Unite Investigates: Profiteering across the energy sector

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1 Foreword by Sharon Graham, Unite General Secretary

People will be flabbergasted by the announcement of the new energy cap. No doubt. And no wonder. But what Unite has established in our new research is that rampant corporate profiteering is at the very heart of soaring energy bills and Ofgem's soaring price cap.

There can be a hundred remedies about what is to be done. Unless we deal with this corporate looting of our energy networks, we will return to square one again and again. Privatisation has ended in tears for almost all of us.

2 Summary: profiteering is fuelling our soaring energy bills

- The "Big 4" energy providers (Centrica, E.ON, EDF and Scottish Power) made combined £9.5 billion profit in 2021, up 84% on 2019.
- The electricity and gas distributors made a combined £6.3 billion in 2021, and both have ongoing operating margins over 40%.
- UK generators have made more than £10 billion in "excess profits" due to spiking electricity prices, according to the Treasury.
- The top 10 global oil and gas companies made £174.5 billion between them in 2021 – up 37% on 2019. Seven top UK North Sea producers made a combined £41.6 billion in 2021, up 50% on 2019.
- There are signs that the scale of such profiteering has increased further in 2022. Centrica, for example, recently announced operating profit for the first 6 months of 2022 of £1.34 billion – over £1 billion more than the year before.
- Our analysis finds that at least 30% of the energy price cap increase over the last year is made up of profit for companies across the energy supply chain.
- The issue runs right through the economy: profit margins for the UK's biggest listed companies were 73% higher than pre-pandemic levels in 2019.

3 Introduction

Rampant corporate profiteering is fuelling the cost-of-living crisis. It is best known in energy, where our soaring electricity and gas bills are feeding corporate hyper-profits: big oil companies like BP and Shell, and energy giants like Centrica, are reporting massive windfalls. Our analysis shows how the world's top 10 oil and gas giants pocketed £174.5 billion between them last year; the UK's Big 4 energy suppliers took £9.5 billion; and the gas and electricity distribution monopolies £6.3 billion.

That is to say that between them, the biggest supplier-generators and distribution monopolies made £15.8 billion last year – if you add in the oil and gas majors this rises to £190 billion. These are the mouths we feed with our fuel bills.

4 Profiteering across the energy supply chain

Household energy bills have hit record levels: regulator Ofgem first doubled its price cap for variable tariff bills to £1,971, before announcing that it would increase to £3,549 in October. One big driver is wholesale energy prices. The wholesale electricity price – the price generators charge for supplying electricity to the grid – jumped nearly 5 times higher over 2021, triggered in turn by a spike in natural gas prices. That has meant windfall profits for oil and gas producers and many generators. But the energy distribution networks, and the biggest retailers, are also cashing in.

Indeed, our analysis finds that at least 30% of the increase in the energy price cap over the last year is made up of profit for companies across the energy supply chain.[1]

- **The "Big 4" energy providers (Centrica, E.ON, EDF and Scottish Power) made combined £9.5 billion profit in 2021, up 84% on 2019.[2]**

Some smaller suppliers have gone bust due to cost increases. But the big 4 energy companies, which are all active in electricity generation as well as retail gas and electricity supply, are profitable and have increased their market share.

Their profit bonanza may be even bigger in 2022. Centrica, the owner of British Gas, recently announced an adjusted operating profit for just the first 6 months of 2022 of £1.34 billion – over £1 billion higher than the year before – and reinstated a dividend worth £59 million. The company's CEO, Chris O'Shea, said it was "the most challenging energy crisis in living memory" – but apparently not for Centrica's shareholders.[3]

E.ON, meanwhile, posted profits of €2.5 billion in the first half of 2022.[4] Earlier in the year, the company's CEO, Michael Lewis, warned that consumers would have to cope with extraordinarily high fuel bills for at least 18 months - presumably to ensure that the company's dividend payments, announced in the same month, could continue.[5]

- **A small number of private companies have been given licensed monopolies to run the electricity and gas distribution systems. These are effectively state-licensed cash machines – the electricity and gas distributors made a combined £6.3 billion in 2021, and both have ongoing operating margins over 40%.[6]**

National Grid plc has a monopoly to run national electricity and gas transmission networks, while regional distribution grids are run by a small number of private companies. Their prices are supposedly controlled by regulator Ofgem – yet, according to analysis by Common Wealth, the gas and electricity distribution operators have been making long-term operating profit margins of over 40%.[7]

Our analysis shows they had an even better year than usual in 2021 – with the gas and electricity distributors recording combined profits of £6.3 billion.[8] The companies pocketing this money include UK Power Networks, owned by CK Hutchison, the family company of Hong Kong billionaire Li Ka-shing; and Northern Powergrid, owned by US billionaire Warren Buffet's Berkshire Hathaway conglomerate.

CK Hutchison is also the owner of Felixstowe port, where Unite members are currently on strike after being offered a real-terms pay cut. UK Power Networks made £493 million in 2021, with a huge 28% net profit margin. While wages are being squeezed and bills are going up, billionaires like Li Ka-shing are raking it in.

