Competition in UK gas markets, 2023

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Key headlines

In 2023, the number of large gas suppliers decreased to 23, from 28 in 2022, due to market exits and some suppliers reducing in size. The number of large suppliers fell in the domestic, industrial and commercial sectors as high gas prices in 2022 continued into 2023. The biggest reductions were seen in the industrial and commercial sectors which has previously been impacted, although to a lesser extent, by the Covid-19 pandemic.

Consequently, in 2023 the top three suppliers accounted for 45 per cent of the market (with the top two accounting for 37 per cent), the highest share in ten years. The commercial and industrial sectors reached their highest levels of concentration since the 1990s, driven by considerable increases in market share for the top three suppliers in these sectors.

Background

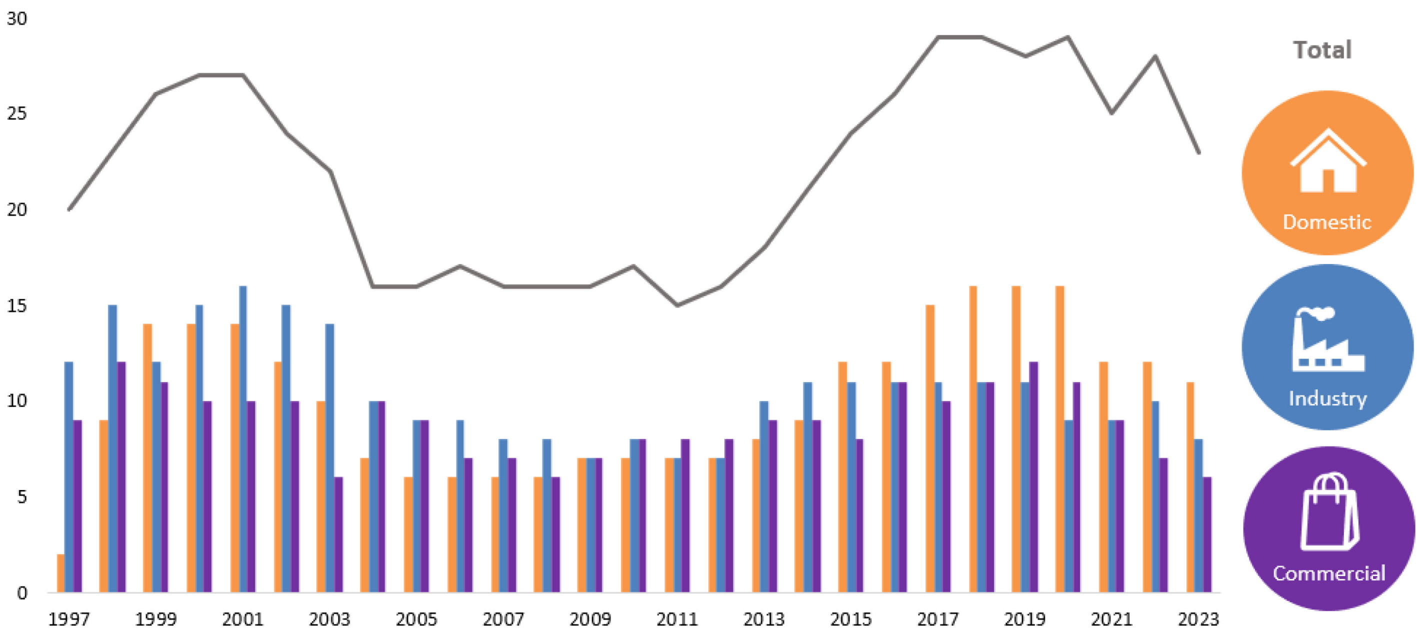
The Department for Energy Security and Net Zero (DESNZ) collect data from companies who are licensed to supply gas. Large suppliers are defined as those who supply more than 1,750 GWh of gas per year; large suppliers' data are collected monthly. For small suppliers (those who supply less than 1,750 GWh of gas per year), a sample provide data annually.

Gas is used by many sectors of the UK economy; generally gas demand can be split into three with electricity generation, domestic users and other sectors each making up around a third of demand. This article considers gas supplied for final consumption therefore does not include electricity generation and further disaggregates 'other' into industrial and commercial sectors.

The aim of this article is to analyse the number and size of companies supplying gas to the UK and the market concentration of the domestic, industrial and commercial sectors. Market concentration is assessed using the Herfindahl-Hirschman index; for more information see the methodology note at the end of the article.

