

17 October 2013

## British Gas household tariff changes

We recognise that energy bills are a real worry for hard-pressed households, particularly at a time when the cost of living is rising faster than incomes. It has been a difficult decision therefore to announce an average increase of 9.2% in household energy prices – 8.4% on gas and 10.4% on electricity – from 23 November 2013<sup>1</sup>.

More than 500,000 of our elderly and most in need customers will be protected by an automatic discount to offset the price increase throughout the winter – worth £60 per dual fuel household<sup>2</sup>. This is in addition to the £135 that will be paid to many of these customers who qualify for the Government's Warm Home Discount scheme. British Gas has set the widest criteria of all the major suppliers for this scheme, helping as many customers as possible.

Today's announcement, which will add about £2 a week to the average dual fuel bill, reflects the increasing cost of: buying energy in global markets, delivering gas and electricity to the home, and the Government's social and environmental programmes, which are paid for through customers' bills.

We know that our customers will be concerned about today's announcement and we will do our utmost to help people keep bills under control. Energy efficiency measures can help keep homes warmer using less energy. There is a wide range of help available, and we urge our customers to find out more at [www.britishgas.co.uk/myenergy](http://www.britishgas.co.uk/myenergy) or by calling us on 0800 980 1917.

For customers who want peace of mind over a longer term, we are offering a new tariff, Fix & Fall November 2014, which guarantees that prices won't go up until 30 November 2014, and if our standard prices fall, Fix & Fall prices will fall too. We also have a new Fixed Price March 2016 tariff, holding prices over three winters<sup>3</sup>.

Ian Peters, Managing Director of British Gas Residential Energy, said:

*"I know these are difficult times for many customers and totally understand the frustration that so many household costs keep on rising when incomes aren't keeping pace. We haven't taken this decision lightly, but what's pushing up energy prices at the moment are costs that are not all directly under our control, such as the global price of energy, charges that we have to pay for using the national grid that delivers energy to the home, and the cost of the Government's social and environmental programmes.*

*"Energy efficiency is the best way to keep bills down, and I encourage anyone who has not benefited from them to go online and check if they are eligible. On average, insulation can save you around £200 a year.*

*"A price rise doesn't necessarily mean energy bills have to go up too. The amount you pay depends not just on the price, but on how much gas and electricity you use. Energy efficiency is making a real difference. We've already provided three million customers with insulation, help and advice in managing their bills and keeping their homes warmer for less. Please visit [www.britishgas.co.uk/myenergy](http://www.britishgas.co.uk/myenergy) or contact us on 0800 980 1917 if you're worried and we'll see what we can do – there's a lot of help available."*

## **Rising costs**

Today's announcement reflects rising costs in three key areas:

1. **Network charges:** British Gas has to pay to use the pipes and wires that deliver energy to Britain's homes. These charges, set by the regulator, are increasing in order to pay for upgrading the networks and accommodate our changing energy infrastructure. This will account for an extra £20 on the average dual fuel bill next year, a 2% increase on the average annual dual fuel bill.
2. **Environmental and social obligations:** British Gas is playing its part in a Government initiative, called the Energy Company Obligation (ECO), to transform homes and communities across the UK. However, we estimate that ECO will add £40 to the average dual fuel customer's bill in 2014. Other environmental charges, including the cost of Renewables Obligation Certificates (ROCs) and the Feed in Tariffs (FITs) are also rising. We estimate these will add an additional £10 to the average customer's dual fuel bill in 2014. Combined, these will increase the average bill by 4% next year.
3. **Wholesale energy:** the price of energy in the global markets is volatile. Our cost of gas is 8% higher this year than last year. We have been able to absorb a proportion of these rising costs so far, owing to increased consumption during the extended cold weather last winter. But we have used up that benefit and have incurred losses for a number of months. We now need to reflect these ongoing higher costs, which will add around £37 to the average dual fuel bill next year, an increase of 3% on the average annual dual fuel bill.

## **Fair profits and investment**

British Gas' net profits from supplying energy to customers at home have averaged 5% after tax for the past six years, with customers' actual energy bills rising not much more than inflation, owing to the benefits of energy efficiency. Margins across the Centrica Group, which include all our gas production and power generation activities, were 5.9% after tax in 2012.

