

**COMPETITION COMMISSION INQUIRY INTO THE DOMESTIC BULK (LPG) MARKET**  
**CALOR'S COMMENTS ON SWITCHING COSTS IN RELATION TO ALTERNATIVE LPG**  
**SUPPLY SCENARIOS**

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**INTRODUCTION**

1. Alternative Scenarios

*Excised* the comparison of costs under alternative scenarios on change of supplier (namely, tank uplift or tank ownership transfer in situ) was raised and the whole issue of the need to undertake separate inspections for each tank acquisition was questioned. Accordingly, Calor has examined these alternative scenarios in the paper below. The paper compares Scenario 1 - switching to an alternative LPG supplier by physically moving the tank (i.e. the current practice of the UK LPG suppliers) and Scenario 2 - switching to an alternative LPG supplier by transferring tank title to the incoming supplier. The anticipated requirements associated with Scenario 2 are set out first, followed by the costings for each Scenario.

2. Summary

It is the opinion of Calor that, on a reasonable estimate, the range of costs to the industry for tank transfer on site rather than the present uplift arrangements would be similar.

The incoming supplier must: check tank siting and access, the design, markings and overall condition of the tank and fittings and the dataplate; pressure test pipework; test and inspect regulators; and replace labelling and the dataplate. This will require two separate visits by qualified personnel. For full details please see paragraphs 4.2.2 and 4.2.3. below.

There is also a significant range of imponderables such as those set out in paragraph 10, which make accurate cost predictions for Scenario 2 difficult. There would also be set-up costs, and Calor has concerns about the long-term safety and insurance implications which cannot be accurately costed.

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Overall, Calor's opinion, as previously expressed, is that tank transfer in situ would incur similar (and quite possibly higher) costs for the industry compared with those of the present system, whilst at the same time increasing bureaucracy and tending to reduce standards for the reasons set out in our response to the ETP.

#### 3. General Legislative Background

As an employer an LPG Supplier has a legal obligation under the Health & Safety at Work Act (HASAWA) to ensure, as far as is reasonably practicable, the health, safety and welfare at work of all its employees (section 2) and of those not in its employment who may be affected (section 3). In particular, in relation to the transfer of tanks, section 2 (b) refers to the duty to ensure, as far as is reasonably practicable, safety and the absence of risks to health in connection with the use, handling, storage and transport of articles and substances and section 6 places a duty on any person who designs, manufactures, imports or supplies any article for use at work to ensure, so far as is reasonably practicable, that the article is so designed and constructed as to be safe and without risks to health when properly used (section 6(a)) and to carry out or arrange for the carrying out of such testing and examination as may be necessary (section 6(b)).

Failure to comply with these legal obligations, and those in Regulations such as the Pressure Systems Safety Regulations 2000 (PSSR) and the Gas Safety (Installation & Use) Regulations 1998 (GSIUR) made under this Act, is an offence and if found guilty imposes fines and potential imprisonment on both the individual (section 33) and the body corporate (section 37).

In a recent case a major oil company was fined £900,000 following the death of two contractors when they were overcome by the release of hydrocarbon gas during the inspection of repairs to a North Sea oil platform pipework.

These are real and onerous obligations on the LPG Supplier. Each Supplier has some limited discretion as to how they comply, but compliance is obligatory, and the method of compliance will, in the case of any allegation of non-compliance, be subject to the most

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rigorous scrutiny by the courts. The requirements outlined below represent those which, in Calor's opinion, and based on their experience, fulfil the minimum legal obligations.

#### 4. Requirements of Scenario 2

4.1 Outgoing Supplier – The outgoing supplier would incur no “engineering” costs in this scenario. We have indicated there would be an incremental increase in their administration costs which can be split into three distinct areas:

4.1.1. Negotiation of the transfer price and confirmation of it in writing to the incoming supplier. No allowance has been included below for price negotiation costs, which may well have to take account of the first, second and fourth bullet points of paragraph 10.

4.1.2 Document retrieval costs would be incurred. This is because within the Pressure System Safety Regulations 2000 (PSSR) (Regulation 14 (3)) the seller of a pressure vessel has a duty to provide certain documentation pertaining to the manufacturer and ongoing use of the pressure vessel.

