

Sam Laidlaw, Chief Executive

State of the Market announcement

Q: Ofgem have just released their State of Market Report on retail energy competition what's your reaction to it?

A: Anything that actually clears the air and helps rebuild trust in the industry must be a good thing. The concern however - and there is no doubt in my mind that actually we have a very competitive, vibrant competition, 19 suppliers, a lot of switching happening now and I think good competition - the concern about this enquiry I think is that it could last two years at a time when actually we've already had five years of investment hiatus because of electricity market reform, we'll then have a further two years of under-investment and this is coming at a time when actually Britain's energy security is being seriously challenged, not just in power generation but also if you look and see what's happening in the Ukraine for gas supplies as well.

Q: And to what extent do you feel that all this is being politically driven?

A: Well I think inevitably as we go into an election there is a lot of concern, and you'll have seen the debate about the cost of living and I think we understand absolutely the impact that energy bills have on our customers. We are doing our best to keep those bills down as low as possible and actually competition is delivering lower prices than the rest of Europe. So I think that this enquiry actually will move it from the political arena, which is a good thing.

Q: So you talk about competition there but how do you respond to the assessment that there is not enough competition in the UK energy market?

A: Well I think competition in the UK market is vibrant it's been growing. We've got 19 suppliers now. We've got 11 switching sites. We are delivering lower prices than the rest of Europe. Margins actually have been coming down. So I think actually competition is working. I think there is always more we can do, particularly I think with smart meters to improve switching and that's why we are taking a leadership position on smart meters.

Q: The report suggests some aspects of behaviour seem consistent with tacit coordination between the big six energy suppliers is that a fair assessment?

A: No I would refute that completely. I think that actually it's a very competitive market. If you go round visit any of our call centres and talk to customers as I do we gain and lose about 25,000 customers a week, so there is a lot of sales activity going on; we lose some customers, and we obviously try and hold onto all the customers we can. And if you look at what's been happening to the market shares, our gas market share has been moving down, our electricity market share was moving up, so I think actually there is a lot of constant competition out there in the marketplace between the big six as well as between the small companies. And I think it's good that we have small companies actually and new entrants coming into the market. We've had a further five or six in the last 12 months. So I think there is lots of exciting new developments and innovation going on in the marketplace too.

Q: But when it comes to the small suppliers doesn't the market power of the big six companies like you mean that it would be possible to withhold generation capacity and to raise wholesale prices and thus put smaller competitors out of business?

A: I think the small suppliers currently enjoy an advantage obviously in they don't have to pay the environmental charges, but to the specific concern about would we ever withhold generation, absolutely not that would be illegal. But also actually there would be no economic incentive for us to do this. If you look at our nuclear it runs whenever it possibly can apart from refuelling, the economic incentive is to do that. If you look at our wind, whenever the wind blows it runs and if you look at our gas-fired generation actually it lost £130m last year because we would have liked it to run more, and then we'd be actually back to profitability. So I think there is absolutely no basis in that allegation.

Vertical integration

Q: Is liquidity in the wholesale market low because of the integration of the six largest companies?

A: No. I think there is confusion here between integration and self-supply. Actually the amount of electricity and gas that we supply from our upstream businesses as we call it our generation and gas production to our own supply business is less than 10%. What actually happens is that integration benefits the consumer because integration actually helps shelter the customer from very volatile movements in the wholesale gas price and is crucially important at a time when actually the UK needs big well capitalised energy companies to meet the £100bn investment

challenge, and to go and secure new supplies of gas internationally at a time when the North Sea gas production is declining fast and there is a lot of international political uncertainty.

Going forwards

Q: Looking ahead now, what are the implications for Centrica whilst a referral takes place?

A: Well I think for us it will be very much business as usual. We will continue clearly to develop our business, to be competitive in the marketplace, to come out with new propositions, to help customers control their energy use through a whole range of new technologies such as our Hive remote heating control device and continue to innovate in the marketplace, so I think that bit will remain unchanged. Clearly, however, if we have this competition referral our ability to invest is going to be handicapped, because you wouldn't invest in new power generation if there was a possibility that you might have to divest as a result of a competition referral, so that has heightened the political risk during this period.

Customers, employees and shareholders

Our message to customers, first and foremost, is that actually we are doing everything we can to help them keep their bills as low as possible, to help them switch onto the lowest tariffs for them. And we write to all our customers every six months to help them with energy efficiency help measures, to help them with innovative products such as our Hive remote heating control device to actually manage their energy bills. And we want them to engage with us whether it's online or whether it is responding to the energy tariff check that we have every six months or whether it's going on switching sites to see whether they can get onto a better tariff with us. So I think that's the first point for customers.

The second point I think for employees is that actually we recognise that there will be a lot of work and a lot of debate associated with this enquiry, but actually we've got nothing to hide this is a very competitive market. And I think our practices and our pricing has been fair and very competitive and will continue to be so, and therefore we expect at the end of this enquiry that actually we will be cleared and we will be able to move on with business. And we also I think welcome continued new entrants in the marketplace, so we need to go on being very competitive during this period.



To shareholders I think our message... and clearly this has been unsettling to shareholders and I've been engaging with a number of them, this is another period if you like of some regulatory uncertainty which will make it very difficult for us to invest, particularly in power generation. And therefore I think shareholders may have to be a little patient through this process. But of course we have many other businesses beyond British Gas that shareholders are invested in that have, I think, very strong growth potential; in our services business in the UK, in our gas production business and our North American businesses will all be performing very strongly during the period.