

1 September 2009

Alistair Buchanan
Chief Executive
Ofgem
9 Millbank
London SW1P 3GE

1 SEP 2009

CE4503

British Gas



Phil Bentley
Managing Director
Lakeside West
30 The Causeway
Staines, TW18 3BY

Dear Alistair

Thank you for letter of 4 August on the subject of pricing and communication to customers.

Let me start by reinforcing our priorities of delivering compelling competitive propositions and excellent customer service. This year, British Gas was the first supplier to announce retail price reductions – with a 10% cut on gas. We followed this with a 10% reduction on electricity which gave us the cheapest electricity in Britain. We have dramatically improved our customer service on all dimensions and we have seen a decrease of more than 90% in the level of our customer complaints reaching the Ombudsman.

Customers have been responding very positively to what British Gas offers and now, as we announced in our latest Interim results announcement, we are seeing positive net growth in our customer base.

Turning to the current pricing environment, as you know all suppliers are hedging over a period of time in order to ensure they can meet the energy demand of their customers and to seek to maintain a level of stability in pricing. Consequently, the very recent falls in wholesale costs cannot immediately be reflected in the procurement cost for suppliers. We are also facing of course material increases in network and government imposed environmental costs, over which suppliers have no control.

This hedging picture is reflected in Ofgem's own reports on the link between wholesale and retail prices, as well as the Probe report, which concluded there was no greater lag in retail price reductions when wholesale prices fall, than increases when wholesale prices have risen.

What I can say to you is we keep pricing under very regular review and are committed to maintaining our competitiveness and to giving our customers value in a difficult economic environment. However, we do expect to make a margin on energy retailing, in order to support the multi-billion pound gas, power and renewable investments that the Group is making.

You also touched on the effectiveness of our communications with customers on the issues driving pricing. With prices likely to remain at historically high levels, and in fact likely to increase as non-commodity costs rise ever upwards, we recognise it is in our interest and customers' interest to clearly articulate and explain the factors that



explain these price trends, as well as helping them to manage their energy consumption and costs through energy efficiency.

Whilst we can always seek to enhance our communication in this area, we do have a positive track record in proactively communicating with customers on these issues.

When we announced our interim results at the end of July, I wrote an article in the Daily Mirror (copy enclosed) in which I explained some of the factors that contribute to the fuel bills customers face, while also setting out how we are investing the profits that we make to secure the low carbon energy supplies that this country needs in the future.

This year we introduced a new feature to the British Gas bill, which now features charts which explain to customers the break down of the bill, making clear that commodity costs are far from being the only component. We have also produced similar charts for stakeholder and press briefings that set out the different types of cost that we need to recover from customers. I enclose copies with this letter.

We have invested significant amounts in training our call centre agents on energy market issues so that they can positively engage on these issues and enabling them to give energy efficiency advice to our customers. We have also led the industry in enabling customers to help themselves to reduce their costs through our energy savers report, which over 2 million customers have completed. I also enclose a copy of a booklet we recently provided to our service engineers to leave behind when they visit a customer's home, which encompasses all of these issues as well as some explanation of the longer term investment required to provide Britain with secure, low carbon energy supplies.

Alistair, as British Gas continues its journey of transformation, it is clear that not only do we have more positive messages to give to customers than in the past (reflecting, for instance, our leadership on retail pricing this year) but that we do take opportunities to ensure that customers better recognise and understand what we do and why we price as we do. Against a background of high prices, I am acutely conscious of the communication challenges that this poses now and in the future. Customer communication will remain a priority for us going forward.

I trust this addresses Ofgem's concerns; please do not hesitate to contact me if you require any further clarification.