Number of UK gas suppliers

Chart 1: Number of large gas suppliers, split by sector, 1997 to 2023[1,2]



Gas supply in the UK was denationalised between 1986 and 1992. This restructuring of the gas market led to an increase in the number of gas suppliers until 2000 from which point numbers decreased due to company mergers. From 2008, favourable market conditions meant numbers generally increased, with the number of large suppliers peaking at 29 in 2017. They then remained relatively stable until 2021 when the number of large suppliers fell to 25 due to record high gas prices which contributed to market exits. Despite increasing in 2022, the number of suppliers fell again in 2023, to 23, due to market exits and some suppliers reducing in size. Note that some change is driven by suppliers moving into and out of the large supplier category as they move above and below the 1,750 GWh threshold.

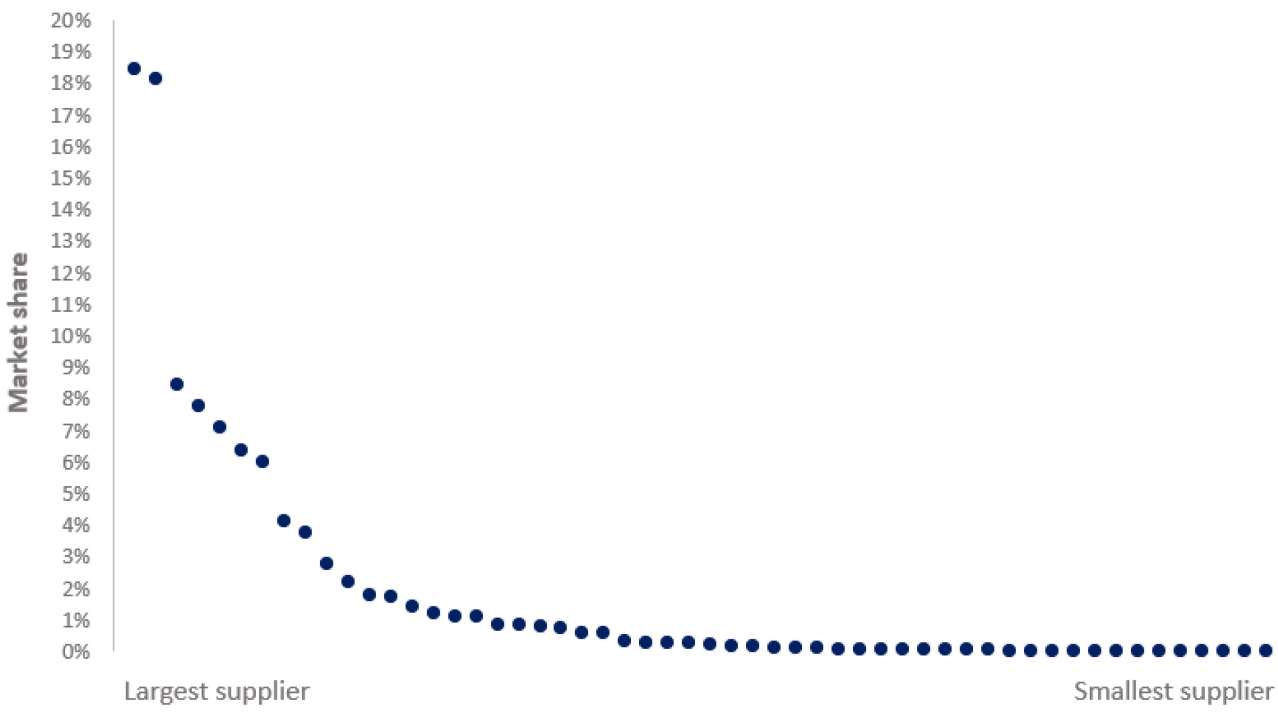
The number of large **domestic** suppliers has generally followed the same trend as the total number of large suppliers. In the domestic sector, the number of large suppliers steadily increased between 2005 and 2020 as smaller suppliers entered the market and gained market share. In 2021, the number of large domestic suppliers fell from 16 to 12 because of market exits, largely the result of market conditions. The number of large domestic suppliers fell by one to 11 in 2023, supplying 98 per cent of the UK's domestic demand.

In the **industrial** and **commercial** sectors the number of large suppliers peaked in 2019 at 11 and 12 respectively. From this point the number of suppliers has fallen each year as the impact of the Covid-19 pandemic and then to a greater extent market conditions meant suppliers reduced in size or exited the market. In 2023, there were 8 large industrial suppliers accounting for 92 per cent of the market; for the commercial sector there were 6 accounting for 83 per cent of the market.

[1] Note some suppliers appear in more than one sector
[2] Large suppliers are those that supplied more than 1,750 GWh in the reference year

Market share of UK gas suppliers

Chart 2: Market share of all gas suppliers, all sectors, 2023



Historically, the gas market has been dominated by a few major suppliers and to some extent this remains the case today. The two largest gas suppliers each make up around 18 per cent of the market, around 10 percentage points higher than the third largest supplier. Around five suppliers each make up between 6 and 8 per cent of the market, with a further six suppliers each making up between 2 to 4 per cent of the market. Over 40 suppliers each make up less than 2 per cent of the market.

