

LP GAS ISSUES BRIEFING

1. Why did Eskom decide to promote LP Gas?

Eskom's decision to promote the use of LP gas stems from its position to ensure reliable energy supply in the face of the maintenance and refueling process at Koeberg which led to power cuts in the Western Cape. In addition, the country's high economic growth also lays the possibility of ongoing power shortages at every consumer's door, and there is a need to encourage consumers to consider long-term sustainable energy consumption. This was the demand side management justification for the LP gas switch programmes that are being offered to all householders in the Cape.

2. Has Eskom considered the safety issues around the use of LP Gas?

Internationally, LP gas is regarded as a safe, efficient, clean and instantly controllable household thermal fuel. The use of gas for cooking and space heating is widespread in homes in Europe, America and in the emerging economies of Brazil, India and China it is the preferred fuel of the poor. In contrast South Africa has one of the lowest consumptions of LP gas per capita in the world despite having a highly sophisticated local liquid fuel industry.

As with any energy, including electricity, LP Gas is not dangerous unless it is handled incorrectly. Every aspect of LPGas is well-managed and regulated in terms of the Occupational Health & Safety Act and through SABS standards. These standards and laws are enforced by the Department of Labour inspectors in conjunction with the LP Gas Safety Association.

Eskom, the LP Gas Safety Association and the contracted gas suppliers involved in the switch programmes have developed educational material and are implementing intensive educational campaigns in communities to educate consumers on the safe use of LP gas and gas appliances. Gas appliance manufacturers also include operating manuals which also include guidelines for safe use.

3. How is the price of LP Gas set?

As LP Gas is not regulated, the retail prices are developed from a liquid fuel industry agreed factory gate price at the oil refinery (linked to a set formulae and petrol equivalent) plus an overall margin to cover the cost of storage, bulk transportation, regional and local distribution, cylinders and their maintenance that are all determined by the wholesaler/distributor channel. Unlike paraffin which is exempt from VAT, LP Gas also attracts VAT. This is an open competitive market and includes all the infrastructural costs for LP Gas handling and storage.

Currently the other significant factor is the link between liquefied petroleum gas and crude oil prices. Escalation in global oil prices in recent months have led to around a 93% gate price increase and a 41% resale price increase of LP Gas over the past 18 months. Unfortunately oil prices are in a period of volatility but it should be kept in mind that they can also reduce. There is widespread international opinion that it is likely that the oil price will reduce over coming months as tensions with Iran decrease, more oil supply capacity comes on stream and the commodity-led global boom stabilises.

One important exception to this rule is the supply of LP Gas for the Eskom Double plate programme for low income households, where the National Energy Regulator and the LP Gas supply industry have agreed that a maximum recommended retail price will be used. This price has been set at R2.00 per kg less than the thermally equivalent paraffin price.

4. Even with the cap on a recommended retail price, it seems that gas is still more expensive than electricity. How are consumers expected to afford LP Gas?

Based on the current maximum recommended retail price under the Double Plate programme for low income households, LPG is about 6% higher than electricity and about 14% below paraffin. This translates to participants of the programme spending about R37 per month on electricity, and R10 per

month for LP Gas for five months while consumers utilize the vouchers provided, followed by R40 per month thereafter.

For the hob, stove and heater exchange programme (middle to high income market), the price of the LP Gas will be higher with the current average around R12.00 per kg. This price will be around 35% more than electricity or for a typical family cooking on LP Gas the costs would be R75.00 per month, compared to R50.00 per month for electricity.

5. Why did Eskom promote LP Gas as a cheaper option then?

Neither Eskom nor the LP Gas Association has ever promoted LP Gas as a cheaper alternative to electricity. Cooking with gas is more expensive than cooking with electricity, but LP Gas is a more efficient and controllable thermal energy source than electricity, especially for cooking.

In the case of poor communities, we have contracted gas suppliers to a ceiling price which was agreed between the Department of Minerals and Energy and the LP Gas Association following two years of background work. If LP Gas costs R7.80 per kg, LP Gas and electricity would cost the same. Unfortunately it currently costs R8.50 per kg in poorer communities with the ceiling in place.

This means that a household using 5kg month of LPG will pay R 3,50 extra per month for gas than for electricity. Eskom's Double plate programme includes R150's worth of free LP Gas refills which equates to a 43 month subsidy of the difference.

