

Price gouging: AGL and Origin

Are you being ripped off?

AGL and Origin Energy charge consumers much more than large businesses and beyond any price differential that can be justified by differences in supply costs.

Discussion paper

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Summary

In this paper we have presented evidence that points to price gouging on the part of energy companies, AGL and Origin Energy, on their retail operations. The price gouging, or price discrimination, by the energy companies results in a massive cross-subsidisation from consumers to business.

The average AGL electricity consumer contributes \$755 to AGL's annual profit while at Origin the comparable figure is \$595. The Federal Government's \$300 electricity subsidy barely makes up for half of Origin's rip off and just 40% of AGL's rip off.

AGL charges electricity consumers more than twice what it charges businesses, while businesses only pay \$183.3/MWh, consumers pay \$377.1/MWh. At most only about a third of this difference (\$70.9/MWh) is warranted by the difference in network costs. On its retail sales, AGL makes profit (pre-tax and interest) of \$132.8/MWh from consumers—35% of the retail price. By comparison pre-tax profit is only \$9.9/MWh on business sales.

Origin's consumer charges for electricity are \$343.3/MWh, somewhat lower than AGL's but still over twice what they charge business (\$167.3/MWh). The result is that profit on sales to consumers is \$100.9/MWh compared to a small loss on sales to business. In addition to contributing massively to Origin's profit, electricity customers are subsidising Origin's business customers.

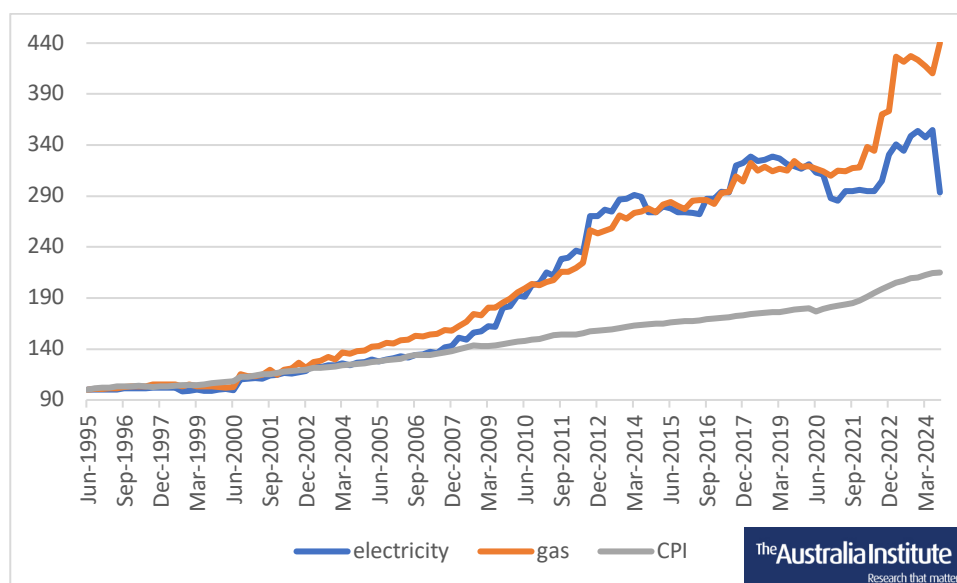
The picture is similar with respect to gas; AGL charges consumers three times what businesses are charged. While consumers pay \$38.1/GJ, businesses only pay \$11.9/GJ. The difference in network costs for consumers and business is large but not enough to explain the difference, meaning AGL profits are \$13.9/GJ for consumers while appearing to make a small loss on sales to business. Origin's gas charges show a similar pattern with consumer prices being 2.5 times business prices. Origin's retail profit appears to be \$14.5/GJ for consumers and just \$1.0/GJ for business.

AGL's consumer markets segment, which includes both electricity and gas, appears to be generating a return on their net assets of over 100% per annum. These figures suggest AGL and Origin are ripping off Australian consumers through price gouging.

Introduction

Power bills have contributed to the cost-of-living crisis. Figure 1 shows gas and electricity prices relative to the general price level as measured by the consumer price index (CPI).¹ Power prices increased relative to other prices soon after privatisations began in the mid to late 1990s. Australia Institute reports have examined how high prices are a result of privatisation leading to inappropriate private oligopolies and waste.²

Figure 1: Gas and electricity price indices relative to the CPI, June 1995 = 100



Source: Author's calculations based on ABS (2024) *Consumer Price Index, Australia, September Quarter 2024*, 30 October.

