



Dear Sam,

Thanks for getting back promptly to the thousands of people that wrote to you yesterday urging an end to Centrica's (British Gas) energy bill rip off by reducing customers' exposure to expensive gas.

I'm really pleased to see that you're now willing to engage in this conversation, especially since you refused my request to meet when I wrote to you last year.

Centrica has a lamentable record on investing and installing clean renewables in the UK. This is particularly regrettable as it would help protect British bill payers from gas price hikes, and help curb dangerous climate change.

I'd still like to meet with you, but for now I would like to address in turn each of the points you make in your email.

I still hope you will agree to meet in future, but I particularly look forward to hearing about how you intend to bring down bills and carbon emissions too.

Best

John

John Sauven
Executive Director
Greenpeace UK

Thank you for your email. Centrica (British Gas) has been at the forefront of investing in renewable energy for some time, so I was disappointed to see that this message has not yet got through. However, you raised some important points and I would like to address each of them in turn.

New [research](#) by [Bloomberg New Energy Finance](#) found that from 2006-12 Centrica had installed 410MW of renewable capacity, less than any of the other 'Big 6' energy companies.

Since 2006 Centrica has invested £1.18bn in all forms of energy – less than any of its rivals.

This is despite Centrica posting the biggest profit margin of all of the 'Big Six' utilities who run an oligopoly in the UK energy market.

Climate change, and the cost of the energy we use, are two of the biggest issues facing Great Britain today and addressing these, as well as securing vital energy supplies for the UK, is at the heart of Centrica's business strategy. However, it's crucial to remember that tackling climate change and securing energy to keep our homes warm needs investment; one of the challenges for all energy companies is to achieve both of those things, whilst also minimising the impact on customers' bills.

Despite the headlines, the average British Gas dual fuel bill actually fell by £39 last year, to £1,022 from £1,061 in 2010.

Britain's mild winter in 2011 reduced electricity and gas usage, driving down actual bills.

Met office data shows that November 2011 was the second warmest for 100 years and December 2011 was 5 degrees warmer than 2010 – so it's hardly surprising people used less gas to heat their homes.

But the truth is that despite Centrica's spin, the cost of the electricity and gas that we did use increased over this time.

Assuming average temperatures – and so average energy usage - the annualised impact of these price increases meant that, [according to Ofgem](#), in March 2012 bills were £150 more than in March 2011. £100 of that increase was driven by the increased wholesale cost of gas.

The evidence shows that British Gas is ripping off its customers, keeping millions of families and businesses exposed to the roulette of international gas prices.

We were the first energy supplier to offer free insulation to all of our customers, saving 7.9 million tonnes of CO2 emissions last year, as well as saving our customers money. We also do more than any other supplier to support vulnerable customers through our 'Essentials' tariff and the Warm Home Discount.

You make some grand claims about offering free insulation, but Centrica deserves no congratulation for spending bill payers' money on insulating those same bill payers' homes.

Centrica haven't spent any of their own profits on this. Worse still, they're lobbying against insulation schemes that could bring down bills for their customers, and they're using dirty tricks.

For example, Centrica tried to meet its energy efficiency targets, not by insulating homes, but by giving away 52 million energy saving light bulbs. Eventually regulator Ofgem stepped in and clamped down. The government described this tactic as 'exploitation of the scheme' due to the temporary nature of the savings.

In the first three years of the 'CERT', a government scheme designed to make energy use more efficient and homes warmer, British Gas has fallen behind in meeting its obligations. As a result of the poor performance of British Gas and the other utilities, the government 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..

You 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, you are 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'.

Centrica has been a huge supporter of renewable energy for many years; we built the world's largest offshore wind farm in 2009 and have continued to invest heavily in the Lincs wind farm, which will supply enough electricity for 200,000 homes when it comes on line later this year; we're also planning much bigger wind projects on the UK's East Coast and in the East Irish Sea.

Actually Centrica has been reducing its exposure to the Lincs project. In 2009 the firm [sold a 50% stake in Lincs to Dong Energy and Siemens project ventures](#). The same goes for its planned "round 3" ventures where it has again [formed a 50/50 partnership with Dong](#) on its Irish Sea project.