Consumers participating in the middle and higher income switch programmes would need to decide whether they are willing to pay an approximate difference of R25 per month more to switch to LP Gas. However, because LP Gas is infinitely variable, this amount could be reduced. A further advantage is obviously that one can continue to cook even if there is an electrical power outage.

Eskom will continue to take the lead to encourage Cape consumers to switch to gas, but it's also time for policymakers and decision makers within Government, the Energy Regulator; and, the gas and fuel industry to join in the quest to make LP gas more affordable and readily available in poor communities.

6. What are the infrastructure realities of the LP Gas industry?

The entire LP Gas wholesaler/distributor channel is created and operated by commercial enterprise in the form of oil company subsidiaries like Easigas, BP Gas and Totalgaz, non oil company operators like Afrox and small private distributors and retailers. Each of these is commercially self-reliant and must operate competitively to remain in business. There is no cross-subsidisation from the oil companies. Across this chain all the infrastructure is owned and financed on a cost reflective, competitive market basis that has to generate competitive rates of financial return to sustain further investment for the maintenance and expansion of this crucial supply infrastructure.

It should also be noted that the very large population of LP Gas cylinders that are an essential part of the supply of LP Gas - especially to residential customers - are owned by the LP Gas supply companies who have to finance and cover the ongoing cost of maintaining the cylinders in a safe condition.

7. Is there conflict between DME and Eskom?

Not at all. Eskom has attended meetings and been party to the lengthy negotiations between the LPG Industry and the DME over the last two years. Given the fact that no LPG price regulation currently exists, the current industry offer of LP Gas at R2 less than paraffin is the best possible contract price. Once the Department regulates the pricing of LP Gas, Eskom will simply move to this level of pricing for its gas-related DSM programmes in low income communities..

8. What is the current status of the gas supply shortages in Gauteng, and could the Western Cape expect any shortages in supply?

We do not foresee that the Western Cape will be affected by any gas supply constraints. The shortage in Gauteng was caused by a number of unforeseen circumstances such as the increase in oil prices, customers hoarding 9kg bottles with the onset of an earlier winter, and two major refineries experiencing unplanned shutdowns. The SA Petroleum Industry Association reports that the shortage has been managed and that LPG availability is returning to normal.

9. Could Eskom's aggressive approach to LP Gas conversion not aggravate the supply problem in the Western Cape ?

Eskom obtained assurances from the LP Gas supply industry during the planning stage for the switch programmes that there would be more than adequate supplies of LP Gas available to meet the increased demand. It would have clearly been irresponsible of the participants in these programmes, including Eskom, to have proceeded with them without such assurances. Furthermore the supply situation has been closely monitored by the LPGSASA. There are no LP Gas shortages in the Western Cape.

10. How are shortages of gas appliances in the Western Cape being managed?

Owing to the unprecedented urgency of the switching programmes to meet Eskom demand side management requirements, additional quantities of appliances had to be ordered by the LP Gas appliance trade. Many of these appliances come from abroad and unavoidable shipping delays exist that have had to be carefully managed. Further quantities of appliances are in transit at this very moment and are expected in retailers shortly to meet the high demand from householders. The hob, stove and heater programme will end on the 31st July so householders wishing to take advantage of the generous switch discounts should stay in contact with their local LP Gas appliance retailers.

For the low income programme all the participating suppliers now have the necessary cylinders and two plate stoves in stock and are now rolling these out in poor communities.

11. How many LP Gas appliances have been swapped to date?

For the hob, stove and heater programme some 2,000 appliances have already been switched with many more in the pipeline. For the two plate hob programme in low income communities over 20,000 householders have been switched with just Totalgaz operating so far. Further suppliers who have now obtained the necessary appliance stocks are now starting to supply to this sector and it is anticipated that the volume of households being switched will increase significantly and that the target of 100,000 low income households will be completed in the next few weeks.

12. Where can the public find more information about the Go to Gas campaign?

Consumers can contact the Go to Gas call centre on 0861 GO 2 GAS (0861 462 427). To find the nearest participating dealer, consumers can SMS 'Go2Gas' followed by a space and the name of their suburb to 34313 (e.g. Go2Gas Hout Bay to 34313).