

# DECISION NO 01/2011/ED OF THE 31 MARCH 2011 IN VIRTUE OF THE MALTA RESOURCES AUTHORITY ACT (CAP. 423) ON THE MAXIMUM RETAIL MARK-UP ON THE WHOLESALE PRICE OF PETROL AND DIESEL SOLD FROM PETROL STATIONS

## I DETERMINATION

Whereas

(a) In June 2010, the petrol station authorised providers requested an increase of €0.032 per litre on the existing commissions for litre of petrol and diesel sold from petrol stations<sup>1</sup>.

(b) MRA has taken note of the request and has thoroughly investigated the matters raised.

**Now, therefore, on the basis of the facts provided and for the reasons stated in Section II of this Decision, the Malta Resources Authority hereby determines as follows:**

- 1) The maximum retail mark-up for the Petrol Stations should be €0.06494 per litre of diesel and petrol retailed to the final consumer
- 2) Each individual petrol station authorised provider must carry out an asset replacement program as directed by the Authority to ensure improved customer service, safety and environmental protection within the period of duration of the authorisation (10 years);
- 3) Petrol station authorised providers must apply for the applicable Malta Environment and Development Planning Authority permits within 2 years from the date of this decision;
4. Petrol station authorised provider must comply with mandatory requirements as directed by other regulatory authorities;
- 5) Petrol station authorised provider must abide with applicable Acts and, or subsidiary legislation and the authorisations or licenses issued thereunder.

This Decision shall be deemed to be in force as from the 1st April 2011.

## II CONSIDERATIONS

### II A FACTS

The existing commission amounted to €0.057 per litre and is based on the following operational and contractual commitments of the petrol station:

	€/ltr
Base margin	0.03494
Auto premium	0.00932
Contract premium	0.00699
Maintenance premium	<u>0.00555</u>
<b>Total</b>	<b>0.0568</b>

The petrol station authorised providers requested an increase of €0.032 per litre on the existing commissions for litre of petrol and diesel sold from petrol stations. The petrol station authorised providers based the request for the increase on additional operational costs incurred by petrol station authorised providers since the last revision of the commissions and in view of the capital investment required to refurbish petrol stations to comply with EU safety standards.

The Authority carried out an analysis<sup>2</sup> on the basis of the cost model presented by the Petrol station authorised providers and on a study prepared by Fritz Energy Limited in 2009. It was

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<sup>1</sup> GRTU Returns Analysis of Petrol Stations 2010 – 2013, Marco Macelli

concluded that an increase of €0.002 per litre was justifiable to enable petrol station authorised providers to sustain an asset replacement programme.

The funding required for asset replacement was established as the projected asset replacement cost for all petrol stations in Malta, less the balance on a maintenance fund already available for petrol station authorised providers' investment purposes. The resultant funding requirement was divided by the projected volume of fuel sales over a ten year period, being equivalent to the relative authorisations' term of duration, to arrive at the investment cost to be recouped by petrol station authorised providers from each litre of fuel sold. The amount of depreciation already incorporated in the existing commissions was then deducted to arrive at an estimate of the shortfall in the commissions currently earned by petrol station authorised providers, which work out at €0.002822 per litre. The relative calculations are as set in the following table:

	€'000
<b>Projected asset replacement cost</b>	
Tanks, pipework and related plant	9,500
Pumps and tank gauging equipment	3,000
Civil works	5,400
<b>Total asset cost</b>	<b>17,900</b>
Less current balance on maintenance fund	(3,800)
<b>Required finance</b>	<b>14,100</b>
Divisible by projected litres sold over 10 years	€0.007622
Less depreciation per litre already incorporated in mark-up	€0.004800
<b>Net additional contribution per litre</b>	<b>€0.002822</b>

Enemalta commissioned a report<sup>3</sup> from PriceWaterhouseCoopers (PWC) to determine the retail margins .

### **IIB Assessment of position**

1. In terms of the Malta Resources Authority Act (Cap. 423 of the Laws of Malta) the functions of the Authority include the regulation of the price structure for any activity regulated by the Act and where appropriate the establishing of the mechanisms whereby the price to be charged for the acquisition, production, manufacture, sale, storage and distribution thereof is determined (Art. 4(1)(i) of the Act).

2. The existing commissions amounted €0.057 per litre.

3. Existing commissions should be adjusted to account for inflation from 2008 to date calculated at 10.38% on the existing mark-up level, corresponding to €0.00531 per litre.

4. Based on the reports provided, the maximum mark-up earned by petrol station authorised providers to enable them to generate an acceptable rate of return on current and future capital employed, whilst sustaining an acceptable fixed asset replacement programme and upgrade policy to ensure improved customer service, safety and environmental protection, should be increased by €0.00282 per litre.

For the Malta Resources Authority

Dr Reuben Balzan  
Chairman

<sup>2</sup> MRA Comments on GRTU Returns Analysis Cost Model

<sup>3</sup> Fuel Retail Pricing Review for 2011, January 2011