They do not plan to take a final investment decision on this project until 2016 which, according to Bloomberg's analysis, will mean that Centrica could reach 1GW of fully owned installed capacity by 2020. That's the same level reached by their competitors Scottish Power and SSE by the end of this year.

To put that in context the Bloomberg analysis concluded that in order to meet our binding 2020 renewable's target the UK will need 50GW of installed capacity.

One of the points you raised was about the falling cost of renewable energy, and it's true that wind power is generally thought to be the cheapest form of renewable energy. However, wind power is still 2 to 3 times more expensive than generating power from gas. While I hope this will fall over time, the cost gap between wind and gas is very wide for generating electricity and even more so for heating. In the UK, 83% of homes are heated using natural gas. If this were replaced with wind power as the energy source, the average £600 heating bill would rise to over £2,000.

This is very misleading indeed. The reality is the cost of gas is rapidly going up. Meanwhile, the costs of renewables are coming down.

Centrica's analysis is flawed because it assumes that the cost of gas power (and so the cost to consumers for gas, or electricity produced by gas) will not rise. Nobody seriously thinks this is the case.

There has been no credible research to substantiate this claim. Both the International Energy Agency (IEA) and Department of Energy and Climate Change (DECC) are both predicting a further increase in the cost of gas over the next ten years.

You yourself have warned on gas prices that [the "long-term trend remains inexorably upwards"](#) and warned that "the impact of shale gas on world markets will be very limited in the short to medium term."

In fact, preliminary research by [the respected UK Energy Research Council](#) has found that the gap between gas and wind electricity generation is not that wide – and narrowing - with onshore wind likely to be cost competitive or cheaper than gas by 2017, and offshore wind will be comparable by 2023 – if gas prices continue to rise.

Greenpeace is not arguing for an immediate end to the use of gas for heating or electricity. A tightly regulated contribution from gas power has a role to play in the transition towards a genuinely low carbon renewable energy future. But it is essential we de-carbonise our electricity supply by 2030 as proposed by the government's independent advisers, the Committee on Climate Change.

Heating can become less reliant on imported gas without driving up bills through wider deployment of renewable gas from waste, small-scale sustainable biomass and combined heat and power stations. In the longer term, widespread insulation can do more than anything else to reduce heating costs. But, as we've outlined above, Centrica are opposing insulation schemes.

The other thing to remember is that renewable energy is intermittent. We need to keep our homes, offices and factories working when the sun doesn't shine and when the wind doesn't blow and, because the technology hasn't yet been invented to store electricity on a large scale, we need gas-fired power stations to provide back-up generation.

Maintaining limited gas power stations for back-up is a sensible part of the energy mix. A longer term solution to the issue of balancing supply with demand is the development of a network of 'inter-connectors' – essentially large power cables running throughout Europe, a plan [the Prime Minister has signed up to](#).

These would build on existing links – such as the ones to France and Netherlands – and take advantage of the many different forms of renewable energy including wind, solar, hydro-electric and geothermal power in countries where they have the best resources, some of which are more predictable than others, and minimise our reliance on expensive and polluting gas power.

It is factually untrue that the technology has not been invented to store electricity. Pumped storage works by using electricity to pump water uphill when there is too much, and then generating it by letting it flow back down when we need power. The UK already has the largest pumped storage plant in Europe at Dinorwig. In the longer term as electric cars are expected to become more prevalent, their batteries may also be used to store excess electricity.

Behind the scenes, Centrica are lobbying for gas stations to take the place of renewable energy and efficiency schemes. Joining forces with other global gas giants through lobby group, the European Gas Advocacy Forum, and via energy lobbyists Eurelectric, Centrica has been applying pressure on politicians 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

To keep the lights on, keep bills affordable and to bring down carbon emissions, we need a balanced energy mix and I believe that, along with other energy sources like gas, renewables have a key role to play. Our future investment pipeline in renewables is much bigger than anything we've done to date –

we are awaiting consent for the Race Bank and Docking Shoal projects and have plans to develop 4,200MW in the Irish Sea; together, they would provide enough electricity to power over 3.5 million homes.