Yours sincerely



Phil Bentley
Managing Director, British Gas

British Gas



Your energy experts

Page 1 of 2



Your electricity statement - actual

Contact us

Avoid estimated bills when you manage your account online at

britishgas.co.uk/bill

Or for enquiries call us on

0800 048 0101

Mon - Fri, 8am - 8pm, Sat, 8am - 6pm

Please have your meter reading handy

Customer reference number

Statement date:

20 July 2009

Statement period:

22 Apr 09 - 18 Jul 09

You're on Price Protection 2010 - our lowest rates

Before this statement

Balance of your last statement **£54.69**
in credit

This statement

Balance brought forward **£54.69**
in credit

What you paid **£99.00**

Electricity you've used this period **£79.16**

Your Dual Fuel discount **£3.44**
credit

VAT at 5% **£3.78**

Your new account balance £74.19
in credit

For further details please turn over →

Message board

Terms and Conditions

We have made some changes to our terms and conditions for supplying your energy. For a copy, call 0800 048 0101 or go to britishgas.co.uk/terms

Choosing Price Protection 2010 for your electricity was a good decision

As a result you've avoided four price rises and have certainty over your electricity prices. We hope that you'll continue to enjoy the peace of mind knowing that despite the volatility in the energy market, your electricity prices will stay the same until 30th April 2010.

What next?

Your next payment will be taken out on or within 3 days of 12 Aug 2009.



Your energy experts

Page 1 of 2

Contact us

Avoid estimated bills when you manage your account online at

britishgas.co.uk/bill

Or for enquiries call us on

0800 048 0101

Mon - Fri, 8am - 8pm; Sat, 8am - 6pm.

Please have your meter reading handy



Your gas statement - actual

Customer reference number

Statement date:

20 July 2009

Statement period:

18 Apr 09 - 18 Jul 09

You're on Fixed Price 2011

Before this statement

| | |
|--------------------------------|---------------------|
| Balance of your last statement | £519.67 in debit |
|--------------------------------|---------------------|

This statement

| | |
|-------------------------|---------------------|
| Balance brought forward | £519.67 in debit |
|-------------------------|---------------------|

| | |
|---------------|---------|
| What you paid | £591.00 |
|---------------|---------|

| | |
|-----------------------------|---------|
| Gas you've used this period | £200.07 |
|-----------------------------|---------|

| | |
|-----------|--------|
| VAT at 5% | £10.00 |
|-----------|--------|

| | |
|---------------------------------|----------------------------|
| Your new account balance | £138.74 in debit |
|---------------------------------|----------------------------|

For further details please turn over →

Message board

Terms and Conditions

We have made some changes to our terms and conditions for supplying your energy. For a copy, call 0800 048 0101 or go to britishgas.co.uk/terms

Peace of mind for your gas prices

By signing up to Fixed Price 2011, you have certainty over your gas prices. We hope you'll continue to enjoy the peace of mind knowing that despite the continued volatility in the energy market, your prices will stay the same until 30 September 2011.

What next?

Your next payment will be taken out on or within 3 days of 1 Sep 2009.

What you paid - thank you

| | | |
|-----------------------|-------------|----------------|
| Direct Debit | 28 Apr 2009 | £197.00 |
| Direct Debit | 27 May 2009 | £197.00 |
| Direct Debit | 26 Jun 2009 | £197.00 |
| Total payments | | £591.00 |

Gas you've used this period

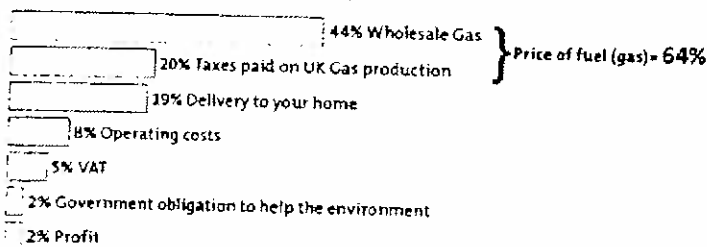
Meter number:

| | | |
|---|------|--------------------|
| 18 Apr 09 - actual | 4145 | We read your meter |
| 18 Jul 09 - actual | 4295 | We read your meter |
| = 150 imperial units used over 92 days (actual) | | |
| Gas units converted = 4770.35 kWh used over 92 days | | |
| First 676.00 kWh x 7.259p | | £49.07 |
| Next 4094.35 kWh x 3.688p | | £151.00 |
| Total cost of gas used | | £200.07 |

