



Greenpeace's case against Centrica

Monday, 30 April 2012

British Gas owner Centrica's over reliance on increasingly expensive and imported gas has driven up bills to consumers and the company privately admits it has failed to secure long term and stable supplies for the future. Most experts expect gas prices to continue to be high as global demand increases.

Figures from Ofgem show that over the last year the average UK bill rose by £150. £100 of this was due to the rising cost of gas, much of it sold by Centrica to its subsidiary, British Gas.

But instead of using bill payers' money to invest in clean sources of energy, which can help bring future bills under control and reduce carbon emissions, research commissioned by Greenpeace found Centrica returned 74% of its profits to shareholders between 2007-11; far more than any other major UK energy utility.

At the same time the UK's leading supplier of household energy has joined groups lobbying against new renewable energy and energy efficiency targets and failed to meet its insulation targets, further undermining efforts to tackle climate change and stabilise consumer bills.

1) Profits for shareholders: not investment in clean energy

- Centrica had a higher profit margin – 12.5% – and made more profit £9.5bn over the last five years than any other UK energy firm. But instead of investing the money, or using it to bring down bills, it returned more money to shareholders than any of its competitors. Research for Greenpeace by Bloomberg New Energy Finance found that between 2007-11 Centrica gave 74% of its profits back to shareholders.¹
- With billions of pounds needing to be spent on new power generating infrastructure to replace retired capacity and meet the UK's climate change commitments, Centrica's failure to re-invest profits may end up passing the cost on to its bill payers. With 191MW of installed renewable capacity, Centrica owns just 2.3% of the UK's clean energy, despite being the UK's largest household electricity supplier. To put this in context, RWE Npower owns 1135MW, or 13.6% of UK capacity; and Scottish Power owns 948MW, or 11.4%.
- Overall, between 2007-11 the firm built the least renewable energy capacity and invested a smaller proportion of its operating income in any form of energy generation, than the rest of the big six.

Centrica's determination to return the vast majority of its operating profits to shareholders means it may need to raise more money from consumers in order to invest in our energy future.

2) Lobbying for gas: but failing to secure supply

- With the UK's own supplies dwindling, Centrica boss Sam Laidlaw claims gas 'remains the lowest cost, relatively low carbon, fuel source for power generation' and boasts that Centrica is now the UK's largest buyer of Liquefied Natural Gas which accounts for 30% of total UK demand.ⁱⁱ
- But privately the company has concerns about its own deals to secure supply. In internal briefings for the UK's Department of Energy and Climate Change, obtained by Greenpeace, Centrica expressed concerns about its 2011 three year, £2bn deal with Qatargas, one of the UK's largest gas suppliers.ⁱⁱⁱ 'The draft agreement presented by the Qataris is not acceptable to Centrica,' said the private Department of Energy and Climate Change briefing, written shortly before the signing. 'The cargoes could be fully diverted, and price is high, and the contract duration (three years) too short.'
- At the same time, the private documents show the company is reluctant to invest in gas storage claiming there were 'better returns for Centrica's available CAPEX (capital expenditure) funds in other areas.'^{iv}
- Commodity analysts at Merrill Lynch Bank of America recently warned that: 'Qatar has consciously sent tankers to Asia... thus increasing the risk of gas shortages in Europe... It is not implausible that UK LNG imports fall to zero by the end of 2012'.^v This increasing reliance on LNG imports from Qatar has been questioned by UK military leaders, who recently warned that almost half the UK's gas imports would be halted if, as it has threatened, Iran blocks the Strait of Hormuz.^{vi}
- It is not clear whether Centrica's contracts allow gas to be diverted elsewhere or what its contingency plans are, neither is it clear what will happen to UK gas supply in the longer term given its failure to secure long term deals. What is clear is that any costs will be picked up by the consumer in the form of higher bills, not by Centrica.

Centrica's lobbying for an increase in dependence on gas undermines UK energy security and leaves us exposed to volatile global markets. Its lack of transparency on its gas contracts means UK consumers will be unable to tell if Sam Laidlaw is right that gas 'remains the lowest cost' form of power, until they receive the bill.

3) Failing to insulate: leaving bills high

- Centrica tried to meet its energy efficiency targets, not by insulating homes, but by giving away 52 million energy saving light bulbs before Ofgem clamped down.^{vii} According to Ofgem: 'carbon savings from lighting measures accounted for 26% of British Gas' carbon savings in the first three years of CERT'.^{viii} DECC described this tactic as 'exploitation of the scheme' due to the temporary nature of the savings.^{ix}
- In the first three years of the Carbon Emissions Reduction Target, a government scheme designed to make energy use more efficient and homes warmer, British Gas met just 18% (2008), 18% (2009) and 16% (2010) of its overall obligation to reduce consumers' energy use. As a result of the poor performance of British Gas and the other utilities, DECC has extended the CERT deadline by nine months to the end of 2012. Yet Centrica still has 33% to achieve in this extended final period, double their progress last year.^x They are now lobbying for the target to be extended further.^{xi}

- Sam Laidlaw recently sought to deflect attention from Centrica’s failure to keep customers’ bills down through meeting home insulation targets, by arguing for these targets to be extended or dropped. At a time when energy bills and fuel poverty are rapidly increasing due to expensive gas imports, he is reported to have said that ‘ministers should slow down initiatives including the bid to double the number of homes given free insulation in a year’.^{xii}

As well as taking more profit for shareholders than its competition, and investing less in renewable energy, Centrica has also been a regressive force when it comes to helping people reduce their bills by insulating their homes. This is despite claiming to be a leader in this area.^{xiii}

