

Competition in UK gas supply, 2021

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Key headlines

In 2021, the number of large gas suppliers fell to 24 (from 29 in 2020) as significant increases in wholesale gas prices saw a number of market exits. This bucked the trend seen in the past decade of steady growth then stability in the number of large suppliers.

Subsequently market concentration increased in 2021, as closures meant customers were transferred to the largest suppliers. The top nine suppliers accounted for 81 per cent of the market – the highest share since 2013. The market share occupied by the three largest suppliers increased to 41 per cent, from 35 per cent in 2020.

The number of large suppliers to the domestic and commercial sectors fell by four and two respectively in 2021. This led to more concentrated markets, with the commercial sector reaching its highest level of concentration since 2006. The industrial sector remained stable, with no change in the number of large suppliers between 2020 and 2021.

Background

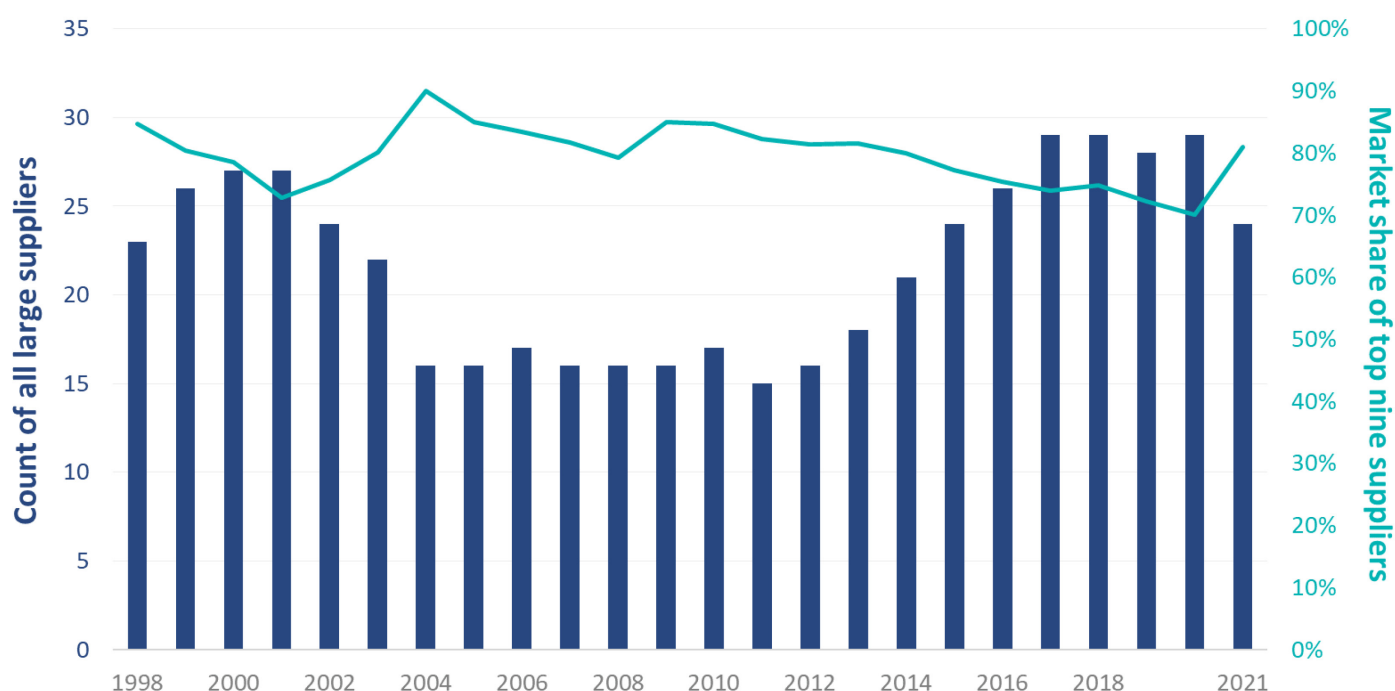
BEIS define suppliers as large or small based on how much gas they supply. A large supplier is one who supplies more than 1,750 GWh per year, and a small supplier is one who supplies less than this. BEIS collect data from companies who are licensed to supply gas. Large suppliers are mandated to provide quarterly data. A sample of small suppliers are asked to provide data on a voluntary basis annually.