Electricity prices are subsidised under various Federal and State Government schemes.³ Figure 1 shows that, from June 1995 to June 2024 (before the electricity subsidy came into effect) electricity prices increased 2.2 times as fast as the overall price (CPI) level.

¹ In addition to the overall price level as given by the CPI, the ABS provides price index data for domestic electricity and gas purchases.

² Richardson D (2013) *Electricity and privatization: What happened to those promises? Technical Brief No 22* at <https://australiainstitute.org.au/wp-content/uploads/2020/12/TB-22-Electricity-and-privatisation.pdf>, Richardson D (2017) *Electricity costs: Preliminary results showing how privatization went seriously wrong, Discussion Paper* at <https://australiainstitute.org.au/wp-content/uploads/2020/12/P415-Electricity-costs.pdf> and Richardson D (2019) *The Costs of Market Experiments: Electricity Consumers Pay the Price for Competition, Privatisation, Corporatisation and Marketization, Discussion Paper* at <https://australiainstitute.org.au/wp-content/uploads/2020/12/P470-Electricity-Consumers-Pay-the-Price-WEB.pdf>.

³ ABS (2024) *Consumer Price Index, Australia, September Quarter 2024*, 30 October at <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release>.

Meanwhile, from June 1995 to September 2024 gas prices increased 3.0 times the rate of overall inflation (CPI). Though electricity prices fell in September 2024, they are expected to return to their upward trend when the subsidies finish. Various commentators allege price gouging by electricity and gas providers, including the Fels Report to the Australian Council of Trade Unions (ACTU) on price gouging.⁴

The analysis here is based on the annual reports of the two main retail companies, AGL⁵ and Origin Energy.⁶ Both companies seem to avoid genuine estimates of the profits they derive from electricity and gas sales to consumers. However, these companies provide enough data to construct an independent profit estimate for both AGL and Origin and for their consumer electricity and gas retail operations. It must be stressed that we only consider the profit on retail operations, our figures do not include any profit on the generation of electricity, or the supply of fuel or wholesale operations in gas. Nor do we examine the profits being realised in the transmission and distribution of electricity and gas.

⁴ *Inquiry into price gouging and unfair pricing practices, Final Report to the ACTU* (Chair Allan Fels), February 2024 at https://www.actu.org.au/wp-content/uploads/2024/02/InquiryIntoPriceGouging_Report_web9-1.pdf.

⁵ AGL Energy Limited (2024) *Annual Report* at <https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/investors/2024/240814-2024--annual-report.pdf>.

⁶ Origin Energy Limited (2024) *Annual Report* at https://www.originenergy.com.au/wp-content/uploads/2024/05/Origin_2024_Annual_Report-1.pdf

Electricity prices

The Fels Report to the ACTU reported:

While electricity is a homogenous product that defies differentiation, the terms on which it is made available for sale are a case study in obfuscation.⁷

The electricity market in every state and territory but WA is dominated by AGL, Origin Energy and EnergyAustralia. These companies stand accused by Fels of everything from “inappropriate door-to-door marketing activities”, to loyalty penalties, discrimination in favour of businesses and of course “obfuscation”. These patterns of behaviour reflect the concentrated nature of the electricity industry.

AGL ELECTRICITY COSTS

AGL’s annual report gives some detail for its sales of electricity to customers, both consumers and larger businesses.⁸ Figure 2 examines the AGL report for the prices and costs that make up the final prices for consumers and large business. The total price for consumer customers is very much higher, over double, the price for big business. Consumers pay \$377.10 per megawatt hour (MWh) compared with \$183.30/MWh for big business.⁹

Making up the final prices to customers are various costs. Starting from the bottom there are ‘network costs’, these are the charges AGL faces for the poles and wires that go between the generator and the final customer. The poles and wires are operated by transmission and distribution companies. These have notably different costs for consumers and business and can be used to justify some of the difference between the prices charged to consumers and business. After network costs, there are a number of other categories of costs for which AGL does not distinguish between consumer markets and business. These costs include fuel and generation costs. We can assume these costs are common to a unit of electricity no matter where it ends up, it does not cost more to generate electricity for consumers than for businesses. Next there are a collection of costs simply referred to as “other”. These costs are also similar for consumer and business customers. Following that, there are depreciation and amortisation expenses.

