

# Building a sustainable business

Managing our social, ethical and  
environmental impact

21 November 2007

# Catherine May

Group Director of Corporate Affairs  
Centrica

# Introductions

- Catherine May, Group Director of Corporate Affairs, **Centrica**
- Kieran McKinney, Director of Investor Relations, **Centrica**
- Simon Henderson, Director of Corporate Reputation, **Centrica**
- Ian Peters, Chief Operating Officer, **British Gas**
- Gearóid Lane, Managing Director, **British Gas New Energy**
- Sarwjit Sambhi, Director of UK Power and Renewables, **Centrica Energy**

# Kieran McKinney

Director of Investor Relations  
Centrica

# Our strategic priorities

- 1 Transform British Gas
- 2 Sharpen up the organisation and reduce costs
- 3 Reduce risk through increased integration
- 4 Build on our growth platforms

# Strategic priorities: progress

## 1 Transform British Gas

- Led customer prices down with two price reductions
- Improving customer service
- Aim to return to among the best in the industry
- Lowest online dual-fuel tariff
- Enhanced system capabilities
- Steady customer growth since April

1

## 2 Sharpen up the organisation

- Restructured BGR into manageable P&Ls
- Implemented 3 year planning horizon
- Quarterly BU cost reviews to focus performance
- Removed 1,000 roles in H1; further 850 in H2
- Outsourced data centres and IS support

2

## 3 Reduce risk through integration

### Gas

- Aim to cover 50% of retail load from assets/contracts
- Newfield and RockyView acquisitions
- 12 exploration blocks, LNG capacity at Grain
- Nigerian LNG, pipeline gas discussions

### Power

- Adding 1.1GW to current fleet
- Invested £120m in low carbon generation

3

## 4 Build on growth platforms

**BGS** - record H1, transformed customer service, growth across product portfolio

**BGB** - strong H1, growing customer base, differentiated service model

**North America** – continuing profit growth, reorganised along new business lines

**BG New Energy** - new unit, launched 2 green products, future opportunities with BGR & BGS

4

# Focus for today's discussion

- Governance and approach: **Simon**
- Building sustainable customer service: **Ian**
- British Gas New Energy: **Gearóid**
- Investment in low carbon generation: **Sarwjit**
- Questions

# Simon Henderson

Director of Corporate Reputation  
Centrica



# Governance: CR Committee

- Board Committee
- Focused membership
- Revised terms of reference
- Risks and opportunities

## Members

Mary Francis, chairman  
Senior Independent NED

Andrew Mackenzie  
Independent NED

Sam Laidlaw  
Chief Executive

Phil Bentley  
Managing Director, British Gas

Deryk King  
Managing Director, North America

Catherine May  
Group Director, Corporate Affairs

## Duties

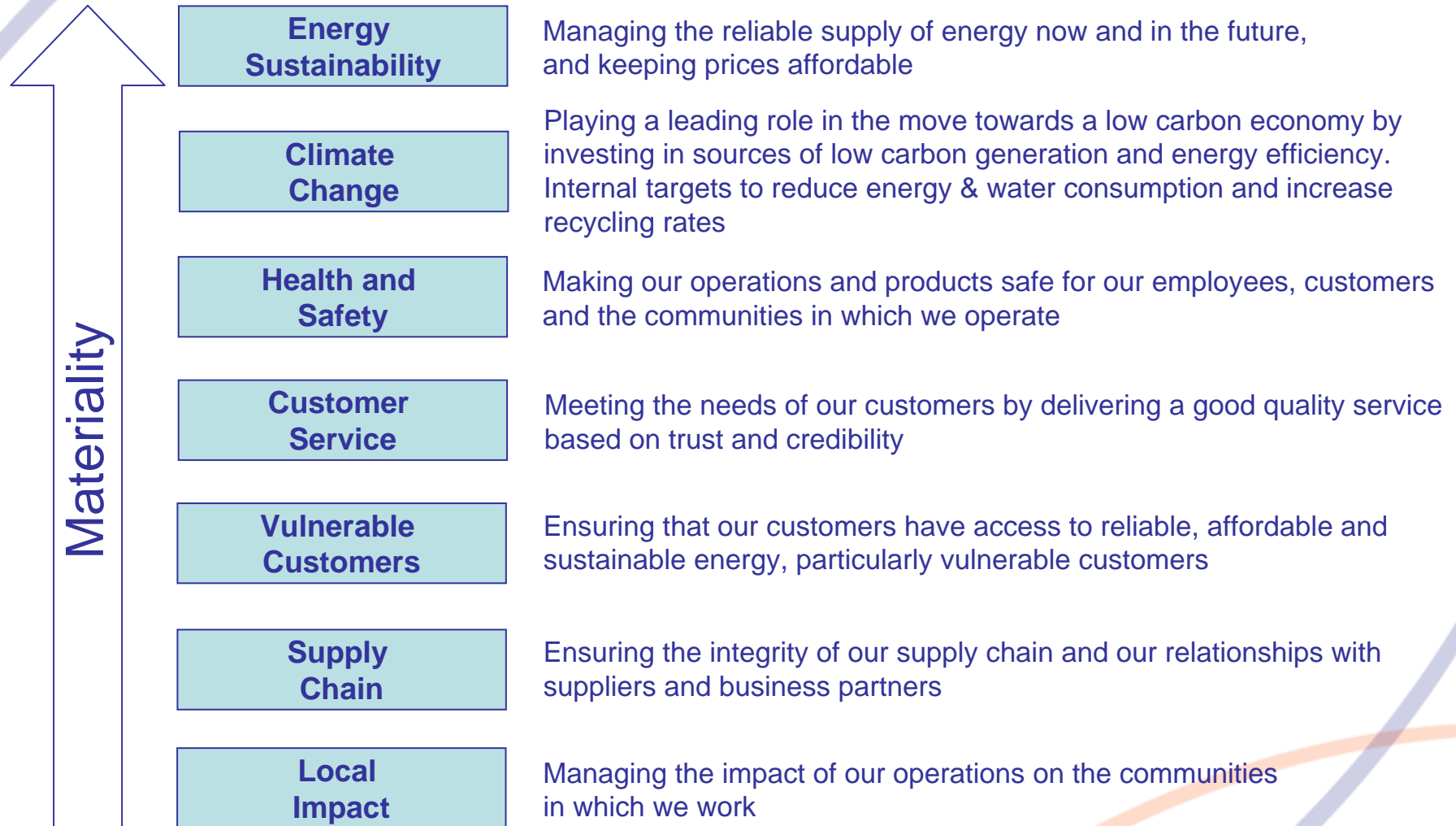
- Review processes and controls for identifying and managing CR risks and opportunities
- Review and challenge performance on CR matters in line with business principles
- Oversee strategy and key policies on CR matters
- Monitor the integrity and effectiveness of the non-financial and CR communications



# Management: defining our approach

- Maximise shareholder value in line with business principles
- Proactively engage with stakeholder groups
- Identify and prioritise key impact areas
- Control risks and maximise opportunities
- Deliver work programmes and specific initiatives
- Monitor and benchmark in line with commitments
- Report and communicate our performance

# CR impact areas: **what matters**



# Business Principles: in action



## Guide to Sound Business Practice

1. Demonstrating integrity in corporate conduct
2. Ensuring openness and transparency
3. Respecting human rights
4. Enhancing customer experiences and business partnerships