Gas supply can be broadly described by key sectors; these are domestic, industrial and commercial in addition to gas supply for electricity generation. This article considers domestic, industrial and commercial sectors.

This article describes the number and size of companies supplying gas to the UK, as well as the market concentration of the domestic, industrial and commercial sectors. Market concentration is assessed using the Herfindahl-Hirschman index; further details on this measure can be found in the methodology note at the end of this article.

Number of UK gas suppliers

Chart 1: Number of large gas suppliers and market share of the top nine suppliers, 1998 to 2021



The process of denationalising UK gas supply began in 1986, continuing for a period of 6 years until 1992. This restructuring of the gas market led to increasing numbers of gas suppliers until 2000. Following this the number of suppliers decreased driven by company mergers. From 2008, favourable market conditions saw numbers generally increase until they reached a peak of 29 in 2017. From 2017, total supplier numbers have been declining although the number of large suppliers remained relatively stable until 2020. In 2021, the number of large suppliers fell to 24 (from 29 in 2020) reflecting several market exits due to unprecedented wholesale gas prices. This was alongside numerous market exits from smaller suppliers who did not meet the large supplier threshold.

From 2017, as small suppliers grew their market share, or moved up into the large supplier category, the market share occupied by the top nine suppliers declined reaching a low of 70 per cent in 2020. This trend was reversed in 2021 when the market share of the top nine suppliers reached 81 per cent, the highest since 2013. This was the result of a number of market exits; the number of large suppliers fell to 24 from 29 in 2020 due to significant increases in wholesale gas prices. Substantial customer numbers were transferred to dominant players increasing their market share.

Table 1: Gas supplied to consumers by aggregate market shares, 2017 to 2021

	2017	2018	2019	2020	2021
Aggregate market share of top 3 suppliers	36.9%	36.5%	38.1%	35.0%	41.3%
Aggregate market share of next top 3 suppliers	21.1%	22.4%	18.6%	21.0%	22.6%
Aggregate market share of next top 3 suppliers	15.8%	15.9%	15.5%	14.0%	17.0%
Aggregate market share of top 9 suppliers	73.9%	74.8%	72.3%	70.1%	80.9%
Other suppliers	26.1%	25.2%	27.7%	29.9%	19.1%

The gas market has traditionally been dominated by a few major suppliers and in recent years, the market share occupied by the top three suppliers has been fairly stable. However, in 2021 the aggregate market share of the top three suppliers increased to 41 per cent, from 35 per cent in 2020, as customers were transferred to large suppliers when others closed. The next six largest suppliers also saw increases in market share in 2021. This reflects growth in newer suppliers who have increased their customer numbers in recent years. The market share of the sixth to ninth largest suppliers grew to 17 per cent in 2021, the largest since privatisation.

Table 2: Number of large gas suppliers by sector, 2002 to 2021

	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020	2021
Domestic	12	7	6	6	7	7	9	12	16	16	12
Commercial	10	10	7	6	8	8	9	11	11	11	9
Industry	15	10	9	8	8	7	11	11	11	9	9

In the domestic sector, the number of large suppliers steadily decreased between 2005 to 2020 as smaller suppliers entered the market and gained market share. However, in 2021 the number of large domestic suppliers fell by four leading to an increase in the market share of the top nine suppliers. In 2021, the top nine suppliers accounted for 95 per cent of the market and the top three accounted for just over half.

The number of large suppliers in the commercial sector has also grown in the last ten years. Similarly to the domestic sector, in 2021 this was no longer the case and the number of commercial suppliers fell to nine from 11 in 2020. There was a corresponding increase in market share for the top three commercial suppliers, up from 54 per cent in 2020 to 70 per cent in 2021. The nine largest commercial suppliers in 2021 accounted for 95 per cent of the market.

Converse to the domestic and commercial sectors, the number of large suppliers to industry remained stable at nine companies in 2021. The market share occupied by the top three industrial suppliers also remained the same, at 54 per cent, though there was a slight increase in the market share of the top nine industrial suppliers from 91 per cent in 2020 to 94 per cent in 2021.

Competition in UK gas sales

To assess the competitiveness of a market, it is useful to examine standardised measures of market concentration. One such metric is the Herfindahl-Hirschman index, where higher numbers show more concentration and lower numbers indicate a more diverse market. Further information on the Herfindahl-Hirschman index can be found at the end of this article.