⁷ ACTU, *Inquiry into price gouging and unfair pricing practices, Final Report* (Chair Allan Fels), February 2024.

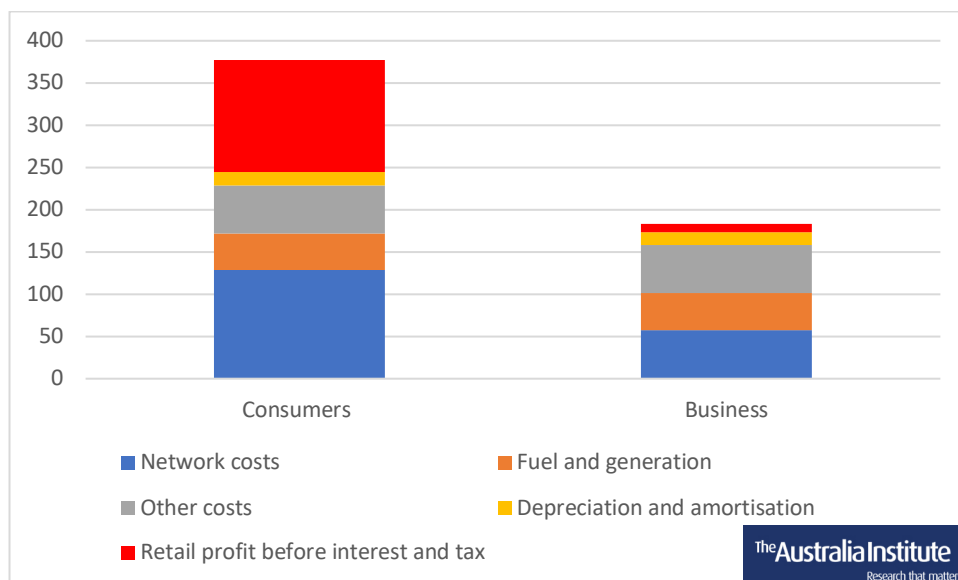
⁸ We assume small and unincorporated business are included with consumer customers.

⁹ Note that these prices do not include GST.

Among “other costs” are the costs of advertising to you. The annual report refers to “increased campaigns and advertising activity”¹⁰ as one of the cost drivers. Outlays on campaigns and advertising were \$125 million in 2023-24. Companies are waging an expensive war to encourage you to buy exactly the same thing from them and not a competitor—but it all goes onto the costs which are passed on to consumers. Also included in other costs are the actual costs of billing customers. The billing of customers and advertising to them are almost the only activities undertaken by AGL’s retail operations.¹¹

We eventually reach the final item, “retail profit before interest and tax”. This item is dramatically different for consumer and business customers. Figure 2 shows operating profits of \$132.80/MWh for consumers versus just \$9.9/MWh for large business. Profit per unit of electricity is 13.4 times higher for consumers than business.

Figure 2: AGL: Electricity costs for consumers and business \$/MWh



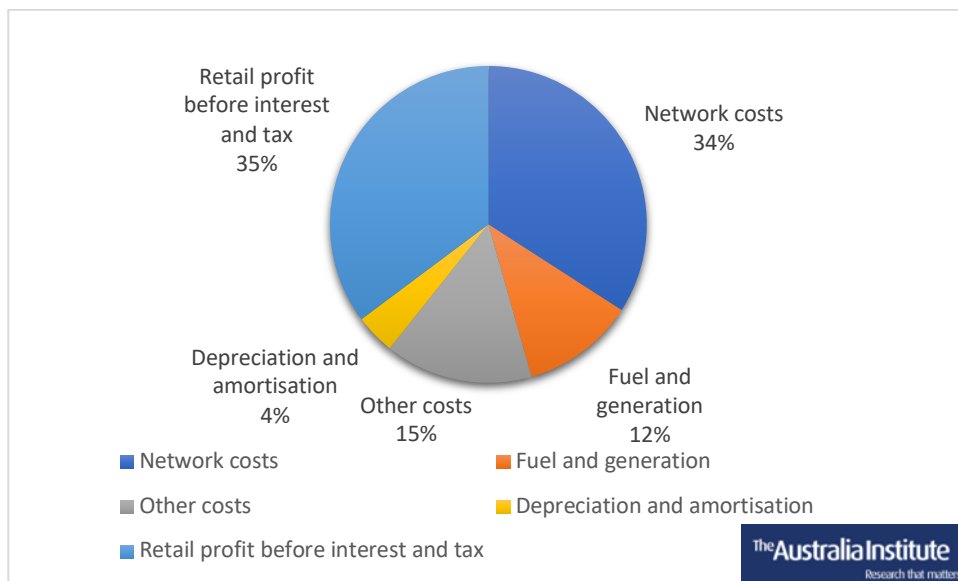
Source: Author’s calculations based on AGL Annual Report, 2024.

