to meet specific consumer needs being withdrawn from the market (such as green, social support and low / zero standing charge tariffs²⁷).
89. The removal of cash discounts as a result of RMR (other than online or dual fuel discounts) is a further example, given this has prevented suppliers from offering either prompt payment discounts or cash incentives on acquisition (and our research suggests cash discounts tend to be particularly attractive to customers who are considering switching). While these regulations were introduced with the intention of ensuring consumers are able to compare offers across the market more easily, they have had the effect of limiting the ways in which suppliers are able to differentiate their propositions, and hence compete with each other.
90. The impact of these interventions and changes on competition is difficult to assess. This is particularly the case given regulatory changes have been made frequently, and limited time has typically been allowed to observe how new regulations impact the market before further changes have been introduced. Indeed, Ofgem’s Retail Market Review commenced in 2010 just a year after the conclusion of Ofgem’s previous review.

²³ As recognised themselves by Ofgem; see “Energy Market Investigation: Initial submission to the Competition and Markets Authority”, Ofgem, page 4.

²⁴ “Energy Supply Probe”, Ofgem, paragraph 1.18.

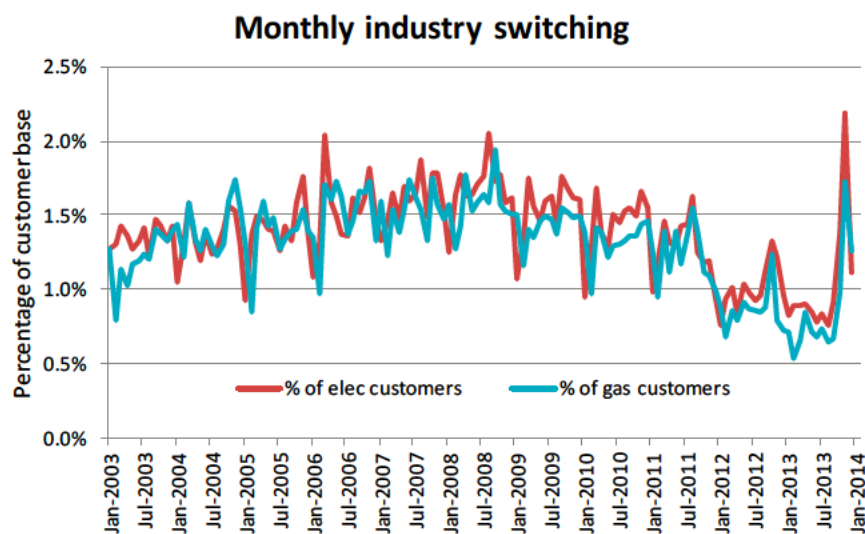
²⁵ “Addressing undue discrimination”, Ofgem (26th June 2009).

²⁶ Such as the introduction of Standards of Conduct to the supply licence.

²⁷ For example, E.On withdrew their Staywarm tariff in October 2013. See <https://www.eonenergy.com/campaigns/StayWarm-FAQs>

91. Despite difficulties in understanding the effect of these changes on the market, it is apparent that, from 2009, levels of switching between suppliers started to reduce, illustrated in Figure 3 below.
92. Although the decisions by all large energy suppliers to voluntarily withdraw from unsolicited field sales activity in 2011 and 2012²⁸ in response to consumer group pressure is likely to be one driver of this fall in switching between suppliers, some commentators have suggested that Ofgem's 2009 non-discrimination rules were also one of the drivers of this decline²⁹.

Figure 3



Source: British Gas analysis of DECC switching data

93. More recent regulatory changes are also likely to have had an impact on competition, for example, the exemptions afforded to small suppliers from the cost of Government social and environmental policies. These exemptions have conferred new entrants with a cost advantage of around £70 per dual fuel customer per annum which has distorted competition between them and larger suppliers.
94. Although there were legitimate concerns that smaller suppliers could experience diseconomies of scale in delivering policies such as the Energy Company Obligation (ECO), the exemptions provide total relief as opposed to simply correcting for those diseconomies. In assessing hypothesis 4c, we believe the CMA should assess whether alternatives to the small supplier exemption may have a less distortive effect on

²⁸ SSE ended field sales in July 2011, British Gas in August 2011, EDF in September 2011, NPower in October 2011, SPower in November 2011 and E.On in July 2012.

²⁹ See "Non-discrimination clauses in the retail energy sector", by Morten Hviid and Catherine Waddams Price, *Economic Journal* 2012. This concludes that "the licence condition is likely to have reduced competition in the mainstream energy markets."

competition. These may include extended use of brokerage, a ‘white certification’ scheme³⁰ or a ‘buy-out’ mechanism which would allow them to pay money in lieu of delivery at price determined by average delivery cost.

95. We note that the CMA has identified for consideration the issues regarding possible tacit coordination, and has highlighted the impact of price announcements as an area to examine more closely in this regard. We do not consider that tacit coordination is a feature of the retail market. In relation to the comments in the Statement of Issues and Ofgem’s State of the Market Assessment, regarding the timing of price announcements, we stress that our decisions on the timing and size of price changes are largely driven by changes in our input costs.
96. Regulation has had a further major impact on price announcement timings, most notably the Ofgem requirement on suppliers to provide at least 30 days advance notice of any price increase³¹ introduced in 2010, which explains why notifications of price changes now occur well ahead of these changes taking effect.
97. In summary, we believe that the nature of competition has therefore been heavily affected – sometimes adversely – by changes in the regulatory framework, and related events, such as the end of unsolicited doorstep selling. Given the critical, yet complex interaction between regulation and competition, we believe that this will be an important area for inquiry by the CMA.

OUR UPSTREAM BUSINESS

In this section, we set out:

- an overview of **our organisation and strategic rationale**; and
- our view of **competition in the upstream markets**.