Gas units are converted to Kilowatt hours using the following formula:

| imperial units used | metric conversion factor | calorific value | volume correction | to convert to kWh | gas used in kWh |
|---------------------|--------------------------|-----------------|-------------------|-------------------|-----------------|
| 150 | x 2.83 | x 39.5597 | x 1.0226400 | + 3.6 | = 4770.35 |

The cost of your gas isn't just the price of fuel**



**Above example based on industry average consumption of 20,500 kWh per year, based on average regional prices. Costs are indicative as at February 2009

Other contact details

Write to British Gas PO BOX 3055, Eastbourne BN21 9FE

All Central heating enquires: 0845 950 0400

Emergency? Smell gas?

Call 0800 111 999 (24 hours)

To find the name and address of the company responsible for the gas pipeline delivery network to your home, please call 08701 600 229 (lines open Mon-Fri 8am to 9pm, excluding Bank Holidays).

Your gas meter point reference number

Eastern Pricing Area.

G45 Accuread read your meter.

Complaint relating to your energy account?

Step 1 Please contact us on 0800 072 8631, go to www.britishgas.co.uk/mycomplaint, or write to British Gas Customer Solutions Team, PO BOX 3054, Eastbourne BN21 9FD. We will do all we can to resolve your issue straight away

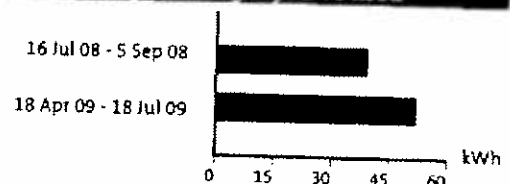
Step 2 If you remain dissatisfied, please write to: Adele Barker, Customer Service Director, British Gas, PO BOX 3054, Eastbourne BN21 9FD.

If following steps 1 and 2 you are still dissatisfied you may contact the Energy Ombudsman on 0845 055 0760 (Textphone 18001 0845 051 1513), or via www.energy-ombudsman.org.uk. The Ombudsman offers a free, independent service where customer and supplier cannot reach final resolution. Their final decision is binding on the energy supplier, not the customer.

Advice?

Consumer Direct, the Government's helpline for consumer advice, offers clear, practical and impartial help and advice. You can call on 08454 04 05 06 or go to www.consumerdirect.gov.uk.

Daily average of the gas you've used



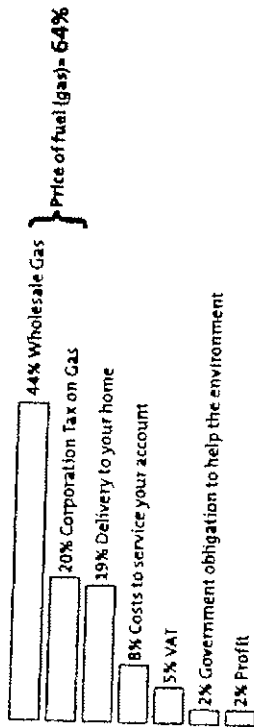
The above includes estimated readings

To get a large print, talking or braille bill or to join our Home Energy Care register call 0800 072 8625 (Textphone 18001 0800 072 8626)

British Gas Trading Limited Registered in England No. 3078711. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. VAT Registration Number 684 9667 62. Bill date & tax point 20 Jul 2009

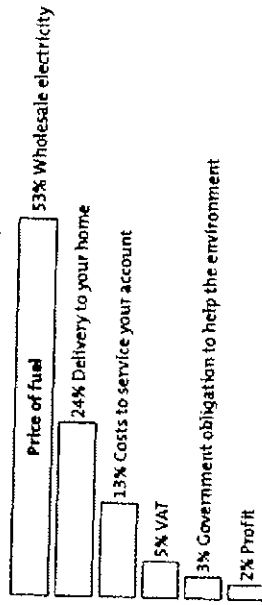
*Call free from BT Calling Plan. Mobiles and other providers' charges may vary. Your calls may be monitored and/or recorded for quality and compliance purposes.

