

Mark Hodges - Strategic Review

Strategic Review – British Gas

It really is an opportunity to take the fantastic heritage we have, to take the great start point we have, and to modernise and transform the business to be fit for purpose to win over the next five years, and we win by doing things fantastically well for our customers, so the strategy has all been about how do we design and execute British Gas for our customers?

Growth Opportunities

Growth comes from three areas: connected homes, distributed energy, and services. And if we take those in order, in terms of connected homes, we've created a leadership position in the UK, and across the group we're talking about investing 500 million pounds more in developing our connected homes business. We can't be exactly certain today how that money will be spent, we can't be exactly certain today how consumers will use the product, but we do know that it's a massive trend. We do know that people want to take control of their energy, they want to take control of the home, we've seen it in other sectors, and we think in energy, we've got a huge advantage and a big role to play.

Distributed Energy

Distributed Energy, this is a trend in the large industrial and commercial sector. People want to reduce their energy bills and there are a number of ways to do that and a number of ways that we, in British Gas, can help. Energy efficiency measures is one of the directions of travel and another is to actually just to reduce the pure cost of energy through the use of back up generation; through the clever optimisation of energy use.

Services Growth

Turning to services; three key areas for growth. We're already the biggest, by the way, in the insurance-based contracts, but the three areas are landlords, central heating installations and on-demand. Each of those areas, each of those product sets, we think represents an area we can materially grow our business using the capabilities and the skills we already have.

Competition & Markets Authority Inquiry

We welcome the review. We think it's been a very thorough process, we think it's been a very professional process, a very inclusive process. There are some of the initial findings we don't agree with, we've been very public about that, but broadly we welcome a competitive market, broadly we

welcome a market where customers are more engaged in their energy choices and in managing their energy bills. So I think from our perspective, there is a lot in the CMA that we think is good for the market, and if it's good for the market it's got to be good for British Gas.

Household Energy Bills

The competition in the energy section is increasing all of the time, so in terms of the decisions we've taken to offer a five per cent reduction in February of this year, followed by another five per cent which takes effect from August, we think that positions our products in the market very competitively. It also means that customers will benefit going into this winter, average bills will be down by around 72 pounds, or ten per cent year on year. We think that is about the right level, we think customers will welcome that change, but we're going to have to keep looking at our pricing and we're going to have to keep responding to those competitive pressures.

Cost Efficiency Programme

Firstly, it's about simplification, standardisation and leveraging the scale of Centrica. I think there is a lot we can do to improve the quality of our processes and the outcome for our customers, and that will reduce cost. The second point is actually all about delivering service to customers in a different way. We are seeing some pretty significant trends in the energy market, we are seeing more and more people going online and wanting online services and we will also see the impacts of smart metering over time. So, I think the combination of, doing our business better and smarter and those external trends, allow us to reduce costs but I think the key message is; it will not change our passion for delivering service excellence and for being excellent in terms of health, safety, and compliance.

Impact on Jobs

This isn't a decision we take lightly. I'm very aware that this impacts people's lives. So, what we are doing today is communicating a broad outcome over the next five years. There will be growth in some areas but unfortunately there will be some reduction in roles as well and what we need to do is make sure that we communicate with the people affected as quickly as we possibly can, treating them with integrity and making sure they find out specifics first. So, today is that broad landscape, over the next couple of years we'll be able to give people a lot more detail about what might happen to them. But the key thing is, this isn't a decision that we're taking lightly, and I am very, very aware of the need to make sure that we treat people with respect as we go through this process.