
GENERAL NOTICES

NOTICE 1517 OF 2009

Department of Energy

DRAFT WORKING RULES TO SET THE MONTHLY MAXIMUM WHOLESALE AND RETAIL PRICE FOR LIQUEFIED PETROLEUM GAS FOR PUBLIC COMMENTS

1. I, Ms. Dipuo E Peters, Minister of Energy, hereby invite comments to be submitted to the Department on the working rules to set monthly maximum wholesale and retail price for Liquefied Petroleum.
2. Comments must be submitted in writing.
3. Comments can be hand-delivered, posted, facsimiled or e-mailed to the Department.
4. Physical address: Department of Energy
Mineralia Centre
234 Visagie Street (c/o Andries and Visagie)
Pretoria
5. Postal address: Department of Energy
Private Bag X59
Pretoria
0001
For attention of
Mr. Letladi Phaahlamohlaka, Room F402;
or
Mr. Jabulani Ndlovu, Room F415
6. Facsimile Number: (012) 317 8961
7. E-mail address: Letladi.Phaahlamohlaka@dme.gov.za
Jabulani.ndlovu@dme.gov.za
8. Comments must be submitted to the Department of Energy not later than 16h30, 07 December 2009.

DRAFT WORKING RULES TO SET THE MONTHLY MAXIMUM WHOLESALE AND RETAIL PRICES FOR LIQUEFIED PETROLEUM GAS (LPGas)

The maximum retail price for a kilogram of LPGas in each LPGas pricing zone will include the following pricing elements:

- Maximum Refinery Gate Price (MRGP) for LPGas;
- Primary transport costs (zone differential);
- Operating expenses;
- Working capital;
- Depreciation
- Final distribution costs;
- Wholesale margin; and
- Retail margin.

2. Maximum Refinery Gate Price

- 2.1 The Maximum Refinery Gate Price (MRGP) of LPGas will be determined in line with Regulation No. 1029 of 31 July 2002.
- 2.2 The MRGP of LPGas is based on the average monthly Basic Fuels Price (BFP) of 93 octane Lead Replacement Petrol (LRP). The BFP of 93 LRP is calculated in **South African cents per litre** in line with the Working Rules to administer the Basic Fuels Price.
- 2.3 The price of 93 LRP in South African cents per litre is converted to an LPGas price in South African Rands per ton as follows:
$$\text{Basic Fuels Price of 93 LRP in Rands per litre} \div 0.75 \times 1000 \text{ less } R74.00/\text{ton} = \text{Rands per ton.}$$
- 2.4 The maximum refinery gate price/kg is determined as follows:
 - $\text{Maximum refinery gate price per ton} \div 1000 = \text{Maximum refinery gate price per kg.}$

3. Primary transport cost (zone differential)

Primary transport refers to the transportation of LPGas in bulk to a cylinder-filling plant from the nearest coastal refinery. Bulk LPGas is transported by rail or road. The most cost efficient mode of transport will be used to determine the primary transport costs in each of the LPGas pricing zones and these rates will be adjusted annually from the first Wednesday in April each year and be published on the website of the Department of Energy.

4. Operating expenses (excluding stock costs and depreciation)

Operating expenses will be based on a cylinder filling plant with a capacity of **35,000 kilograms per month** and the following operating expenses will be allowed:

4.1 Personnel	Expenditure (Rands)
4.1.1 Manager (1)	25,000
4.1.2 Admin staff (2)	13,000
4.1.3 Plant operator (1)	3,800
4.1.4 Driver (1)	4,800
4.1.5 Handler (2)	8000
4.1.6 Secretary (1)	3,800
4.1.7 Company contribution	4236
4.1.8 Other (e.g. owners salary, IT, tel.)	<u>39,000</u>
TOTAL	<u>101,636 or 290 c/kg</u>

4.2 Transport (Secondary transport)	Expenditure
4.2.1 Fuel costs	15,860
4.2.2 Maintenance	4,100
4.2.3 Insurance	<u>5,000</u>
TOTAL	<u>24,960 or 0.713 c/kg</u>

5. Working capital

5.1 Trade debtors for a period 45 days:	20.0 c/kg
5.2 Stock costs (10 days):	6.0 c/kg
Trade debtors	26.0 c/kg

6. Depreciation

(Total assets-Land)/120 months/35,000kg	126 c/kg
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7. Gross Margin: Cylinder filling plant

7.1 The following allowable assets for a 35,000 kg cylinder-filling plant will be included to determine the gross margin:

Asset	Value (Rands)
7.1.1 Site	1,050,000
7.1.2 Building	2,100,000
7.1.3 Plant	400,000
7.1.4 9 kg cylinders (6200xR330)	2,046,000
7.1.5 19 kg cylinders (1658xR500)	829,000
7.1.6 48 kg cylinders (730xR800)	584,000
7.1.7 Vehicles	800,000
	7,809,000
7.1.8 <u>Less</u> deposits (8,588 xR150.00)	<u>1,459,960</u>
TOTAL	<u>6,349,040</u>

ROA (wholesale margin) = $R6,349,040 \times 15\% = R952,356 / 12 = R79,363$ or 227 c/kg

8. Wholesale Price

8.1 The maximum wholesale list price (excluding the deposit of the cylinder) will be the sum of:

- The Maximum refinery gate price;
- Primary transport costs;
- Operating expenses;
- Secondary transport cost;
- Working capital;
- Depreciation
- Gross margin

9. Retail margin

The maximum retail margin is limited to 120.0 c/kg.

10. Maximum retail price

The maximum retail price of LPGas in each LPGas Pricing Zone will be limited to the sum of the above elements.

11. Deposits on cylinders

Deposits on 9-kg cylinders will be limited to a maximum amount of 45% of the cost of a 9-kg cylinder and will be adjusted annually.

12 Summary of price in Rands:

• Maximum refinery gate price:	5.66
• Primary transport:	0.45
• Operating expenses:	2.90
• Secondary transport:	0.72
• Working capital	0.26
• Depreciation	1.26
• Gross margin:	2.27
• Retail margin	<u>1.20</u>
TOTAL price/kg	14.72
TOTAL price/litre	<u>8.10</u>

13 Price changes

Normal price adjustments will come into effect every first Wednesday of each month. The adjustments will be based on the movement in the drivers of the various elements of the price determination formula.

14 Monitoring and enforcement

The DoE will from time to time monitor the industry to establish compliance to the determined pricing. This monitoring may include any surveys or use of any stakeholder bodies in consultation with Industry.