## On-line learning programme

5. Valuing our people
6. Focusing on health, safety and security
7. Protecting the environment
8. Investing in communities

# Ian Peters

Chief Operating Officer  
British Gas

# Investing in customer service

**We've made significant investments to restore service in British Gas Residential**

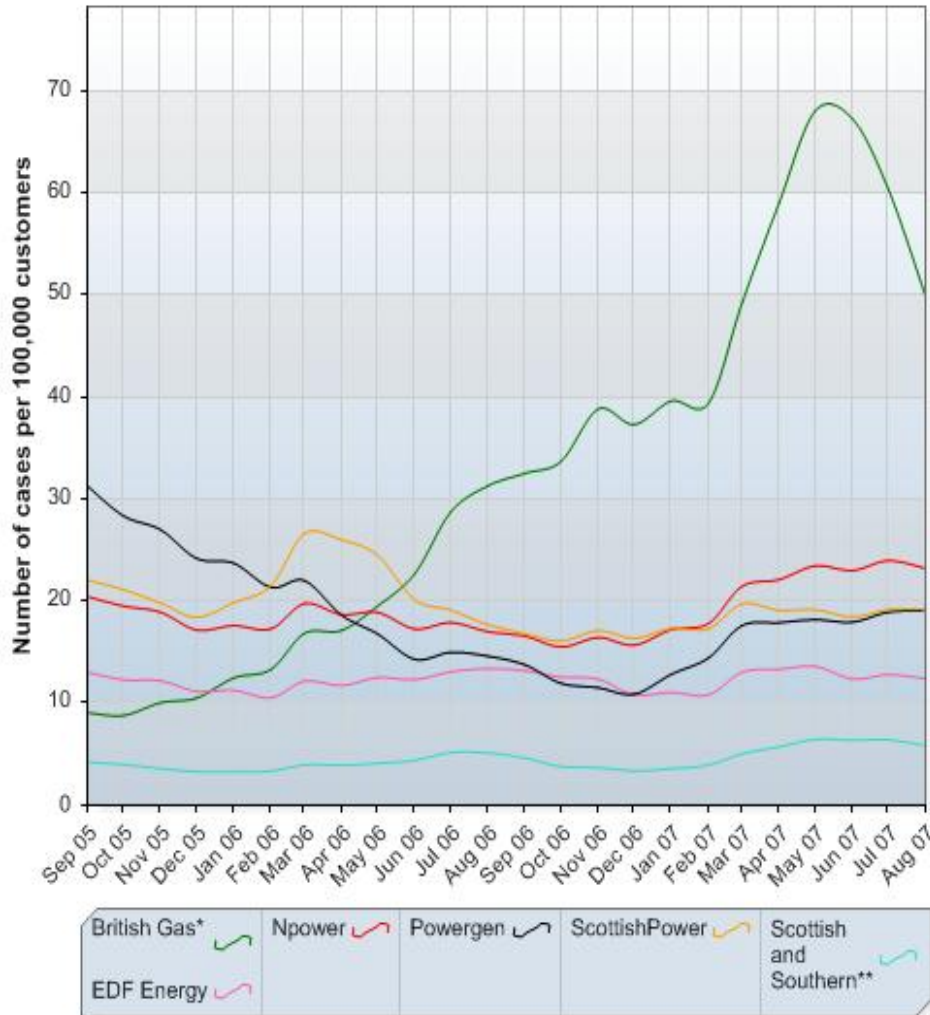
- 800 contact centre agents
- Extensive training programmes for all customer service staff
- Widening accountabilities to empower our people to resolve questions first time
- Major investment in internal employee engagement to drive commitment and reduce attrition
- Continuous refinements to our new billing system to improve functionality and stability

# Positive impacts have been delivered

- Average speed to answer telephones has fallen from 260 seconds at its worst in April to consistently below 30 seconds in recent weeks
- Abandoned calls have reduced from 18% in April to 3%
- Internal call transfers have halved to 10%
- Repeat calls have dropped from 30% to 20%
- 80% of emails now answered in 48 hours - backlog eliminated
- General correspondence backlog eliminated

# energywatch's external reporting has changed

## Account and billing cases



energywatch now include all contacts in their external reporting, including general enquiries

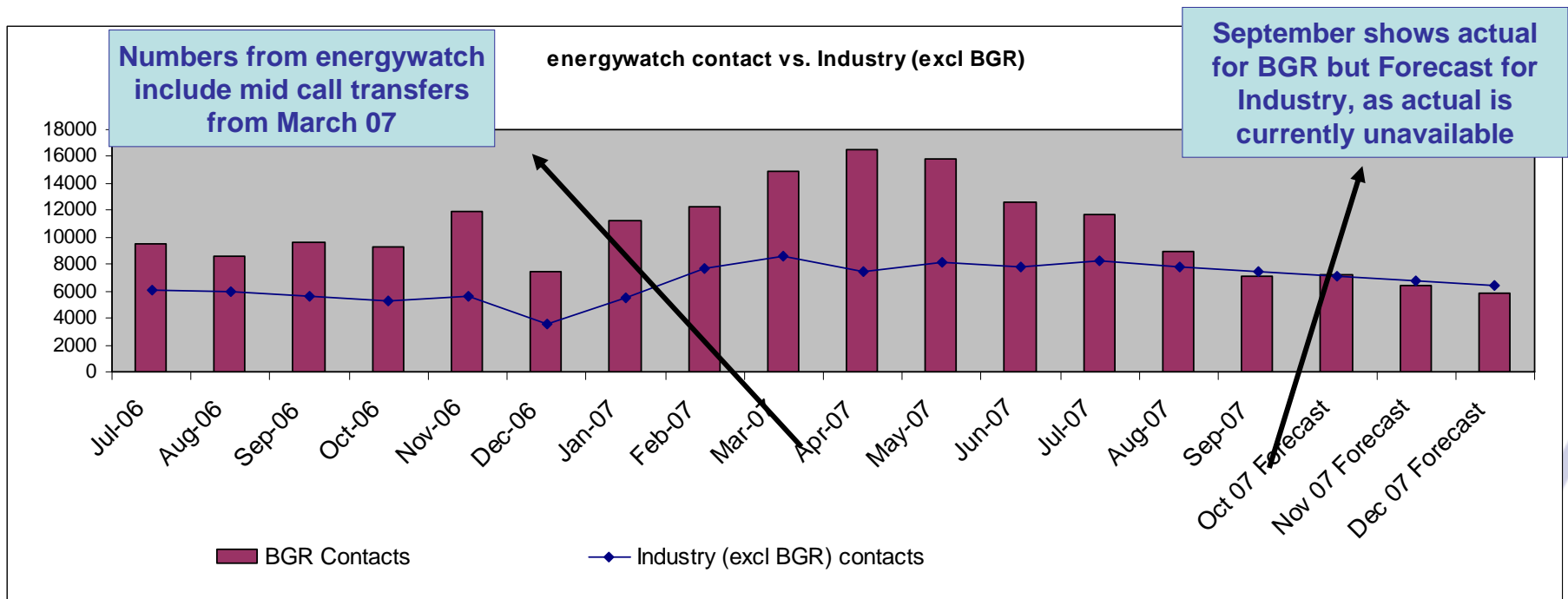
Our internal statistics reflect the continued improvement in the level of complaints received and totals outstanding