Chart 2: Herfindahl-Hirschman Index for market concentration, 1986 to 2021

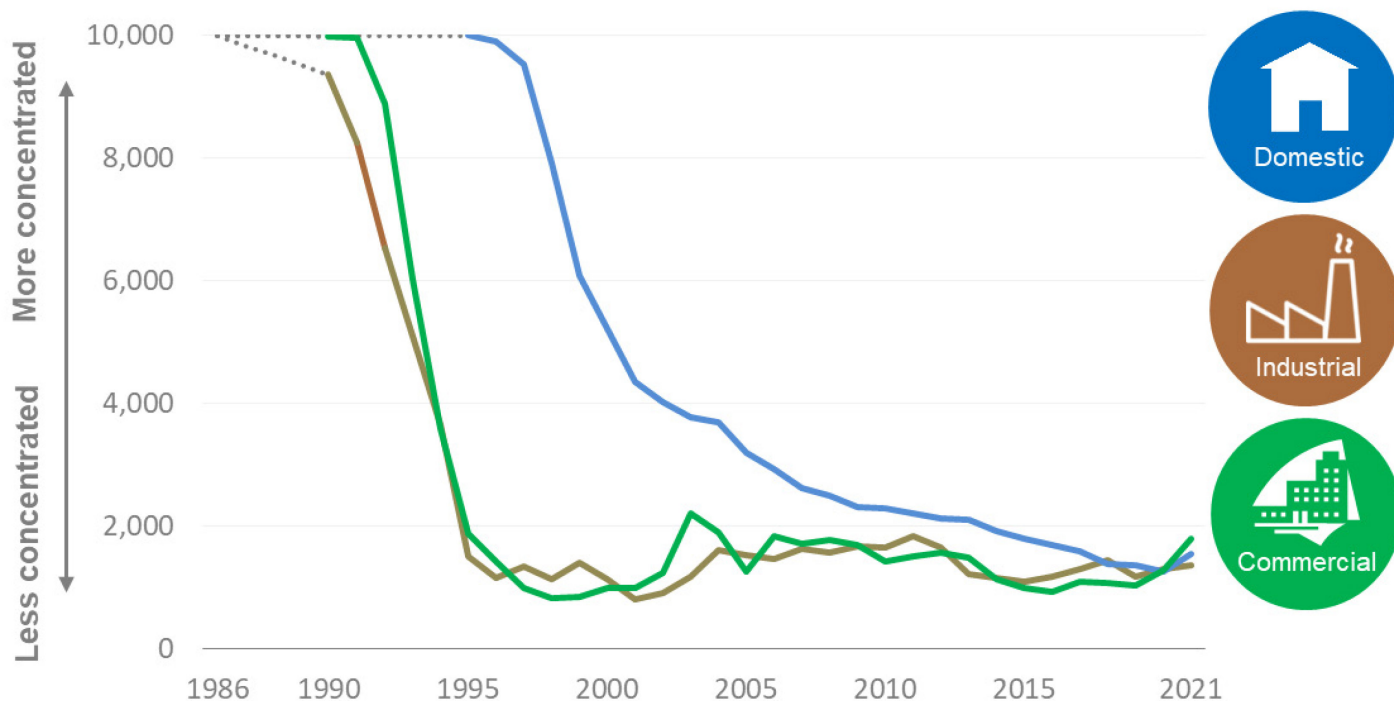


Chart 2 shows gas market concentration as expressed through the Herfindahl-Hirschman index, across the domestic, industrial and commercial sectors. Following the denationalisation of the gas market from 1986 there has been a substantial reduction in market concentration across all three sectors considered here.

The domestic sector saw a consistent year-on-year decrease in concentration until 2020. In 2021, the concentration of the domestic market increased reflecting market exits and increased market share of large suppliers.

In 2021, the commercial sector saw a sharp increase in concentration as two suppliers exited the market. This led the sector to reach its highest Herfindahl-Hirschman score since 2006.

Conversely, the concentration of the industrial sector was relatively stable between 2020 and 2021. This matches the general trend over recent years, which has shown limited year-on-year variation.

Methodology Note: The Herfindahl-Hirschman index

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 index = 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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