4.1.3 LPG tanks form part of an LPG Supplier's fixed asset register. As such if one is transferred from the outgoing supplier, a process would be required to remove it from the fixed asset register.

#### 4.2 Incoming Supplier

It is, essential for the incoming supplier to conduct individual examinations of the Tank(s) (as set out in more detail below), in order for the supplier to ensure that they are complying with their legal obligations in continuing to operate, and supply gas to, the Tank(s). Calor's views in this matter were reinforced by their experiences of the acquisition of the bulk LPG business of *excised* in 1998, and *excised* in 2000, where safety-related deficiencies in Tank siting, equipment and maintenance were discovered which required rectification at significant expense. *Excised*.

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#### 4.2.1. Incoming supplier's pre-acceptance actions –

- a) Subject to the initial site inspection report (see paragraph 4.2.2. below) negotiation of the transfer price with the outgoing supplier (see 3.1a above). No account has been taken below of price negotiation costs.
- b) Verification of the documents sent by the outgoing supplier relating to the transferred vessel, in order to satisfy the requirements of Regulations 5, 7, 8 and 9 of the PSSR.

4.2.2 Initial Site Inspection – to assess whether the Tank can be accepted and to satisfy its responsibilities under the HASAWA and the PSSR the incoming Supplier is required to carry out a preliminary inspection of the tank and its location. As discussed *excised*, and as referred to above Calor considers it cannot discharge these responsibilities by assuming the outgoing supplier had already carried out such assessments. This assessment would need to be carried out by someone competent to do so – such as a Tank inspector as defined in Calor's written scheme of examination, which reflects the inspector requirements outlined in United Kingdom Advisory Service (UKAS) document RG2. The initial site inspection would have to ensure that:

4.2.2.1 The tank siting was in accordance with the relevant LPGA Code(s) of Practice.

4.2.2.2 The topography of the site would enable the Supplier's driver to make deliveries safely (in the case of Calor, in accordance with Calor's Drivers' Manual), the HASAWA and Regulation 11 of the PSSR.

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4.2.2.3 The siting of the tank and the positions of its fittings would enable an engineer working on behalf of the Supplier to do so without risk to themselves or others, and in accordance with the HASAWA and Regulations 11 and 12 of the PSSR.

4.2.2.4 The design, markings and overall condition of the tank and its fittings corresponded with the information and certification supplied and that it was safe for ongoing LPG service; and to confirm Regulations 5, 7, 8 and 9 of the PSSR has been satisfied with the documentation supplied and the markings on the dataplate.

#### 4.2.3 Second site visit

If the first site visit was satisfactorily completed, a second site visit is required by a CORGI registered engineer physically to carry out a number of work tasks, consisting of:

4.2.3.1 Pressure testing the pipework. This automatically occurs in Scenario 1 where the outgoing and incoming suppliers' tanks are exchanged. Where there is no tank transfer, Calor considers it still essential to pressure test the pipework before it takes responsibility for it under Regulation 37 of the GSIUR.

4.2.3.2 Testing and or replacing regulators - under Regulation 14 of the GSIUR, Calor has a duty to ensure the regulators are suitable for continued use. Furthermore it is Calor's interpretation of this regulation that an overpressure protection device would need to be fitted if one was not present. (Note:- Calor's costings [*excised*] assume the ideal situation where the existing regulator is suitable for continued service.)

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4.2.3.3 General inspection of pipework and its support to fulfil Calor's obligations under Regulation 7 of GSIUR.

4.2.3.4 To ensure the tank is clearly labelled as the property of the incoming supplier and that the proper emergency information is available, it is necessary to re-logo the tank and replace the emergency number stickers on the tank and amend/replace the safety notice at the emergency control valve at the gas supply's entry point to the house/premises.

4.2.3.5 The hood would possibly need to be modified/replaced to ensure it is compatible with the locks used by the incoming supplier (this could range from simply exchanging the padlock to replacing the entire hood).

4.2.3.6 Affix a new dataplate (by riveting it to the tank leg). It is Calor's opinion that a new dataplate would be required for any tanks transferred.

