Competition in gas supply 2020

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Key headlines

This article describes the number and size of companies supplying gas to the UK, as well as the concentrations of the domestic, commercial, and industrial markets.

The total number of companies supplying over 1,750 GWh has increased from 17 in 2009 to 29 in 2020. The market share of the largest nine companies remained roughly stable, at 69.3 per cent in 2020 compared to 69.4 per cent in 2019.

The market concentration of the domestic sector fell in 2020, with one additional new larger supplier. In the commercial and industrial sectors, the number of large suppliers fell, by one and two, respectively.

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 opened to competition at the end of 1986, with most of the remainder (2,500 to 25,000 therms a year) opened in August 1992. The domestic market was opened 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, before newer entrants once again began entering the market since the early 2010s.

There are effectively four competitive sectors - sales to electricity generators, and to the industrial, commercial, and domestic sectors. Companies who generate electricity from gas are often the same companies who trade gas meaning that sellers do not know the proportion of gas sold that will be used for generation. As such data for electricity generation competition are not presented here.

Number of large and small suppliers in the market

BEIS collects information from companies licenced to supply gas through two surveys, one a mandatory return for larger companies supplying more than 1,750 GWh a year of gas (~97 per cent of final consumption), the other a voluntary return for smaller companies supplying less than that threshold. As there are many smaller companies, a sample are selected to be surveyed and data is uprated to make the national total.

Chart 1 Total number of companies supplying more than 1,750 GWh of gas annually, and market share of the top nine suppliers, 1998 to 2020

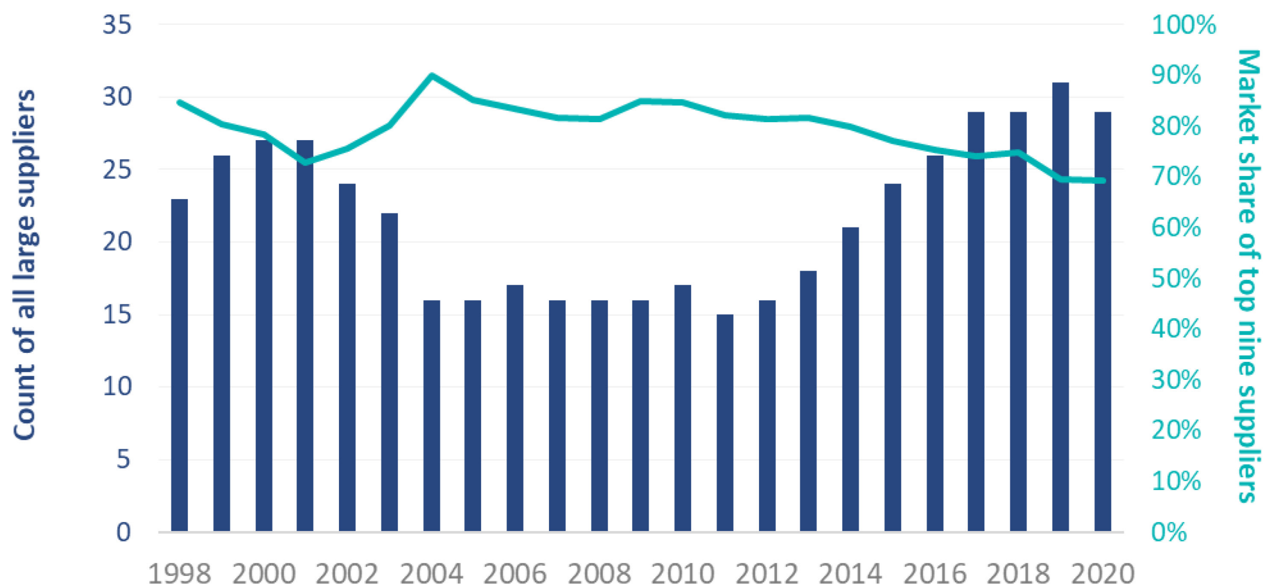


Chart 1 shows the number of all companies supplying more than 1,750 GWh a year of gas, (excluding gas to electricity generation) and indicates a generally sustained pattern of increase since 2011 until this year. The total number of large suppliers fell by two companies in 2020, from 31 to 29, after eight years of successive increases. It also shows the market share of the top nine suppliers and indicates a loss of market share over the same period until 2020 when shares remained stable compared to 2019. The largest nine suppliers to all markets held 69.4 per cent and 69.3 per cent of the market share in 2019 and 2020, respectively. This compares to 85.0 per cent in 2009 just before newer entrants began entering the market once again after a period of mergers.

Table 1 shows how the market shares of the largest nine companies have changed over the last five years in more detail. Over this period the largest three suppliers have been generally losing market share to the remaining top nine companies. However, in 2020 this was reversed and the largest three companies increased their market share within the top nine. Figures are based on total gas supplied excluding gas for electricity generation.