The cost of gas isn't just the price of fuel**



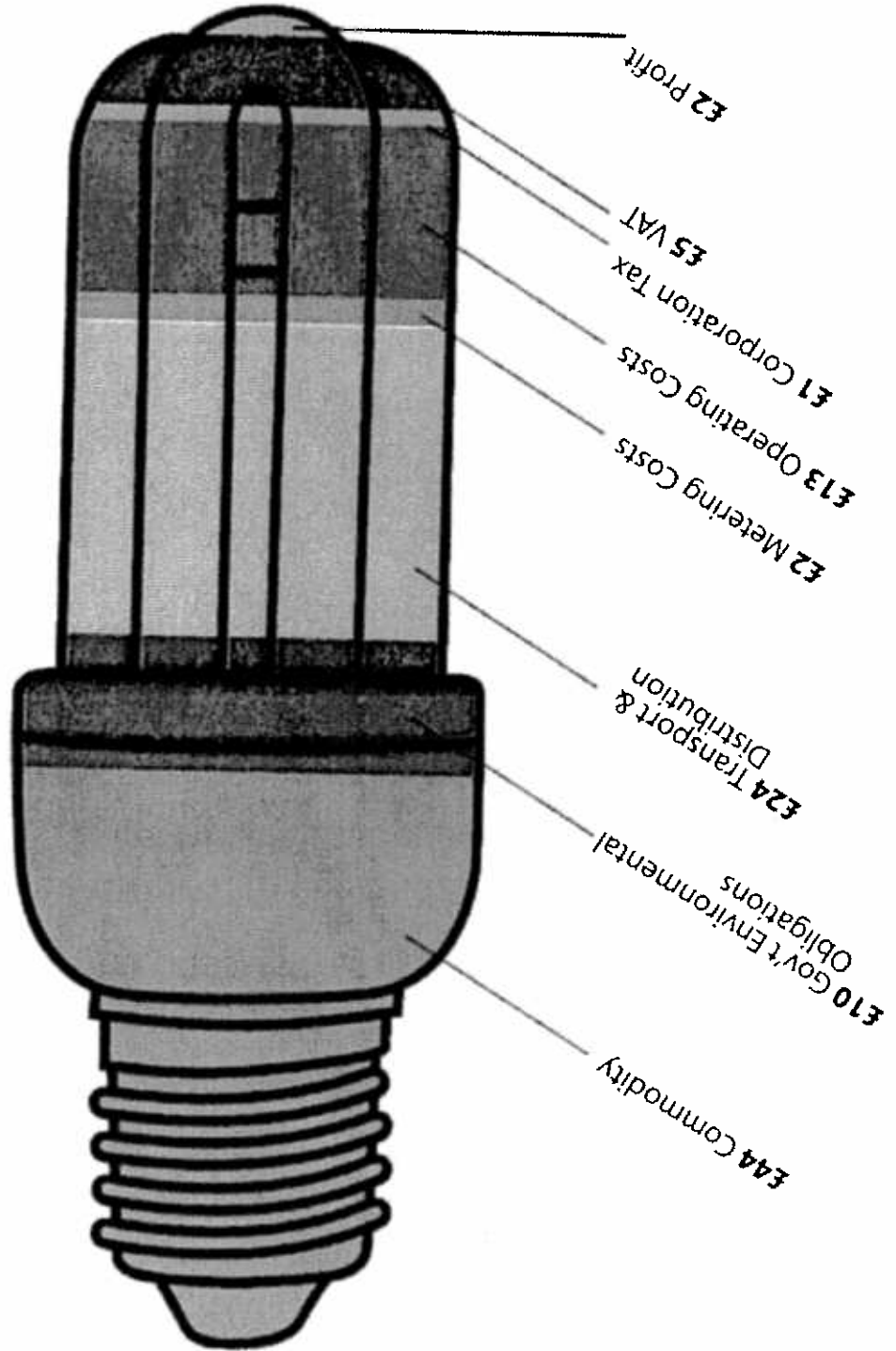
**Above example based on industry average consumption of 20,500 kWh per year, based on average regional prices. Costs are indicative as at February 2009.

