

Competition in UK gas supply, 2022

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Key headlines

In 2022, the number of large gas suppliers increased to 28, following a drop to 25 in 2021 the result of significant increases in wholesale gas prices forcing market exits. The 2022 figures reflect a return to the general trend seen in recent years.

Consequently, in 2022 the top nine suppliers accounted for 77 per cent of the market – a decrease compared to 2021 but higher than levels seen in 2016-2019. The market share occupied by the three largest suppliers remained stable at 41 per cent.

The number of large suppliers to the commercial sector fell from nine to seven in 2022, with the sector reaching its highest level of concentration since the 1990s. The domestic and industrial sectors remained relatively stable, with minimal change to the number of large suppliers between 2021 and 2022.

Background

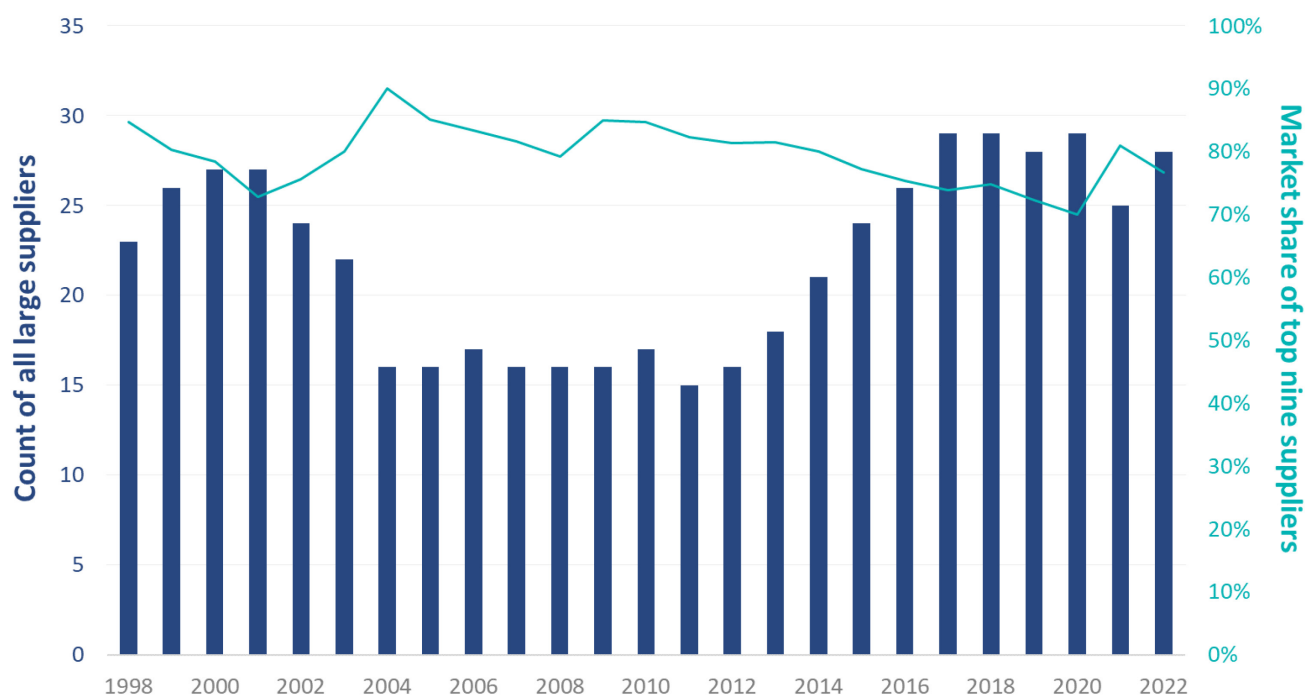
The Department for Energy Security and Net Zero (DESNZ) define gas suppliers as large or small based on how much gas they supply. A large supplier is one who supplies more than 1,750 GWh per year, and a small supplier is one who supplies less than this. DESNZ collect data from companies who are licensed to supply gas. Large suppliers are mandated to provide monthly data. A sample of small suppliers are asked to provide data annually.

Gas supply can be broadly described by key sectors: domestic, industrial, commercial and 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 2022



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, 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 2021, when the number of large suppliers dropped to 25 due to market exits caused by unprecedented wholesale gas prices. In 2022, this figure increased to 28, consistent with the pre-2021 trend.

From 2017, the market share occupied by the top nine suppliers gradually 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 80 per cent, the highest since 2013. This was the result of a number of market exits, with substantial customer numbers being transferred to the companies still supplying the market and hence increasing their market share. In 2022, the market share of the top nine suppliers decreased slightly to 77 per cent as several small suppliers grew their market share or moved up into the large supplier category.

Table 1: Gas supplied to consumers by aggregate market shares, 2017 to 2022

	2017	2018	2019	2020	2021	2022
Aggregate market share of top 3 suppliers	36.9%	36.5%	38.1%	35.0%	41.1%	40.5%
Aggregate market share of next top 3 suppliers	21.1%	22.4%	18.6%	21.0%	22.4%	21.0%
Aggregate market share of next top 3 suppliers	15.8%	15.9%	15.5%	14.0%	16.9%	15.1%
Aggregate market share of top 9 suppliers	73.9%	74.8%	72.3%	70.1%	80.4%	76.7%
Other suppliers	26.1%	25.2%	27.7%	29.9%	19.6%	23.3%

The gas market has been traditionally dominated by a few major suppliers and in recent years, the market share occupied by the top three suppliers has been fairly stable except for 2021, when the share increased to 41 per cent as customers were transferred to large suppliers when others closed. In 2022, the aggregate market share of the top three suppliers remained stable at 41 per cent. The next six largest suppliers returned to similar market share levels seen between 2017 to 2020, which reflects growth in newer suppliers who have increased their customer numbers in recent years.