Our organisation and vision: Centrica Energy

Our organisation

98. We have three distinct upstream business units within Centrica Energy: Power Generation, Exploration & Production, and Midstream.
99. Our Power Generation business includes seven gas fired power stations, a variety of renewable generation assets³² and a 20% equity stake in existing nuclear power station output via a joint venture with EDF. In line with our commitment to transparency, the

³⁰ Such as the “Titoli di Efficienza Energetica” (TEE) scheme used in Italy to promote energy efficiency.

³¹ Supply licence condition 23

³² Offshore and onshore wind assets. We also developed a biomass facility, but did not proceed to construction due to a change in Government policy.

financial performance of each of these three business lines is published within the results of our Power Generation business.

100. Our Exploration and Production business has interests in 140 fields across the UK, Netherlands, Norway, Trinidad and Canada, and includes activities such as the exploration, development, production and processing of natural gas and oil assets.
101. Our Midstream business executes trades in the wholesale energy markets on behalf of all the Centrica businesses; downstream retail, power generation assets and upstream gas. It also includes a proprietary trading business and an origination team responsible for sourcing and negotiating energy supply transactions with UK and global industry counterparties. Centrica has an estimated £60bn of commodity purchase contract commitments from a range of counterparties, securing energy as far out as 2038.
102. The financial performance of our Upstream and Downstream businesses in Great Britain is set out in our audited accounts and our CSS disclosures.³³ We provide more information in these submissions than is required by regulation, showing how profit has been earned by different generation types. We also subject the entire CSS submission to an independent audit.
103. Importantly, our Upstream and Downstream businesses are run and managed separately at arm's length to each other. The performance of each business is managed on a standalone basis, with each held individually accountable for their performance. For Upstream, this means that we go directly to the wholesale market (via Midstream) to get the best available price for our power generation output. Our power stations are run when it is economic to do so, taking into account primarily fuel, carbon and electricity wholesale prices. They are not operated to match the requirements of the downstream businesses.
104. Our retail businesses also go directly to the markets (via Midstream) for their supply needs. So although Centrica has both power stations and retail customers, there is no pre-agreed allocation of our generation to our supply businesses. We do have a small amount of self-supply which in 2013 came to 7% in gas and 14% in electricity. However, any internal trades are always conducted at market prices.
105. We therefore believe that the way that we run our businesses enhances power market liquidity, rather than reducing it (particularly given that British Gas sources the vast majority of its power needs from the wider market). We understand however that the industry can appear complex, and that wider public perceptions of a lack of transparency have contributed to a lack of trust in the sector. Given this, we welcome the CMA's investigation into this area, which we expect will provide clarity and reassurance to the public.

³³ Centrica's 2014 CSS is available here:

http://www.centrica.com/files/results/prelim13/ofgem_segmental_disclosure_31122013.pdf

106. In addition, as self-supply is priced against the same market into which our generation is sold, and also because we do not know the identity of trading counterparties until after the transaction has completed, it is not possible for input foreclosure to arise. We therefore see no evidence from our perspective that would support the hypotheses under theory of harm 2.

Strategic Rationale

107. When Centrica was created, the large Morecambe gas field was included in the business. This provided the asset base that gave Centrica the balance sheet strength to support the long term liabilities (in the form of long term gas purchase contracts) which formed part of the retail gas business. Without Morecambe, Centrica would have had a “thin” asset base that would not have provided the necessary capability to support its liabilities.
108. At that time, Centrica had no power generation assets. Our power generation portfolio was built between 2001 and 2008 by acquisition, new build and joint ventures which were intended to address potential cost risks faced in the supply of electricity. We have aimed to create a diverse portfolio to protect us from technology specific shocks (while at the same time following the move to decarbonisation that Government policy and regulations encouraged).
109. The assets held in Centrica’s upstream business and maintenance of strong financial ratios enables us to maintain a good credit rating. Vertical integration in the gas value chain adds diversity to an energy company’s earnings and can act as an earnings hedge at times of international gas price shocks, such as occurred following Fukushima or the 2008 oil price shock. This lower risk profile is recognised by credit rating agencies when they determine Centrica’s creditworthiness. This is important, for example, if we are to be successful in negotiating long-term gas supplies for our customers in a complex, global market. Given our strategic rationale to secure energy for our customers, we have a focus on reaching agreements that will achieve this aim.
110. A strong credit rating is also important for the efficient management of collateral costs³⁴, which arise from providing customers an on-demand supply at a price, set in advance, that varies infrequently.
111. These collateral requirements can be significant, but they are a necessary cost of serving customers in the face of often volatile commodity markets. The costs that these requirements impose can be managed efficiently by companies with financial strength, which are able to employ their Group’s credit rating to take on the cash capital requirements and credit risks of the downstream retail business.
112. Maintaining our credit rating can only be achieved by satisfying various financial performance metrics, but this is essential in order for us to manage the costs associated

³⁴ Collateral costs arise from the need to margin the change in mark to market value of fixed price forward purchases.

with hedging such large amounts of energy. Our commitment to retaining a strong credit rating has been demonstrated most recently by our commitment to undertake a £1bn programme of asset disposals, retaining this capital to strengthen the balance sheet and improve the Group's financial metrics³⁵.

113. In relation to the “possibility” (using the language of paragraph 55 of the Statement of Issues) that market sharing is facilitated by the use of similar strategies, contrary to the assertion in hypothesis 4b, there is little symmetry between our power generation portfolio and those of our competitors. We are one of only two companies to have invested in nuclear energy, and only have a small exposure to coal assets through negotiated offtake contracts. Whilst other suppliers may invest in similar technologies, for example CCGT and coal, we note this is the product of a small number of options available for generating baseload power. Even then, the shares of various technologies within energy company portfolios differ from company to company, as well as the size of each portfolio. Rather than evidence of symmetry, we believe this is evidence of energy companies seeking to differentiate themselves.
114. Furthermore, our level of vertical integration in power remains significantly lower than that of our major competitors. Our power generation assets could, at most, cover only about half of our domestic and non domestic customers' needs, even if that were an economic way to operate them.