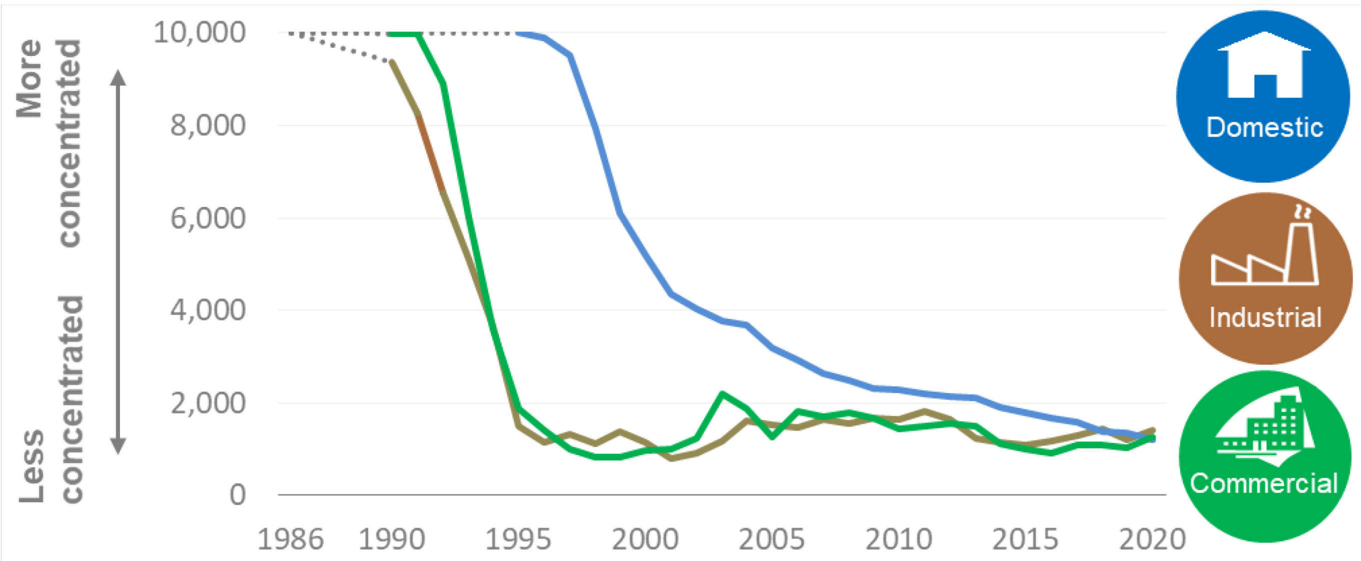
Table 1 Gas supplied to all consumers by aggregated shares

	Market share (%)					
Gas suppliers	2015	2016	2017	2018	2019	2020
Aggregated share of top 3 suppliers	42.2%	40.1%	36.9%	36.5%	35.0%	36.5%
Aggregated share of next 3 suppliers	20.7%	20.1%	21.1%	22.4%	20.0%	19.2%
Aggregated share of next 3 suppliers	14.3%	15.2%	15.9%	15.9%	14.4%	13.6%
Aggregated share of top 9 suppliers	**77.2%**	**75.4%**	**73.9%**	**74.8%**	**69.4%**	**69.3%**
Other suppliers	22.8%	24.6%	26.1%	25.2%	30.6%	30.7%

Competition in gas sales to the domestic, commercial, and industrial sectors, 1986 to 2020

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

Chart 2: Herfindahl-Hirschman Index for market concentration, 1986 to 2020



The market concentration had been consistently decreasing in all three sectors as smaller suppliers entered the market. This was true for the domestic market in 2020, but supply to both commercial and industry sectors bucked this trend.

The **domestic market** has become less concentrated due to an increasing number of small suppliers taking an increasing percentage of the market share. Table 2 shows that the number of companies who supplied more than 1,750 GWh has increased by one to 17 in 2020; this figure has been increasing steadily since 2008. The top nine companies held an 84.6 per cent market share in 2020, compared to 85.0 per cent in 2019 and 96.2 per cent in 1998.

The **commercial market** has seen the loss of one company supplying more than 1,750 GWh since 2019 and an increase in the market concentration. The market share taken by the top nine suppliers to the commercial sector has increased with larger suppliers taking 88.4 per cent of the share in 2020 compared to 84.6 per cent in 2019 and 77.2 per cent in 1998.

The **industrial market** has also become more concentrated in 2020, and the number of suppliers fell by two compared to 2019. The top nine suppliers took a 90.0 per cent market share in 2020, compared to 89.4 per cent in 2019 and 83.4 per cent in 1998.

Table 2 shows the number of large 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 2 Number of companies supplying gas

	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018	2019	2020
Domestic	14	12	7	6	6	7	7	9	12	16	16	17
Commercial	10	10	10	7	6	8	8	8	11	11	12	11
Industrial	15	15	10	9	8	8	7	11	11	11	11	9

The data indicate that the number of companies supplying gas above the threshold of 1,750 GWh has increased by one in the domestic sector since 2019 with a decrease of one in the commercial, and two in the industrial, sector.

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.

[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.

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