We believe these are fair profits, funding investments in UK energy infrastructure and securing future energy supplies for the UK, keeping homes warm and keeping the lights on.

In the UK, we need to invest to close the energy gap – £110 billion is needed over the next decade to keep the lights on and to keep homes warm as older and more polluting power stations are closed.

We have agreements totalling £50 billion helping to secure gas and electricity for the UK. Only a profitable business can undertake these types of long-term commitments.

With our partners, we are developing the Cygnus field, the biggest gas discovery in the Southern North Sea for 25 years, providing enough gas, at peak production, to supply 1.5 million British homes, and in the construction phase creating 4,000 jobs. We have invested in the £1 billion Lincs offshore wind project, which will produce renewable energy for 200,000 homes. This year alone we will invest over £1 billion in North Sea gas fields and UK power generation.

In addition, our 2012 UK tax bill was nearly £800m, one of the highest in the FTSE 100, a vital contribution to reducing the national budget deficit and funding public services. We also directly employ 33,000 people here in Britain.

At British Gas and Centrica we are playing our part in full.

### **Simplifying tariffs for customers**

British Gas is also announcing today a number of required changes to the way customers are charged for their energy, making our pricing clearer and ensuring we comply with the new rules from the regulator Ofgem, following its Retail Market Review:

- Standing charge: to make tariffs easier to understand, customers on all our tariffs in the market place will now pay a fixed standing charge of 26p (including VAT) per day, per fuel no matter which tariff they are on. This covers fixed costs, such as reading the meter and getting energy to the home. Consumers will also pay a single variable unit rate, based on the amount of energy consumed and the chosen tariff. Both the unit rate and the standing charge will be clearly shown in pence per unit on customers' bills and annual statements. British Gas has already been offering tariffs with standing charges to new customers since June 2012 and will now move its remaining 6.1 million customers to this type of tariff.
- Direct debit discounts: as we continue to simplify our pricing structures we are consolidating our discount schemes. With the introduction of a single unit rate, customers will now receive a direct debit discount on all the fuel they use<sup>4</sup>.
- Customers currently receive a Prompt Pay discount for paying bills early. Ofgem has decided that energy companies are no longer allowed to offer this type of discount. We will have to withdraw this discount from 23 November 2013, although we will be adjusting our prices to help compensate for this change.

### **Call for changes to energy efficiency schemes**

We support the overall aim of the Energy Company Obligation – to target help towards disadvantaged customers, improve the energy efficiency of homes, and cut carbon emissions. However, British Gas continues to urge the Government to reform the programme to make it more affordable for consumers. We expect to incur charges of more than £400 million on ECO this year, rising to almost double that amount next year. At current estimates, it is likely to cost British Gas £1.4 billion in total across the life of the scheme.

Carrying out the same energy efficiency measures over a longer time period would reduce the short-term impact on customers' bills. In addition, including lower-cost measures such as loft and 'easy to treat' cavity wall insulation would enable us to help many more customers, and stimulate job creation in the insulation industry. If Government acts to cut the scheme's cost, the benefit would be passed on to customers.

Ian Peters, Managing Director of Residential Energy at British Gas, said:

*"We have some of the least energy-efficient housing in Europe, with £1 in every £4 spent on gas heating being wasted. As a responsible business, we're fully behind important Government initiatives to upgrade Britain's homes and tackle climate change. But a review of the policies and how they are paid for is overdue."*

*"These policies currently affect all customers equally, whatever their circumstances, and therefore don't take into account their ability to pay. We want to work with Government to make the schemes more cost-effective."*

## ENDS

### TODAY'S ANNOUNCEMENT – FURTHER INFORMATION

#### 1. What is being announced today?

The price rise means that the average annual dual fuel bill for British Gas customers, assuming seasonally normal temperatures, will rise by £107 from £1,190 to £1,297.

A total of 7.8 million households in Britain will be affected by today's announcement; another 1.7 million British Gas households already benefiting from fixed price contracts are unaffected.

Using Ofgem's current industry average annual consumption data of 16,500 kWh of gas and 3,300 kWh of electricity, today's price rise would increase the average British Gas dual fuel customer bill from £1,321 to £1,444.

British Gas customers use, on average, less energy each year than customers of other energy companies – 12,640 kWh of gas and 3,606 kWh of electricity – and if customers' underlying consumption continues to fall at the same rate as in recent years, we would expect their actual bills to be lower next year than this year, assuming seasonally normal temperatures in 2014.