# energywatch complaints declining

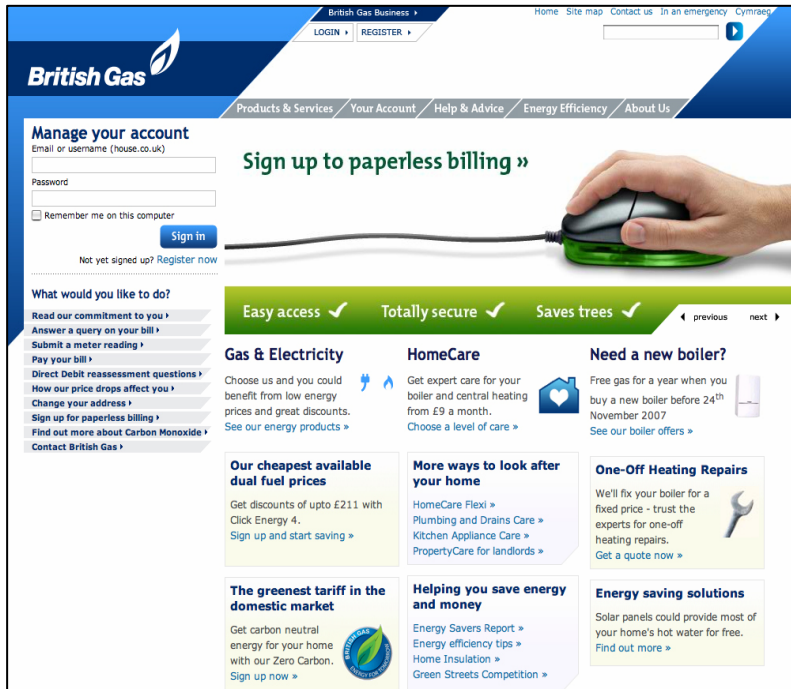
A lag indicator of service performance

Still much more improvement required



In October-November 07, we should account for about half of the industry's total contact to energywatch, down from nearly 70% in April 07

# New British Gas website launched



- 26% increase in on-line billing
- 620k on-line self servers
- Increase in core product sales of 58%
- Reduced CPA compared to offline channels
- Visits increased by 95%

Enhanced self service  
and a step change in  
customer experience

Website provides  
a firm platform for  
future growth

# British Gas Customer KPIs: October 2007

Improvement This  
Year

Average Products per Customer



3.5%

Customer Defection Rate



32%

Net Promoter Score (NPS)



55%

Brand Preference

ALL CONSUMERS who would choose British Gas



8%

Price Perception

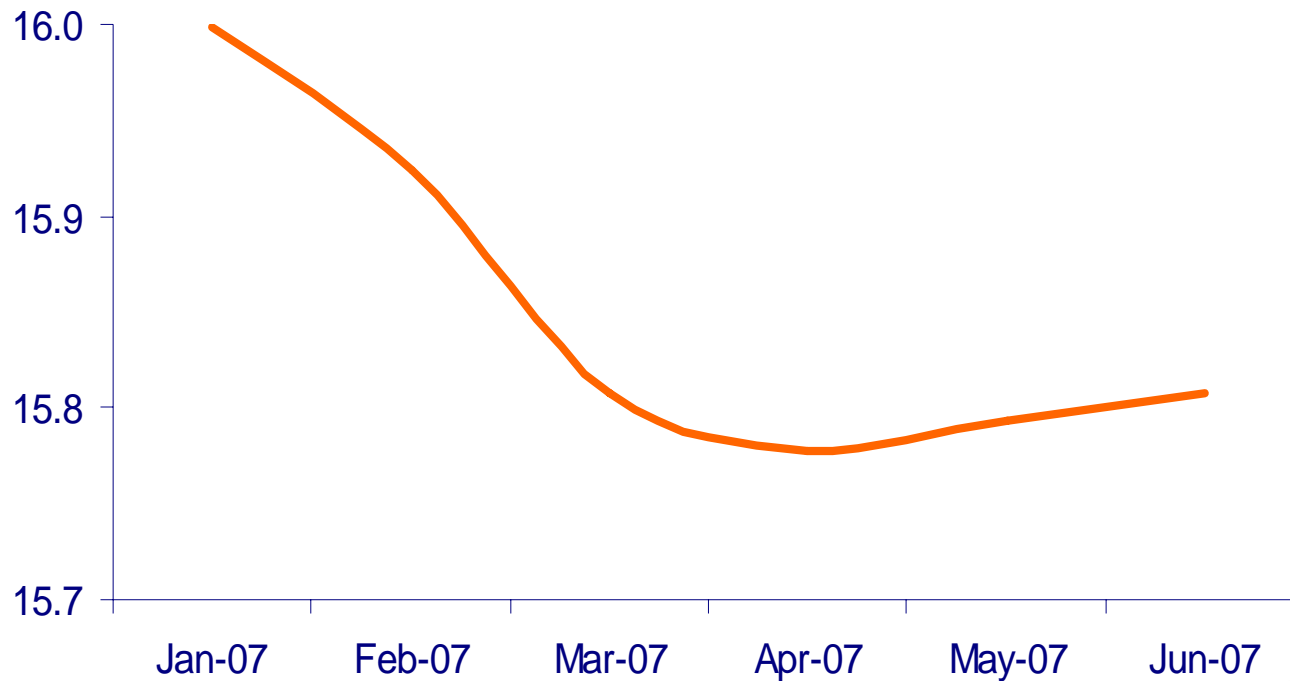
(Seen as more expensive among gas and/or elec)



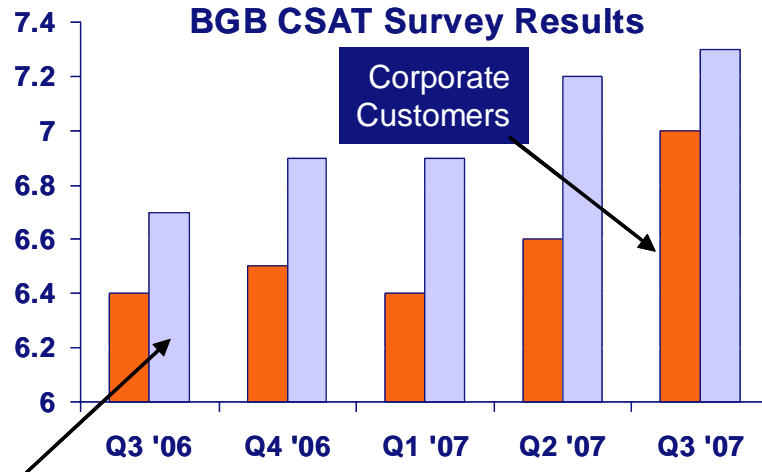
45%

Energy account volumes have grown since Q1 price reductions and service recovery. This is the first consistent growth trend since 2003

Total customer account numbers (m)



# British Gas Business: Customer satisfaction has been rising steadily



**Datamonitor Major Energy Users Survey Q3 2007**

	Q3 '07 Rank	Move (vs. Q2)
<b>Gas</b>	1 <sup>st</sup> Place	↑ (2 <sup>nd</sup> )
<b>Electricity</b>	6 <sup>th</sup> Place	↑ (7 <sup>th</sup> )