The cost of electricity isn't just the price of fuel**

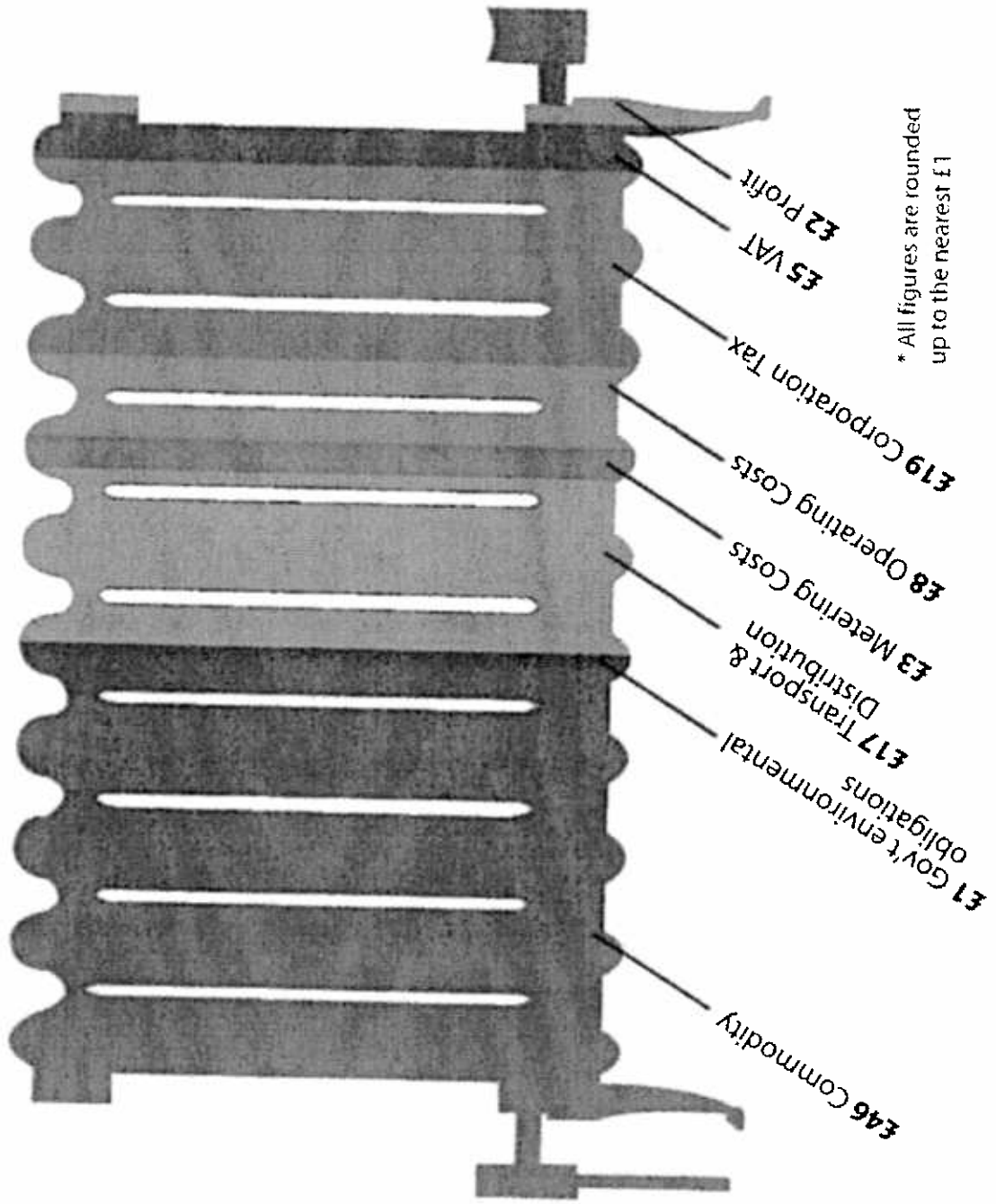


**Above example based on industry average consumption of 3,300 kWh per year, based on average regional prices. Costs are indicative as at February 2009.