Data published by the Department of Energy and Climate Change has shown a sustained fall in consumption in recent years as a result of substantial energy efficiency programmes. As a result, Ofgem is reducing its benchmark typical domestic consumption values for gas and electricity by 18% and 3% respectively to 13,500 kWh of gas and 3,200 kWh of electricity from January 2014.

#### 2. Are the price increases the same for every region?

Regional variations are as follows, reflecting variations in network costs we are obliged to pay across different regions:

Eastern	9.1%
East Midlands	9.0%
London Electricity	10.6%
ManWeb	9.6%
Midlands	7.9%
Northern	7.4%
Norweb	10.0%
Scottish Hydro Electric	11.2%
ScottishPower	9.5%
Seeboard	9.3%
Southern Electric	9.3%
SWALEC	9.2%
SWEB	6.8%
Yorkshire	10.5%

#### 3. Why is British Gas making this price change now?

There is never a good time to raise energy prices. We know customers are concerned about the rising cost of energy, and we have held off doing this for as long as possible. But, the main costs that go into energy bills are increasing, and British Gas Residential Energy would be loss-making in 2014 if it did not raise prices to cover these costs. Separately, the changes we are announcing today to the structure of our tariffs are required by the end of 2013 under Ofgem's Retail Market Review, as they will be for the whole industry.

#### 4. What help is available for customers who are concerned about their bills?

British Gas believes that the best way to keep bills down is for customers to be more energy efficient – and has a huge range of help available to reduce their energy use:

- **Insulation:** British Gas offers a range of free help to improve the energy efficiency of homes across the UK – including free insulation to those who qualify under the Energy Companies Obligation (ECO). Loft insulation can save the average household around £180 per year, with cavity wall insulation saving up to £140 per year. British Gas installed over 670,000 insulation measures in customers' homes last year. As a result of measures like these, our typical customer uses 20% less gas than they did five years ago. This year, British Gas expects to incur charges of more than £400 million improving the energy efficiency of customers' homes through the ECO scheme and is on a nationwide hunt to find and help customers who qualify under this scheme including those that live in certain postcodes, those in receipt of certain benefits or a house with a certain types of walls. To learn more visit [www.britishgas.co.uk/eco](http://www.britishgas.co.uk/eco).
- **Boilers:** Modern, energy-efficient boilers can also cut gas bills by as much as 17%. Contact us to find out if you are eligible for support in upgrading your boiler. Boilers can qualify for an ECO subsidy for those most in need.
- **Smart meters:** British Gas has delivered over more than one million smart meters to its homes and businesses. A recent report by Oxford Economics ([www.oxfordeconomics.com](http://www.oxfordeconomics.com)) showed that smart meters can help customers save, on average, £65 each year.
- **Tariff Check:** British Gas was the first energy supplier to write to customers every six months to let them know if there is a better British Gas tariff for them and how they can switch. We also removed internal cancellation fees to help make it easier for customers to save money by moving to a different British Gas tariff.

British Gas also allows customers to fix their prices, giving them peace of mind with set costs over a long period. We are offering a new tariff, Fix & Fall November 2014. Fix & Fall November 2014 is capped at Standard tariff prices. In addition, if our Standard prices fall, Fix & Fall prices will fall too. Fix & Fall rates will never increase, even if they have already fallen. A new product providing protection over three winters, Fixed Price March 2016, is also available, at a premium of 5% to the new standard rate at average consumption. More information is available at [www.britishgas.co.uk/myenergy](http://www.britishgas.co.uk/myenergy)<sup>3</sup>.

#### 5. What extra help are you providing for elderly and vulnerable customers and those in fuel poverty?

To help those most in need, British Gas is offering an additional credit of £60 to dual fuel customers who qualify for the Warm Home Discount (WHD) scheme<sup>2</sup>. The credit is in addition to the £135 discount already provided under WHD. It will be paid directly into a customer's electricity account before April 2014. This extra benefit means they are effectively protected from today's price rise this winter. Electricity customers who are eligible for the WHD will receive £20. Existing customers who were on British Gas' social tariff 'Essentials' (which was replaced with the WHD), who do not qualify for the WHD through British Gas because they only have gas accounts, will be credited with £40.

