centrica

Informing the UK energy market

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Why price caps don't work for customers

The Government has promised to introduce a price cap on UK household energy bills and the regulator is taking steps to implement that policy. They argue that it will mean lower prices. But we believe that the cap won't work and will have harmful consequences for customers.

We're not alone. The Government's own competition watchdog thinks that a retail energy price cap will be bad for customers. The Competition & Markets Authority says that a cap on all default tariffs would "run excessive risks of undermining the competitive process, likely resulting in worse outcomes for customers in the long run".

What are energy price caps, and what are they for?

A price cap is a type of restriction on the amount that energy retailers can charge customers for their energy. There are different sorts of retail price caps:

- They can apply to all customers; or to a subset of customers.
- They can be absolute (e.g. no more than £X per unit of energy consumed); or relative (e.g. no more than X% difference between tariff A and tariff B).
- They can be set in advance by regulators (known as "ex ante"); or set by suppliers and monitored by regulators ("ex post").
- They can apply to all constituent parts of the bill (total price); or just one part of it (e.g. a limit on profit margins).

There are different sorts of retail price caps because they have different objectives. The most common reason for having retail price control is to manage the transition from a nationalised industry to a fully competitive market, known as liberalisation. As liberalisation progresses, more customers engage in the market and more suppliers enter. As competition keeps prices down, price caps are withdrawn. It is very unusual for price caps to be reintroduced to competitive markets after they have been withdrawn.

Why price caps don't work in competitive markets

Retail energy price caps are very difficult to set, because they need to strike a balance between competing objectives. In practice, no regulator has ever got the balance perfectly right because it is an impossible task. Customers want prices that are as low as possible. But companies need to be able to recover their costs, to invest and to make a fair margin.

Setting price caps at a low level seems attractive. But companies can't recover their costs when the cap is set too low. Recent history is littered with examples of the disastrous consequences. Here are just two:

- In 2001 in California, retail prices were capped at levels that ended up being below the wholesale cost of energy. As a result, the main energy retailers found themselves US$20 billion in debt and one of them went bankrupt. They could not buy electricity on the wholesale market, so the state (i.e. the taxpayer) had to step in.
- In Spain, the "tariff deficit" (the difference between retail price caps and actual costs) reached €29 billion or 3% of GDP. The deficit sits as an unconditional liability on the Spanish Government's balance sheet (i.e. it is guaranteed by taxpayers).

Competition is squeezed out when the cap is set too low, which means that customers lose out:

- Prices bunch around the cap. This happened with tuition fees in the UK, with the majority of universities charging maximum rates.
- It has also happened with the pre-payment meter (PPM) price cap. On average, prices are now within £15 of each other and they have bunched around the cap, with quite a few of them going up, not down. Suppliers appear to be following the energy buying strategy that the PPM cap assumes, so their wholesale energy costs will be similar. PPM customer switching is also slowing relative to other customer groups.
- Customers have little incentive to engage in the market and search for the best deal, because there isn't much money to be saved from switching. In France's more regulated market, electricity switching recently reached a peak equivalent to 8% on an annualised basis in 2017. In the UK switching is nearly 17%.
- Suppliers can't afford to invest or innovate to attract customers, because they won't be able to make reasonable returns on their investment.
- Customer service quality suffers, as suppliers seek to make savings. Indeed, some companies may try to avoid supplying certain groups of customers altogether, as some currently do with customers on pre-payment meters.
- The market isn't attractive for potential new entrants, and can lead some existing players to leave the market.

Price caps that are set too low can also have damaging implications for Government policies, for example, suppliers might not have enough money to invest in infrastructure, such as smart meters and energy efficiency measures.

Price caps are not always disastrous, but they are not a model to follow. In Belgium, for example, where the price cap appears to have become permanent, retail energy prices are higher than in the UK and there are fewer suppliers.

But in markets where competition is allowed to flourish freely, without a price cap, the benefits to customers in terms of choice and affordability are clear. In Texas, for example, there are now 116 energy suppliers and 34% of customers switched suppliers in 2016.

We do not support price caps on retail energy prices as a way of reducing bills and we believe they are counterproductive. Where caps are introduced it is vital that they are limited in scope and duration. Setting a cap at a level where suppliers cannot recover their costs would be disastrous.