SME Customers

- The roll-out of account management (single named point of contact) during 2007 has contributed to driving up satisfaction levels
  - 83% of customers are now account managed (vs 49% in Jan 07)
  - Account managed customers are more satisfied than non-account managed (net promoter service score of Account Managed customers in Sept 07 was +0.1% compared to non-account managed customers at -5%)
- Besides price, billing accuracy and reducing estimated meter reads are the biggest drivers of improved service perceptions

## British Gas Services: Significant and sustained progress in customer service

Winter Performance 2005 - 2007	2005	2006	2007*
Calls answered	8.5m	9.7m	10.6m
Calls abandoned	25%	10%	3.4%
Average speed to answer	23secs	30secs	18secs
Breakdowns	2.2m	2.4m	2.4m
Broken promises	5.7%	3.5%	2.6%

\* Full year forecast



# Supporting Vulnerable Customers Beyond The Obligations

As the industry leader, we are proactively tackling fuel poverty with a number of discretionary initiatives, which in turn strengthen our reputation, reduce risk & enable commercial decision making

Reaching our most vulnerable customers

Driving energy efficiency & quality of life

Providing debt & financial support

Protecting against volatile energy prices

Policies & procedures management

Customer insight, ground level networks & increasing awareness

here to HELP, charity partnerships, and providing advice to diverse communities

British Gas Energy Trust, protection & signposting in debt recovery

Essentials tariff, Price Promise, Energy Efficiency measures

Ensuring relevant principles and treatments are applied for vulnerable British Gas customers





# Our social initiatives improve the accessibility of affordable energy and provide support for our most vulnerable customers

## Essentials Tariff

- Launched in February 2007
- 3 year £32m annual commitment for up to 750,000 customers
- Lowest standard tariff regardless of payment method
- Average saving for a prepayment customer £140pa

## British Gas Energy Trust

- Launched in 2004 to support customers with energy debt
- Committed £10m over the last 3 years
- 4,000 grants made in the last 12 months

## Help the Aged Partnership

- Now in its 8th year
- Over £7m invested improving lives of 1.9m older people
- 2007 focus on excess winter deaths and unclaimed benefits

## Price Promise

- Launched in 2004 with Help the Aged
- Capping prices for our most vulnerable customers.
- Commitment has been extended through winter 2007/8

## Save the Children

- Partnership in its 5th year
- Empowering young people to make positive change in their community

**The British Gas**  
*energy trust*

**Your Winter Warm Up**

27  
24  
21  
18  
15  
12  
9

- **TOO WARM** above 24°C (75)  
Unless you are feeling cold, you can save money by turning your heating down.
- **OK** 21°C (70)  
Your ideal room temperature.
- **COOL** 17°C to 20°C  
Turn up your heating.
- **COLD - DANGER** below 16°C  
There is a risk of you suffering from hypothermia, a heart attack or a stroke. Don't delay! Take action now to keep warm, by turning up your heating and putting on plenty of layers of clothing.

Guidelines provided by the NHS

Use this thermometer to help monitor your room temperature. Avoid placing it in direct sunlight or too close to electrical appliances. The room temperature will be indicated by the illuminated square on the thermometer.

**HELP THE AGED WE WILL** **British Gas**  
Working together to stop the cold killing older people

**AGED WE WILL** **British Gas**  
Taking simple measures can help ensure a warm and safe winter  
together to stop the cold killing older people

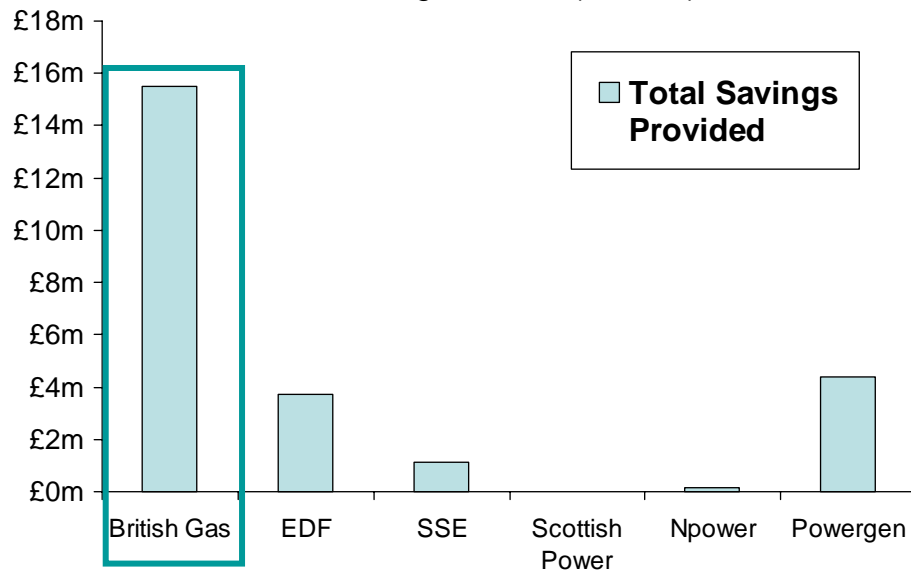
**Save the Children**  
**help**  
*YOURSELVES!*

# British Gas has a long-standing commitment to social initiatives

- British Gas customers on average save the most on its social tariff
- Recent Ofgem research supplemented by FPAG report recognises BGR as the leader in this field

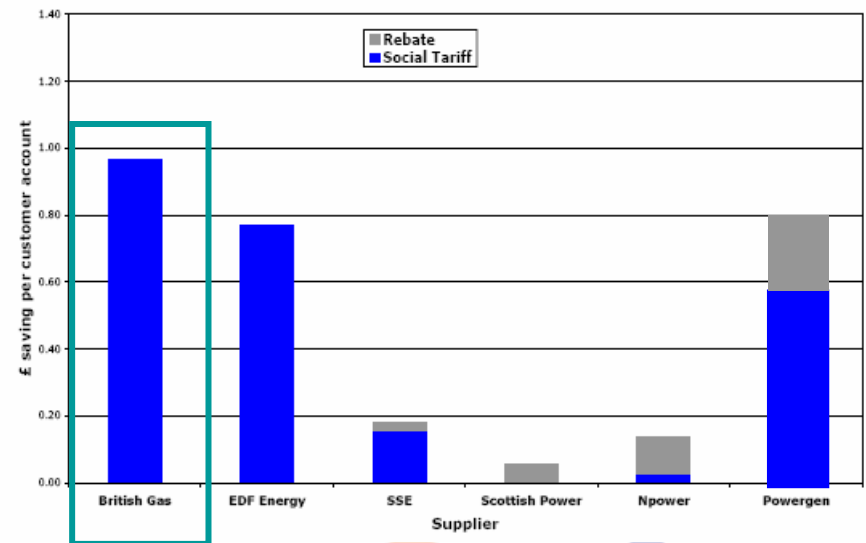
## British Gas Social Tariff benefits greatly outstrips competitors' protection

Social Tariffs, Savings & costs (exc DD) to 31/7/07



## The average saving for a British Gas customer on the Essentials tariff is industry leading

Chart 1: Average savings from social tariff and rebate per customer account to 31 August 2007



OFGEM August Supplier Voluntary Initiatives to help vulnerable customers

# Gearóid Lane

Managing Director  
British Gas New Energy

# Centrica's Position on Climate Change

## Climate change

- Significant stakeholder debate and action in Europe and also in North America.
- Climate change is happening. Policies and action plans to slow and stabilise greenhouse gas emissions are needed - we are committed to play our part