In 2012, British Gas spent more than £234 million on help for our elderly, disabled or most in need customers. Last winter, more than 500,000 British Gas customers benefited from this £130 Warm Home Discount credit on their electricity bills. This year, the discount has increased to £135. British Gas has set the broadest eligibility criteria. Our customers may be eligible for the broader group rebate if they are:

- In receipt of the Savings or Guarantee & Savings element of the State Pension Credit (unless already qualifying as part of the Core Group)
- In receipt of eligible Means Tested Benefits
- Or have a household income below £16,190 and have a disability or long term illness
- Or have a household income of below £16,190 and are spending more than 10% on fuel for adequate heating (usually 21 degrees for the main living area)
- Any customer who believes they may be eligible for the Warm Home Discount can visit: [www.britishgas.co.uk/warmhomes](http://www.britishgas.co.uk/warmhomes) or call British Gas free on 0800 072 8625

We urge any customer who is worried about rising costs to contact us and discuss our wide range of help available – 0800 980 1917 or [www.britishgas.co.uk/myenergy](http://www.britishgas.co.uk/myenergy).

British Gas offers an extensive package of help for elderly, disabled and vulnerable customers, which includes:

- The British Gas Energy Trust, which provides grants to households in need, helping to clear energy and other household debts and provide essential household items; overall, British Gas has donated £60 million to the Trust since its inception
- Consumers who are struggling with bills may be eligible for help and can contact the Trust by visiting <http://www.britishgasenergytrust.org.uk> or by calling 01733 421 060
- Benefits Entitlement Checks for customers who are unsure of the benefits they are entitled to
- A dedicated 'Here to Help' team, offering extra support and registration onto the Priority Services Register, providing: free gas safety checks; priority attention for those who are most vulnerable and without heating due to faulty appliances; alternative bill formats; and a nominee scheme which allows others to manage your account on your behalf

## **6. What changes to the market would help consumers?**

UK energy policy is at a decision-point. Over the next two years, targets and policies will be determined that will set the course for the UK energy system for at least the next decade. These decisions will impact the future shape of our energy system, and, crucially, its costs. Ultimately all of us will have to carry these costs, whether as bill-payers, motorists, businesses or taxpayers. We are keen to work with all relevant organisations to find ways in which the UK could mitigate or reduce these costs.

For example, funding environmental programmes through taxation would lower the average annual dual fuel bill significantly. Decisions taken on ECO design next year could have a direct impact on household bills. British Gas will continue to work with the Government to find ways to reduce the costs of the ECO programme – in particular by spreading the same energy efficiency targets over a longer period of time and including a wider range of insulation measures in the eligibility criteria, to increase the number of households we can help and create jobs in the insulation sector. If Government acts to cut the scheme's cost, the benefit would be passed on to customers.

## **7. What other changes are being announced today?**

Today, we have ensured that all of our tariffs comply with the new rules set out in Ofgem's Retail Market Review ahead of the 31 December 2013 deadline. All energy suppliers must be compliant by this date.

We had already made significant changes: simplifying tariffs, making comparison of prices easier and leading the way in clearer bills for customers. We have also introduced one common standing charge of 26p per day, per fuel (including VAT) making it easier for consumers to compare tariffs. We support the intent to improve simplicity, clarity and fairness in the energy market. Ofgem's reforms

should establish a common standard across all suppliers and help improve trust in the energy market.

We now have the following tariffs in market:

- Standard
- Fix & Fall November 2014
- Fixed Price March 2016
- Sustainable Energy November 2014

Other changes customers will see include:

- British Gas will now be using a single unit rate. Customers will pay a fixed daily standing charge, similar to the standard rental cost payable on a landline telephone. Both the unit rate and the standing charge will be clearly shown in pence per unit on customers' bills and annual statements. British Gas has already been offering tariffs with standing charges to new customers since June 2012 and will now move its remaining 6.1 million customers to this type of tariff.
- As we continue to simplify our pricing structures we are consolidating our discount schemes. With the introduction of a single unit rate, customers will now receive a direct debit discount on all the fuel they use<sup>4</sup>.
- Customers currently receive a Prompt Pay discount for paying bills early. Ofgem has decided that energy companies are no longer allowed to offer this type of discount. We will have to withdraw this discount from 23 November 2013, although we will be adjusting our prices to help compensate for this change.