Why getting rid of the standard variable tariff is **good for all customers**

The Standard Variable Tariff (SVT) discourages customer engagement. It's an open-ended agreement. So, there's no natural trigger point for customers to shop around for a better deal. We know that some customers prefer a rolling tariff, but if everyone were on a fixed-term energy contract, like annual car insurance, then they'd have to think about the cost of renewal. More people would switch energy suppliers, the market would be more competitive and all customers would benefit.

In all free markets everywhere, engaged customers force firms to compete to meet their needs. Those firms who respond best, by delivering products that customers want, at lower prices with better service, will thrive. Those firms who fail to compete will decline.

Also in all free markets everywhere, some customers are more engaged than others. Those who are prepared to spend the time comparing offers are more likely to find the cheapest ones. But the fact that some customers are on the cheapest deals, while others are not, does not necessarily mean that the others are getting a bad deal.

In fact, those customers who do choose to engage with the market provide benefit to those who do not. And the greater the number of customers who engage, the more the rest benefit. That's because, when more people switch, it becomes riskier for firms to assume that others will not follow suit, and they usually adjust their prices downwards.

The problem for the UK retail energy market is that the Standard Variable Tariff – the most widespread tariff in the market with (60%) of all customers – actually discourages engagement.

The SVT discourages engagement because it has no end date. With fixed-term tariffs, customers get a notice when they reach the end of their term, reminding them to shop around. Customers on SVTs get no such additional reminder; they just receive prompts on bills and annual summaries.

SVT customers might get a prompt if their prices change, but this might not happen very often. For example, British Gas has raised its prices only once in the last three years. But customers on fixed-term tariffs are likely to face price changes more often, when their current contract expires.

So, customers on fixed-term tariffs generally do shop around, and much more than SVT customers, because the end-of-term prompt is so much more powerful. It's a bit like car insurance. The annual renewal notice is a great trigger for action, especially if the premium has gone up!

In the energy market, the number and proportion of customers switching is on the rise. In 2016, the number of domestic customers switching supplier increased by 20% for electricity and 17% for gas. In all, around 17% of customers switch supplier every year, and 42% of customers have switched more than once.

While these figures are encouraging, we believe they could be much higher if more customers behaved like those on fixed-term contracts. In the car insurance market for example, where there is no such thing as an open-ended policy, 35% of customers switch supplier every year.

The answer therefore seems obvious: to increase customer engagement in the UK retail energy market, the SVT should be banned. If SVTs were banned, the switching rates in the energy market (17%) might become more like the car insurance market (35%) – i.e. they could double.

If switching rates increased, then those customers who chose not to engage would be likely to pay less than they do today. That's because, when more people switch, it becomes riskier for firms to assume that others will not follow suit, and they usually adjust their prices downwards.

In any free market, engaged customers benefit those who are not engaged. But if customers are going to engage at all, they need an incentive (i.e. a potential saving) to do so. So, in other words, price differences drive competition, yet competition erodes price differences. That is the paradox of markets.

Open ended contracts reduce the incentives for customers to actively engage and make positive choices about their provider and tariff. While we will change this for our customers, we believe that Ofgem making this change industry-wide will deepen customer understanding of the choices and nudge all who can benefit towards sustainable behaviour change, benefiting more customers in the process.

Evolving our products and services to meet **the changing needs of our customers**

The energy world is evolving rapidly and we have to adapt to it. The vision which inspires our product strategy is to satisfy the changing energy needs of our customers by helping them to look after their homes and giving them peace of mind.

We will do this by delivering products and services which follow four key principles:

- **Hassle free, simple and transparent** – Clear and easy to understand with no catches, and easy to access.
- **Peace of mind** – Takes the worry away from managing your home.
- **Value for money** – Provides cost effective solutions that are worth the money.
- **Innovative solutions** – Makes a real difference to customers by offering them new solutions to existing problems.

In addition, we believe that no customer is standard:

- We'll treat our customers as individuals, recognising their value, needs and how long they have been a customer with us.
- We'll use our Rewards scheme to thank our customers for choosing us.
- We'll show we understand that their homes and lives are unique.
- We'll bundle together more of the things our customers really want for a great price.
- We'll offer every customer on the Standard Variable Tariff a new tariff that's right for them.