## Risks and opportunities

- Upstream: balance the economic, regulatory and operational aspects of greenhouse gas emissions reduction while ensuring energy security
- Downstream: growing demand for energy efficiency and low carbon products and services. Environmental responsibility affects company reputation
- We are taking steps to reduce our impact on climate change, directly through our own business activities, indirectly through supply chain and by helping customers to use energy more efficiently

## Climate change strategy

- Recognise both the risks and opportunities: regulatory & legislative factors; reducing energy consumption patterns; growing demand for products & services; reputational benefits of leadership
- Upstream: committed to maintaining our low carbon intensity power generation portfolio by investing in renewables, clean coal and gas
- Downstream: rising demand for 'green' power and energy efficiency products presents a promising growth area
- Internally, continue to encourage employees and suppliers to reduce operational carbon footprint

**Aim to leverage our existing strong position to be a leader in energy efficiency and low carbon products and services**

# Climate change: challenge and response

## Market Drivers

Consumers will choose brands that fit with their ethics

Consumers will use less gas and electricity over time

Active consumer interest in green products will increase

These trends will continue to be reinforced by legislation

Reducing energy sales top line

Greenest suppliers gain customers

Growth opportunities in low carbon products and services

Major opportunities for partnerships

## Strategic Response

Promote brand credentials and maintain upstream advantage

Lead in green energy and carbon offsets

Use CERT to promote brand and build partnerships

Own the end use green technology space

Attain green brand leadership and replace lost energy sales revenue with growth in green energy service revenues

# British Gas New Energy

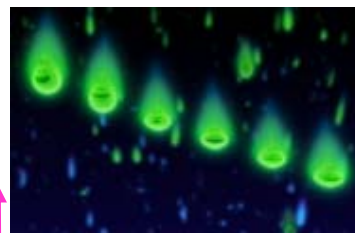
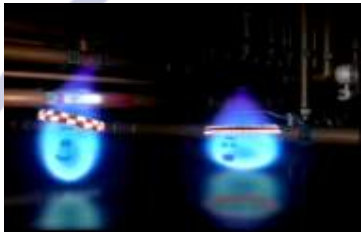
- **Position British Gas as the leading energy player in the UK on green issues, building on existing leadership position:**
  - Lowest carbon intensity of any UK energy supplier
  - Largest supplier of energy efficiency products and services in UK
  - £750m commitment to renewables, leading in offshore wind
  - Leading supplier of green energy
  - Leading installer of high-efficiency condensing boilers in UK homes
- **Develop a market leading position in ‘low carbon energy services’:**
  - Exciting growth opportunity
  - Displacement of lost income

**Aim: Create a world-class low carbon energy services business in Centrica that reaffirms British Gas’ leadership role and in turn supports the British Gas brand in the move towards a low carbon economy**

# Early wins

- Launch of 'Future Energy' and 'Zero Carbon'
- 'Green Streets'
- Energy Savers Report
- We're In This Together
- Ceres Power
- Partnership trials – Sky and Currys
- Increasing recognition of 'green' credentials
  - Carbon Disclosure Leadership Index
  - WWF/Innovest Surveys
  - Response to 'Zero Carbon' advertising

# Above The Line Advertising Overview



Green with lead as 'money saving'

Green with focus on environmental attributes

## Waste Watchers

Jan 2005

## Expert

Oct 2006

## Falling & Green

May 2007

## MIGWYA

London - June 2007

## Lowest CO2

Sept 2007

**Free, personalised Waste Watchers plan for all BG customers**  
**Save save ££ off your bill and save energy**

**Save energy and money with BG**  
 -£49/yr turning thermostat down  
 - £46/yr turning off vs standby  
 - £32/yr turning unused lights off

**Falling prices (II) & lowest CO2 emissions for electricity of any major supplier**

**Make it greener where you are – get started at [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk)**  
**Receive a free Green Survival Pack and win VIP tickets to the Fete for the Future**

**Lowest CO2 emissions for electricity of any major supplier**  
**The new Zero Carbon dual fuel package is BG's greenest**  
**Find the best green package for you at [britishgas.co.uk](http://britishgas.co.uk)**



# Posters and online directing people to [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk)

A man in Clapham celebrates by juggling hot potatoes after changing to energy efficient light bulbs.

Get started with British Gas at [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk) with your free Green Survival Pack\* plus your chance to win VIP tickets to our Fête for the Future.

Make it greener where you are.



British Gas

A man in Putney enjoys a deserved cup of tea after having cavity and loft insulation installed by British Gas.

Get started with British Gas at [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk) with your free Green Survival Pack\* plus your chance to win VIP tickets to our Fête for the Future.

Make it greener where you are.



British Gas

A woman in Camden celebrates with a Vindaloo after turning her heating down by one degree.

Get started with British Gas at [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk) with your free Green Survival Pack\* plus your chance to win VIP tickets to our Fête for the Future.

Make it greener where you are.



British Gas

Make it greener where you are.



Get started with British Gas at [makeitgreenernow.co.uk](http://makeitgreenernow.co.uk) with your free Green Survival Pack\* plus your chance to win VIP tickets to our Fête for the Future.

Make it greener where you are

A man in Camden relaxes with a spot of fire breathing after after changing to energy efficient light bulbs.

Click here to get a free Green Survival Pack



British Gas

Make it greener where you are



A man in Clapham celebrates by juggling hot potatoes after changing to energy efficient light bulbs.

Click here to get a free Green Survival Pack

British Gas

# Lowest CO2 emissions TV campaign



# Energy Efficiency: Turning obligation into opportunity

## EEC/CERT Programmes

- DEFRA estimate of £1.2bn industry cost under EEC2 (British Gas 1/3)
- This doubles under CERT (2008-2010)

## Innovation in delivery

- Council Tax Initiatives (65 councils, 3.5m homes)
- Mayor of London Campaigns
- B&Q Partnership (e.g. first retail cavity wall product)
- Factory Gate Schemes

## Innovation in technology

- Sony
- Advanced insulation products
- Pipeline of new technology partnerships

## Low Carbon Buildings Programme

- Government providing £50m of subsidy
- Installation of five technologies (GSHP, Wind, Solar Thermal, Biomass, Solar PV)
- Largest framework supplier (30% of all approved grants)
- Approved for all technologies
- Valuable experience in technology and deployment

## What has this given us?

- Cost advantage in delivery against growing obligation
- New technology insight and positioning
- Valuable partnerships
- Visible market leader

## How will we build on this?

- Continued cost advantage versus competitors
- Further brand enhancement
- Commercial deployment of advanced technologies
- Integration of advanced technologies into low carbon energy service drive
- Target to greatly increase technology innovation component

# Green Streets



- A year-long national social experiment to demonstrate how to make homes more energy efficient through behavioural changes and installing energy efficient products launched to national media in early October.
- Working with IPPR (Institute for Public Policy Research) who will be submitting a governmental report on the scheme.
- 8 houses chosen on 8 streets nationwide (covers England, Scotland and Wales).
- Each street works as a team with a £30,000 budget to spend on energy efficient products such as loft and wall insulation, 'A' Rated boilers and even solar power. The street who reduces their energy output the most over a 12 month period wins £50,000 for a community project
- Introduction meetings have been held with all streets and Energy Performance Certificates are currently being carried out on all 64 houses to establish suitable products for each household.
- Products will be chosen by the streets before the end of November with a view to be installed January. The project will commence on 28 January 2008.