In 2023, the market share of the top three largest suppliers was 45 per cent, the highest share in ten years. This is similar across the sectors with the top three suppliers holding the least market share in the **domestic** sector which has more suppliers in total. The top three suppliers hold the most market share in the **commercial** sector at 71 per cent, followed by **industrial** at 66 per cent.

To assess the competitiveness of a market, it is useful to examine a 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 3: Herfindahl-Hirschman Index for market concentration, 1986 to 2023

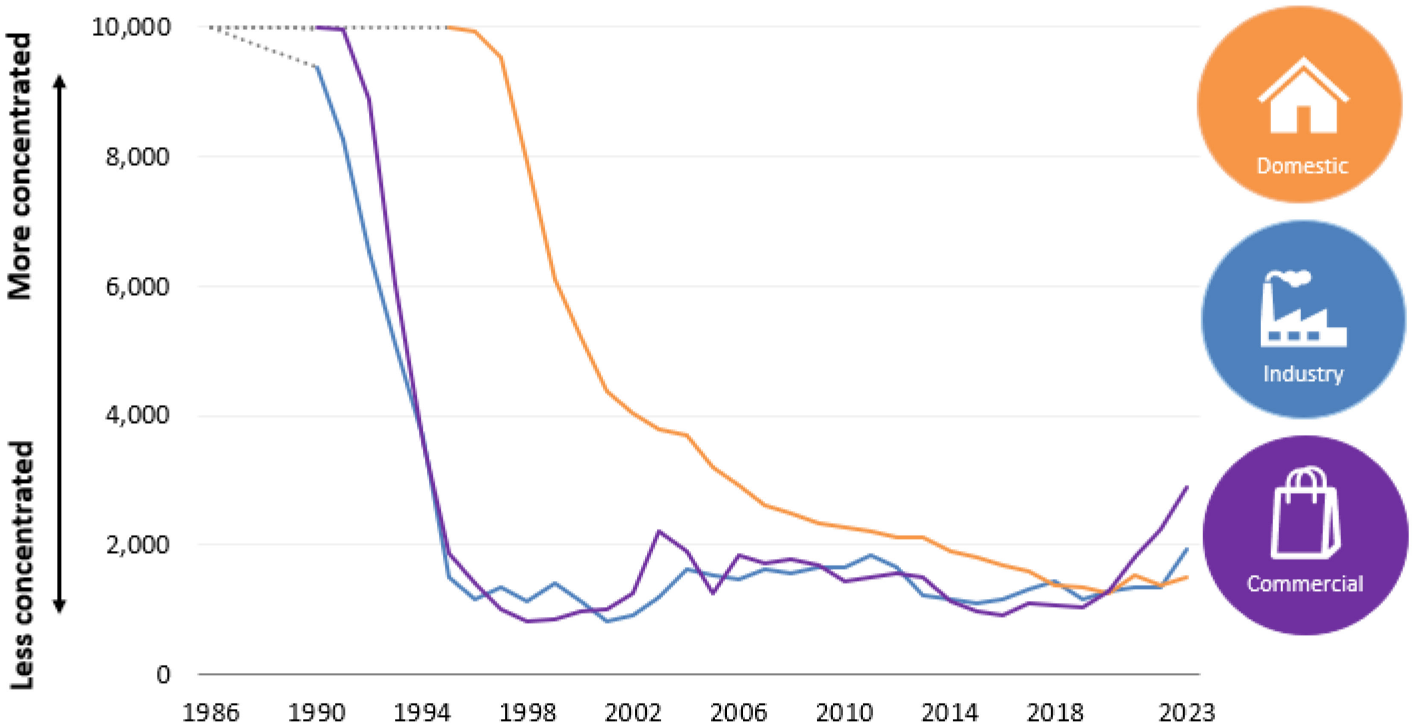


Chart 3 shows gas market concentration as expressed through the Herfindahl-Hirschman index, across the domestic, industrial and commercial sectors. Following the denationalisation of the gas market from 1986 there has been a substantial reduction in market concentration across all three sectors.

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 2023, the concentration increased slightly on 2022 as the number of large suppliers fell but is still consistent with the trend over recent years.

Concentration in the **commercial** sector has been increasing year-on-year since 2019 and in 2023, the sector reached its highest Herfindahl-Hirschman score since the 1990s, reflecting a drop in large suppliers to six, the lowest number since 2008.

Concentration in the **industrial** sector has been relatively stable in recent years. However, like commercial, 2023 saw the highest Herfindahl-Hirschman score since the 1990s for industry caused by a drop in large suppliers from ten to eight and a considerable increase in market share for the top three suppliers.

Methodology Note

The data used to produce this article are published in Competition in UK gas markets 2023 - data tables.

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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