It's good that Centrica are planning on developing their project in the Irish Sea – however given their record of returning money to shareholders instead of investing in renewables –it will be hard to make a judgement until the company comes to a final investment decision, not planned until 2016.

Your email suggested that we invest less than our competitors, but this just isn't true. Looking at all forms of low carbon power, Centrica invested £3billion in the last 5 years, putting us near the top of the league table. As a result, the carbon intensity of our power generation fleet is now the second lowest of the 'Big Six' energy companies, something I am proud to be able to say.

This figure includes Centrica's purchase of a stake in former nuclear operator, British Energy, for a reported £2.3bn (with £1.1bn paid in cash). That is not investment in new energy generation. It is the acquisition of an existing asset and was therefore excluded from Bloomberg's analysis.

Finally, I wanted to make sure you knew that it is incorrect to suggest that we distributed 74% of our profits to shareholders last year. The information we published in our annual report of cash flow to shareholders, which is independently audited, shows that 17% went to shareholders, 31% to investment, 26% to our 40,000 employees and 26% to taxation last year.

Cash flow is not profit; it's the total amount of cash generated by a company, much of which is used – for example to pay employees, so this is simply a misleading statistic.

Bloomberg's report found that, between 2007-11 Centrica paid out an average of 74% of its operating profit – not cash flow - to its shareholders. This is more than any other company.

It also noted that they have the worst ratio of capital expenditure to operating income, and the highest profit margin.

This is normally something Centrica celebrates in its audited annual report. Indeed in its latest report Centrica said:

“In spite of everything, through a mixture of tenacity, innovation and endeavour, the management team, led by Sam Laidlaw, delivered a 3% increase in adjusted earnings which facilitated a further 8% increase in the full-year dividend to our shareholders of 15.4 pence per share.”

The energy choices we face are not easy. That is why we have launched the Honest Conversation to help explain the facts and to have a clear, transparent, debate about the future and how we should tackle it.

I strongly believe that a balanced energy mix will best serve the environment, and it will best serve Great Britain. Greenpeace proposes an energy policy that is almost entirely dependent on renewables. Such a policy would be more costly for our customers and would not provide the energy security we depend upon.

Everybody accepts the price we pay for energy will rise. We have benefited from a major investment in our energy grid half a century ago and have more recently enjoyed low cost natural resources from the North Sea and the coal mines of Britain. This happened in an age when their impacts on the environment were less well understood. But we can both agree that era of cheap energy is over.

Now the question is how we minimise the inevitable increase in the cost of energy and its environmental impact, whilst maintaining a reliable supply.

You seem to be arguing that we bet the farm on imported, expensive gas, which is also a source of climate damaging CO₂, because you can simply pass on the rising costs of the fuel to your customers. Greenpeace argues that in this uncertain world of global fossil fuel markets and climate change, we

should reduce our dependence on gas and instead increase our investment in clean technologies that make use of free, indigenous, renewable and clean fuel.

With this in mind, here's our three-point challenge to Centrica.

Step 1:

Publicly declare your support for the recommendations of the Committee on Climate Change (CCC) that the UK should have almost completely decarbonised our electricity sector by 2030.

Step 2:

Declare your support for a regulatory limit on carbon emissions from power stations – known as an emissions performance standard – that is in line with the recommendation of the CCC that we should decarbonise the power sector by 2030, and that standard should apply to all polluting fossil fuel power stations, not just coal ones.

Step 3:

Support an outcome from this year's Electricity Market Reform process that prioritises support for renewables and energy efficiency measures that can get bills under control and bring down pollution levels.

If you would like more information on the work that Centrica, or British Gas, does to tackle climate change, fuel poverty and security of supply, please visit www.centrica.com <<http://www.centrica.com>> or follow us on Twitter.

Find out more about why we're campaigning for Centrica to change by reading our [full briefing](#).

Follow us on twitter @greenpeaceuk

Yours sincerely,

Sam Laidlaw

Centrica (British Gas)

Yours truthfully,

John Sauven

Greenpeace