

Competition in gas supply

Introduction

This article describes the number of companies operating, the market concentrations of the domestic, commercial and industrial markets, and data on the size of the companies operating.

Key points

- The total number of companies supplying over 1,750 GWh has increased from 17 in 2009 to 30 in 2017, with the number supplying the domestic market increasing to 15.
- The market concentration of the domestic market has decreased, driven by smaller companies taking an increasing percentage of the market share. In contrast the commercial and industrial sectors saw an increase in concentration, with the largest companies taking a larger market share.
- Overall the total market share of the largest companies has continued to decrease, with the market share of the top 9 suppliers decreasing from 82.5 per cent in 2013 to 74.4 per cent in 2017.

Background to changes in the gas market

Three-quarters of the non-domestic market for gas (customers with demand above 25,000 therms per year) was effectively opened up to competition at the end of 1986. Most of the remainder (between 2,500 and 25,000 therms a year) was opened up in August 1992. The domestic market was opened for competition in between April 1996 and May 1998, with large increases in the number of gas suppliers up to 2000.

There are effectively four competitive sectors - sales to the electricity generators, the industrial sector, the commercial sector and the domestic sector.

Competition for electricity generation cannot be calculated accurately due to complexities associated with this sector. BEIS collect data on final sales from gas companies; companies who generate electricity from gas are often the same companies who trade gas, therefore at the point of sale, sellers do not know the proportion of gas sold which will be used for generation and that which will be traded on. As such data for electricity generation competition are not presented here.

Number of companies supplying gas at least 1,750 GWh of gas

The table below shows the number of companies supplying gas to final consumption in the domestic, commercial and industrial sectors. The table shows only those companies supplying at least 1,750 GWh of gas to each respective sectors. ¹

Table 1: Number of companies supplying gas

	2000	2002	2004	2006	2008	2010	2012	2013	2014	2015	2016	2017
Domestic sector	14	12	7	6	6	7	7	8	9	12	12	15
Commercial sector	10	10	10	7	6	8	8	9	8	9	12	11
Industrial sector	15	15	10	9	8	8	7	10	11	12	12	12

(1) Companies can supply into more than one market and are counted in each market they supply. Companies who supply less than 1,750 GWh within each sector are excluded. In August 2017 Ofgem data indicate that 179 suppliers were licensed to supply gas to domestic customers but some suppliers have more than one supply licence and own or part own more than one supply company.

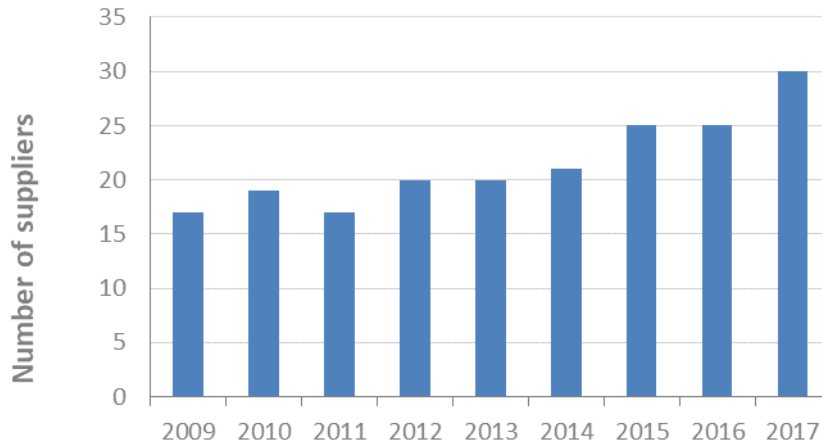
The data indicate that the number of companies supplying gas above the threshold of 1,750 GWh has increased in the domestic sector in 2017, with the Industrial sectors remaining the same and the commercial sector seeing a decrease.

¹ This represents a methodological change from previous data shown in Energy Sector Indicators where the cut-off was previously 0.25 per cent of the market share for each market. The methodological change brings the table in line with the collection methodology used by BEIS.

Number of large and small suppliers in the market

New suppliers are continuing to enter the market at an increasing rate. Ofgem data indicates that 15 new licensed suppliers became active in the domestic segment during 2017. Chart 1 shows the number of companies supplying more than 1,750GWh a year of gas, (excluding gas to electricity generation) and indicates a generally sustained pattern of increase from 17 in 2009 to 30 in 2017.