To deliver this, we are changing what we offer our customers, and how we offer it, to give them simple, personalised, great value solutions that will meet their needs and make life easier.

Closing the Standard Variable Tariff to new customers and offering every customer a Fixed-Term Contract

From the end of March 2018, we will close our Standard Variable Tariff (SVT) to new customers. They will no longer be able to join the SVT, whether as a new customer, or through a change in circumstances (such as moving into a new-build house), or at the end of a Fixed-Term Contract.

Instead, we will offer simple modular Fixed-Term Contracts (FTCs). These are 1-year to 3-year energy deals with personalised features. As part of this change, we'll be trialling and launching an exciting range of new fixed term products including variable rate, unlimited use (subject to reasonable usage) and green tariffs by June 2018.

From the end of March 2018, if customers don't choose one of these FTCs when they roll off their existing tariff, they will automatically move onto a new default tariff. We believe there should be a single design and name for the default tariff across the industry to aid customer understanding. Our preference is a 1-year contract with no exit fees, an emergency tariff. This could have a fixed or variable price (tracking an index). But the latter will depend on getting permission from the regulator, Ofgem.

We also believe that Ofgem should ban all so-called "Evergreen" tariffs, which have no expiry date, moving the whole market to FTCs. But we will not do this unless Ofgem makes it compulsory for all suppliers.

We will deliver initiatives alongside our new, simple product suite to help customers. These will include simpler bills, encouragement to take a smart meter and the extension of the pre-payment meter price cap to vulnerable customers.

In 2017, we contacted all customers on SVTs to offer them a different product. In 2018, we will continue to contact our SVT customers with offers to switch to an FTC.

New services products

Our current HomeCare packages help to keep customers' homes warm and working. They cover boilers, central heating, plumbing and electrics. They help customers to avoid the unexpected costs of breakdowns.

In addition to these packages, we will offer individual products and personalised bundles to suit different customer needs. This will also enable us to create lower priced, entry level products for a wider range of new customers who would prefer a simpler, basic level of cover or on-demand support when things go wrong.

Offering great value bundles

We know that many customers to whom we supply energy are also interested in our HomeCare and Hive range of products. So, we will offer these to our supply customers as a discounted bundle. Examples we are launching include:

- **Energy and boiler breakdown cover.** A bundle offering annual boiler cover to energy supply customers for a fixed £99 excess.
- **Energy and Hive Welcome Home Pack.** A newly designed fixed energy plan that combines energy supply and Connected Home technology at no additional cost.

We'll be expanding our range of bundles in 2018 to help customers save time and money.

British Gas Rewards

In February we announced that we were launching Rewards and since the launch in April half a million British Gas customers have signed up. Rewards provides value for money to our customers and shows appreciation for their loyalty. For example, we offer:

- Loyalty Days - free energy supply based on how long a customer has been with British Gas.
- Free boiler service.
- Exclusive third party offers, such as Waitrose and Sky Movie Store vouchers.

Launching innovative products

We have launched a number of innovative customer solutions this year which we believe make a real difference to the smooth running of our customers' homes.

Local Heroes, now available nationwide, is a simple online service where you can book a local professional for a one-off job and their work comes with a British Gas guarantee.

Boiler IQ is a revolutionary technology that allows British Gas to keep an eye on customers' boilers remotely and detects when there is a problem. This service, in addition to our standard HomeCare packages, provides customers with convenience and peace of mind.

We can do all of this because we operate in a highly competitive energy market which encourages innovation and more choice for customers.

Why the CMA's **"£1.4 billion detriment"** is flawed

The UK's competition watchdog says that the large energy firms overcharged customers for gas and electricity by £1.4 billion a year on average between 2012 and 2015. It calls this figure a "detriment". But many expert organisations and individuals have raised significant concerns about the figure, particularly as it is greater than total annual energy supplier profits in the relevant period.

The detriment estimate by the Competition & Markets Authority (CMA) has been used by ministers and regulators to justify a number of measures, including:

- The price controls on pre-payment meters.
- Extending price controls to vulnerable customers.
- The proposed extension of price controls to all customers on Standard Variable Tariffs and other "default" tariffs.