Competition in the upstream and wholesale markets

Challenging market conditions

115. Our upstream gas business faces significant challenges today. In general, Exploration and Production businesses tend to be focused on oil, more than gas (unlike those of Centrica). While oil prices have risen along with operating costs, gas prices have not risen at the same rate, and gas margins have reduced. This has been exacerbated in recent years by Government taxation policy which has treated oil and gas production as if they were equivalent. In 2011, the tax payable on oil and gas production was increased by 32%³⁶, despite wholesale gas prices becoming increasingly decoupled from oil prices.
116. We also face challenges from the low returns delivered by our CCGT assets, which incurred a loss of £133m in 2013. This has been in part driven by oversupply in Great Britain's generation market resulting from reduced demand due to the recession, and exacerbated by the continued build of CCGT and renewable assets, and the loss of free carbon allowances. The functioning of the electricity market has been influenced by a variety of policy measures, such as the increase in subsidised intermittent renewable generation, carbon pricing and the carbon price floor, and the forthcoming introduction of the Capacity Market.

³⁵ <http://www.centrica.com/index.asp?pageid=1041&newsid=3494>

³⁶ Supplementary Charge to Tax (SCT).

117. As the CMA notes³⁷, the way that these policies are changing market and investment signals is an important consideration, and we welcome the CMA's focus on it. Already, intermittent wind generation and high gas prices increasingly force CCGTs to play a marginal role on the system. The economics of CCGT ownership are now very different to when we acquired or built these power stations, and we are now considering selling our three largest CCGTs.
118. The electricity market is in a state of transition, changing from an 'energy only' market, to an 'energy plus capacity' market. By 2019, all new generation will be financially supported by either a low carbon or capacity supplement. As a result, future investors in Great Britain's generation fleet will primarily be influenced by the levels of subsidy being offered, with energy prices either being irrelevant in the case of low carbon Contracts for Difference (CfD) or of secondary importance for Open Cycle Gas Turbines (OCGT) and CCGTs participating in the Capacity Market. A new CCGT power station takes 30-36 months to build so a decision today will not result in any generation being sold for nearly three years. Potential investors are likely to use their own assessment of long term market fundamentals over the economic life of the asset (including expectations of the levels of subsidy being offered) when making their decisions.
119. We also note that the CMA will investigate some of the recent changes arising from the Electricity Market Reform, from the perspective of seeing whether generators in receipt of new CfD payments can manipulate the reference price, and thus receive higher subsidy payments³⁸. We do not however believe that such concerns are consistent with the way in which the new rules will operate. In particular, the new rules will ensure generators will only ever receive the difference between the agreed strike price and relevant market price (so any change in the reference price would result in a corresponding increase or decrease in the difference payment). Even if a large generator were able to manipulate the reference price in any direction, there would be no financial gain. Given the majority of renewable generation is sold in to the highly liquid day ahead market, we question whether a generator would have the ability to influence the reference price, regardless of whether it would have an incentive to do so.
120. Competition in the generation market is strong, with a diversity of ownership of generation assets, particularly among price setting plant. The low or negative returns for the marginal CCGT plants demonstrate this well. We can explain historic wholesale power prices with a short run marginal cost model using observed fuel and carbon costs as the major inputs, with a good degree of accuracy. This gives us confidence that actual electricity prices are being driven by the market fundamentals facing the sector, consistent with a well functioning market. We therefore do not see evidence for the proposition

³⁷ CMA Statement of Issues, paragraph 18.

³⁸ Ibid, paragraph 34.

within theory of harm 3 that market power in generation is leading to higher prices. We welcome the opportunity the investigation gives to confirm this³⁹.

Liquidity in wholesale markets

121. Our model of operating our upstream and downstream businesses on a standalone basis, and relying on trading to optimise the value of each business unit, serves to enhance wholesale market liquidity. We rely on the wholesale market to fulfil our volume requirements; Centrica only supplied 14% of British Gas's power demand in 2013 by internal trades from our own generation, with all trades completed at market prices.
122. Trading and wholesale market liquidity are also important when we want to shape our requirements. In particular, trading is required to achieve the shape required. It would be very difficult for a company to create a generation portfolio that could perfectly match its customer demands⁴⁰, and it would also be economically irrational to dispatch production according to each supplier's demand in a system that relies on economic dispatch.
123. Liquidity in the British wholesale gas market is very good, with levels of churn at around 10 to 20 times total demand. This reflects the facts that Great Britain is no longer self-sufficient in gas and that the Great Britain National Balancing Point (NBP) is the most liquid trading point in Europe, with depth in exchange trading and a large number of diverse participants (including traders, hedge funds, banks as well as energy companies). For this reason we agree that wholesale gas markets are important for the investigation without needing to be the focus of a theory of harm
124. In comparison, liquidity in the British electricity market has levels of churn at around three times total demand. This reflects the fact that Great Britain's power market is more of a national market, self-sufficient in generation capacity and less reliant on interconnection with the rest of Europe. This in turn results in fewer participants and a less established power exchange.
125. We have generally been able to trade as we have needed to on the wholesale electricity market, to both cover our demand requirements and hedge our power station output, without issue. We also understand some small suppliers have suggested they have found levels of liquidity in the wholesale power market to be sufficient for their needs⁴¹, and observe that small clip sizes are generally available for trade in the wholesale electricity market (an issue of particular importance to smaller suppliers).
126. Although liquidity in the wholesale power market has been affected by banks exiting due to increased regulatory pressures, there have been a number of encouraging new developments which are helping to increase liquidity. Most significantly, the existence of

³⁹ Ibid, paragraph 26.

⁴⁰ Without storage facilities, which are as yet unavailable at scale in electricity.

⁴¹ For example, OVO Energy. Tom Griffin, OVO's Head of Trading stated that "to date, we have not found liquidity to be an issue", in an interview with Utility Week, 13/12/13.

adequate liquidity has been demonstrated by the entry of a number of new retail suppliers and new participants in the midstream market⁴². The activity of significant independent generators such as Drax similarly supports wholesale market liquidity⁴³. All of these players appear to have different approaches and strategies to market engagement, further serving to increase liquidity.