There are 2 reasons for this:

- a) The dataplate is the means by which notice of legal title is given for a tank. Most tank dataplates contain a phrase saying "Property of LPG company X." To give notice of the transfer of a tank to the incoming supplier a new dataplate will be required stating the incoming suppliers name and the date of transfer.
- b) To allow a mechanism for allocating a specific serial number. Calor has found following two of its LPG company acquisitions that duplicate serial numbers can occur. This is because there are many different tank manufacturers

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whose tanks are in service in the UK and often serial numbers are duplicated between different manufacturers.

- 4.2.4 Post site work administration – once the site work has been completed, a number of administration tasks would be required for example to update the tank record and the emergency response data.

### COST OF ALTERNATIVE SCENARIOS

5. As mentioned above, the two scenarios selected for examination involve the customer switching to an alternative LPG supply, rather than to an alternative fuel. A customer switching to an alternative LPG supplier will require both outgoing and incoming LPG suppliers to complete the tasks set out in paragraph 4 above. It is worth noting that the foreword of CoP26 was added in the early 1990s to encourage co-operation between outgoing and incoming suppliers by simplifying this process, thus reducing the costs incurred as well as reducing any inconvenience to the customer.
6. The costs borne by the LPG suppliers (and charges incurred by the customer under current industry practice) are assessed in the Scenarios 1 and 2 *excised*. The costs given are subject to certain assumptions:
- 6.1. The costs for engineers and crane vehicles are the direct variable costs (rates agreed with contractors) that would be incurred by Calor for the typical activities listed. It should be noted that these are typical costs for above ground 1,200 / 2,000 litre tank movements. Actual costs may vary depending on the particular characteristics of an installation (e.g. site access etc).
- 6.2. The costs for Scenario 2 are Calor's best estimate of what would be involved under this scenario, with the caution there is no actual experience of operating such a system.

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#### SCENARIO 1 – Switch to Alternative LPG Supplier (tank movement)

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7. A change of LPG supplier under CoP26 suggests that the outgoing LPG supplier grants the incoming supplier permission to access the tank, pump any residual LPG over to the new tank, disconnect the old tank and leave it in a safe position for collection. The outgoing LPG supplier is then able to collect the old tank without delaying the installation of the new tank (i.e. reducing any LPG disconnection period). The activities required for a customer switching to an alternative LPG are:

	£
<b>Incoming LPG Supplier<sup>†</sup></b>	
Engineer cost	
Site attendance charge	<i>excised</i>
Transfer LPG to new tank <sup>‡</sup>	<i>excised</i>
Disconnect tank	<i>excised</i>
Connect new tank	<i>excised</i>
Test pipe-work	<i>excised</i>
Crane vehicle	
Site attendance charge	<i>excised</i>
Transfer gas to new tank <sup>‡</sup>	<i>excised</i>
Tank movements	<i>excised</i>
	<hr/> <i>excised</i>
<b>Outgoing LPG Supplier<sup>†</sup> (costs assume the incoming supplier has prepared the tank for uplift)</b>	£
Crane vehicle	
Site attendance charge	<i>excised</i>
Tank uplift	<i>excised</i>
	<hr/> <i>excised</i>
<b>TOTAL COST</b>	<hr/> <b><i>excised</i></b> <hr/>

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<sup>†</sup> Note: both outgoing and incoming LPG supplier's costs have been calculated using the typical rates incurred by Calor. *Excised*. Where there is a switch to an alternative LPG supplier, some of the tasks which would be undertaken by the outgoing LPG supplier *excised* will be undertaken by the incoming LPG supplier

<sup>‡</sup> If the LPG has been used up by the customer, these costs will not be incurred *excised*.

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8. These costs should be compared to the 2003 average charges for customers who switched LPG supplier of *excised* for an uplift (see Calor's response to Question 70 of the Information Request) and *excised* (2000 Litre tank; *excised* for a 1200 Litre tank) for an installation. The customer's costs represent approximately 55% of the actual costs involved, on average.

