



MALTA RESOURCES AUTHORITY

# LPG/Propane Price Review

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## Summary of the Review Process and Main Conclusions

June, 2010

## **INTRODUCTION**

The Malta Resources Authority (“MRA” or the “Authority”) was requested to review changes in the LPG/propane prices (“the proposed prices”) put forward by Liquigas Malta Ltd (“Liquigas”) in their proposal dated 27<sup>th</sup> January 2010 and subsequent revision dated 19<sup>th</sup> May 2010.

The new prices were proposed by Liquigas in the light of the increasing international price of LPG and the adverse fluctuations in the euro/dollar exchange rate.

The proposals submitted take the following into account:

- (1) The impact of the increases in the LPG price on the cost base of Liquigas for the 12 month period ending 31<sup>st</sup> December 2010.
- (2) Liquigas projected cost base for the 12 month period ending 31<sup>st</sup> December 2010. These costs include the operating and overhead expenses, depreciation and re-testing cost of LPG cylinders.
- (3) The storage and bottling costs incurred by Enemalta Corporation.
- (4) Projected demand for LPG and propane for the period ending 31<sup>st</sup> December, 2010.

## **PRINCIPLES**

The principles used as a basis of the LPG price review may be summarized as follows:

### ***Legality***

Price structures and methodologies adopted should be in accordance with applicable legislation.

### ***Sustainability and Profitability***

The proposed prices should enable Liquigas to achieve a rate of return on capital employed that allow for a sustained and acceptable fixed asset replacement and upgrade policy.

### ***Non-discrimination***

The proposed prices must not unjustifiably discriminate between comparable groups of consumers.

### ***Transparency***

The entire price review should be transparent. Consumers are to be provided with sufficient information to enable them to secure an acceptable understanding of how:

- i. The proposed prices were computed by Liquigas
- ii. The Malta Resources Authority's review and approval process

### **FULL COST RECOVERY METHOD**

The LPG price revision is based on the 'Full Cost recovery' method. This method involves the recovery of eligible costs and a reasonable rate of return on capital employed which will enable Liquigas to meet its current and future debt servicing obligations as and when they fall due.

The full cost recovery mechanism identifies the total variable retail LPG price<sup>1</sup> as to the sum of:

The cost of raw material<sup>2</sup>  
Excise Duty  
Bottling and Storage charges  
Distributors' commissions  
Operating expenses  
Allowable mark-up  
VAT

### **REVIEW PROCESS**

The review process commenced after the submission of the initial request by Liquigas dated 27<sup>th</sup> January, 2010. This was followed by a number of meetings and exchange of information between the Authority and Liquigas. A final proposal was submitted by Liquigas on the 19<sup>th</sup> May, 2010. In addition a number of consultation meetings were also held with Enemalta Corporation. The latter was also requested to submit details of storage and bottling costs which were included in the Liquigas proposal. The Authority subsequently simulated a number of cost scenarios to assess their impact on the selling price.

On the basis of information provided, the LPG/Propane price review confirms that:

- The cost /price model aims to recover the full eligible cost of operations;

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<sup>1</sup> Procedures to be adopted to establish the retail price of LPG and propane are given in Annex 1

<sup>2</sup> This includes a premium, ocean gains/losses, tanker inspections and demurrages

- The Target revenue to be collected from sale of LPG/propane covers the costs of importing, storage, bottling and supplying LPG/propane to the final consumers;
- The proposed mark up is €0.041/kg of LPG sold.(established by the Authority Meeting No 93 held 4th March 2009)

## **CONCLUSION**

The Authority has carried out this exercise in accordance with law, which establishes that the *'lowest possible prices are charged with the highest quality of petroleum product'*<sup>3</sup>. Sales should guarantee sufficient revenue to cover all eligible costs. The methodology used is based on the full cost recovery model.

