

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 2019 (up from 29 in 2018).
- The market concentration of the domestic and industrial sectors has decreased since 2018, although 2019 saw an uptick in the commercial sector.
- Reflecting longer term market trends, the total market share of the largest companies decreased. In 2019 the share of the top nine suppliers was 71 per cent, down from 75 per cent in 2019. This value remains significantly lower than the 2010 figure of 85 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 to competition at the end of 1986. Most of the remainder (between 2,500 and 25,000 therms a year) was opened in August 1992. The domestic market was opened for competition between April 1996 and May 1998, with large increases in the number of gas suppliers up to 2000.

By the mid-2000s the number of companies supplying gas had fallen by nearly half from 30 in the year 2000, driven by company mergers. By 2012, this number had increased back up to 30 and in 2019 there were a total of 60 companies supplying gas to the UK. 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 sector.¹

Table 1: Number of large suppliers of gas

	2002	2004	2006	2008	2010	2012	2014	2016	2017	2018	2019
Domestic sector	12	7	6	6	7	7	9	12	15	16	16
Commercial sector	10	10	7	6	8	8	9	11	10	11	10
Industrial sector	15	10	9	8	8	7	11	11	11	11	9
Total	24	16	17	16	17	16	21	26	29	29	30

(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.

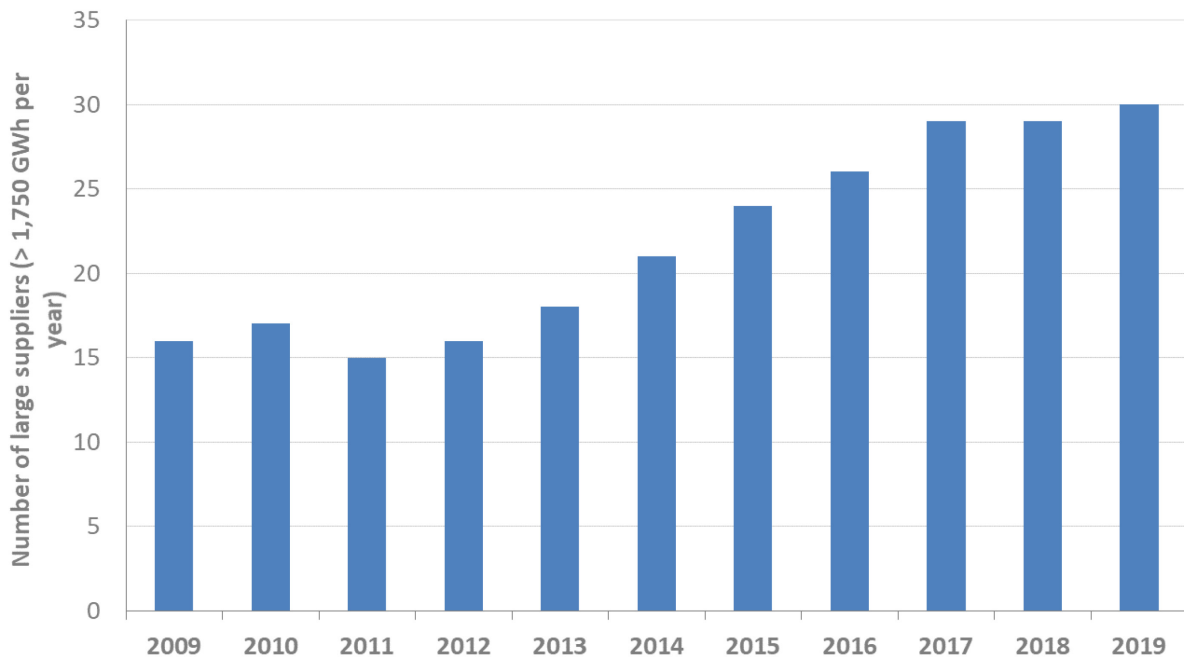
¹ This represents a methodological change from previous data shown in Energy Sector Indicators where the cut-off was previously 0.25 per cent of the market share for each market. The methodological change brings the table in line with the collection methodology used by BEIS.

The data indicate that the number of companies supplying gas above the threshold of 1,750 GWh has fallen since 2018, with a decrease in the commercial, and industrial sectors. The domestic sector remained stable at 16 large suppliers, although within this we saw some of the newer suppliers cease operation and other companies crossing the larger supplier threshold.

Number of large and small suppliers in the market

Despite a general long-term trend of increases seen since 2009, the total number of large suppliers has remained steady since 2017. Chart 1 shows the number of companies supplying more than 1,750 GWh a year of gas, (excluding gas to electricity generation) and indicates a generally sustained pattern of increase from 16 in 2009, to 30 in 2019.

Chart 1: Total number of companies supplying over 1,750 GWh of gas, 2009 to 2019



Note: Data for 2018 have been revised from 28 to 29

The overall number of larger suppliers increased from 29 in 2018 to 30 in 2019, although within this we saw some of the newer suppliers cease operation and other companies entering the market and crossing the larger supplier threshold.

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. There are many smaller companies meaning that BEIS select a sample to survey, and data is weighted up to represent the national total.

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

Continuing the trend of recent years, the domestic market has seen market concentrations decrease in comparison to 2018. This is partly due to small suppliers joining the market, but also because larger suppliers have been losing market share to these smaller companies. The domestic market is where we have seen the greatest fall in concentration, with the smaller companies holding a 15 per cent share in 2019, compared to just 2 per cent in 2010.

