

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 28 in 2018 (falling from 29 in 2017);
- The market concentration of the domestic sector has decreased since 2017, with increases in the commercial and industrial sectors;
- For the first time since 2013, the total market share of the largest companies increased, although by a very small percentage. In 2017, the share of the top 9 suppliers was 74.4 per cent whilst in 2018 it was 75 per cent. This value remains significantly lower than the 2014 figure of 80.4 per cent.

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.

Since 2000 the number of companies supplying gas decreased by more than 50 per cent from its peak, driven by company mergers. 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	2014	2016	2017	2018
Domestic sector	14	12	7	6	6	7	7	9	12	15	17
Commercial sector	10	10	10	7	6	8	8	8	12	11	11
Industrial sector	15	15	10	9	8	8	7	11	11	12	11

(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 September 2019 Ofgem data indicate that 230 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.

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.

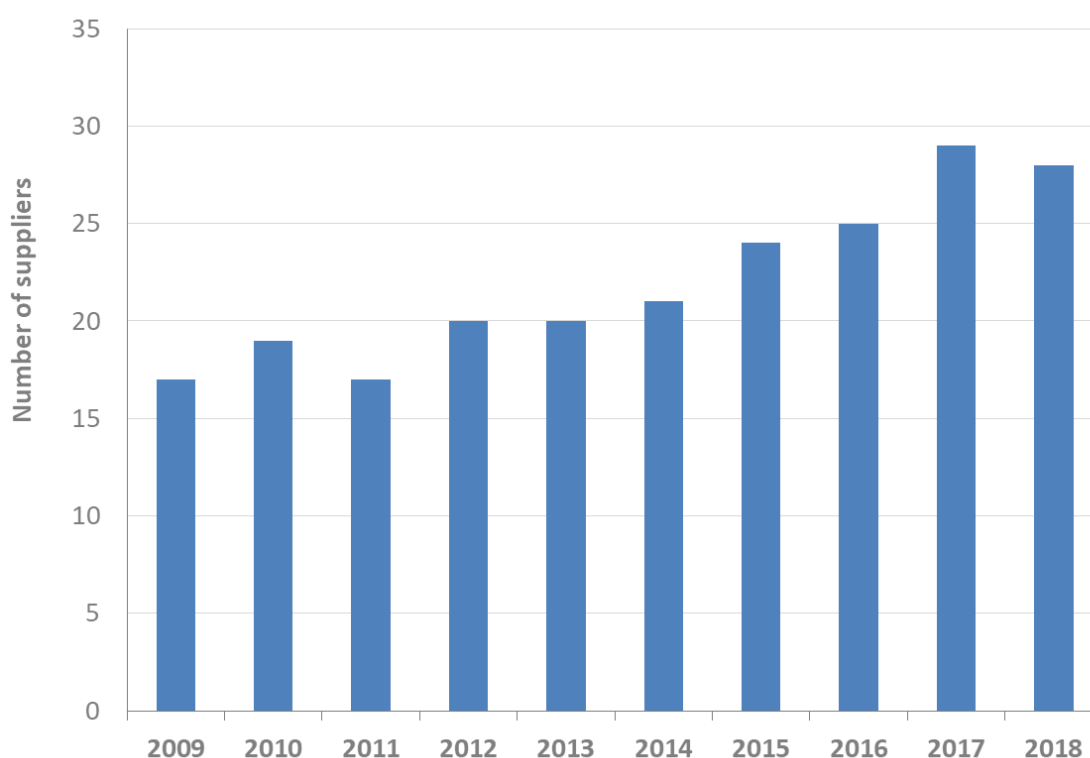
Special feature – Competition in gas supply

The data indicate that the number of companies supplying gas above the threshold of 1,750 GWh has remained the same in the commercial sector since 2017, but with a decrease of one in the industrial sector and a new company becoming a larger supplier to the domestic sector in 2018.

Number of large and small suppliers in the market

The total number of large suppliers fell by one company compared to last year when the activities of Wingas were transferred to Gazprom², although a general trend of increases was previously observed. 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 28 in 2018.