However, the figure is flawed, as highlighted by a series of leading experts:

- **Group of five former power and gas regulators:** "It seems to us that the CMA's calculation of excess profit depends heavily on a hypothetical non-existent large standalone supplier, and that even slightly different assumptions could have indicated a zero or even negative excess profit." See more
- **Oxera (economic consultancy):** "Oxera's results show that, once corrections for key issues have been made, there is no evidence of an overcharge over this period." See more
- **Mark Friend (Partner at Allen and Overy):** "The CMA has redacted core elements of its calculations, thereby preventing interested parties from being able to verify whether the results are robust." See more
- **KPMG:** "Failing to recognise the uncertainty surrounding its profitability analysis means that the CMA did not properly consider the very real possibility that its estimate of consumer detriment was significantly overstated." See more
- **Centre for Competition Policy, University of East Anglia:** "It is important to highlight why we believe the headline estimates of detriment reported by the CMA are likely to be overestimates." See more

Despite these expert views, many commentators continue to quote the figure and, when most people hear the terms "detriment" and "overcharging", they assume that the large energy suppliers are consistently making excess profits. But this was not actually what the CMA alleged, and not what the facts prove.

£1.4 billion is more than the annual combined profits of all the energy suppliers in Britain.

So, if the detriment estimate is not the result of excess profits, then what caused it? The best term to describe it is "hypothetical inefficiency". Or, less generously, "imaginary inefficiency". It is based on the assumption that there are structural inefficiencies in the way the large suppliers operate.

And it is just an assumption. Because, surprisingly, the CMA did not arrive at its figure by closely examining all of the large suppliers' costs. Instead, in essence, it took the average standard variable price charged by the large suppliers; subtracted the adjusted average price offered by two smaller suppliers - First Utility and OVO Energy; and multiplied the answer by the total number of large supplier customers who pay standard variable prices. The basic principle of the CMA's calculation is as follows:

Detriment

=

(Higher Market Prices − Lower Market Prices)

x

Number of Customers on Higher Prices

Conceptually, on this basis, if the same calculation were applied to any customer market where there are differing prices for the same product — whether it's a coffee or a cooker — then detriment would be found.

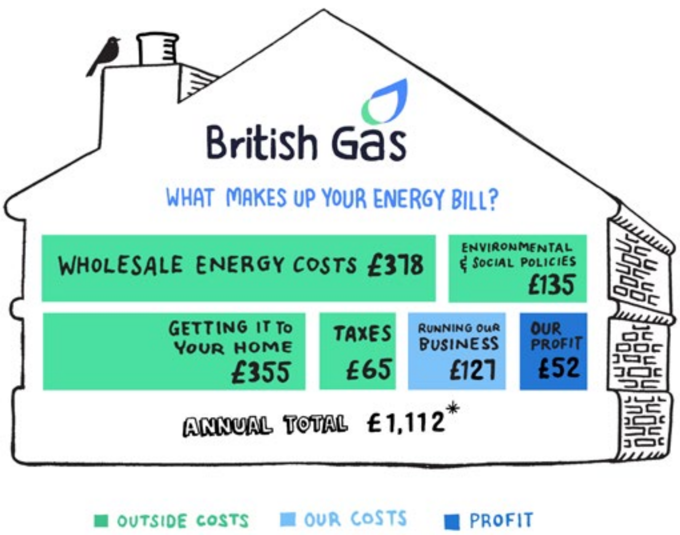
Had the CMA correctly adjusted for the differences in costs and commercial strategies between the benchmark companies and the large energy suppliers, it would not have come up with the £1.4 billion estimate. We ask all responsible commentators, politicians and other stakeholders to stop using this misleading figure as justification for a range of counterproductive measures.

What's in your **energy bill?**

What's in the bill today?

Energy bills do not just include the cost of buying the energy itself. They are made up of lots of different parts, which change over time. This includes the costs to deliver energy to people's homes, Government environmental and social policies, taxes and then our own costs. This includes the profit we make and the money needed to run our business and employ the 29,000 people who work for us.

- In 2016, the average gas and electricity bill was £1,112. Of this, £52, or around 5% was the profit we made after tax.
- Our operating costs were £127. This is the amount of money we need to run our business and employ our staff.
- £65 on the bill was the tax we pay.
- Government policy costs, for things such as making people's homes more energy efficient, reducing carbon and supporting renewables, added £135 to the average bill in 2016. However this has increased significantly since then.
- The costs involved in delivering energy to our customers' homes added £355 to the bill.
- Finally, the actual price of buying the gas and electricity was £378, which is lower than it has been for the last few years.