# “Energy for Tomorrow” Badge Mark



## **Initial Products will include:**

Green Tariffs (Zero Carbon & Future Energy)  
Insulation  
A Rated Boilers  
Carbon Offsets  
Solar Thermal Panels  
Standby Savers

- The green badge mark will signify that any product, service or programme that bears this logo will reduce CO<sub>2</sub> emissions
- *“Where you see this badge, you can be confident that the product or service described will genuinely help to reduce carbon emissions.”*
- The badge will only be used on British Gas approved products and programmes, delivered both by British Gas and partners
- The badge will also be implemented according to brand guidelines
- A carbon auditor will validate the “carbon reduction” claim associated with each product that bears the badge mark

# Moving forward

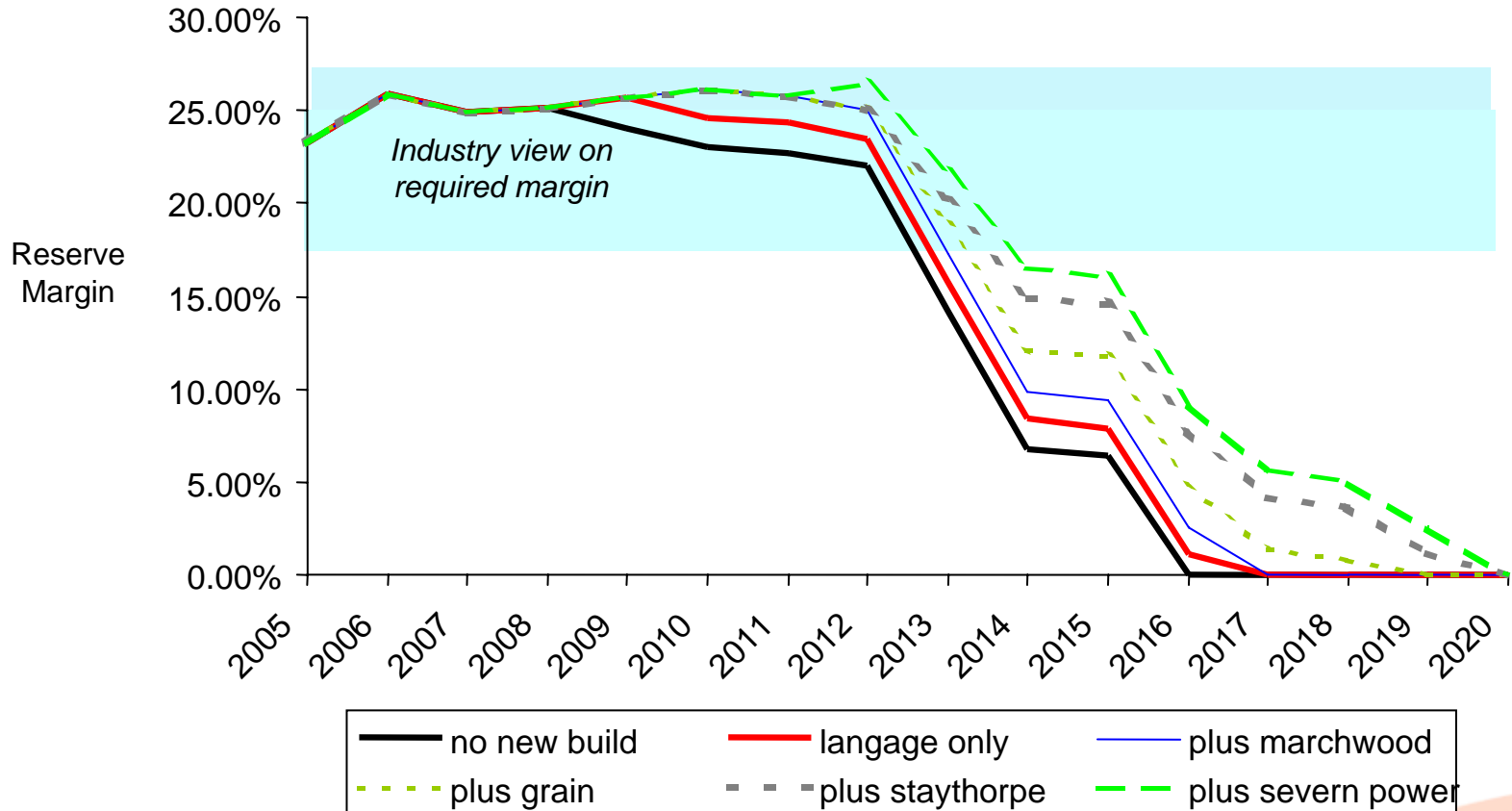
- Driving business activities forward with continued momentum
- Increased focus on technology innovation
- Strong pipeline of low carbon products and services
- Use of CERT to drive advantage, innovation and brand
- Further novel brand enhancing programmes
- Important role for green branded partnerships
- Co-operation with market-leading Direct Energy business in North America