Chart 1: Total number of companies supplying over 1,750 GWh of gas, 2009 to 2018



Note: Data for 2017 have been revised from 30 to 29

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, the other a voluntary return for companies supplying less than that threshold (in total ~ 2 per cent of final consumption). Return rates for the survey of companies over the 1,750 GWh threshold is 100 per cent. As there are a large number of smaller companies, a sample are selected to be surveyed and data is aggregated and weighted up to represent the national total .

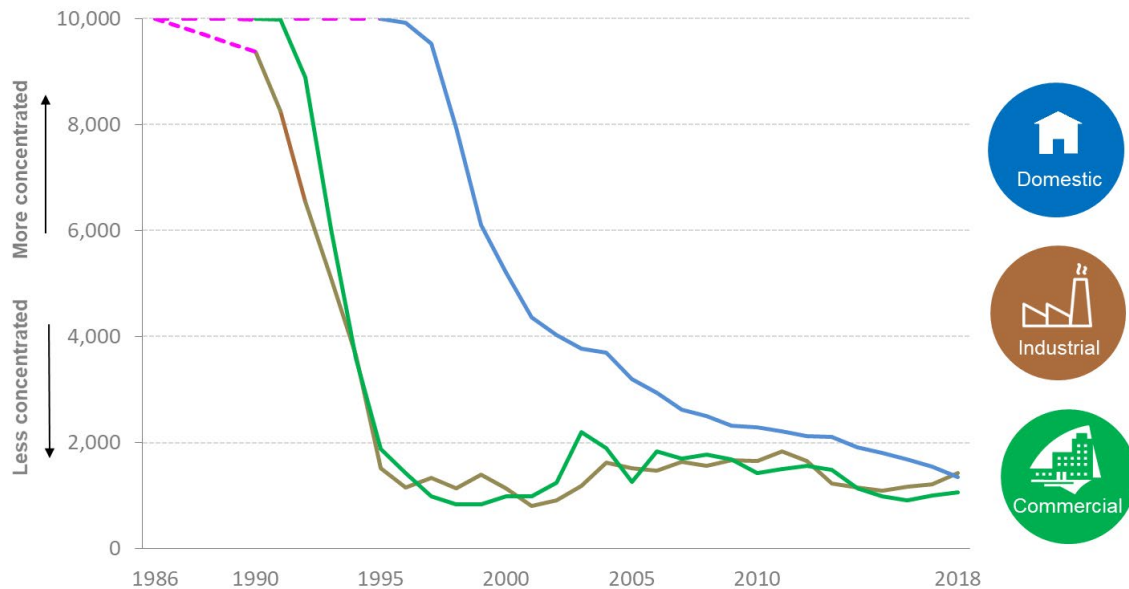
Competition in gas sales to the domestic, commercial and industrial sectors, 1986 to 2018

Continuing the trend of recent years, the domestic market has seen the market concentrations decrease in comparison to 2017. 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 bucked the trend of decline seen since 2011 and increased over the last 12 months.

² www.wingas-uk.com/

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 2018



Since 2011 the market concentration had consistently decreased in all three sectors as smaller companies joined the markets. In 2018 this pattern continued for the domestic market, but the industrial and commercial markets saw small increases in concentration.

The domestic market has become less concentrated due to an increasing number of small suppliers taking an increasing percentage of the market share. Despite the number of large suppliers increasing to 17, their share of the market fell from 97 per cent in 2017 to 95 per cent in 2018.

The commercial market has seen the number of companies supplying more than 1,750 GWh remain the same as in 2017 at 11. The increase in concentration seen in 2018 is the result of a falling number of smaller suppliers.

The industrial market has become more concentrated in 2018, the third year on year rise. Although the number of large suppliers fell by one in 2018, their market share increased from 98 per cent in 2017 to 99 per cent in 2018.

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 consistently losing market share to the medium sized and smaller companies. In 2014 the top 9 accounted for 80 per cent of the market, which is down to 75 per cent in 2018. 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 (%)				
	2014	2015	2016	2017	2018
Aggregated share of top 3 suppliers	44.4	42.9	40.8	37.5	36.4
Aggregated share of next 3 suppliers	21.1	20.9	20.5	21.1	22.7
Aggregated share of next 3 suppliers	14.9	14.0	15.4	15.8	15.8
Aggregated share of top 9 suppliers	80.4	77.9	76.7	74.4	75.0
Other suppliers	19.6	22.1	23.3	25.6	25.0

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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