127. Furthermore, we do not believe that the wholesale electricity “market rules”⁴⁴ lead to low liquidity. The wholesale electricity market in Great Britain, like the gas market on which it was modelled, is characterised by a marked absence of rules governing what products are traded or how prices are formed. Whilst the New Electricity Trading Arrangements (NETA) are relatively simple, there are relatively complex but appropriate rules which have been added over time to ensure that this market, as with many other financial and commodity markets, is appropriately governed. We do not therefore believe the evidence will support hypothesis 1a.
128. Overall, while we do not believe there is sufficient evidence to support a finding that liquidity is either low, or is creating a barrier to entry in retail or generation, we believe there is scope for improvement. Sustained increases in liquidity are best achieved by encouraging a full spectrum of participants, such as traders, banks and other financial institutions, to enter the market. Standardising products (such as aligning the length of the trading days) and developing the market in financial exchange trading, as noted by the CMA⁴⁵, may be beneficial in achieving this. Such improvements may also serve to further increase transparency in the wholesale power market. We therefore understand why the CMA proposes looking into this area in more detail, and we support the inclusion of these issues in the scope of the investigation.
129. Wholesale prices themselves are driven by market fundamentals such as the demand for electricity and fuel or carbon costs. Exchange prices are readily available, and most ‘over the counter’ (OTC) transactions are executed using broker screens where the full range of bid or offer prices are visible to market participants.
130. Market participants have access to market prices throughout the day as trades are executed, and more generally through the various price reporting agencies⁴⁶ which exist in the market. The robustness and transparency of these markets is further enhanced by features such as the anonymity of counterparties during the bid / offer process, the continuous nature of trading, the linkages between various different elements of the market⁴⁷, and the various cross commodity and cross border linkages. This is all further reinforced by the regulatory framework which, for example, ensures that key information

⁴² Such as Freepoint Commodities, PetroChina International, Mercuria Energy Trading and BTG Pactual

⁴³ 30% of power generation capacity remains independent of vertically integrated providers.

⁴⁴ Issues statement , paragraph 29

⁴⁵ CMA Statement of Issues, paragraph 32.

⁴⁶ Such as Heren, Argus, Spectrometer, ICE, N2EX and LEBA.

⁴⁷ For example, linkages between the OTC balancing and exchange elements of the market.

like the operational status of generation assets is made available to the market in a timely manner⁴⁸.

131. We therefore consider that the evidence will not support the hypothesis that wholesale prices are opaque, as set out in theory of harm 1.

CONCLUDING REMARKS ON THE STATEMENT OF ISSUES

132. We believe that competition continues to deliver for consumers, both at a retail and wholesale level, and that competitive dynamics are set to strengthen further. That being said, we recognise there are problems in the energy market today; low levels of trust in energy suppliers can reduce customer engagement, and public concerns over the transparency of the wholesale electricity market are similarly damaging.
133. For these reasons, we believe the scope of the CMA's Statement of Issues is appropriate. It is important that the market investigation reference allows the CMA to undertake a comprehensive analysis of current concerns and public debates surrounding energy supply. Should the investigation fail to "clear the air", then the current uncertainty surrounding the industry will not be dispelled, and an opportunity to restore market confidence for consumers and investors will have been missed.
134. While it is right for the CMA to examine the workings of the wholesale electricity markets, vertical integration, and market power in electricity generation, we do not believe on the basis of our experience that the evidence will support the proposed theories of harm relating to upstream markets.
135. In the wholesale electricity market, in which we are a major buyer, we believe prices are transparent, demonstrated by the availability of OTC broker supported prices to market participants that show the full range of bid / offer prices. We also do not see evidence supporting a finding that liquidity is low, or creates a barrier to entry in retail or generation – or that vertical integration leads to either opaque prices or low liquidity. Furthermore, we believe that the way we run our businesses (i.e. with low levels of self supply, conducted on an arm's length basis) enhances power market liquidity, rather than reducing it.
136. We observe that competition in the generation market is strong, though the pattern of generation is of course much affected by environmental regulation. Wholesale power prices follow market fundamentals, and returns for marginal CCGT plant are low or negative. We do not see evidence that would support a concern that vertical integration creates detriment by raising costs of non-integrated suppliers, or reducing sales of non-integrated generators.

⁴⁸ A requirement of "REMIT".

137. Similarly, given the diverse ownership of generation assets, particularly among those plants that tend to be at the point of the demand-supply balance that determines prices, we do not see how the generation market could be manipulated in such a way as to result in higher wholesale electricity prices.
138. In addition, we do not find that wholesale electricity market rules - which are relatively simple - reduce liquidity. While there are more complex rules that determine market governance, these are broadly appropriate and consistent with arrangements in place in other financial and commodity markets.
139. We agree that wholesale gas markets are important for the investigation without needing to be the focus of a theory of harm. The National Balancing Point is the most liquid trading point in Europe, with depth in exchange trading and a large number of diverse participants (including traders, hedge funds, banks as well as energy companies).
140. On network regulation, we accept the CMA's reasons for not including a review of network revenue regulation within the scope of this competition investigation. However, we would note that network charges continue to contribute to increases in customers' energy bills and therefore wider public perceptions regarding the effectiveness of competition in the sector, and so are of relevance to understanding customer perceptions of the sector. We agree it is right for the charging for network access and transmission constraints to be examined by the CMA. However we note that Ofgem has already taken steps to address this issue through specific regulatory intervention in the form of the Transmission Constraint Licence Condition (TCLC)⁴⁹.
141. In the downstream market, we also see, and face, effective competition. Customers have a wide range of suppliers from which to choose, and a medium (in the many price comparison sites) through which most energy offers in the market can be easily compared. The increasing importance of switching sites has served to emphasise the national nature of the retail gas and electricity markets. We work hard to win and retain as many customers as we are able, given we have recently been losing between 1 and 2 million accounts every year.
142. Most of our residential customers are now dual fuel and by definition have actively engaged with the market to change supplier for one or both fuels. Numbers of our gas only customers continue to decline, and we do all we can to promote the benefits of dual fuel supply to this group of customers. In short, we see no evidence that supports the view that less active customers in the sector reduce incentives of energy suppliers to compete.
143. While the State of the Market Assessment suggested a number of characteristics of the retail energy markets and behaviours of suppliers conducive to coordinated behaviour, we

⁴⁹ The TCLC came into effect on 29 October 2012, with the aim of restricting or prevent licence holders from obtaining excessive benefits through the exploitation of electricity trading and transmission arrangements.

do not believe these will substantiate a concern that there is tacit coordination in the retail energy markets, or that this reduces incentives across suppliers to compete.