# Sarwjit Sambhi

Director of UK Power and Renewables  
Centrica Energy

# Market Environment (1)

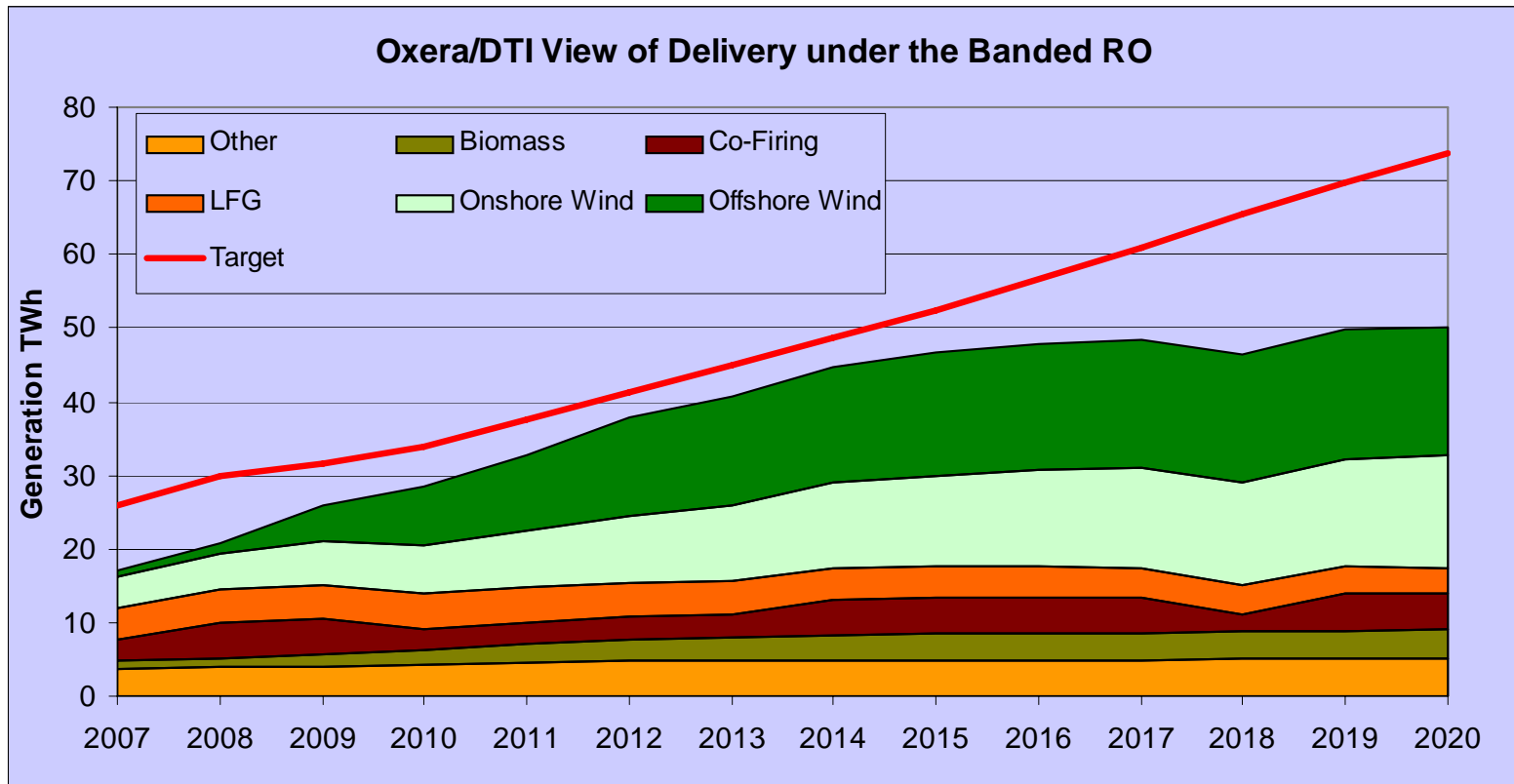
## Projected Reserve Margin 2008-2020



Source: Centrica analysis



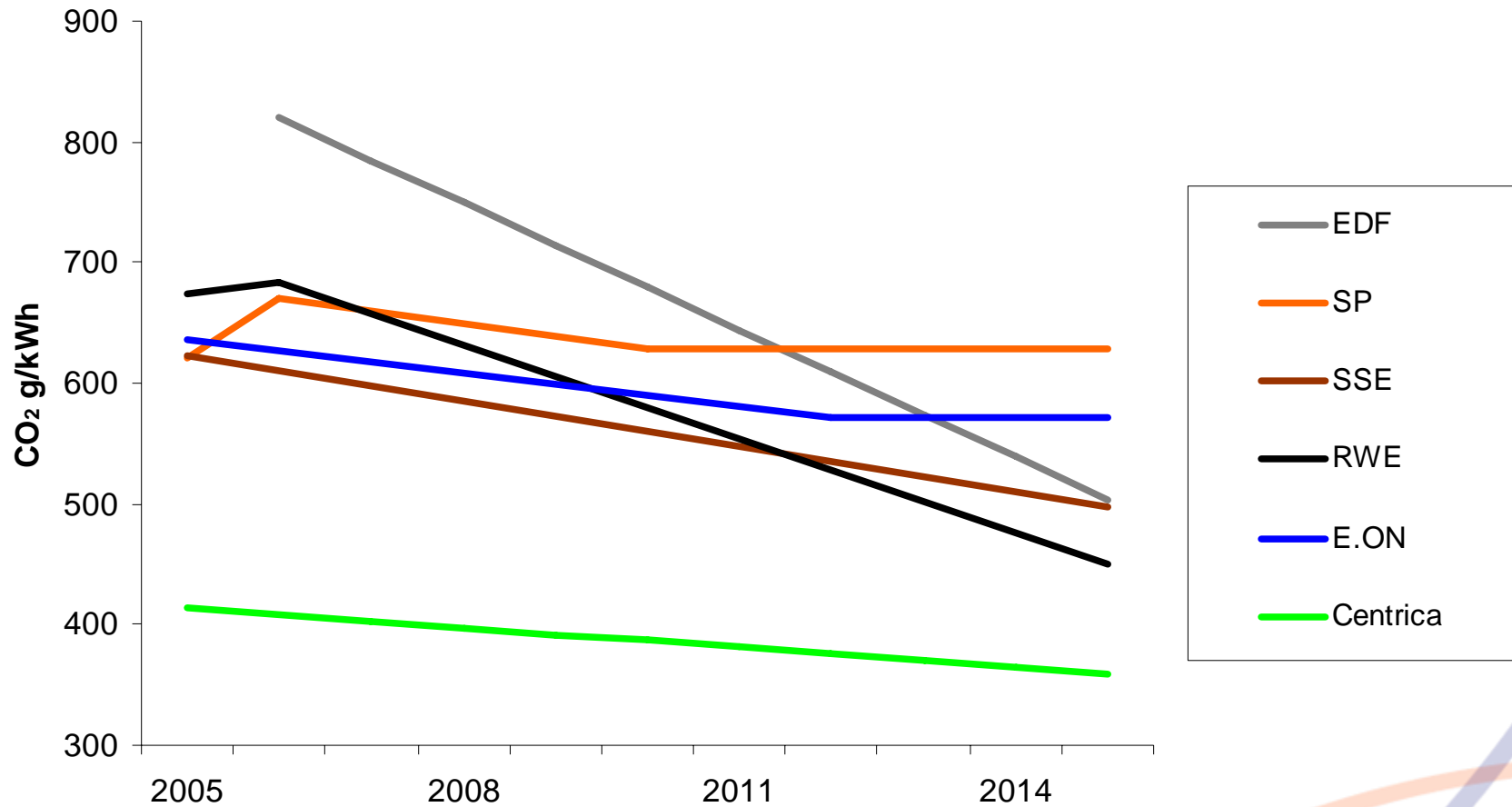
# Market Environment (2)



Source: Report by Oxera published with the DTI Consultation on RO Banding 2007. Data refers to Scenario 6 (Central), the banding option that the Government proposed.