### **8. Do prices rise quickly but fall slowly?**

The rise in household energy bills over the last six years is due to three factors: higher costs of buying energy in the global market; increased charges for using the national grid that transports gas and electricity to homes; and the increased cost of Government social and environmental programmes.

The regulator, Ofgem, which has examined the issue, found no conclusive evidence that prices rise more swiftly than they fall in response to wholesale price movements. The independent economic consultancy, NERA, also concluded there was no definitive evidence to support the claims.

British Gas has a strong track record of cutting prices. We want to grow our business and we know price is important to customers, so we aim to offer the most competitive prices possible at all times. We have cut prices four times in the past five years and were the first major supplier to do so each time:

- February 2009 (10% - Gas)
- May 2009 (10% - Electricity)
- February 2010 (7% - Gas)
- January 2012 (5% - Electricity)

### **9. Why do you need to make a profit?**

Our profits have a purpose:

- They fund investments in UK energy infrastructure and future energy supplies, keeping homes warm and lit
- Over the past six years, Centrica has invested £1.70 for every £1 earned in profit
- We have commodity commitments totalling £50 billion, helping to secure gas and electricity supplies for the UK

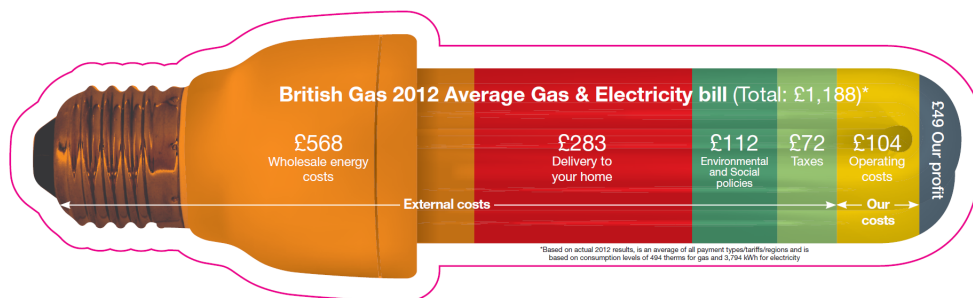
- This year alone we will invest more than £1 billion in North Sea gas fields and UK power generation
- With our partners, we are investing in developing the £1.4 billion Cygnus field, the biggest gas discovery in the Southern North Sea for 25 years, which, at peak production, will supply 1.5 million British homes
- In 2011, Centrica signed a 10-year gas supply contract with Statoil to export sufficient gas to meet the annual gas demand of 3.5 million British homes
- In 2013, Centrica signed a 20-year deal, which will start in 2018, to export LNG from the United States, contracting for future supplies equivalent to the annual gas demand of 1.8 million British homes and giving us access to one of the cheapest sources of gas in the world

As a profitable company, we are also a big employer in Britain:

- Centrica employs 33,000 people in Britain
- Through our supply chain we support 174,000 jobs throughout the country
- There are 1,000 apprentices currently in training across the company
- We have the largest workforce of trained heating engineers in Britain, numbering over 10,000
- We will be recruiting over 500 British Gas Smart Energy Experts next year to install our smart meters and expect hundreds more jobs to be created by smart meter suppliers

## 10. Are profits from selling energy to households fair?

British Gas makes 5p in the pound after tax, which is a fair return when compared to similar industries such as telecoms, where post-tax margins average around 10%. Even after this price announcement, assuming seasonally normal weather conditions for the rest of the year, we expect British Gas Residential profits in 2013 to remain broadly flat, with post-tax margins of around 5%, in line with recent years. The lightbulb below shows the breakdown of costs in an average British Gas dual fuel bill last year.



The entire Centrica Group, last year, had sales of £23.9 billion worldwide and recorded net profits of £1.4 billion – a 5.9% margin, below most capital intensive industries.

Upstream, Centrica Energy invests in the Exploration and Production (E&P) of oil and gas and in power generation. Some commentators have suggested that Centrica Energy makes margins of 25%, but this is misleading because our E&P business pays tax of around 75%. The upstream businesses have made large capital investments, which would expect to make a return. Therefore, the most appropriate measure of profitability is the return on capital employed – profits after tax divided by the capital invested in the business.