What makes up every £100 of the average electricity bill?



What makes up every £100 of the average gas bill?





BRITISH GAS BOSS PHIL BENTLEY EXPLAINS WHY GIANT FIRM'S SUCCESS IS VITAL FOR THE COUNTRY

RIGHT now Britain needs strong, successful companies more than ever. Companies that create jobs, invest in Britain and help our economy by paying tax - rather than needing a bail-out from taxpayers.

And we especially need good energy companies that can make sure we have the power to keep the lights on and the country working in the future.

I know the army of four million Mirror readers may have heard about the profits British Gas made in the first half of this year.

Like them, I grew up with British Gas. It was - and still is - one of the great British institutions that prospered on its long-term business terms.

I've proved to be leading British Gas today. Because we're making just enough to do the things that are really important to us: giving our customers low prices, creating new, skilled jobs and making sure that when North Sea oil runs out we have the energy that Britain will need in the future.

I talk to British Gas customers every day and I recognise that times are tough for hard-working families in Britain right now. So I understand that Mirror readers will want to know about their fuel bills and what we're doing with our profits to help them and the country.

I know the numbers look huge but at British Gas, we make just over £2 per household account each month - and we're doing a massive amount with it.

CHEAPEST

This year, we were the first to cut gas prices. We reduced our prices while it was still winter, and our oil is still the biggest of any supplier this year. We're also cut electricity prices by 10p and we're now the cheapest supplier, on average, of electricity right across the country.

Already this year we have helped more than a million hard-pressed families who are vulnerable or who have low incomes with special tariffs, energy-saving advice and help to speed their bills.

In the next year we have spent £100 million supporting our customers in need. And we're working with the Government and our many charity partners.

Such as Help the Aged and Save the Children, to help people get the benefits they need. In this country more than 10 million of people get unpaid each year. We're also helped more than two million homes save up to £100 each year through our energy savings experts. And we're creating skilled, permanent jobs in Britain.

We've announced this year our plans for more than 3,000 new roles to help make our customers' homes more energy efficient by installing smart technologies of the future and giving cost-cutting advice.

And you know for example that British Gas is spending £1 billion in the next three years making our homes safer, energy efficient? And it's already making 2,000 gas boiler new save about 200,000 tons of CO2 they did a year ago. Last month, I welcomed the Prime Minister Gordon

Yes, times are tough but we're investing profits in the future of Britain

We make just over £2 per account each month and we're doing a huge amount with it



CUTTING BELLS USING A SMART METER

Brown to the opening of our new training academy in Luton where we will train up to 500 engineers every year - and we have four offices around the country doing the same thing.

We have the country's biggest smart meter trial with more than 25,000 homes and businesses already benefiting from smart meters, which help people take advantage of off-peak energy rates and take control of the amount of energy they use. We have ambitious plans to help many more people with smart meters this year.

But it's no secret that Britain is facing an energy crunch in the near future. Our North Sea gas is running out. The cost of generating energy with renewable technologies like wind farms is very expensive. And we don't want to have to rely on imported gas from other countries - especially those that are unstable and unreliable.

Experts reckon our country needs to invest almost £20 billion by 2020 to make sure we have the energy we need in the future to keep our homes and businesses working.

This investment can only come from energy companies. The Government doesn't have the money to invest in what the country needs in the future.

CLEAN

At British Gas, we are investing £1 billion this year alone. We have built the world's largest offshore wind farm near the coast of Scotland, and we're building the country's first new gas-fired power station for 10 years, down in Plymouth. We are also working to secure gas contracts with other countries who can supply us with gas in the future.

And together with our parent company, we've got 1 billion in net cash - giving us more than any other company listed on the London Stock Exchange - contributing to the country's finances in a time when it's sorely needed.

That's British Gas - and in the midst of our foreign-currency temperatures, we're proud to be British and be investing in Britain.

I know that, in these difficult times, it's hard to hear about companies making big profits. But at British Gas we're making the right kind of profit that Britain needs. We're balancing our three priorities: keeping our prices low, creating jobs in energy efficiency, and investing in new sources of energy for Britain.