For consumers, just over a third of what they pay is profit at the retail level. A breakdown of what consumer customer electricity bills cover is visualised in Figure 3.

¹⁰ AGL (2024) *Annual Report, 2024*, <https://www.agl.com.au/content/dam/digital/agl/documents/about-agl/investors/2024/240814-2024--annual-report.pdf>, p 25.

¹¹ The references in footnote 2 go into that and other examples of waste and duplication following privatisation.

Figure 3: Decomposition of the price of electricity for consumer customers of AGL



Source: Author's calculations based on AGL Annual Report 2024.

The largest items are network costs at just over a third (34%) of the price; profits are fractionally higher at 35%.

Fuel and generation costs are the basic costs of making electricity and are just 12% of the final price to consumers. Electricity providers tend to blame fuel costs, especially gas, for high prices, but fuel and generation costs for AGL were only \$43.4/MWh in a final price of \$377.1/MWh. The other costs refer to the costs of running a billing organization and there is a small amount for depreciation and amortization, basically putting aside funds to deal with the wear and tear on plant and equipment.

Whether we look at Figure 2 or 3, it is profit on sales to consumers that dominates the price consumers pay. Converting that from a per unit basis to examine total pre-tax profit on consumers, gives a figure of \$1,838 million in 2023-24. For customer markets, the segment's assets were \$2,865 million and liabilities \$772 million for a net asset value of \$2,093 million.¹² Customer markets include gas and for gas, as we will see below, profit before tax and interest is \$642 million. While the figures are not strictly comparable it suggests the pre-tax profit from customers is well over 100% of the net assets employed in the customer segment.

ORIGIN ENERGY'S ELECTRICITY COSTS

Origin's figures are similar to those of AGL. That is to be expected in an oligopolistic market. However, in the case of Origin Energy, we do not have as much information so the

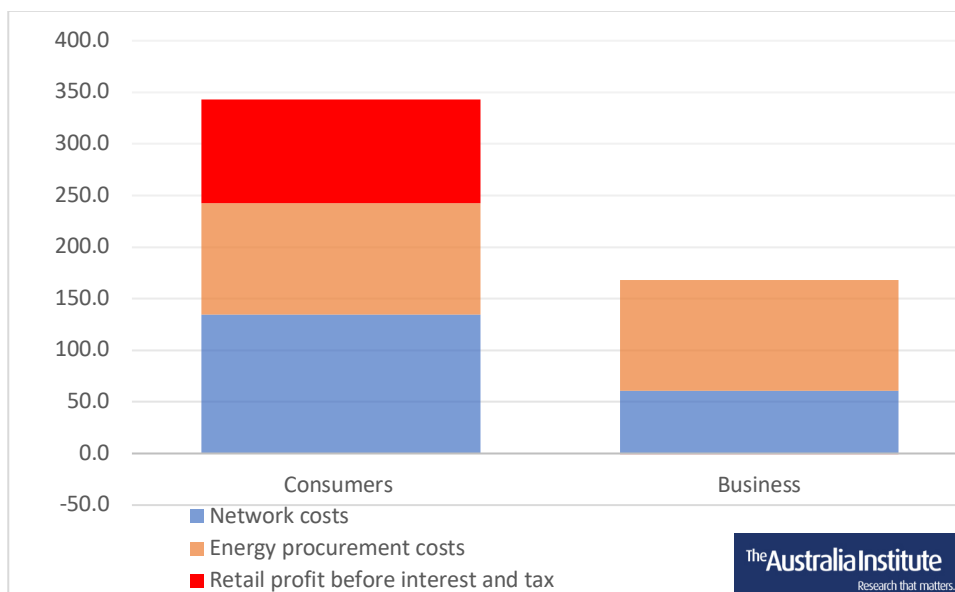
¹² AGL (2024) *Annual Report 2024*, p. 58.

equivalent of Figure 2 is less detailed. In Figure 4, we examine the Origin annual report for the prices and costs that make up the final prices for consumers and large business. As with AGL, the total price for consumer customers is much higher, over double the price for business. Consumers pay \$343.3 per megawatt hour (MWh) compared with \$167.30/MWh for big business.¹³

Starting from the bottom we first come across network costs, the charges Origin faces for the poles and wires services that go between the generator and the final customer. The poles and wires are operated by transmission and distribution companies. These costs are notably different for consumers and business (\$134.9/MWh v \$60.5/MWh) and justifies some difference between the charges to consumers and business. After network costs, Origin includes all other costs together as energy procurement costs which appear to be the same for consumers and business.