**SCENARIO 2 – Switch to Alternative LPG Supplier (tank title transfer)**

9. Calor does not have any record of a domestic tank being sold to an incoming LPG supplier; as a result the associated costs are unknown. However, for the purposes of this Inquiry, Calor estimates that the following activities and associated costs would be involved:

<b>Outgoing LPG Supplier*</b>	<b>£</b>
Administration costs(The cost assessment provides for an employee at an average cost of <i>excised</i> per hour spending two hours in connection with each transfer)	
Transfer price negotiation and correspondence	<i>excised</i>
Document retrieval	<i>excised</i>
Accounting for the transfer and removal of the tank from LPG Supplier's systems (including the emergency cover)	<i>excised</i>
	<i>excised</i>
 <b>Incoming LPG Supplier*</b>	
Pre acceptance costs:	
Administration costs	
Transfer price negotiation and correspondence	<i>excised</i>
Verification of certificates (tank provenance)	<i>excised</i>
Site & tank inspection (visit 1)	

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\* Both outgoing and incoming LPG supplier's costs represent the best estimates available from equivalent or comparable activities carried out by Calor.

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Site attendance charge	<i>excised</i>
Post acceptance costs:	
Signage & data plate (visit 2)	
Site attendance charge	<i>excised</i>
Pressure test	<i>excised</i>
Paint, re-logo and emergency shut-off signage – labour	<i>excised</i>
Logos, signage and padlock – materials	<i>excised</i>
New data plate riveted to tank leg – labour	<i>excised</i>
Data plate materials	<i>excised</i>
Administration costs	
Accounting for transfer, tank and emergency system set up and document storage	<i>excised</i>
	<hr/> <i>excised</i>
<b>TOTAL COST</b>	<hr/> <i>excised</i> <hr/>

10. This arrangement represents a nominal maximum saving of *excised* on the existing arrangement (circa 20%). However, there are many other factors which should be considered, as they could increase costs further though they are hard to quantify accurately.

- The above activities and costs are estimates for a smooth transfer – no contingency costs have been included for delays in price negotiation or document retrieval / transfer;<sup>1</sup>
- The above activities also assume that the initial site and tank inspection does not highlight any issues, If there are any such issues, the options are:
  - not to proceed
  - to agree a lower (negotiated) transfer price
  - to uplift and replace with a refurbished tank .

*Excised;*

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<sup>1</sup>Neither has any contingency been included for the complexities of tank valuation, such as financing for existing tanks (for example, sale and leaseback), quite apart from any physical considerations

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- Under the current arrangements, a customer receives a new or reconditioned tank on switching. Under Scenario 2 the tank would stay in situ for longer. This would lead to an increase in the average age of the installed tank population, and the average time between major refurbishments (which can only be carried out off the customer's site) and would therefore cause the overall tank population's average standards to decrease;
- Incoming suppliers may be required to re-site tanks when they take on the LPG supply (the tank may have been installed under older, less stringent Codes of Practice). These costs will be incurred by either the incoming or outgoing LPG supplier and ultimately recovered; and this will have an impact on the price negotiation process;
- Third party Insurance cover may be affected as the history of the tank would not be as reliable / robust when compared with a "cradle to grave" tank under the current arrangements;
- LPG suppliers may be reluctant to supply to tanks approaching significant testing (to avoid testing / capital costs), these LPG suppliers may distort prices to persuade the customer to switch, transferring the testing burden;
- LPG delivery drivers would require more training to ensure that they were able to deal with a greater variety of arrangements;
- Each LPG supplier would need to hold greater levels of installation spares, to be able to service all varieties of tanks;
- The administration costs associated with such a process should not be underestimated; under the current arrangements tank documents are archived and referred to very infrequently, the new arrangement would require more immediate access to tank documents; the current computer system and tank

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record file storage are not capable of dealing with this activity, and new systems would be needed at extra cost;

- In practice an industry wide dispute resolution system may need to be established (and paid for);
  - For Calor in 2003, the majority of newly installed above ground tanks were refurbished tanks *excised* the capital costs of which were far lower.
11. The above issues would need to be considered in detail before being able properly to compare the relative switching costs of this arrangement with the costs of the existing arrangements.

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*Excised.*