2. Revenue

2020	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	4,214	1,626	296	-	6,136
Generation sales to pool	-	-	3,271	5	3,276
Gas	1,538	118	563	28	2,247
Rendering of services	37	45	111	97	290
Other revenue	-	-	129	82	211
Total revenue	5,789	1,789	4,370	212	12,160

2019	Consumer $m	Business $m	Wholesale $m	Other $m	Total $m
Electricity	4,041	1,731	255	2	6,029
Generation sales to pool	-	-	4,469	-	4,469
Gas	1,520	161	640	25	2,346
Rendering of services	37	1	79	89	206
Other revenue	-	-	113	83	196
Total revenue	5,598	1,893	5,556	199	13,246

ACCOUNTING POLICY

Revenue from contracts with customers

AGL's primary revenue streams relate to the retail sale of electricity and gas to residential (consumer) and business customers in Australia, the sale of electricity and gas to wholesale customers in Australia and the sale of generated electricity to the National Electricity Market in Australia. Revenue from contracts with customers is recognised when control of the goods or services is transferred to a customer at an amount that reflects the consideration to which AGL expects to be entitled to receive in exchange for those goods or services.

The majority of contractual energy supply arrangements with customers have no fixed duration, generally require no minimum consumption by the customer and are able to be terminated by either party at any time without incurring significant penalty. Given this, the enforceable contracts are considered short term (less than 12 months) in nature. There are some longer term contracts particularly those with business and wholesale customers.

AGL has generally concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

AGL's primary performance obligations are the supply of energy (gas or electricity) over the contractual term. There are either individual contracts representing separate purchasing decisions of customers, or the units of supply of energy represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and hence is considered one performance obligation satisfied over time. For the shorter term contracts, the performance obligations are considered to be satisfied, and revenue is recognised, as and when the units of energy are delivered. Additionally, in relation to AGL's longer term contracts, AGL determines that the right-to-invoice approach to measure the progress towards completion of the performance obligation is most appropriate as it depicts AGL's performance. AGL uses the units of energy delivered to the customer as estimated as part of the unbilled process (and later verified by meter readings) or as indicated by the customer's energy meter (where these are known more frequently).

In most instances, the transaction price is determined by the unbilled process. For some wholesale contracts, AGL also considers the effects of variable consideration and for some business sales, there is non-cash consideration and consideration payable to the customer relating to renewable energy certificates (RECs).

Electricity and Gas revenue

Residential electricity and gas sales

Residential energy sales relate to the sale of energy (gas and electricity) to retail customers. Residential sales are classified as individual, short term, day-by-day contracts and are recognised as revenue on a day-by-day basis upon delivery of energy to customers.

Where the customers are eligible to receive additional discounts (e.g. pay on time discounts to encourage timely payment of energy invoices), AGL considers this to be variable consideration, which is estimated as part of the unbilled process.

Portfolio approach for residential electricity and gas sales

AGL recognises revenue from contracts with its residential customers at the electricity and gas portfolio levels. Furthermore, AGL has elected to apply the portfolio approach in accounting for the fair valuing of RECs, accounting for connection fees and sales commissions. Recognition at the portfolio level would not differ materially from applying the standard on a contract-by-contract basis.

2. Revenue (cont.)

ACCOUNTING POLICY

Business electricity and gas sales

Business sales represent the sale of energy to business customers. Revenue recognition is largely consistent with residential sales. These contracts are longer term in nature and represent a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and are treated as one performance obligation satisfied over time based on the output delivered to the customer. For a large majority of business sales customers, revenue is recognised when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some business sales arrangements also include the transfer of RECs to the customer, which can, in some instances, represent a separate performance obligation.

Material right applicable to residential and business sales

Where a fixed fee (e.g. connection fee, distribution fee, capacity reservation charge, etc.) received from a customer does not represent a transfer of a good or service to a customer, but the customer is charged an upfront amount, the customer contract contains a material right in that the customer is effectively able to buy additional units of energy at a lower cost per unit.

The material right is valued based on its relative standalone selling price. If standalone selling prices are not directly observable, the price is estimated by taking into consideration the discount the customer would receive in a standalone transaction and the likelihood that the customer would exercise the option.

Revenue from a material right is recognised as and when the right is exercised by the customer or the right expires, whichever is earlier.

Wholesale energy sales

Wholesale energy sales represent the sale of gas and electricity to wholesale customers. These involve a high volume of energy usually over an extended period of time. Supply of energy represents a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer and is the major performance obligation. It is treated as one performance obligation which is satisfied over time. In some instances, there is an additional performance obligation in these contracts by way of a material right.

Revenue is recognised for these arrangements when AGL has the 'right to invoice' the customer for consideration that has been determined to correspond directly with the value of units of energy delivered to that customer.

Some wholesale electricity arrangements may involve the transfer of RECs to the customer, which may represent a separate performance obligation.

Renewable energy certificates (RECs) applicable to business and wholesale sales

There are two main instances where RECs pass between AGL and its customers. These include those transferred under a self-surrender arrangement as part of the consideration for energy and those that are sold to customers.

Received from customer (self-surrender)

As a retailer, AGL incurs costs in relation to its renewable energy obligations for which RECs must be surrendered to the government. For most customers, the costs associated with meeting these renewable energy obligations is factored into the cost of energy (i.e. there is a REC cost component built into the price paid). For some customers, instead of paying for the cost of the energy in cash, they have the option to elect to pay for their energy usage in the form of cash and by self-surrendering RECs.

The obligation to remit RECs to the regulator remains with AGL, but the customer is choosing to meet part of its payment by way of surrendering its own RECs rather than paying for the cost of the RECs as part of the overall cost of the energy.