*Based on actual 2016 results, this is an average of all payment types/tariffs/regions and is based on consumption levels of 444 therms of gas and 3482 KwH for electricity

How are these costs changing?

Wholesale costs for gas and electricity move depending on the balance between supply and demand. These costs make up a large, but more recently a reducing, part of the household energy bill.

It's a decreasing part of the bill, especially for electricity because of the increasing cost of Government policies. These policies largely subsidise and fund a higher cost low carbon power generation system and other policy measures such as smart metering. According to independent public analysis by the Office of Budget Responsibility (OBR), some of the environmental and social policy costs are expected to rise by over 25% by 2021[1].

Is there a better way to pay for these policy costs?

We think it's worth looking at the alternatives. At the moment, the cost of these policies is added to your energy bill. But we think it could be paid for in a different way, such as out of taxes.

No one likes paying more tax, but under the present system, most of the cost of helping those who are struggling is paid for by people on lower incomes. We don't think that's fair on them. If the cost were paid for out of taxation, it would be a progressive tax policy, linked to ability to pay. We support the UK Government's environmental and social objectives. We just think there's a better and fairer way to pay for them.

By moving Government environmental and social costs into general taxation, we reckon some customers could save around £200 a year.

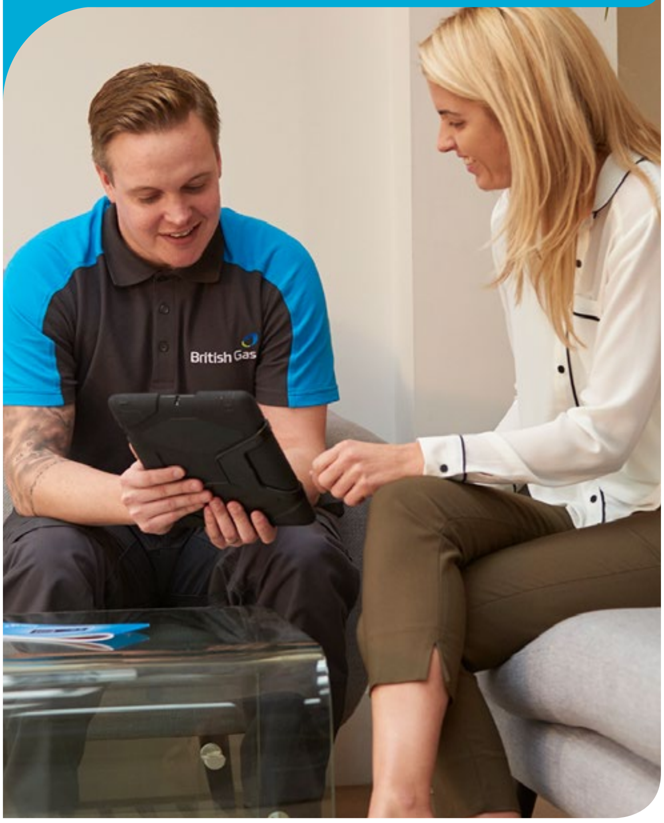
How can energy bills be improved?

Regulation dictates most of what we have to include in our bills. But our customers tell us they want more straightforward bills that are personalised to their needs. Energy suppliers should be allowed by the regulator Ofgem to make their bills clearer and easier to understand.

A fairer way to pay

An increasing proportion of the average household energy bill is outside suppliers' control and does not relate to the cost of buying energy on the wholesale markets. We believe these other costs need to be properly acknowledged and some should be removed from the bill altogether.

The way Government policy costs are paid for is regressive. By this we mean those who are worse off pay disproportionately more. We need to make the way that customers pay for energy costs fairer. As an example, in the UK, we have a tax system which means those who can afford to pay the most do so and those who are struggling pay less. Paying for policy costs a different way, such as out of general taxation, would reduce household energy bills far more effectively than the UK Government's proposed price cap.



[1] OBR March 2017. OBR provides a selected view of total and projected £bn policy costs (domestic and non-domestic). We have adjusted these numbers for domestic volumes and converted to calendar years.