In Figure 4, “retail profit before interest and tax” is again shown in red. This is dramatically different for consumer and business customers. For Origin there is a profit of \$100.9/MWh for consumer customers versus a small loss, minus \$0.7/MWh for business.

Figure 4: Origin Energy: Electricity costs for consumers and business \$/MWh



Source: Author’s calculations based on Origin Energy Annual Report 2024.

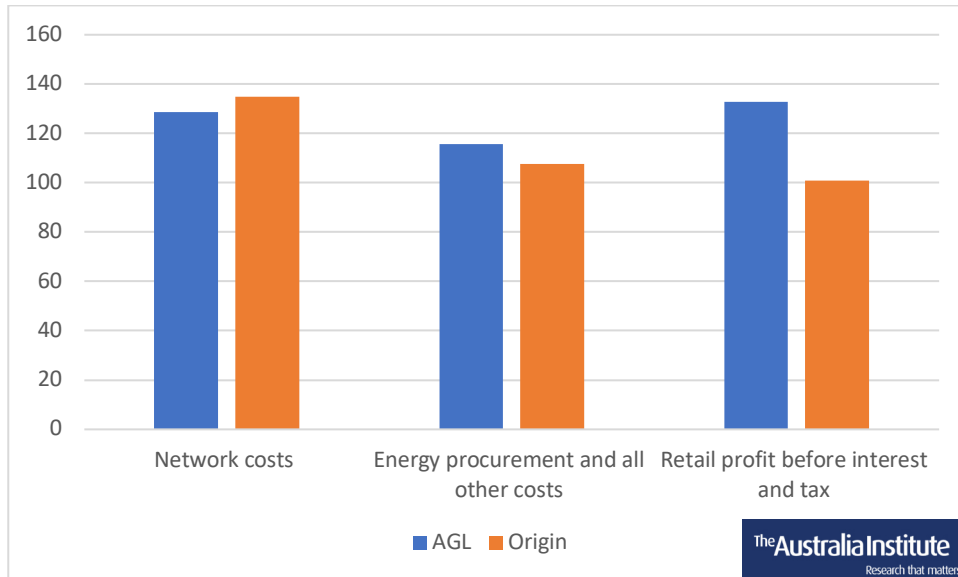
We can see from Figure 4 that profit is a significant proportion of sales to consumers but a very small and negative figure for business.

¹³ Note that these prices do not include GST.

COMPARING AGL AND ORIGIN

One of the main differences in the data for AGL and Origin is the higher consumer price charged by AGL which averages \$377.1/MWh compared with \$343.3/MWh for Origin. In Figure 5 we compare the elements that go into those different prices.

Figure 5: AGL and Origin costs and profit on electricity consumers compared, \$/MWh.



Source: Figures 2 and 4

In Figure 5, AGL is cheaper on network costs, but Origin is cheaper on all other costs. Those two roughly offset each other and the difference in what the consumer pays is almost totally accounted for by the higher AGL profit.

We can work out what our results mean for the consumer's annual electricity bill. In the case of AGL, annual consumer sales were 13,838 GWh in 2023-24 and there were 2,434,000 customers, so the average consumption was 5.69 MWh. The estimate for profit (\$132.8/MWh) implies profit of \$755 per customer. This data is presented in Table 1 along with the similar calculations for Origin.

Table 1: AGL and Origin compared: Retail profit per electricity customer.

	AGL	Origin
Customers	2,434,000	2,763,000
Sales to customers GWh	13,838	16,300
Average sales per customer MWh	5.69	5.90
Retail profit \$/MWh	132.80	100.90
Retail profit per customer \$/year	755.01	595.25

Source: Author's calculations based on AGL and Origin Annual Reports 2024.