4) Dirty lobbying: working against renewable energy and energy efficiency

Joining forces with global gas giants in the form of the European Gas Advocacy Forum, and via energy lobbyists Eurelectric, Centrica has been working behind the scenes to:

- persuade the UK government to use more gas and less clean energy in its energy mix
- persuade the UK government against establishing new pollution standards for power stations
- persuade the EU to water down binding commitments on reducing energy demand
- Centrica is working with Gazprom, Qatar Petroleum, Statoil, Shell, E.ON, ENI and GDF Suez. In 2010 these companies formed the European Gas Advocacy Forum (EGAF) with a stated aim ‘to increase understanding of the environmental, economic and energy security benefits of natural gas.’^{xiv}
- Half of the UK specific EGAF scenarios fail to come close to meeting carbon targets for the electricity sector as set by the independent Committee on Climate Change. In these scenarios, clean energy is reduced to 30–32% of generation compared with 40% in the ‘illustrative scenario’ of the CCC. EGAF would replace this renewable power with increased gas imports.^{xv}
- For Europe as a whole, EGAF argue that dependence on gas should remain high post 2030. This would make Europe dependent on one, cost volatile energy source. It would also need the successful commercialisation of carbon capture and storage (CCS) at an unrealistically large scale if Europe is to meet its climate change targets.
- In March 2012, Centrica CEO Sam Laidlaw, indicated that gas industry lobbying is working, describing how: ‘the European focus is turning to back natural gas’.^{xvi} He added that ‘the benefits to oil and gas investors of stimulating sustainable demand are also obvious.’^{xvii}
- Centrica is lobbying against tough new pollution standards for power stations that would put a limit on the amount of carbon pollution a gas power station can emit.^{xviii} This lobbying has been successful, with George Osborne and Ed Davey recently announcing that these pollution standards, known as emissions performance standards, will not apply to the huge number of gas power stations currently consented, until 2045.^{xix}
- Centrica is also pressuring the European Commission to water down legislation for binding commitments to reduce energy demand.^{xx} Through industry lobbyists Eurelectric, they oppose binding targets and argue that “making power generation and distribution more efficient” should no longer be listed among the priority actions of the next Energy Efficiency Action Plans’.^{xxi} This is because the legislation would require them to install efficiency measures which may require investment but may also reduce their customers’ bills.

In order to avoid the need to invest profits generated by bill payers, Centrica is lobbying the UK government and European Commission for measures which would increase our reliance on potentially expensive, polluting and imported gas and against investment in renewable energy and tough targets on energy efficiency.

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ⁱ <http://www.greenpeace.org.uk/media/reports/big-six-utilities-investment-trends>

ⁱⁱ http://www.centrica.co.uk/managed_content/newsandviews/2012/pdf/CERA_Week_March_2012.pdf

ⁱⁱⁱ <http://www.centrica.com/index.asp?pageid=1041&newsid=2163>

^{iv} <http://uk.reuters.com/article/2012/02/23/uk-britain-centrica-storage-idUKTRE81MOWY20120223>

^v <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/9132260/UK-gas-price-risk-over-LNG-supplies.html>

^{vi} <http://www.ft.com/intl/cms/s/0/b52cdf90-3f8b-11e1-ad6a-00144feab49a.html#axzz1pZPlIzWH>

^{vii} <http://www.centrica.com/index.asp?pageid=151&newsid=1226> and

^{viii} http://www.ofgem.gov.uk/Sustainability/Environment/EnergyEff/Documents1/CERT%202011%20annual%20report_V1.pdf, pg. 13.

^{ix} <http://www.decc.gov.uk/assets/decc/11/funding-support/3340-evaluation-synthesis-of-energy-supplier-obligation.pdf>

^x The remaining 15% progress was EEC2 carry over. EEC2 required gas and electricity suppliers to achieve an energy saving target of 130TWh in domestic households in Great Britain, between 1 April 2005 and 31 March 2008. Energy Efficiency Commitment, 1 April 2005 – 31 March 2008.

^{xi} <http://www.insidehousing.co.uk/eco/british-gas-government-cert-targets-unrealistic/6520112.article> and <http://www.independent.co.uk/news/uk/politics/big-six-energy-firms-accused-of-breaking-vow-to-help-poorest-families-7661725.html>

^{xii} <http://www.thesun.co.uk/sol/homepage/news/money/4150046/Were-not-mean-blame-the-greens.html>

^{xiii} http://www.centrica.com/managed_content/newsandviews/2010/pdf/Sam_Laidlaw_RSA_Speech_16_Sept1.pdf

^{xiv} <http://xynteo.com/gas>

^{xv} <http://hmccc.s3.amazonaws.com/Renewables%20Review/Executive%20summary.pdf>, pg.13.

^{xvi} http://www.centrica.co.uk/managed_content/newsandviews/2012/pdf/CERA_Week_March_2012.pdf, pg.7.

^{xvii} http://www.centrica.co.uk/managed_content/newsandviews/2012/pdf/CERA_Week_March_2012.pdf, pg.10.

^{xviii} http://www.centrica.com/managed_content/newsandviews/2011/pdf/Consultation_Electricity_Market.pdf

^{xix} http://www.decc.gov.uk/en/content/cms/news/pn12_025/pn12_025.aspx

^{xx} http://ec.europa.eu/energy/efficiency/action_plan/doc/public_consultation_organisations.pdf pg.557 and pg. 418.

^{xxi} Ibid. pg.557.