Levelling the playing field — **why everyone should help vulnerable customers**

In a fair competition, everyone plays by the same rules. But in the UK energy market, some suppliers have to provide direct support to customers on lower incomes, while others do not. This distorts competition, adds around £40 a year to most household energy bills, and lumps most of the cost onto those least able to pay

Ever since the UK energy market was privatised, some energy suppliers have been legally obliged to provide support directly to customers free of charge, or at reduced cost. They do this by giving financial help (e.g. money off bills) and providing energy efficiency measures (e.g. loft insulation).

The aim is to help in carrying out Government policies to reduce fuel poverty and cut carbon emissions (insulation means that customers use less gas for heating). The cost of doing this has gone up over time - from tens of million pounds a year across the industry, to hundreds of millions. It is paid for by all the customers of each obligated supplier – it is factored into their energy prices.

Currently, the main two supplier obligations are called the Warm Home Discount (WHD) and Energy Company Obligation (ECO). Together, WHD and ECO add around £40 a year to most household energy bills.

- WHD is an obligation to provide a bill rebate of £140 a year to customers on certain benefits. It adds around £12 to the annual bill of each customer of an obligated supplier.
- ECO is an obligation to provide energy efficiency measures such as insulation. It is currently estimated to cost around £640 million a year, adding around £30 to the bill of each customer of an obligated supplier.

Currently, only the larger energy suppliers are legally obliged to provide WHD and ECO. Smaller and medium-sized suppliers are exempt.

- Suppliers are obliged to provide WHD only once they reach 250,000 customer accounts.
- Even when suppliers reach 250,000 customer accounts, they don't have to meet the full obligation straightaway. It is phased in, at an increasing rate, until they reach 500,000 when they become liable for the full amount.

On average, the customers of smaller and medium-sized suppliers are richer than those of obligated (larger) suppliers. That is because better-off people are on average more engaged with the market and therefore more likely to switch.

So, these richer customers are less likely to receive direct support, through schemes such as ECO and WHD, and they avoid paying for it. Whereas poorer customers, who are more likely to receive this type of support, are also the ones who end up footing more of the bill.

In a further twist, the problem is only going to get worse. Poorer customers who receive the benefits are less likely to switch because they fear losing those benefits. Whereas more and more richer customers will happily switch to smaller suppliers.

This is all a perverse effect of the way that direct support is currently structured. Taxes which fall disproportionately on those who are less able to pay are called regressive taxes and are generally considered to be unfair. We believe that WHD and ECO are both the equivalent of regressive taxes.

The scale of the unfairness in the market is increasing. There are only 12 obligated suppliers. In total, there are now more than 60 suppliers in the UK retail energy market. That means only around one in five suppliers provide WHD and ECO. The market share of exempted suppliers (7%) roughly translates to 1.5 million customers who do not have to pay to support those who are more in need.

The unfairness inherent in the smaller supplier exemption is self-reinforcing and getting worse. The cost advantage it provides attracts more suppliers to the market, but these suppliers do not want to serve vulnerable customers. The number of customers who escape the costs of providing schemes such as the Warm Home Discount and the Energy Company Obligation is rising. The increasing costs of direct support are being shouldered by a smaller number of customers. The small supplier exemption is outdated and should be removed by changing the law immediately.

How the price cap could derail the **smart meter roll-out**

The Government has set an ambitious target to offer every UK home a smart meter by 2020. But its plans to introduce a price cap on household energy bills could have serious implications for that programme. If the cap is not introduced in a well thought out way, there might not be enough money to fund the rest of the smart meter roll-out. The Government should also address inefficiencies in the smart meter programme to make it more cost effective.

Smart meters benefit customers

Smart meters are the next generation of gas and electricity meters. They take digital readings and automatically send these to customers' energy suppliers.

The UK Government has mandated the smart meter roll-out. It is a major multi-year infrastructure programme, started in 2009. The Government has recently reinforced its objective to offer all households a smart meter by 2020. Centrica is leading the way in the roll-out. We have installed over 4.5 million smart meters – equivalent to all other suppliers combined.

Smart meters bring benefits to customers. Automatic digital readings mean that customers receive accurate bills and don't need to supply meter readings the old-fashioned way. Smart meters let customers see how much energy they are using in real time, and therefore take control of how much money they are spending on energy.

