



MALTA RESOURCES AUTHORITY

## **PUBLIC CONSULTATION**

### **REFORM OF THE LPG MARKET STRUCTURE – THE DOOR-TO-DOOR DISTRIBUTION AND RETAIL OF LPG CYLINDERS**

## **1 Introduction**

The Malta Resources Authority has been advised that Government intends to declare the door-to-door retail of liquefied petroleum gas (LPG) in cylinders as a service of general economic interest under the Competition Act, so as to ensure that a universal service throughout Malta and Gozo can be provided at a uniform price and at the same time offer consumers a choice of LPG cylinders that are or will be on the market.

The Malta Resources Authority ('Authority') has been directed by the Minister for Energy and Conservation of Water in terms of article 6 (1) of the Malta Resources Authority Act (Cap. 423 of the Laws of Malta) hereinafter the 'Act' to issue a public consultation proposal regarding this policy decision.

In order to implement this decision, the Malta Resources Authority will be proposing changes to the structure of the LPG retail market. It will also subsequently be proposing amendments to the conditions of current holders of authorisations to retail LPG cylinders.

Final proposals will take into account the comments received from interested stakeholders.

## **2. Context and assessment of current LPG market structure**

- i. Liquefied Petroleum Gas (LPG) retailed through portable cylinders constitutes an important and integral source of energy to end consumers, particularly with regards to cooking and heating needs;
- ii. There is no availability of natural gas on the market as an alternative source for energy consumption by end consumers;
- iii. End consumers have no access to a distribution grid as available predominantly within other Member States forming part of the European Union, and thus depend primarily and principally on door-to-door distribution of LPG portable cylinders;
- iv. Malta has an above average energy poverty when compared to the average reported in the European Union, particularly with regards heating needs where the number of households unable to keep their home adequately warm has doubled since 2005 amounting to 21.7% of the whole population in 2011 according to the Survey on Income and Living Conditions (SILC) published by the National Statistics Office (NSO) in 2012.
- v. Energy poverty is more pronounced within the more vulnerable sections of the Maltese population, particularly but not exclusively, low income earners, the elderly and single parent households;

- vi. The present LPG supply and distribution market exhibits a high degree of vertical-integration, where the primary operator on the market enjoys a position of super-dominance both in the upstream and downstream markets and essentially having disproportionate control over the entire value chain;
- vii. It is recognised in competition and energy policy that without effective separation of distribution activities from activities of production and supply, there is a high risk of discrimination not only in the operation of the distribution network but also in the incentives for vertically integrated undertakings to invest adequately in their distribution networks. Moreover, the presence of vertically integrated super-dominant undertakings tends to act as a barrier to entry of new market operators;
- viii. The separation of distribution activities from activities of production and supply will better allow for unrestricted access to new market entrants to end consumers, and likewise ensure that end consumers are in a position to freely choose their suppliers;
- ix. It is in the interest of the end consumer and the market at large that there is a high degree of competition and effective liberalisation in the importation, storage, supply, bulk and wholesale retail of LPG, it is likewise paramount that end consumers enjoy the right to be supplied with LPG portable cylinder irrespective of their geographical location at reasonable, easily and clearly comparable, transparent and non-discriminatory prices;
- x. For the sake of clarity, LPG portable cylinder retail and door-to-door distribution to end customers as a service of general economic interest shall be subject to the following conditions, specifically, but not limited, to the following:
  - a. to ensure universal access to the LPG portable cylinder market to all end customers across the whole territory of the Maltese Islands, or any other sub-divided territories yet to be determined;
  - b. to ensure a high degree of service, including but not limited to the attainment of better quality standards, customer-care, transparency and access to information, particularly with regards to price and product identification;
  - c. to operate under a multi-flag system, ensuring that end customers have market access to all suppliers operating in the market allowing them to have the widest range of choice;
  - d. to provide such service at a regulated price being equal to all end users;
  - e. The regulated prices cannot exceed the costs incurred in the door to door distribution, taking into account the relevant receipts and a reasonable profit

### 3. Way forward

- I. In order to ensure a universal and improved service to consumers, in the public interest and with widespread reach of the territory:
  - a. There shall be a limited number of authorisations;
  - b. Each authorisation shall have a territorial exclusivity.
- II. Door-to-door retail authorisations shall be subject to the following conditions:
  - a. The door-to-door retail sector should operate on a multi-flag basis and should be open to sell cylinders of any authorised providers to provide choice to consumers in every part of the Maltese Islands;
  - b. Authorisation holders shall be required to operate a 24 hour call centre and emergency services to consumers;

- c. Holders of the authorisations to retail LPG door-to-door shall not hold concurrently an authorisation to import and, or wholesale, and, or primary storage, and, or bottle LPG;
- III. A uniform cylinder price throughout Malta and Gozo shall be retained.
- IV. Given the present mark-up on the door-to-door distribution and retail set-up, fixed points of sales should be regulated such that they serve as a complement, rather than as a substitute for the door-to-door distribution.

## 4. Issues for consultation

The MRA welcomes feedback on all above mentioned issues and any other issue deemed important by the respondent.

In view of the above reasons a period of consultation closing at end of business on Friday, 6th December 2013, is being allowed for receipt of any written representations or objections in respect of the proposals being made. All submissions will be acknowledged. A summary of responses to consultation shall be published.

Comments in writing in an envelope cleared marked: "Consultation – LPG market". or by e-mail to [mra@mra.org.mt](mailto:mra@mra.org.mt) should be addressed to:

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