144. We constantly seek to set ourselves apart from our competitors, demonstrated for example by our aim to take the lead in being the most innovative energy supplier. We have taken the lead in rolling out smart meters which deliver a wide range of benefits to our customers, delivered market-leading online account management and continue to invest in technologies that will connect appliances in the home that will promote more efficient energy usage.
145. We also do not see timing of price announcements as evidence for tacit coordination. Decisions on the timing and size of price changes are largely driven by changes in our input costs. However, we would note that regulation has also had an important impact on the way in which price changes are announced (particularly the requirement for advance notification).
146. More generally we note that regulatory interventions have come to shape, and in some ways limit the competitive framework. In particular, the series of frequent and significant changes to the regulatory framework since 2008 – many of which have an objective of fairness rather than the promotion of competition – make it difficult to assess the underlying effectiveness of competition. We believe this will represent one of the most significant challenges for the CMA in its investigation.

Annex: Summary response to CMA's Statement of Issues

This annex provides a brief set of responses from Centrica's Initial Submission to each of the relevant theories of harm as set out in the Statement of Issues, as well as providing a cross-reference to the relevant paragraphs.

Theory of Harm	Centrica response	Centrica paragraph
1(a) and 1(b)	<p><i>We do not consider that wholesale prices are opaque</i></p> <p>In the wholesale electricity market, in which we are a major buyer, we believe prices are transparent, as demonstrated by the availability of OTC broker supported prices to market participants that show the full range of bid / offer prices.</p> <p><i>We do not believe that liquidity acts as a barrier to entry in either retail or generation.</i></p> <p>Electricity churn is generally sufficient to meet the needs of market participants. We have not found levels of liquidity in the wholesale power market as being problematic and have generally been able to trade as we have needed to on the wholesale electricity market, without issue. We also observe that small clip sizes are generally available for trade in the wholesale electricity market.</p> <p><i>Wholesale electricity “market rules” do not lead to low liquidity.</i></p> <p>We do not find that wholesale electricity market rules, which are relatively simple, reduce liquidity. While there are more complex rules that determine market governance, these are broadly appropriate and consistent with arrangements in place in other financial and commodity markets.</p> <p><i>Centrica’s business model enhances power market liquidity</i></p> <p>We believe that the way we run our businesses (i.e. with low levels of self supply, conducted on an arm’s length basis) enhances power market liquidity, rather than reducing it.</p> <p><i>New developments are helping to increase liquidity.</i></p> <p>The existence of adequate liquidity has been demonstrated by the entry of a number of new retail suppliers and new participants in the midstream market as well as the activity of significant independent generators.</p> <p><i>Nonetheless, we believe there is scope for improvement.</i></p> <p>Sustained increases in liquidity are best achieved by encouraging a full spectrum of participants, such as traders, banks and other financial institutions, to enter the market. Standardising products and developing the market in financial exchange trading may be beneficial in achieving this, as well as further increasing transparency in the wholesale power market.</p> <p>We therefore understand why the CMA proposes looking into this area in more detail, and we support the</p>	17, 19, 105, 121-131, 135, 138

	inclusion of these issues in the scope of the investigation.	
2	<p><i>Vertical integration is a rational business model</i></p> <p>A vertically integrated energy company with a good credit rating can mitigate some of the normal costs of operating in the energy market, such as meeting credit and collateral requirements. However there are other ways of achieving a good credit rating to achieve these same efficiencies.</p> <p><i>We believe that vertical integration leads to significant efficiencies</i></p> <p>A strong credit rating is also important for the efficient management of collateral costs, which arise from providing customers an on-demand supply at a price, set in advance, that varies infrequently. These collateral requirements can be significant, however we believe they are a necessary cost of serving customers in the face of often volatile commodity markets.</p> <p><i>We do not consider that vertical integration leads to foreclosure of market participants</i></p> <p>We believe that the fact that we source the vast majority of our power needs from the wider market is inconsistent with a suggestion that the behaviour of large companies like Centrica leads to foreclosure.</p> <p>In addition, as self-supply is priced against the same market into which our generation is sold, and also because we do not know the identity of trading counterparties until after the transaction has completed, it is not possible for input foreclosure to arise.</p> <p><i>We have a strong interest in ensuring wholesale markets are sufficiently liquid</i></p> <p>We have to rely heavily on wholesale markets to meet our customers' demand. Importantly, any self-supply within the Centrica group is completed at market prices.</p> <p><i>We do not consider that vertical integration creates detriment</i></p> <p>We observe that competition in the generation market is strong, though the pattern of generation is of course much affected by environmental regulation. Wholesale power prices follow market fundamentals, and returns for marginal CCGT plant are low or negative.</p> <p>We do not see evidence that would support a concern that vertical integration creates detriment by raising costs of non-integrated suppliers, or reducing sales of non-integrated generators.</p> <p>We welcome the opportunity the investigation gives to confirm this.</p>	16, 18, 106, 109-112, 114, 136