However, the smart meter roll-out is costly to implement. The Government estimates that it will cost energy suppliers £11 billion. In the long-run, smart meters should save customers money as they take control of their energy spend. But, next year, the investment in smart meters will cost the equivalent of almost £40 on the bill of each Centrica customer.

The retail energy price cap could seriously impact the smart meter roll-out

How the price cap is constructed is really important because of the impact it could have on the smart meter roll-out. In a worst-case scenario, it could seriously slow or even halt progress. If an allowance is set under the cap which reflects the true amount that energy suppliers like Centrica have to spend on the roll-out, then they will be able to carry on implementing the programme as intended. However, if a cost allowance under the cap is less than that amount, suppliers may be unable to make progress with the roll-out. Unfortunately, a negative precedent has been set with the recently introduced pre-payment meter price cap. This allows just £1.50 per customer to pay for the smart meter roll-out, substantially underestimating the true cost. It is important to remember that restricting the allowance for the smart meter programme will have a relatively high impact on the number of meters installed, owing to the large fixed costs of the programme.

There are other complicating factors which could mean that the price cap impedes the smart meter roll-out. Energy suppliers have made very different investments in the smart meter programme to date and are financing the programme in different ways. Determining a meaningful benchmark for an "efficient operator" will therefore be highly complex, with a risk of unintended consequences.

Moreover, the price cap could undermine other intended benefits of smart meters. The business case for smart metering in the UK is based on the fact that it's a great enabling technology for the economy.

Its benefits go far beyond the immediate customer advantages of automated digital meter readings and help in reducing consumption. Smart meters also make switching much easier and quicker, and stimulate innovation for the good of customers and the whole energy system.

But if the price cap dampens switching rates (as has happened in the pre-payment market), causes customers to disengage from their energy usage, or stifles innovation in the retail energy sector, then it puts the wider benefits at risk.

The Government should address inefficiencies in the smart programme

Inefficient costs are locked into the smart programme as currently designed. This will make it harder for suppliers to adapt to any changes in the cost allocated by the regulator for smart metering.

The programme was set up almost a decade ago and technology specifications are rigid. If suppliers were allowed to use a wider range of technology and respond to the rapidly-changing environment, then they could take advantage of recent developments, such as the widespread adoption of smart phones, and reduce costs.

The smart metering programme is designed as "opt-in". This builds in higher costs to convert customers onto smart meters, and leads to a slower rate of uptake. If the Government wants to make the programme more cost efficient under a price cap and increase the adoption of smart meters, then the "opt-in" design should be reviewed.

In addition, the 2020 compliance deadline for the roll-out incentivises companies to hold back from making a material investment in installing smart meters for their own customers, in the hope of acquiring other customers close to the deadline who already have a smart meter in place. This doesn't help the overall roll-out of smart meters in the UK, and means that costs are borne unevenly across customers.

If the price cap slows down the progress of the smart meter roll-out, this will ultimately be to the detriment of the customers who benefit from it. This is a very expensive programme and will cost our customers the equivalent of almost £40 on the bill next year. The Government needs to think carefully about how to introduce a price cap without undermining its ambitions for the smart meter programme. It is also time for the Government to tackle the barriers to an efficient programme, for example by taking a more flexible approach to rapidly-changing technology.

Making vulnerable customers an **industry-wide priority**

We know that affordability is a big concern for all our customers. But those in need require additional support. That's why no energy supplier goes further than we do to help customers in difficulties. We work systematically to understand our customers' needs, and to gather insights from them and from expert bodies, so that we can continuously improve our service and develop new ways to make sure all customers are treated fairly, no matter what their circumstances. We're calling on all suppliers to serve vulnerable customers better.

Finding out who needs our help

We can't support those customers who need it if we don't know who they are. So, identifying customers in vulnerable circumstances is a huge challenge for our business and we make it an absolute priority.

Our agents are trained to listen to and recognise the signs of customers who may be falling into financial difficulties or other vulnerable situations. We share credit data with other organisations which helps us to identify external factors which may be affecting customers. We encourage customers to contact us and talk to us for more help. We receive referrals from charities such as StepChange and the Money Advice Trust.