And that's why nearly 10,000 more homes have chosen British Gas since the start of the year.

I hope that Mirror readers will support us and our 28,000 strong workforce in making the right investment for Britain's future, and recognise that today British needs successful British companies more than ever before.

COMMENT

By ANDREW HARROP of Age Concern

What you paid - thank you

| | | |
|-----------------------|------------|---------------|
| Direct Debit | 7 May 2009 | £33.00 |
| Direct Debit | 9 Jun 2009 | £33.00 |
| Direct Debit | 8 Jul 2009 | £33.00 |
| Total payments | | £99.00 |

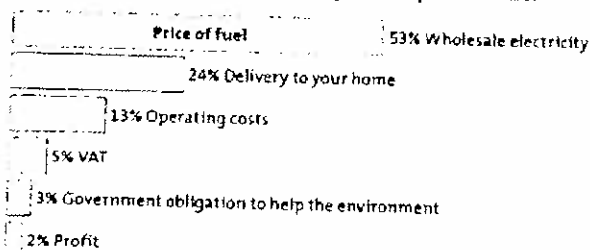
Electricity you've used this period

Meter number:

| | | |
|---|-------|--------------------|
| 22 Apr 09 - actual | 17678 | We read your meter |
| 18 Jul 09 - actual | 18733 | We read your meter |
| = 1055.00 kWh used over 88 days (actual) | | |
| First 217 kWh x 11.175p | | £24.25 |
| Next 838 kWh x 6.553p | | £54.91 |
| Total cost of electricity used | | £79.16 |

One unit of electricity used = 1 kilowatt hour (kWh)

The cost of your electricity isn't just the price of fuel**



**Above example based on industry average consumption of 3,100 kWh per year, based on average regional prices. Costs are indicative as at February 2009.

Other contact details

Write to British Gas PO BOX 3055, Eastbourne BN21 9FE

All Central heating enquiries: 0845 950 0400

Electrical emergency or power cut?

Call 0800 783 8838 (24 hours)

The company responsible for the electricity supply delivery network is EDF Energy Networks, Fore Hamlet, Ipswich, Suffolk, IP3 8AQ.

Your electricity supply number

S

Eastern Pricing Area.
Siemens read your meter.

Complaint relating to your energy account?

Step 1 Please contact us on 0800 072 8631, go to www.britishgas.co.uk/mycomplaint, or write to British Gas Customer Solutions Team, PO BOX 3054, Eastbourne BN21 9FD. We will do all we can to resolve your issue straight away.

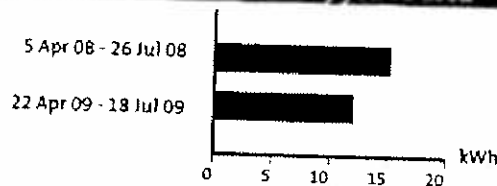
Step 2 If you remain dissatisfied, please write to: Adele Barker, Customer Service Director, British Gas, PO BOX 3054, Eastbourne BN21 9FD.

If following steps 1 and 2 you are still dissatisfied you may contact the Energy Ombudsman on 0845 055 0760 (Textphone 18001 0845 051 1513), or via www.energy-ombudsman.org.uk. The Ombudsman offers a free, independent service where customer and supplier cannot reach final resolution. Their final decision is binding on the energy supplier, not the customer.

Advice?

Consumer Direct, the Government's helpline for consumer advice, offers clear, practical and impartial help and advice. You can call on 08454 04 05 06 or go to www.consumerdirect.gov.uk.

Daily average of the electricity you've used



The above includes estimated readings.

TCB0006 109

To get a large print, talking or braille bill or to join our Home Energy Care register call 0800 072 8625 (Textphone 18001 0800 072 8626)

British Gas Trading Limited Registered in England No. 3078711 Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD VAT Registration Number 684 9667 62. Bill date & tax point 20 Jul 2009

*Call free from BT Calling Plan. Mobiles and other providers' charges may vary. Your calls may be monitored and/or recorded for quality and compliance purposes.