

Sam Laidlaw
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Dermot Nolan
Chief Executive
Office of Gas and Electricity Markets
9 Millbank
London
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Dear Dermot,

At Centrica, we recognise that affordability has become a key concern for customers. Trust in energy suppliers is low, driven to a large extent by increasing prices. So Ofgem's proposal to make a market investigation reference comes at a pivotal time.

Political and regulatory uncertainty has heightened investment risk, just when major investments are needed to secure efficient energy supplies for the future. Unless a normal investment climate is restored, new entrants may be deterred, to the detriment of consumers over the longer term.

At the same time, the retail market is on the cusp of major change, driven by innovation like smart meters, which are transforming customers' engagement with energy. Smart metering should radically increase levels of customer engagement, and wider initiatives to reduce switching times by the end of 2014 will also have a positive impact on customer engagement. With over 1 million smart meters installed, British Gas is leading from the front in driving forward innovation and change in the market.

In this context, a market investigation reference will be helpful in restoring market confidence both for consumers and investors. Centrica therefore welcomes the proposal to make a market investigation reference, and is absolutely committed to engaging positively and proactively with the Competition and Markets Authority's process.

However, of crucial importance is the scope of the investigation. It must take account of all the factors driving retail prices – including the impact of commodity costs, network charges and government policy costs on bills.

I recognise that an investigation may not examine why network charges and the cost of government, environmental and social policies are increasing, nor whether these increases are justified. For this reason, Centrica would like to encourage a wider debate over these trends and the impact they have on consumers. This could begin now, rather than wait for the outcome of any market investigation. To that end we would urge Ofgem to publish in an open, audited and transparent manner, the actual and projected costs of government policies, and their impact on household and business energy bills.

We would also hope that the investigation itself will deliver clear and objective measures of success. Confidence in the sector, and engagement more widely, is more likely to happen if consumers, and other stakeholders, have a clear understanding of what defines a successful market.

Centrica believes that competition in the energy market continues to deliver benefits for consumers. Competition between suppliers is fierce, and year after year has delivered some of the lowest retail energy prices in the European Union. The establishment of smaller suppliers as a competitive force in the market has added to this dynamic.

In summary, Centrica believes that the proposed market investigation reference can be a positive step forwards for the market, and for our customers. In welcoming the investigation, we hope that:

- the scope of the reference will be sufficiently wide to address all issues that affect competition and consumer behaviour in the market;
- full recognition is made of the importance for competition of innovation and change in today's energy markets; and
- the outcome of the investigation provides certainty, enabling investment and consumer confidence to return to the sector.

I attach a copy of Centrica's full consultation document, which we are submitting today.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sam Laidlaw'.

Sam Laidlaw
Chief Executive, Centrica plc.