In the light of the review process, the Authority authorizes Liquigas Malta Ltd to adjust the prices based on the full cost methodology Annex 1 on a monthly basis. The first revision should take effect on 2<sup>nd</sup> July 2010. The approved prices for each cylinder type and bulk sales are given in the Table 3

Table 3  
Current and approved prices (inclusive of VAT) of LPG/Propane in Euros

	10kg cylinders		12kg cylinders		15kg cylinders		25 kg cylinders		bulk/kg	
	<b>Price- - July 2010</b>	Current Price	<b>Price- - July 2010</b>	Current Price	<b>Price- - July 2010</b>	Current Price	<b>Price- - July 2010</b>	Current Price	<b>Price- - July 2010</b>	Current Price
LPG	<b>11.80</b>	9.00	<b>13.90</b>	10.50	<b>17.00</b>	13.00	<b>27.30</b>	20.50	<b>1.10</b>	0.85
Propane	<b>11.20</b>	10.00			<b>16.20</b>	14.50	<b>26.00</b>	23.00	<b>1.10</b>	1.05

<sup>3</sup> Ref LN 249 of 2008 -Art 12 (2)(e); MRA Act Cap 423 Art 4(1)(p)



MALTA RESOURCES AUTHORITY

## **Annex 1**

# **LPG and Propane Price Mechanism**

**(June 2010)**

The retail price of LPG and Propane per Kg will be **equal to the sum of**

Cost of LPG and Propane <sup>1</sup>  
Bottling charge and storage charges  
Distributors' commission  
Depreciation and cylinder re-testing costs  
Operating expenses  
Allowable mark up [on the selling price]  
VAT rate

***Divided by the***

Projected annual demand for LPG and propane (kgs)

- (1) All the above cost components are to be shown separately.
- (2) All costs, excluding those for storage and bottling, are to be apportioned on the projected total annual sales i.e. bulk and cylinder volumes.
- (3) Storage and bottling costs are to be apportioned in proportion to the projected annual cylinder and bulk sales volumes i.e. 20% bulk and 80% cylinders for 2010.
- (4) All the above cost components, excluding the product cost, will be reviewed and fixed for a period of one year ending 31<sup>st</sup> December.
- (5) The product cost may vary with each consignment purchased. Documents related to these consignments are to be submitted to MRA on a monthly basis.
- (6) The selling price may vary on a monthly basis to reflect product cost variations
- (7) Price variations will apply only if and when the variation in the product cost is +/- 2% when compared to the previous month's price
- (8) Five decimal places will be used during the LPG/propane price calculation process. The final price, including VAT, would be rounded to 2 decimal places as per EU recommendation, for example; if the price is between €14.41 - €14.44, the selling price would be rounded to €14.40 or if the price is between €14.45 -14.49, the selling price will be rounded to €14.50.
- (9) Additional to the information required above, the licensed importers/wholesalers of LPG will also need to submit monthly statements of their opening stocks, additions/reductions in stock and closing stock of LPG and propane.

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<sup>1</sup> Cost of Product refers to the landed cost of consignment in US\$ as stated on the bill of lading plus sea transportation costs in US\$ as per supply contract. The monthly average US\$/Euro exchange rate published by the European Central Bank. Local charges related to importation , including certification , demurrage and Excise Duty



MALTA RESOURCES AUTHORITY

- (10) Under or over recoveries arising from Article 7 will be included in the price adjustment made in the following month. Under-recoveries over 2% will not be recovered. Over-recoveries will be taken into account during the annual price review.
- (11) Liquigas and Enemalta will be requested to submit a plan of how they are going to improve efficiency that would result in a yearly reduction of 5% of the eligible costs for 2011 and 2012.
- (12) The final price as approved by MRA will be the maximum price of LPG/propane. Distributors are not authorized to charge additional prices over and above this price.
- (13) Liquigas will be required to publish the price of LPG/propane a day before the end of each month. Prices will be applicable on the 1<sup>st</sup> day of each month.
- (14) MRA retains the right to audit the accounts and trading documents of the operators involved in the importation, wholesale, storage, distribution and retailing of LPG and propane in order to ensure that the costs being submitted and which are included in the price mechanism, are being truly incurred.
- (15) The price mechanism will remain in force until such time as the MRA Board decides that there is sufficient competition in the LPG/Propane market meaning that no single operator will have more than 60% of market share.
- (16) Articles 4 and 15 will not apply in case of exceptional or extraordinary circumstances that may warrant a change in either the price mechanism or its components. In such circumstances, MRA will meet all the stakeholders to discuss any potential changes that may be deemed fit.
- (17) This Price Mechanism shall be valid till the 31<sup>st</sup> December 2010. Following the announcement of the approved prices the MRA will initiate a consultation process with a view of reviewing the Price mechanism if necessary. Comments will be considered in the next review.