These calculations for retail profit per electricity customer show that the annual charge is very high for consumers. Indeed, the size of this rip off exceeds the Federal Government's

\$300 subsidy for electricity consumers which is expected to cost taxpayers \$3.5 billion over the forward estimates.¹⁴ That total includes small businesses, however, it indicates the orders of magnitude of the amount that could have been saved by tackling price gouging directly to achieve an equivalent reduction in retail prices.

¹⁴ Australian Government (2024) "Budget measures: Budget paper no 2", *2024-25 Budget* at https://budget.gov.au/content/bp2/download/bp2_2024-25.pdf

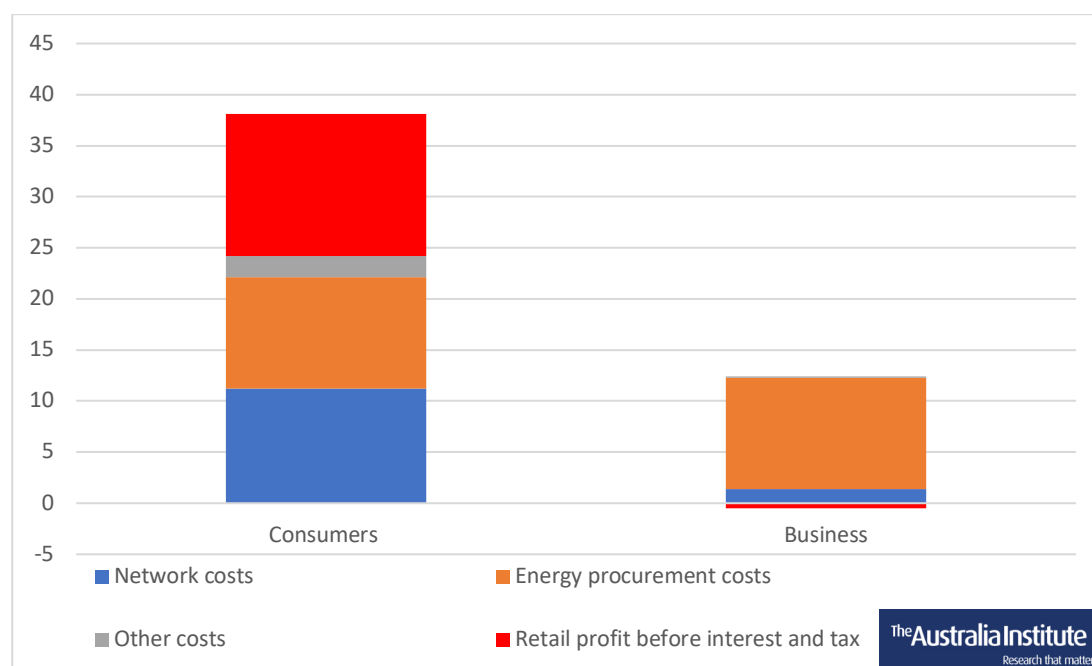
Gas prices

AGL AND GAS

In this section we examine the makeup of the AGL retail gas price in the same way we examined the electricity price. The results are summarised in Figure 6. All units are in Gigajoules (GJ) which is a unit used for measuring the energy content of gas.

The first thing that strikes us in Figure 6 is the dramatic difference between the charges for consumers as opposed to business. Consumers paid \$38.1/GJ versus \$11.9/GJ for business. The charge on consumers is higher than business by a factor of 3.2. Businesses are paying less than a third of the amount consumers pay for the same volume of gas. The graph in Figure 6 uses AGL's figures for network costs. These are very different, with network costs \$11.2/GJ for consumers and only \$1.4/GJ for business. Energy procurement costs are the same for consumers and business at \$10.9/GJ, presumably reflecting the state of the gas market in 2023-24.¹⁵

Figure 6: AGL: Gas costs for consumers and business, \$/GJ



Source: Author's calculations based on AGL Annual Report 2024.

In Figure 6, retail profit before interest and tax is calculated as a residual, the price received less the expenses. Profit coming from consumers is dramatically higher than that coming

¹⁵ ACCC gives a similar figure as the average wholesale price in 2023-24. See ACCC (2024) *Gas Inquiry 2017-2030*, June.