<p>3</p>	<p><i>We do not believe that generators will have the ability or incentive to manipulate prices</i></p> <p>We note that the CMA will investigate some of the recent changes arising from the Electricity Market Reform, from the perspective of seeing whether generators in receipt of new CfD payments can manipulate the reference price, and thus receive higher subsidy payments. We do not however believe that such concerns are consistent with the way in which the new rules will operate.</p> <p>Given the majority of renewable generation is sold in to the highly liquid day ahead market, we question whether a generator would have the ability to influence the reference price, regardless of whether it would have an incentive to do so.</p> <p><i>We do not believe that the generation market could be manipulated to result in higher prices</i></p> <p>Given the diverse ownership of generation assets, particularly among those plants that tend to be at the point of the demand-supply balance that determines prices, we do not see how the generation market could be manipulated in such a way as to result in higher wholesale electricity prices.</p> <p><i>We do not see evidence of market power in generation</i></p> <p>Competition in the generation market is strong, with a diversity of ownership of generation assets, particularly among price setting plant. The low or negative returns for the marginal CCGT plant demonstrate this well. We can explain historic wholesale power prices with a short run marginal cost model using observed fuel and carbon costs as the major inputs, with a high degree of accuracy.</p> <p>This gives us confidence that actual electricity prices are being driven by the market fundamentals facing the sector, rather than market power.</p> <p>We welcome the opportunity the investigation gives to confirm this.</p>	<p>19, 119, 120, 137</p>
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<p>4 (a)</p>	<p><i>There are encouraging signs of consumer engagement in the retail market</i></p> <p>Consumers now have the widest range of suppliers ever from which to choose (and more than in any other utility sector by far), helped by significant new entry to the domestic and non-domestic retail markets in recent years.</p> <p>The emergence of a range of accredited switching sites and collective switching has also had a positive effect on competition, enabling consumers to compare supplier offerings more easily and by providing a low cost platform through which suppliers are able to compete. We work hard to win and retain as many customers as we are able, given we have recently been losing between 1 and 2 million accounts every year.</p> <p>The increasing importance of switching sites has also served to emphasise the national nature of the retail energy markets. In addition, most of our residential customers are now dual fuel and by definition have actively engaged with the market to change supplier for one or both fuels. Dual fuel supply has emerged from both a consumer desire for convenience, and an effort by suppliers to convert previously single fuel customers to dual fuel.</p> <p>In the non domestic market we also see a range of competitors, active competition and active Third Party Intermediaries.</p> <p><i>Switching data alone provides an incomplete view on engagement</i></p> <p>A wider range of indicators needs to be considered to obtain a more accurate view of the level of engagement in the market, such as (a) taking dual fuel supply from a single supplier, (b) changing tariff or payment method; (c) managing accounts online, and (d) actively managing their usage.</p> <p><i>We do not see evidence that less active customers reduce incentives to compete</i></p> <p>Most of our residential customers are now dual fuel and by definition have actively engaged with the market to change supplier for one or both fuels. Numbers of our gas only customers continue to decline, and we do all we can to promote the benefits of dual fuel supply to this group of customers.</p> <p>In short, we see no evidence that supports the view that less active customers in the sector reduce incentives of energy suppliers to compete and welcome the CMA's investigation into this.</p>	<p>11-14, 54-56, 141 - 142</p>
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4(b)

We do not consider that there is a symmetry of hedging strategies

Although all other suppliers will also seek to forward hedge their energy requirements, it is not the case that there is symmetry of hedging strategies today. The publicly available information we have seen suggests a range of active hedging strategies in the market today.

There is little symmetry between our power generation portfolio and those of our competitors

We are one of only two companies to have invested in nuclear energy, and only have small exposure to coal assets through negotiated offtake contracts. Whilst other suppliers may invest in similar technologies, for example CCGT and coal, we note this is the product of a small number of options available for generating baseload power. Even then, the shares of various technologies within energy company portfolios differ from company to company, as well as the size of each portfolio.

We constantly seek to set ourselves apart from our competitors

This is demonstrated for example by our aim to take the lead in being the most innovative energy supplier. We have taken the lead in rolling out smart meters which deliver a wide range of benefits to our customers, delivered market-leading online account management and continue to invest in technologies that will connect appliances in the home that will promote more efficient energy usage.

Rather than evidence of symmetry, we believe this is evidence of energy companies seeking to differentiate themselves.

We do not see the timing of price announcements as evidence for tacit coordination.

Decisions on the timing and size of price changes are largely driven by changes in our input costs. However, we would note that regulation has also had an important impact on the way in which price changes are announced (particularly the requirement for advance notification).

We do not agree that the evidence supports a finding of tacit coordination

While the State of the Market Assessment suggested a number of characteristics of the retail energy markets and behaviours of suppliers conducive to coordinated behaviour, we do not believe these will substantiate a concern that there is tacit coordination in the retail energy markets, or that this reduces incentives across suppliers to compete.

We welcome the opportunity the investigation gives to confirm this.

43, 95-96, 113,
143-145

<p>4(c)</p>	<p><i>Regulation has shaped the ability of suppliers to compete</i></p> <p>Competitive activity in the retail energy market, particularly the domestic market, has been shaped by the regulatory regime. The nature of competition has therefore been heavily affected – sometimes adversely – by changes in the regulatory framework, even where these interventions have had an objective of increasing the effectiveness of competition. We therefore consider it appropriate that the CMA has identified regulatory intervention as a specific area for consideration.</p> <p>These changes have become increasingly frequent, large scale and interventionist in recent years. Indicators of the effectiveness of competition therefore need to be interpreted carefully, and we would expect that establishing the link between regulation and market behaviours to be a priority for the CMA.</p> <p>More generally we accept that regulatory interventions have come to shape, and in some ways limit the competitive framework. In particular, the series of frequent and significant changes to the regulatory framework since 2008 – many of which have an objective of fairness rather than the promotion of competition – make it difficult to assess the underlying effectiveness of competition.</p> <p>We believe this will represent one of the most significant challenges for the CMA in the early stages of its investigation.</p>	<p>15, 85-94, 97, 146</p>
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Customer Contact:
0800 975 9676 †
Mon-Fri 8am-8pm
Sat-8am-6pm

23 July 2014

Your Smart Energy Report™ can show you how to save

Dear [REDACTED]

On the back of this letter you'll find your free personalised Smart Energy Report™. It's based on how you use energy at home and gives you an idea of where the money you spend each quarter goes. It's not a bill – it just helps you understand how you use energy so you can make changes that could help you save energy and money.