Chart 1: Total number of companies supplying over 1,750GWh of gas, 2009 to 2017



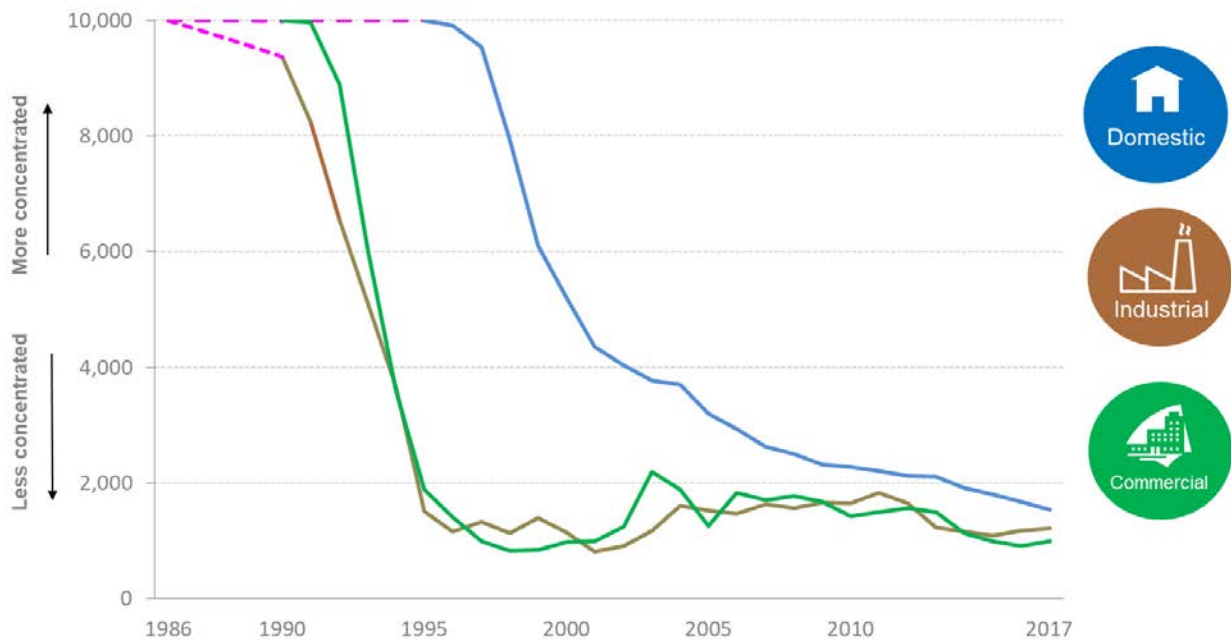
In addition, smaller suppliers continue to enter the market. BEIS collects information from companies licenced to supply gas through two surveys, one a mandatory return for companies supplying more than 1,750 GWh a year of gas (~ 0.5 per cent of final consumption), the other a voluntary return for companies supplying less than that threshold. Return rates for the survey of companies over the 1,750 GWh threshold is 100 per cent, whilst the return rate for smaller companies under than threshold was 43 per cent in 2017. In 2017 there were 65 small gas suppliers who returned data compared with 8 returns in 2009. The increase has been broadly steady over that period but differences in survey completion rates will affect this.

Competition in gas sales to the domestic, commercial and industrial sectors, 1986 to 2017

Continuing the trend of recent years, the domestic market has seen the market concentrations decrease in comparison to 2016. This is due to the increasing number of small suppliers joining the market, and taking a larger part of the market share. In contrast the industrial and commercial market concentration has increased over the last 12 months.

Chart 2 shows the market concentration as expressed through the Herfindahl-Hirschman index, one of the standard metrics for analysing concentration. In the chart higher numbers show more concentration and lower numbers indicate a more diverse market.

Chart 2: Herfindahl-Hirschman Index for market concentration, 1986 to 2017



Since 2011 the market concentration has consistently decreased in all three sectors, as smaller companies joined the markets. In 2017 this pattern continued for the domestic market, but the industrial and commercial markets saw small increases in concentration, the first increase for the commercial sector since 2012.

The domestic market has become less concentrated due to increasing number of small suppliers taking an increasing percentage of the market share. In 2017 the total number of companies supplying gas to the market was 43, up from 36 in 2016. Table 1 shows that the number of companies who supplied more than 1,750 GWh has increased to 15 in 2017; this figure has been generally increasing since 2008 as new companies take an increasing market share.

The commercial market has seen the number of companies supplying more than 1,750 GWh fall to 11, from 12 in 2016 (see Table 1). This, coupled with the fact that the number of smaller companies in the commercial market has remained the same (35 companies in total supplying the market in 2016 and 2017), has led to the market becoming slightly more concentrated.

Similarly the industrial market has become more concentrated in 2017, the second year on year rise, despite the fact that the number of suppliers over the threshold (12) has remained stable on last year. The largest companies have continued to take a larger market share as the total number of companies supplying gas to the market has fallen slightly to 26 in 2017 from 27 in 2016.

Gas supplied to all consumers by aggregated shares.

Table 2 shows how the market shares of the largest companies have changed over the last 5 years, with the largest losing market share to the medium sized and smaller companies. In 2013 the top 9 accounted for 82.5 per cent of the market, which is down to 74.4 per cent in 2017. Figures are based on total gas supplied excluding gas for electricity generation.

Table 2: Gas supplied to all consumers by aggregated shares.

Gas suppliers	Market share (%)				
	2013	2014	2015	2016	2017
Aggregated share of top 3 suppliers	46.2	44.4	42.9	40.8	37.5
Aggregated share of next 3 suppliers	21.4	21.1	20.9	20.5	21.1
Aggregated share of next 3 suppliers	14.9	14.9	14.0	15.4	15.8
Aggregated share of top 9 suppliers	82.5	80.4	77.9	76.7	74.4
Other suppliers	17.5	19.6	22.1	23.3	25.6

Herfindahl-Hirschman

The Herfindahl-Hirschman measure attempts to measure market concentration. It places extra emphasis on the contributions of participants with the largest shares. The measure is commonly used to assess whether mergers should go ahead and whether they will significantly affect the balance of the market in a particular sector.

It is expressed by the following equation:

Herfindahl-Hirschman measure = the square of each participant's market share added together across all participants in the market

Values vary between zero, which signifies a perfectly competitive industry, and ten thousand, for a pure monopoly.

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