- **UK generators have made more than £10 billion in "excess profits" due to spiking electricity prices, according to the Treasury.**[9]

The wholesale electricity price – the rate at which generators sell their energy to the grid – jumped nearly 5 times higher in 2021.[10] This was triggered by increased gas costs: yet gas is responsible for less than 40% of electricity generation, meaning that other generators had a "windfall" as their sales price rose high above costs. UK Treasury officials estimated in May 2022 that UK electricity generators could have made more than £10 billion in “excess profits”.[11]

- **The top 10 global oil and gas companies made £174.5 billion between them in 2021 – up 37% on 2019. Seven top UK North Sea producers made a combined £41.6 billion in 2021, up 50% on 2019.[12]**

Oil and gas production is dominated by a mixture of state-owned giants (e.g., Saudi Aramco and PetroChina) and privately owned multinationals (e.g., BP and Shell). These companies have benefited from windfall profits so large that BP’s CEO recently described the company as a “cash machine”.[13] These profits are being passed on to shareholders in huge dividends and share buybacks. Shell intends to spend an astonishing £6.3 billion on share buybacks for its shareholders in 2022.[14]

Asked about the stark contrast between the size of such pay-outs and the rising bills faced by households, Shell’s CEO evades any responsibility, saying just “we cannot perform miracles … it is what it is.”[15] Saudi Aramco, meanwhile, broke its quarterly profit record for the second time in a year in August, with its net income increasing by 90% year-on-year to $48.8 billion. A dividend of $18.8 billion is planned for the third quarter alone.[16]

5 Conclusion

Profiteering fuelling the cost-of-living crisis is highly visible in energy – but the issue goes even deeper. It runs right through the economy.

- As Unite’s previous report on corporate profiteering found, profit margins for the UK’s biggest listed companies (FTSE 350) were 73% higher than pre-pandemic levels in 2019. This isn’t just about oil companies or a few “bad apples”. Even excluding energy firms, FTSE 350 company profits increased by 42% between 2019 and 2021.
- As Unite general secretary Sharon Graham argued at the time, “it’s not just energy companies. There are businesses right across our economy and their directors who have made vast sums of money from Covid 19 and the inflationary pressures that have followed. Those who have profited from the crisis should pay for it. Unite makes absolutely no apologies for demanding better pay for our members. Wage restraint? It’s time to demand profit restraint.”

- Unite will soon be releasing its second report on corporate profiteering and the cost-of-living crisis. The report follows the supply chains of 5 key inflation-driving goods, which are together responsible for the majority of overall inflation. We see how companies from supermarkets to shipping tycoons, car dealers to agribusiness giants, are cashing in on drought, war, and post-pandemic demand to push prices and profits through the roof. In short, we find that the cost-of-living crisis is a profiteering crisis.

1 Unite analysis of the forecasted increase in the energy price cap, based on Ofgem data, projections by Cornwall insights and research into company accounts, using CapitalIQ and Fame databases as well as company documents. For Cornwall Insights projections see: https://www.cornwall-insight.com/cornwall-insight-release-final-predictions-for-octobers-price-cap/ For Ofgem data see: https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/default-tariff-cap Our analysis involved applying average profit margins for electricity generation, gas production, and distribution to the wholesale costs and network costs elements of the price cap, and adding this to the supplier profit element of the price cap. The analysis compares the October 2021 price cap to the projected October 2022 price cap.

2 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents.

3 https://www.bbc.co.uk/news/business-62330190 and https://www.theguardian.com/business/2022/jul/28/shell-posts-10bn-quarterly-profits-as-households-struggle-with-bills

4 https://www.eon.com/content/dam/eon/eon-com/eon-com-assets/documents/investor-relations/en/quarterly-statement/h1-2022/EON_H1_Bericht22_gesamt_engl._ge.pdf

5 https://www.theguardian.com/business/2022/may/22/uk-high-fuel-bills-eon-boss-michael-lewis-says and https://www.eon.com/en/investor-relations/stock/dividend.html

6 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents. For details on operating margins: https://www.ft.com/content/aff47fb4-34ec-49c7-8aca-ebd462f4142b

7 https://www.common-wealth.co.uk/reports/profiting-amid-the-crisis

8 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents.

9 https://www.ft.com/content/ddbde592-a4e0-465a-9dd2-d6566790403f

10 https://www.ofgem.gov.uk/wholesale-market-indicators

11 https://www.ft.com/content/ddbde592-a4e0-465a-9dd2-d6566790403f

12 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents.

13 https://www.ft.com/content/7928da07-c075-4e9b-a230-bfa4e80d98c6

14 https://www.thisismoney.co.uk/money/markets/article-10797137/BP-Shell-lead-FTSE-share-buybacks-set-hit-record-levels.html

15 https://www.agcc.co.uk/news-article/shell-boss-there-are-no-quick-fixes-for-energy-crisis

16 https://www.ft.com/content/3c6a0c9a-0e4c-4494-88f8-d4c44cd04aa8