See when, where and how you use energy – and how to save

The cost of the energy you used this quarter was £214.69*. And thanks to the meter readings your smart meter sends us, we can give you an idea of what you're spending on things like heating, lighting and cooking – even showing you how much your appliances might cost you to run. If you'd like us to collect fewer readings from your smart meter, just let us know on 0800 975 9676†. This will mean we wouldn't be able to send you your Smart Energy Report™, as the report is based on the everyday readings your smart meter sends us.

A personalised service that's totally free

You'll find your report over the page and if you'd like more information about your energy use you can see your full profile online. You can even tailor your online profile to reflect your energy use more closely.

We hope you find your report useful and that it helps you save energy and money.

Yours sincerely

James Walker
Head of Customer Service, Smart Metering

For even more information about how you use energy, register online at
britishgas.co.uk/smartreport



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Your autumn Smart Energy Report™

for [REDACTED]
[REDACTED]



British Gas

Looking after your world

1 How do I use energy at home?

On Halloween you spent more than double on gas than you do on a typical Wednesday.

In your house, more than a third of the electricity is being used on basic consumption - this costs you around **£119** per year based on your current price plan. Your basic electricity consumption is the electricity you use in your home all the time - through things like your fridge, or appliances left on standby.

2 Your energy charges** this autumn were

£214.69

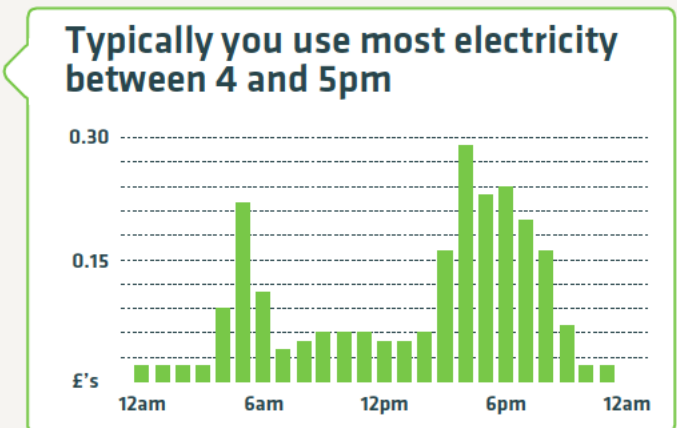
This isn't a bill.

To find out even more about how you use energy go to britishgas.co.uk/smartreport

3 How does my energy use break down?



Here's how we think your energy use breaks down†:

				
£107 on heating	£19 on hot water	£17 on lighting	£19 on cooking	£51 on appliances



4 How do I compare with other homes?

We've compared your usage with the average UK home, a 3 bed semi. Go online and update your profile to see a more accurate comparison.

		You use 9% less
You	Average UK home	

5 How could I be saving?

Simply by turning your thermostat down 1°C you'll cut the amount of heat you waste by 10%. This could have saved you around **£10** over the past quarter.



To find out more, go to britishgas.co.uk/smartreport

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See when, where and how you use energy – and how to save

The cost of the energy you used this quarter was £401.98*. And thanks to the meter readings your smart meter sends us, we can give you an idea of what you're spending on things like heating, lighting and cooking – even showing you how much your appliances might cost you to run. If you'd like us to collect fewer readings from your smart meter, just let us know on 0800 975 9676†. This will mean we wouldn't be able to send you your Smart Energy Report™, as the report is based on the everyday readings your smart meter sends us.

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Your Smart Energy Report™

for [REDACTED]
[REDACTED]



British Gas

Looking after your world

1 How do I use energy at home?

Great news! The figures we've got for you show you managed to cut your basic electricity consumption by more than 15% from August to October - which could save you around **£44** per year based on your current price plan. This is the energy you use all the time, through things like your fridge, or appliances left on standby.

2 Your energy charges** this quarter were

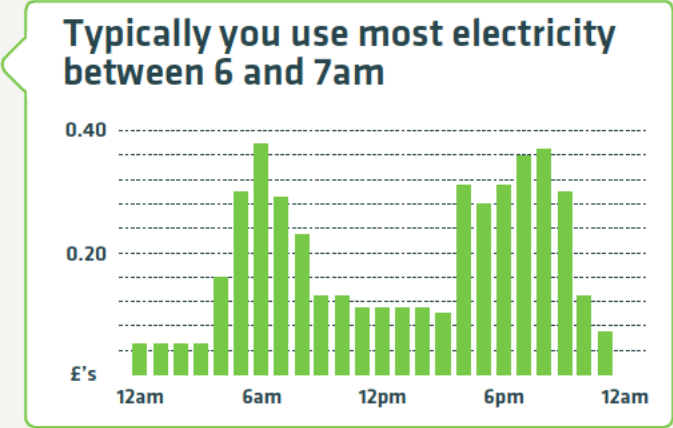
£401.98

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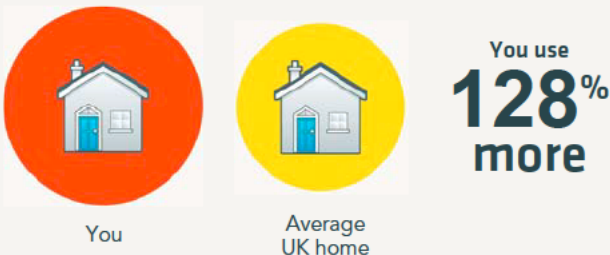
3 How does my energy use break down?