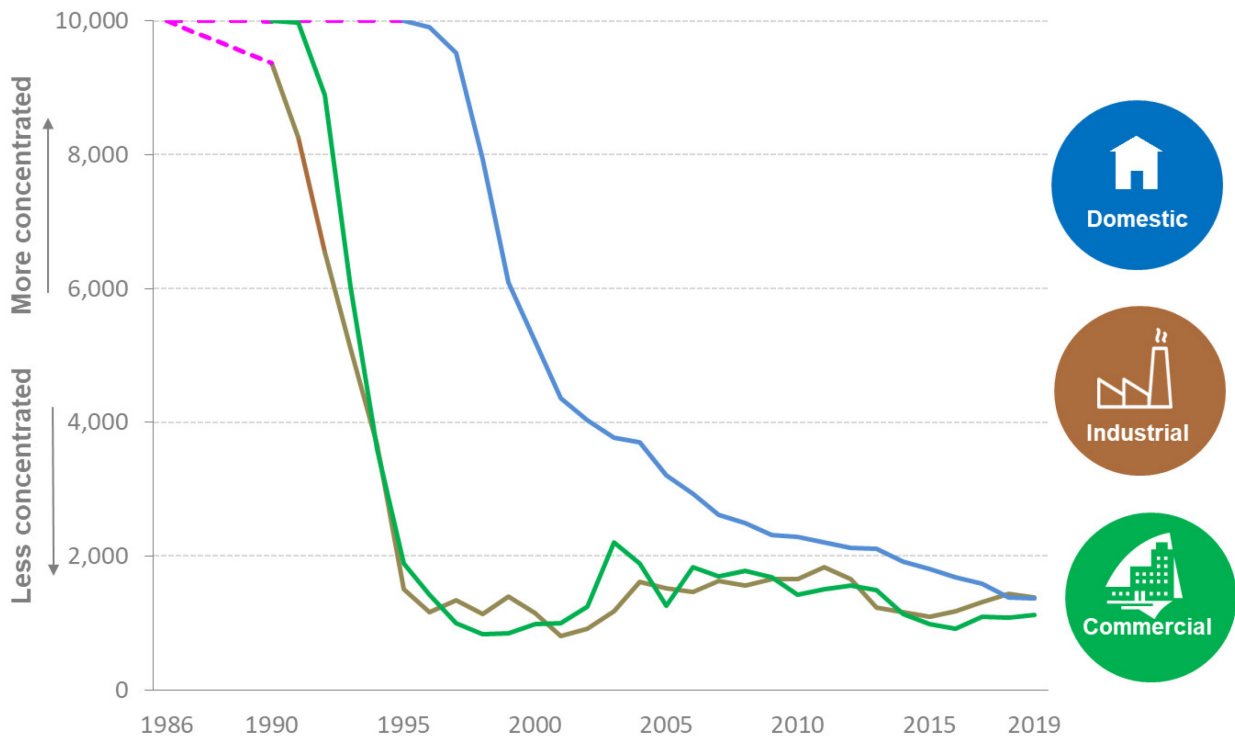
The notable trend in the mid-1990s was sharply towards increased diversity of supply. Supply to the domestic sector continues this trend into 2019, but the recent trends in the industrial and commercial

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sectors have been more volatile. In 2019 the smaller suppliers held 12 per cent and 7 per cent of the market share in the industrial and commercial sectors, respectively.

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

Chart 2: Herfindahl-Hirschman Index for market concentration, 1986 to 2019



The domestic market has become less concentrated in 2019 compared to 2018. While the number of larger suppliers here has remained stable at 16 companies, the share held by smaller companies increased from 12 per cent in 2018 to 15 per cent in 2019.

The commercial market has seen the number of companies supplying more than 1,750 GWh fall from 11 in 2018 to 10 in 2019, and these large suppliers held more of the market share, so increasing the market concentration. One large supplier exited the commercial gas market in 2019 and the remaining 10 companies held 88 per cent of the market share in 2019, compared to 85 per cent in 2018.

The number of large suppliers in the industrial market fell from 11 to 9 in 2019, partly because some larger suppliers exited the market, but also because some of the comparatively newer companies were merged. However, the concentration was still down compared to 2018 and larger suppliers held 93 per cent of the market share in 2019.

Gas supplied to all consumers by aggregated shares

Table 2 highlights the long-term decline in share of the largest suppliers in the market, with the share of the nine largest companies falling from 77 per cent in 2015, to 71 per cent in 2019. Whilst in previous years the fall was due to a declining market share of the top three suppliers, in 2019 these gained a percentage point share. Instead, the decline in 2019 was due to a decrease in the market share of the suppliers ranked from 4th to 6th largest, from 22 per cent in 2018, to 19 per cent in 2019. Figures are based on total gas supplied excluding gas for electricity generation.

Table 2: Gas supplied to all consumers by aggregated shares

	2015	2016	2017	2018	2019
Share held by top 3 suppliers	42%	40%	37%	36%	37%
Share held by suppliers ranked 4 th to 6 th largest	21%	20%	21%	22%	19%
Share held by suppliers ranked 7 th to 9 th largest	14%	15%	16%	16%	16%
Aggregated share of top 9 suppliers	77%	75%	74%	75%	71%
Other suppliers	23%	25%	26%	25%	29%

Herfindahl-Hirschman

The Herfindahl-Hirschman measures market concentration and monopoly power in relation to other firms within the gas supply industry. 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 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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