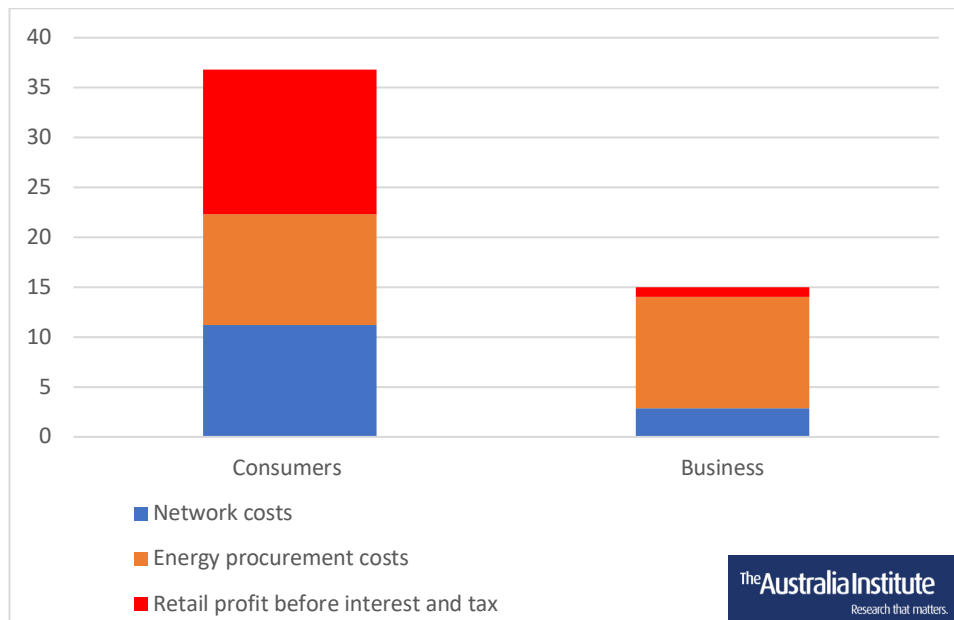
from business sales. Indeed, the figures suggest there is a loss of \$0.5/GJ on sales to business versus a profit of \$13.9/GJ on consumer sales.

AGL sells 46,200GJ to consumer customers and so we estimate the total profit, pre-tax and interest, is \$642 million on gas sales to consumers.

ORIGIN AND GAS

In the case of Origin’s gas, we follow the same procedure as with AGL however, as mentioned before, there is somewhat less detail. A particular concern is that Origin gives an average network cost of \$4.9/GJ for both consumers and business. To use that figure would amount to assuming reticulation costs are the same for consumers and large business. To adjust for that, the present estimates have used artificial figures for the network costs based on AGL’s costs. It is assumed that, for consumers, the network cost is the same per GJ as AGL. To be consistent with the weighted average cost of \$4.9/GJ, we calculate the price must be \$2.9/GJ for business. Those are the figures that are shown in Figure 7. Figure 7 also includes Origin’s figure for “energy procurement costs” of \$11.1/GJ. This is very close to AGL’s figure of \$10.9/GJ. Other costs have not been provided by Origin and so we assume they would have been included in network and energy procurement costs.

Figure 7: Origin: Gas costs for consumers and business, \$/GJ



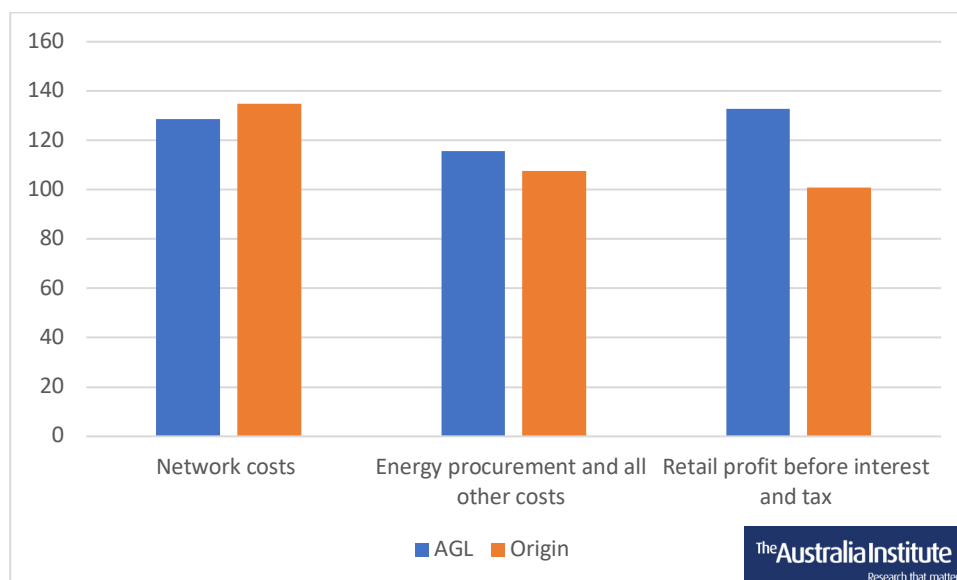
Source: Author’s calculations based on Origin Energy Annual Report 2024.

