

## **WORKING RULES TO SET THE MONTHLY MAXIMUM RETAIL PRICE FOR LIQUEFIED PETROLEUM GAS (LPG)**

### **Definitions**

- 1 In these Regulations, any word or expression to which a meaning has been assigned in the Act shall have the meaning so assigned and, unless the context otherwise indicates—

**“cylinder”** means a vessel under pressure of not more than 48 kg capacity used to contain liquefied petroleum gas and conforms to the South African National Standard, *Transportable metal containers for compressed gas - Basic design, manufacture, use and maintenance*, SANS 10019:2001;

**“cylinder filling plant”** means a facility or premises where liquefied petroleum gas is received in bulk and is then filled into cylinders for supply to residential customers, and conforms to the South African National Standard, *The handling, storage, distribution and maintenance of liquefied petroleum gas in domestic and industrial installation*, SANS 10087,

**“LPG pricing zone”** means those magisterial districts with similar transport costs from the nearest coastal refinery or designated port of entry grouped into Magisterial District Zones;

**“margin”** means gross margin;

**“maximum refinery gate price”** means the refinery gate price of liquefied petroleum gas determined in terms of the Regulation in respect of the Maximum Refinery Gate Price of Liquefied Petroleum Gas No. R. 377 of 1 April 2008;

**“residential customer”** means any end-user that purchases liquefied petroleum gas in cylinders for residential use;

“**the Act**” means the Petroleum Products Act, 1977 (Act No. 120 of 1977);

“**the DOE**” means the Department of Energy;

“**Working Rules**” means the Working Rules to set the Monthly Maximum Retail Price for Liquefied Petroleum Gas published on the website of the DOE.

2. 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.

### 3. **Maximum Refinery Gate Price**

3.1 The Maximum Refinery Gate Price (MRGP) of LPGas will be determined in line with Regulation No. R. 377 of 1 April 2008.

3.2 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.

3.3 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:  
Basic Fuels Price of 93 LRP in Rands per litre/0.75\*1000 less R74.00/ton = Rands per ton.

3.4 The MRGP in South African Rands per kilogram is determined as follows:  
Maximum refinery gate price per ton/1000 = Maximum refinery gate price per kg.

### 4 **Primary transport cost (zone differential)**

Primary transport refers to the transportation of LPGas in bulk to a cylinder-filling plant from the nearest port of entry. Bulk LPGas is transported by rail or road. The most cost efficient and available 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.

**5. 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:

<b>5.1 Personnel (Rands)</b>	<b>Expenditure</b>
5.1.1 Manager (1)	25,000
5.1.2 Admin staff (2)	16,000
5.1.3 Plant operator (1)	3,800
5.1.4 Driver (2)	9,600
5.1.5 Handler (2)	7,600
5.1.6 Secretary (1)	3,800
5.1.7 Company contribution (Pension and medical aid)	9,300
5.1.8 Other (overheads)	<u>45,000</u>
❖ Telephone	
❖ Stationary and postage	
❖ Office equipment	
❖ Municipal rates and taxes	
❖ Insurance (All)	
❖ Bank costs	
❖ Audit fees	
❖ Levies	
❖ Training	
❖ Licences	
❖ Safety and security	
❖ Maintenance (plant and vehicles)	
❖ Transport (secondary): fuel cost	
<b>TOTAL</b>	<b>120 100 <u>or 343</u></b>
<b><u>c/kg</u></b>	

**6. 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
<b>Total</b>	<b>26.0 c/kg</b>

**7. Depreciation**

(Total assets-Land)/120 months/35,000kg      **126 c/kg**

**8. Gross Margin: Cylinder filling pant**

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

<b>Asset</b>	<b>Value (Rands)</b>
8.1.1 Site	1,050,000
8.1.2 Building	2,100,000
8.1.3 Plant	400,000
8.1.4 9 kg cylinders (6200xR330)	2,046,000
8.1.5 19 kg cylinders (1658xR500)	829,000
8.1.6 48 kg cylinders (730xR800)	584,000
8.1.7 Vehicles	800,000
	<b>7,809,000</b>
8.1.8 <u>Less</u> deposits (8,588 xR150.00)	<u>1,459,960</u>
<b>TOTAL</b>	<b><u>6,349,040</u></b>

ROA (wholesale margin) = R6,759,000/10years/12 = 161 c/kg

#### 9. Retail margin

The maximum retail margin is limited to 15% of purchase price:

1254 c/kgX15% 188 c/kg

Plus

Value Added Tax: 14% of (1254+188) = 201.9 c/kg

EQUALS MAXIMUM RETAIL PRICE 16.44 c/kg

#### 10. Deposits on cylinders

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

#### 11 Summary of price in Rands:

• Maximum refinery gate price:	5.97
• Primary transport:	0.01
• Operating expenses:	3.43
• Working capital	0.26
• Depreciation	1.26
• Gross margin:	1.61
• Retail margin	1.88
• VAT	2.02
<b>TOTAL price/kg</b>	<b>16.44</b>
<b>TOTAL price/litre</b>	

#### 12 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.

**13 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.

14 The average margin of the licensees as envisaged by section 2(1)(f) of the Act must be reviewed annually based on the audited financial data.

15 The Minister must publish the Maximum Retail Price of liquefied petroleum gas supplied to residential customers monthly in the *Government Gazette*.