Table 2: Number of large gas suppliers by sector, 2002 to 2022

	2002	2004	2006	2008	2010	2012	2014	2016	2018	2020	2021	2022
Domestic	12	7	6	6	7	7	9	12	16	16	12	12
Commercial	10	10	7	6	8	8	9	11	11	11	9	7
Industry	15	10	9	8	8	7	11	11	11	9	9	10

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 to 12 from 16, leading to an increase in the market share of the top nine suppliers. This number remained stable in 2022, with the top nine suppliers accounting for 94 per cent of the market and the top three accounting for 52 per cent.

The number of large suppliers in the commercial sector has also grown in the last ten years. Similar to the domestic sector, in 2021 this was no longer the case as the number of commercial suppliers fell to nine from 11 in 2020 and in 2022, this fell further to seven suppliers. This was followed by a decrease in market share for the top three commercial suppliers, down from 69 per cent in 2021 to 67 per cent in 2022 reflecting an increase in small commercial gas suppliers. The nine largest commercial suppliers in 2022 accounted for 88 per cent of the market.

The number of large suppliers to industry remained relatively stable, increasing from nine to 10 in 2022. The market share occupied by the top three industrial suppliers increased, from 54 per cent to 56 per cent, though there was a decrease in the market share of the top nine industrial suppliers from 94 per cent in 2021 to 87 per cent in 2022.

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 2022

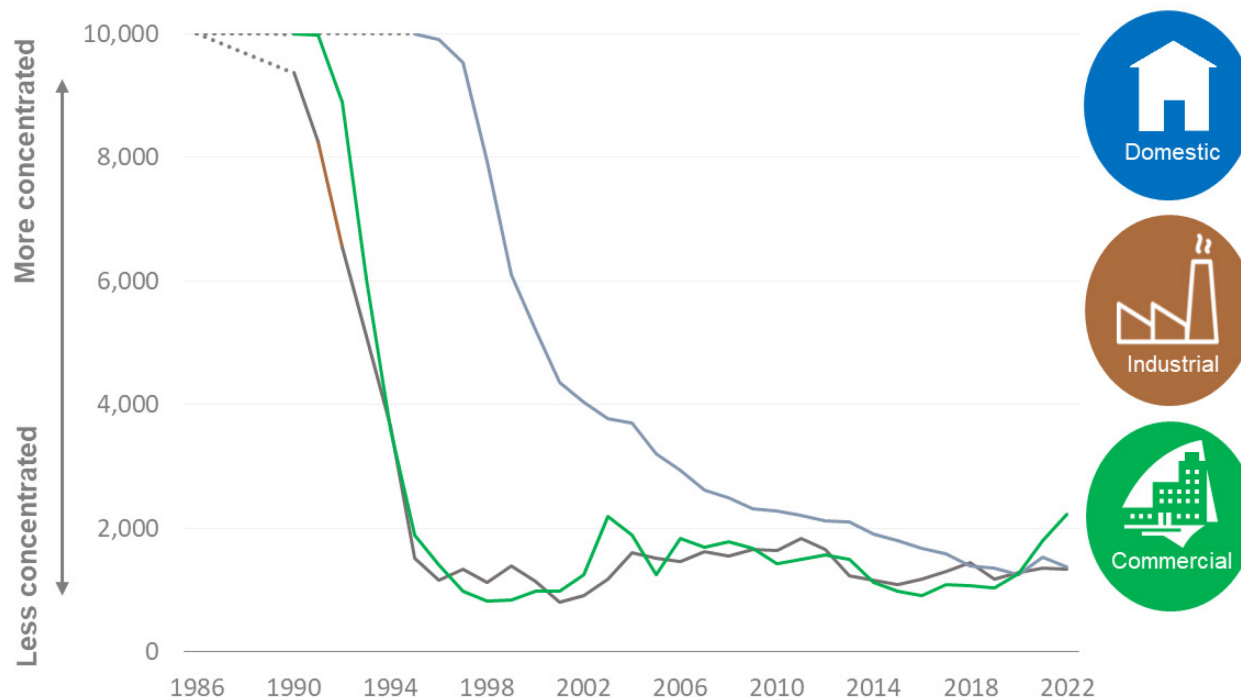


Chart 2 shows gas market concentration as expressed through the Herfindahl-Hirschman index, across the domestic, industrial and commercial sectors. Following the denationalisation of the gas market from 1986 there has been a substantial reduction in market concentration across all three sectors considered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

The domestic sector saw a consistent year-on-year decrease in concentration until 2021, when the concentration of the domestic market increased reflecting market exits and increased market share of large suppliers. In 2022, the concentration decreased again and is now consistent with the trend over recent years.

The commercial sector has been increasing year-on-year since 2019 and in 2022, the sector reached its highest Herfindahl-Hirschman score since the 1990s, reflecting a drop in large suppliers from nine to seven.

Conversely, the concentration of the industrial sector was relatively stable between 2021 and 2022. 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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