Figure 7 looks similar to AGL’s pattern in Figure 6. The price to consumers is \$36.8/GJ and just \$15.0/GJ for business, consumer prices are 2.5 times business prices. Some of the difference is due to the different network costs we have assumed. On those assumptions Origin make a profit, pre-tax and interest, of \$14.5/GJ for consumers and \$1/GJ for business.

COMPARING AGL AND ORIGIN

We can compare AGL and Origin on gas prices based on the data behind Figures 6 and 7. However, to make them comparable we have to collapse the energy procurement and other costs into one category “procurement and other costs”. The results are shown in Figure 8.

Figure 8: Gas: AGL and Origin costs and profit on consumers compared, \$/GJ.



Source: Figures 6 and 7.

The graph in Figure 8 reflects different procurement and other costs between AGL and Origin but the retail profit is similar, \$13.9/GJ for AGL and \$14.5/GJ for Origin.

With the data we have we can construct a table for gas similar to Table 1 which compared electricity sales volumes and profits for electricity. The result is given in Table 2.

Table 2: AGL and Origin compared: Retail profit per gas customer.

Sample Table	AGL	Origin
Customers	1,551,000	1,323,000
Sales to customers PJ	46.20	38.10
Average sales per customer GJ	29.79	28.80
Profit \$/GJ	13.90	14.50
Profit per customer \$/year	414.04	417.57

Source: Author’s calculations based on AGL and Origin *Annual Reports 2024*.

Table 2 shows the number of customers and the sales to customers from which we derive the average sales per customer and, given profit per unit, we calculate profit per customer. AGL and Origin are very similar at \$414.04 and \$417.57 respectively.

Conclusion

The big question is whether the above analysis provides evidence of price gouging on the part of the Australian electricity and gas retailers, AGL and Origin. We have presented evidence that points to such a conclusion.

First for electricity, AGL charges consumers more than twice what it charges business at \$377.1/MWh to \$183.3/MWh. At most a difference of \$70.9/MWh is warranted by the difference in network costs. Our calculations show AGL makes pre-tax profit of \$132.8/MWh from consumers versus \$9.9/MWh for business. AGL's profit is 35% of the retail price and almost the only service it provides is billing customers.

Second, Origin's consumer charges for electricity at \$343.3/MWh are somewhat lower than AGL's but are still over twice what they charge business (\$167.3/MWh). Profit on sales to consumers is \$100.9/MWh compared with a small loss on sales to business.

Third, for electricity the average AGL consumer contributes \$755 to AGL's annual profit while at Origin the comparable figure is \$595. The Federal Government's \$300 electricity subsidy barely makes up for half Origin's rip off and just 40% of AGL's rip off.

Fourth, with respect to gas, AGL charges consumers \$38.1/GJ which is a massive three times the charge for business at \$11.9/GJ. The difference in network costs for consumers and business is large but not enough to explain the difference so that the profit is \$13.9/GJ for consumers while AGL appears to make a small loss on sales to business.

Fifth, Origin's gas charges show a similar pattern with consumer prices being 2.5 times business prices. The retail profit appears to be \$14.5/GJ for consumers and just \$1.0/GJ for business. Overall, the average AGL gas customer contributes \$414 a year to AGL's annual profit figure while the comparable figure for Origin is \$418 a year.

Sixth, AGL's consumer markets segment, which includes both electricity and gas, appears to be generating a return on their net assets of over 100% per annum. Origin is likely to be similar. The profit component on consumer sales ranges from 29% for Origin's electricity to 39% for Origin's gas.

It is difficult to avoid the conclusion that AGL and Origin are ripping off Australian consumers through price gouging. There is a lot of activity that lies behind the retail supply of electricity and gas, but it is the retailer that faces the customer and can price gouge.

While there is a consistent theme of rip offs in this discussion, the other theme to emerge is that consumers are heavily subsidising business. High consumer prices allow AGL to make a loss on gas sales to business and Origin to make a loss on electricity sales to business.