For Centrica, the return on capital employed in the E&P business, which includes operations in the UK, Norway, The Netherlands, Trinidad & Tobago and Canada, was around 8% in 2012 – a similar level to the Group's cost of capital.



Centrica Energy's UK power generation business currently makes significantly less than the cost of capital and its gas fired generation fleet is currently expected to lose in excess of £100 million this year.

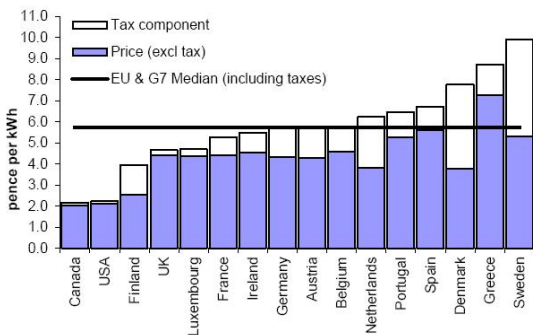
Centrica's total 2012 UK tax bill was nearly £800 million, one of the highest in the FTSE 100, a vital contribution to reducing the national budget deficit and funding public services. The total UK tax bill for the period 2007 to 2012 was over £4 billion.

We believe these are fair profits, funding investments in UK energy infrastructure and future energy supplies, keeping homes warm and lit.

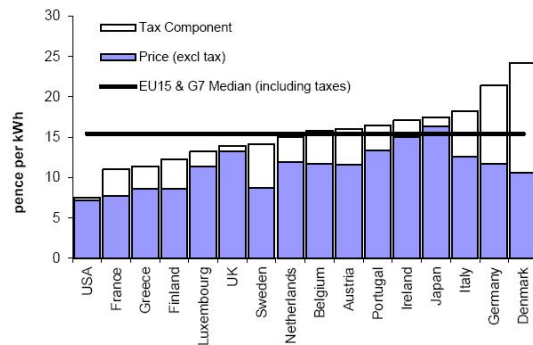
**11. Is the UK energy market competitive?**

The energy supply market in Britain is one of the most competitive in the world; there are 21 competitors, and among the lowest gas and electricity prices in Western Europe. According to DECC statistics, in 2011 the UK had the fourth highest market for switching in the world.

**European & North American gas prices**



**European & North American electricity prices**



(Source: DECC)

**12. Is the UK market transparent enough?**

Centrica is a significant gas producer and medium-sized generator of power, and the vast majority of the energy that we produce is sold through the open wholesale market. All the energy we buy and sell is priced off the wholesale market. As part of Centrica, a UK-listed company with more than 700,000 direct shareholders and millions more savers who invest indirectly, British Gas results are published in Centrica's full annual accounts, audited by PWC. These show in detail our profits and where in the business they are made.

The company also publishes its Annual Segmental Statement as required by Ofgem, providing transparency on the level of profit made across Centrica by fuel type. We support the findings of the Ofgem/BDO review of energy company accounts and have implemented all the relevant recommendations. Leading the way in transparency across the sector, Centrica regularly publishes a breakdown of our power generation profits, by fuel type, and separating out profits from midstream and trading activities.

**NOTES TO EDITORS:**

1. Based on a typical customer with an average annual consumption of 16,500 kWh for gas and 3,300 kWh for single rate electricity. The percentage increase represents a rounded average across our Standard and Clear & Simple tariff prices, across all regions and payment types and includes VAT at 5%.
2. Based on a typical household with an average annual consumption of 16,500 kWh for gas and 3,300 kWh for single rate electricity. The £60 discount represents a rounded average for the period 23 November 2013 to 31 March 2014 across all regions and payment types and includes VAT at 5%.
3. Fix & Fall November 2014 and Fixed Price March 2016 full terms and conditions can be found on our website at: <http://www.britishgas.co.uk/products-and-services/gas-and-electricity/our-energy-tariffs/fix-and-fall-november-2014/terms.html> and <http://www.britishgas.co.uk/products-and-services/gas-and-electricity/our-energy-tariffs/fix-price-march-2016/terms.html>
4. Direct debit discount changes: this replaces the two previous direct debit discount schemes, which included a fixed percentage discount on unit rates and standing charge, and a capped unit rate discount scheme.

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