Here's how we think your energy use breaks down†:



4 How do I compare with other homes?

We've compared your usage with the average UK home, a 3 bed semi. Go online and update your profile to see a more accurate comparison.



5 How could I be saving?

If you carry on cutting your basic electricity consumption like this, you'll carry on saving - why not have a think about what else you could switch off, like lights or other equipment left on standby?



To find out more, go to britishgas.co.uk/smartreport

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See when, where and how you use energy – and how to save

The cost of the energy you used this quarter was £329.68*. And thanks to the meter readings your smart meter sends us, we can give you an idea of what you're spending on things like heating, lighting and cooking – even showing you how much your appliances might cost you to run. If you'd like us to collect fewer readings from your smart meter, just let us know on 0800 975 9676†. This will mean we wouldn't be able to send you your Smart Energy Report™, as the report is based on the everyday readings your smart meter sends us.

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Your autumn Smart Energy Report™

for [REDACTED]
[REDACTED]



British Gas

Looking after your world

1 How do I use energy at home?

You're using more electricity than households like yours.* In fact, it looks as though your lighting and appliances cost you almost ten times as much as the average home. This could be because you're still using old-fashioned, inefficient light bulbs, or have a lot of electrical appliances.

2 Your energy charges** this autumn were

£329.68

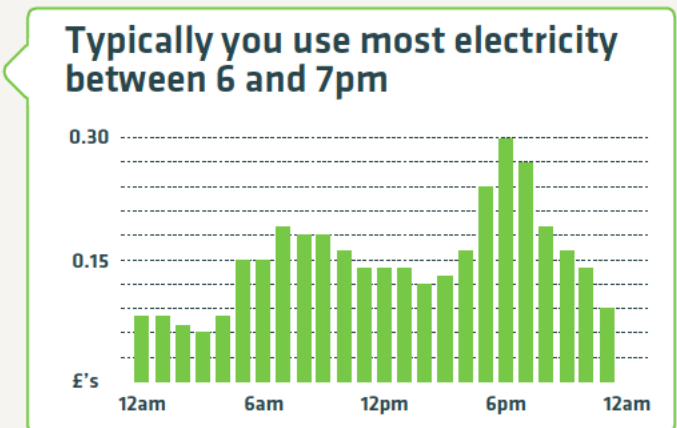
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To find out even more about how you use energy go to britishgas.co.uk/smartreport

3 How does my energy use break down?


Here's how we think your energy use breaks down†:

				
£155 on heating	£19 on hot water	£19 on lighting	£18 on cooking	£119 on appliances




4 How do I compare with other homes?

We've compared your usage with the average UK home, a 3 bed semi. Go online and update your profile to see a more accurate comparison.



You



Average UK home

You use

51% more

5 How could I be saving?

Just by replacing all your standard or halogen light bulbs with low energy ones you could save around £25 a year based on your current price plan.



To find out more, go to britishgas.co.uk/smartreport

* Households of a similar age, size, construction and occupation to yours. **Energy charges are calculated based on the cost of the energy you've used, plus VAT, and include any discounts you receive. † Breakdown based on typical UK domestic energy consumption patterns, building efficiency, appliance usage patterns and weather conditions in your area. Amounts shown are rounded down to the nearest pound. British Gas Trading Limited, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. Company No. 3078711.



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See when, where and how you use energy – and how to save

The cost of the energy you used this quarter was £146.14*. And thanks to the meter readings your smart meter sends us, we can give you an idea of what you're spending on things like heating, lighting and cooking – even showing you how much your appliances might cost you to run. If you'd like us to collect fewer readings from your smart meter, just let us know on 0800 975 9676†. This will mean we wouldn't be able to send you your Smart Energy Report™, as the report is based on the everyday readings your smart meter sends us.

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Your summer Smart Energy Report™

for [REDACTED]



British Gas

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1 How do I use energy at home?

We've noticed you're using more gas than other households like yours.* In fact, it looks as though you spend over 20% more than the average home on heating. Friday is your most expensive day for gas and costs you around **£0.59** more than Sunday, your cheapest day, based on your current price plan.

2 Your energy charges** this summer were

£146.14

This isn't a bill.

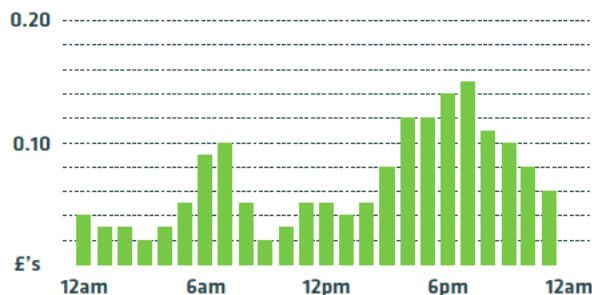
To find out even more about how you use energy go to britishgas.co.uk/smartreport

3 How does my energy use break down?

Here's how we think your energy use breaks down†:

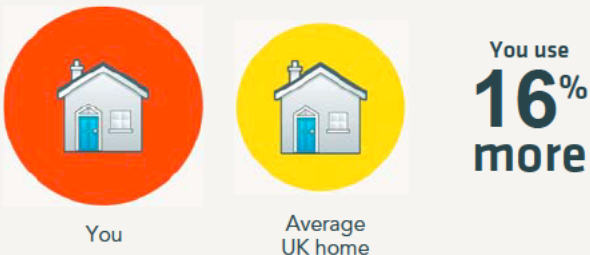


Typically you use most electricity between 7 and 8pm



4 How do I compare with other homes?

We've compared your usage with the average UK home, a 3 bed semi. Go online and update your profile to see a more accurate comparison.



5 How could I be saving?

Simply by turning your thermostat down 1°C you'll cut the amount of heat you waste by 10% - doing this could have saved you as much as **£10** in the past quarter alone. Also, have a think about what you're doing differently on Friday to see if there's anything you can do to reduce the amount of gas you use at other times.



To find out more, go to britishgas.co.uk/smartreport

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