What we do

Once we have identified those who need our help, we have a wide range of tools at our disposal to support them and, most importantly, the experienced and dedicated staff to use them:

- **Debt:** We have a specialist debt centre, where dedicated advisers proactively call, and take calls from, customers who are having difficulties paying their bills, to see if they can help. In 2016, more than 250 British Gas debt employees set up more than 424,000 manageable repayment plans for customers. We have a relationship with the StepChange debt charity, offering a transfer service to provide customers with wider financial advice and support. Since 2013, we've referred over 13,500 customers directly to StepChange.
- **British Gas Energy Trust (BGET):** This is our own charity which offers grants to help clear energy debts and pay for new appliances, as well as funding debt advice in local communities for those harder-to-reach customers. We have donated over £106 million to BGET since it was established in 2004, and in 2016 the trust provided more than 13,500 grants. The trust also gives debt relief grants and awards to non-British Gas customers, and it funds a nationwide network of debt advisers embedded in organisations including Shelter and Citizens Advice.
- **Warm Home Discount:** This is a Government-mandated scheme which provides rebates of £140 a year to customers on certain benefits. We have some of the broadest eligibility criteria in the industry and last winter (2016/17) more than 650,000 of our customers received the

discount. Our Warm Home Discount Broader Group reaches a wide range of customers at risk of financial hardship and helps to relieve some of the pressures of winter fuel costs. We also proactively offer energy efficiency advice and have improved thousands of homes through our ECO (Energy Company Obligation) programme.

- **Priority services:** We have nearly 2.3 million households on our Priority Services Register, which offers additional help for people of pensionable age, disabled or chronically ill customers. That's an increase of over 350,000 households in 2016. This increase is partly due to better awareness among our agents of customers in vulnerable situations, together with other programmes such as Dementia Friends and our growing number of referral partnerships.
- **Prices and bills:** When we increased our prices, we protected our most vulnerable customers, crediting their accounts with the increase. We offer a range of payment options such as direct debit, pay-as-you-go (PAYGE) meters and magnetic cards. We can support customers who fall into difficulties with a PAYGE meter by offering discretionary credit or fuel vouchers to ensure they stay on supply. This is growing due to the roll out of Universal Credit.
- **Low consumption standing charge rebate:** In 2014 Ofgem granted us the ability to rebate the standing charge to gas customers on low incomes who consume low volumes of gas. In the two years we have completed so far, we have rebated £5 million to 53,000 customers, and the third year of this programme is underway.

The Dementia Challenge

Dementia is a huge issue for our customers. Over 850,000 people live with dementia in Britain today. We estimate that at least 100,000 British Gas customers are living alone in their own homes with dementia, and a further 100,000 are living in the community with other people, many of whom have chronic health conditions including dementia. In 2015 we therefore decided to accept an invitation from the Prime Minister's Dementia Challenge Group and become one of 10 leading companies committed to modelling what it means to be fully dementia friendly.

As part of this, we created a bespoke Dementia Friends module for British Gas, working with the Alzheimer's Society in England and Wales and with Alzheimer Scotland. To date over 20,000 of our people have become Dementia Friends. As a result of our work in this area we were asked by the Prime Minister's Dementia Challenge Group to lead the creation of best practice guidelines for the whole of the utility sector, including water and telecoms as well as energy.

Leading the industry

In 2014 we adopted a company-wide definition of vulnerability which aligns with those of Ofgem and the Financial Conduct Authority. It says: "A customer is vulnerable if, due to their personal circumstances, they may be unable to safeguard their personal welfare or that of other household members". This recognises that customers can be vulnerable for temporary reasons as well as age, health or disability.

In May 2017, British Gas achieved verification from the British Standards Institution for meeting its requirements to ensure that inclusive services are accessible to all customers equally, regardless of their circumstances. Citizens Advice announced that it will use this standard as the measure of how seriously energy suppliers take vulnerability. BSI has asked us to be the energy supplier representative on its working group on turning the standard into a fully-fledged kitemark.

Many other suppliers do not provide the sort of help that we do for those who need it. But we believe that supporting vulnerable customers is not an optional extra. It is a moral, social and commercial obligation. Energy suppliers cannot opt out. All suppliers must demonstrate that they can serve those who are most in need, with no exemptions. In fact, this is part of every supplier's operating licence conditions and it should be properly enforced. In addition, we ask Ofgem to agree a more sophisticated way of identifying vulnerable customers so that help is focused on those who need it.