The transfer of RECs as consideration in exchange for energy is a form of non-cash consideration. AGL measures non-cash consideration at its fair value at the date of surrender (i.e., the date of transfer by the customer).

Transferred to the customer

For some customer contracts, AGL sells both energy and RECs to the customer. A customer may purchase RECs to meet its own REC obligations and/or where it wants actual title to the RECs.

The RECs sold to a customer represent a separate performance obligation, i.e. a good, as the customer can benefit from the RECs on their own and the promise to transfer RECs to the customer is separately identifiable from the other promises in the contract (e.g. promise to deliver energy).

AGL determines the portion of the transaction price that it allocates to the RECs using the relative standalone selling price method.

The transaction price is allocated to each performance obligation based on the proportion of the stand-alone selling price of each performance obligation to the sum of the stand-alone selling prices of all of the performance obligations in the contract.

2. Revenue (cont.)

ACCOUNTING POLICY

Revenue is recognised as and when the control of the RECs are transferred to the customer, which occurs at a point in time. Where the customer is entitled to all the RECs generated at a specified power plant (e.g. in cases where power plants are located at the customer's site), transfer of control to the customer occurs as and when the RECs are generated. In other cases where the RECs are transferred to the customer from inventory, control of the RECs transfers upon receipt by the customer.

Pool Revenue

Pool generation sales

Pool generation sales and pool purchase costs relate to sales by AGL's generation assets to the grid and purchases of energy by AGL wholesale on behalf of AGL's retail business. AGL has assessed it is acting as the principal in relation to such sales and purchases of energy to the pool and therefore the transactions are recognised on a 'gross' basis. Revenue from these arrangements is recognised at the spot price achieved when control of the energy passes to the grid.

Variable consideration

If the consideration in a contract includes a variable amount, AGL estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

AGL applies the practical expedient in that it does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Costs to obtain a contract

Costs that are incurred regardless of whether a contract is obtained are expensed as incurred, unless those costs are explicitly chargeable to the customer. Discretionary bonuses paid to sales staff based on meeting annual sales targets, overall profitability and individual performance evaluations are expensed as incurred as they are not directly attributable to identifiable contracts and do not meet the criteria for capitalisation. The direct costs of establishing customer contracts are recognised as an asset when they relate to a specific customer acquisition campaign. The direct costs are amortised over the minimum contract term. Direct costs include customer acquisition fees paid to channel partners and upfront account purchase payments.

Costs to fulfil

The costs incurred by AGL to fulfil a contract with a customer, which may qualify for capitalisation include connection fees paid/incurred by AGL (including those charged by distribution businesses to provide such network services, or those incurred directly by AGL in connecting a customer). These costs do not fall within the scope of any other standard (i.e. the cost is not part of inventory, an intangible asset or property, plant and equipment). Therefore, these costs are capitalised as a contract cost (cost to fulfil) asset and amortised over the life of the customer contract or customer relationship, where material.

Cost sharing arrangements

AGL enters into cost sharing arrangements whereby the costs to operate and maintain assets that are shared with parties outside the AGL Group are recharged to the parties in accordance with their beneficial interest. These recharged amounts are recognised as revenue when the associated costs to which they relate impact the statement of profit or loss. Revenue is measured with reference to the fair value of the consideration received.

Government grants

Government grants are recognised when there is reasonable assurance that AGL will comply with the conditions of the grant and the grant will be received.

Government grants that require AGL to construct an asset are recognised as deferred revenue in the Consolidated Statement of Financial Position and transferred to profit or loss on a systemic basis over the useful life of the related assets.

2. Revenue (cont.)

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Variable consideration and constraints

AGL includes variable consideration in the transaction price as estimated at the inception of a contract. However, if it is considered 'highly probable' that a significant reversal of revenue recognised will occur in the future, the variable consideration is constrained and not included in the transaction price.

AGL's contractual arrangements contain a number of variable pricing elements including pay-on-time discounts, payment plans, and escalations. Some of these variable elements are resolved during the reporting periods. Where they are not, management estimates the likelihood of the variable pricing element eventuating and recognises the variable pricing element to the extent it is not highly probable that it will reverse.

Revenue recognition

AGL recognises revenue from gas and electricity services once the gas and/or electricity has been consumed by the customer. Management estimates customer consumption between the last invoice date and the end of the reporting period when determining gas and electricity revenue for the financial period. Various assumptions and financial models are used to determine the estimated unbilled consumption.

3. Other income

	Note	2020 $m	2019 $m
Gain on disposal of subsidiaries and businesses	28	-	52
Net gain on disposal of property, plant and equipment		-	2
Total other income		-	54

4. Expenses

	2020 $m	2019 $m
Cost of sales[1]	**8,512**	9,440
Administrative expenses	**238**	289
Employee benefits expenses	**635**	601
Other expenses		
(Gain)/loss on fair value of financial instruments	**(328)**	198
Contracts and materials	**288**	306
Impairment loss on trade receivables (net of bad debts recovered)	**119**	120
Marketing expenses	**45**	53
Short term lease and outgoings expenses	**22**	12
Impairment loss on investment in a joint venture	**14**	-
Acquisition costs	**7**	-
Net loss on disposal of property, plant and equipment	**9**	-
Derecognition of assets and costs associated with exit of business	**-**	47
Net loss on disposal of joint operation	**-**	2
Other	**259**	168
Total expenses	**9,820**	11,236

1. Includes $3 million of depreciation expense for wind assets.

5. Depreciation and amortisation

	2020 $m	2019 $m
Property, plant and equipment	**550**	477
Intangible assets	**203**	143
Other	**-**	5
Total depreciation and amortisation	**753**	625