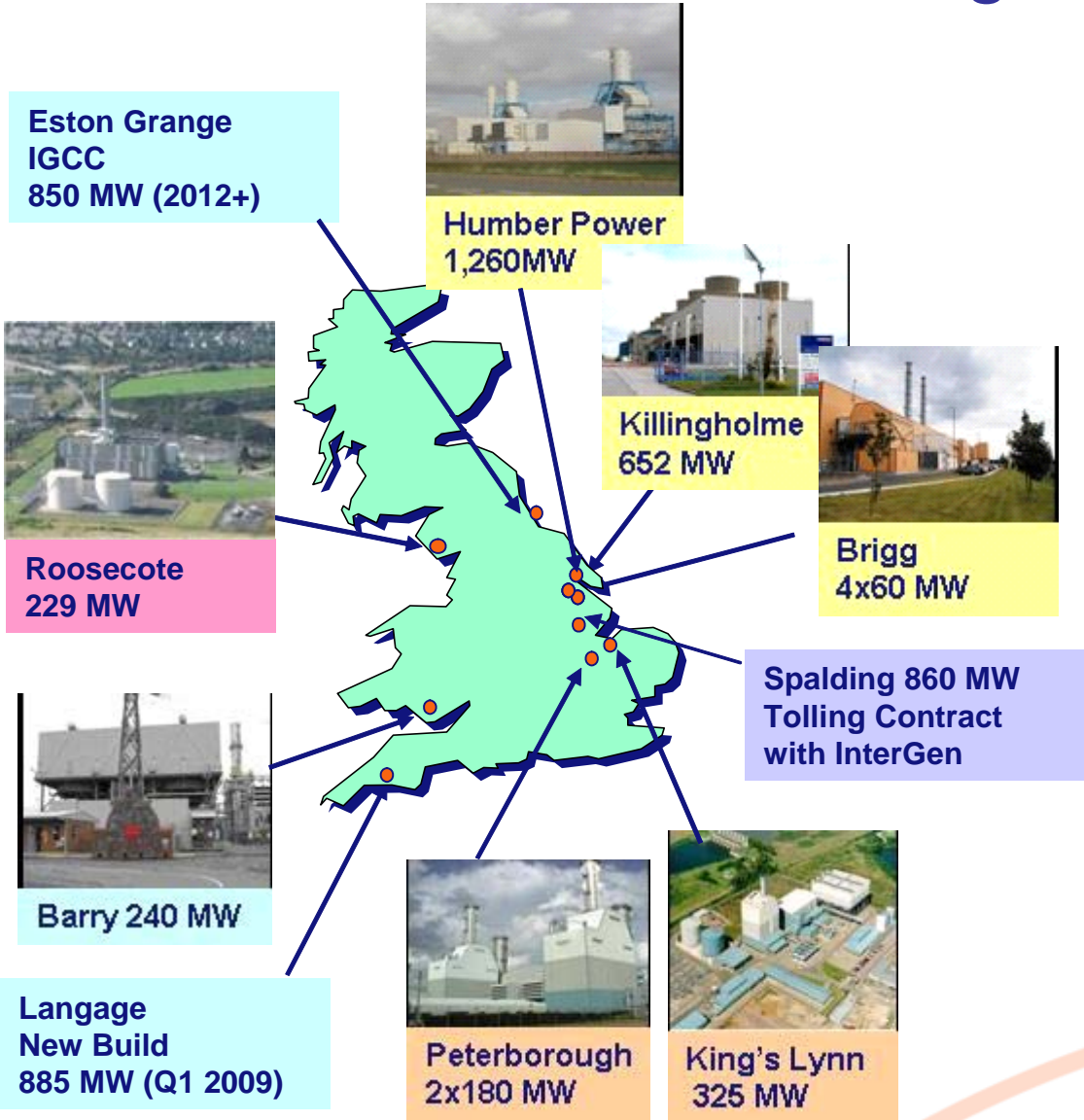
# Leader in low carbon generation in the UK

Carbon intensity of generation portfolio of major suppliers




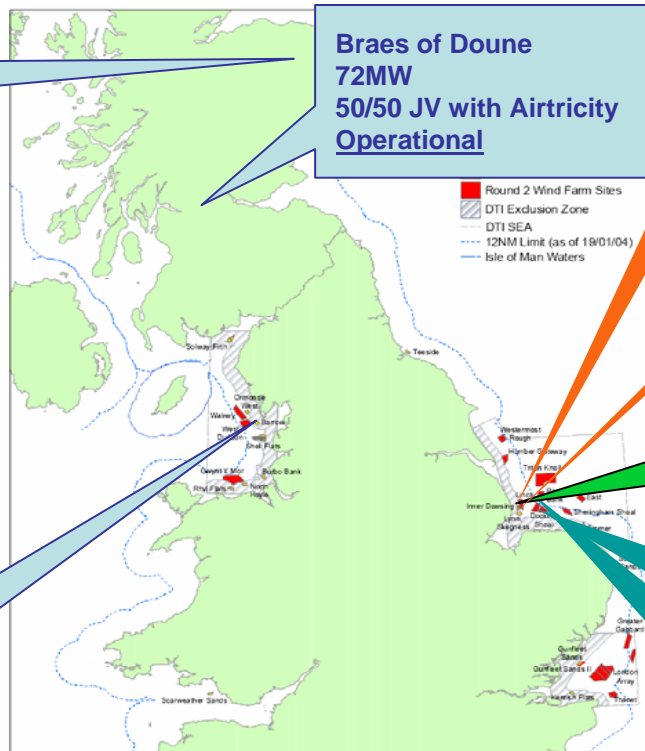
Source: Centrica analysis Oct-07

# Continued investment in low carbon generation



# Growing portfolio of wind power – 1.6GW

**Glens of Foudland**  
26MW  
Operational

**Braes of Doune**  
72MW  
50/50 JV with Airtricity  
Operational

**Inner Dowsing** Lynn  
194 MW  
Offshore Wind Round 1  
Construction 2007/8

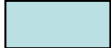

**Lincs 250 MW**  
Offshore Wind Round 2  
Seabed lease granted  
Application Jan 07



**Docking Shoal 500 MW**  
Offshore Wind Round 2  
Seabed lease granted  
Consents to be sought

**Race Bank 500 MW**  
Offshore Wind Round 2  
Seabed lease granted  
Consents to be sought

**Barrow**  
50/50 JV with DONG Energy  
90MW  
Operational

Operational	188 MW
Under Construction	194 MW
Application	250 MW
<u>Consents to be sought</u>	<u>1,000 MW</u>
<b>Total</b>	<b>1,632 MW</b>

 **Operational**  
 **Construction**

 **Application submitted**  
 **Consent being sought**

# North America

- Direct Energy has one of lowest carbon intensity generation versus competitors in our key markets
  - 1.2GW of owned generation is all gas fired
  - 0.8GW portfolio of contracted renewable generation capacity
- US and Canadian competitors generally have coal in generation portfolio
  - Constellation has marginally lower carbon intensity through nuclear assets

## DE Renewable Portfolio

Contract/ Sponsor	Size/ term	Project Status
• Buffalo Gap I/AES	120 MW/15 years.	Operational
• Sand Bluff/Airtricity	90 MW/5 years.	Operational
• Buffalo Gap II/AES	233 MW/10 years.	Operational
• Mesquite Lone Star/ Horizon Wind	200 MW/15 years.	Under Construction
• Buffalo Gap III/AES	170 MW/7 Years	Under Construction

# Climate policy

## UK / Europe

- UK Renewable Obligation Scheme
  - 2002-27
  - 10% renewable power by 2010, 15% by 2015
  - ROC banding favouring offshore wind
- EU ETS
  - Phase II (2008-12) now set
  - Phase III design issues:
    - 100% Auctioning
    - Balanced use of project credits (CERs)
    - Recognising CCS

## US

- State renewables
  - 29 States with Renewable Portfolio Standards (RPS) or announced goals
  - 14 States with mandated energy efficiency programmes as part of RPS
  - Targets ranging from 10-25% renewable power
- State carbon
  - WRCAI
  - RGGI
- Federal carbon
  - Numerous bills
  - Lieberman-Warner cap & trade proposal approved by Senate sub-committee

## Canada

- Provincial carbon
  - First compliance market in Alberta effective July 2007
  - BC and Manitoba in WRCAI
- Federal carbon
  - Proposal for intensity based CO<sub>2</sub> targets for intensive industries from 2010
  - \$15/tonne buy-out
  - Domestic trading

# Summary

- We are a leader in low carbon generation
- We continue to invest in existing low carbon technologies – CCGT and wind
- Future investment underpinned by current policy

# Questions