LPG Cylinder Exchange Pool Status

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Overview

• Industry overview
• Key challenges
• The Exchange Pool
• Progress report
• Looking ahead
Introduction

• Provision of affordable, reliable energy services required for sustainable development

• LPG is an exceptional energy source to meet domestic & industrial needs
  o Portable, clean, accessible, efficient, convenient
  o Healthy, with environmental benefits compared to traditional fuels
  o Challenges persist: initial cost, availability, transportation

• Consumption in Kenya still very low (1.6 kg per capita)

• New regulatory framework to foster growth

• Key opportunity for investors in industry
### Market size

<table>
<thead>
<tr>
<th>Year</th>
<th>'000 MT</th>
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<tbody>
<tr>
<td>2005</td>
<td>49.4</td>
</tr>
<tr>
<td>2006</td>
<td>64.6</td>
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<tr>
<td>2007</td>
<td>77.4</td>
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<tr>
<td>2008</td>
<td>84.6</td>
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<tr>
<td>2009</td>
<td>74.6</td>
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<tr>
<td>2010</td>
<td>63.8</td>
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As reported; omits imports thru Tz

A huge opportunity is begging to be taken up!
Key players

- Total: 32%
- Libya Oil: 23%
- Shell: 14%
- KenolKobil: 8%
- Hashi Energy: 6%
- Others: 17%
- Others: 23%
Key industry challenges

- Inadequate import and storage facilities
- Weak distribution of products
- Large scale unauthorized cylinder cross-filling
- Poor operating standards
- High product cost (punitive demurrage cost for LPG vessels)
- High cost of LPG hardware
New Legal Framework

• New regulations after several years of discussion & preparation
• LN 121, “The Energy (LPG) Regulations, 2009”
  o Regulates all aspects of LPG business activities
  o All LPG cylinder marketers must conform to provisions of the Legal Notice
  o Created LPG Cylinder Exchange Pool to oversee cylinder business for domestic use, from 1st Dec 2009
• Standardization of cylinder sizes for domestic use: 1, 3, 6 & 13 kg
• Standardization of the cylinder valves - KEBS Standard KS 201 – 2010
  o 20 mm valves for all 13 kg cylinders
  o Camping valve for 1, 3 & 6 kg cylinders
• Standardization of regulators
Pool objectives

- Implement rules & code of practice for cylinder business as per LN 121
- Oversee the exchange of cylinders among licensed traders
- Promote convenience & availability for end consumer
- Enhance competition....
- Grow the market / promote conversion to LPG

Supporting the Government & the Industry to promote growth, competitiveness & safety
Stakeholders

- Consumers
- LPG Marketers
- Regulator, ERC
- Policy maker, MOE
- Other investors

Exchange Pool
Current status ... membership

• All LPG cylinder marketing companies must be members
• Applications approved by ERC to meet minimum criteria:
  o Own a brand
  o Hold not less than 5,000 cylinders
  o Valid license from Commission for cylinder business
  o Certificate of adherence to KS201-2010
• Current membership stands at 15 members
• Anticipating new entrants as well as reduction through disciplinary action
Current status...Org structure

Chairman & Pool Management Committee

- Exchange Pool Coordinator
- PIEA Administrative Support
- Complaints Sub-Committee
Current status...management committee

• Comprises
  o 1 rep from MoE, 1 rep from KEBS
  o 6 reps from LPG Marketing companies

Functions
  • Draw up Pool agreement
  • Oversee management of Pool operations
  • Make rules for proper management of Pool
  • Appoint Secretariat
  • Draw and approve budget of the Pool
Current status...Pool Secretariat

- Day to day running of the Pool...information management
- Implementation & adherence to Pool Agreement
- Support public awareness
- Facilitate enforcement & collection of penalties
- Recommendations to the Committee & other stakeholders
- Liaison between ERC & members
How does the exchange work?

- Members freely accept all qualifying cylinders of same size
- Weekly report from each member of number of competitor cylinders they have at each collection depot
- Members agree on collection among themselves
- Negative balance between two members attract deposit refund by owing member
- Storage charges kick in after specified period
Current status...Cylinder exchange points

- Nairobi
- Mombasa
- Kisumu
- Eldoret
Current status...Challenges

• Unauthorised refilling & distribution of cylinders persist
• Unlicensed operations
• Unauthorised rebranding
• Under / over filling
• Hoarding & withdrawal of competitor cylinders
• Unsafe installations
• Late refund by members for exchange balances
• Mistrust and misunderstanding among some players
Current initiatives

• Public education & sensitization

• Supporting enforcement of regulations

• Working with the Regulator and other relevant agents to curb malpractices

• Supporting set up of independent 3rd party for inspection and evidence collection

• Preparing for review of Operating Procedures to reflect new agreement and experience since start of exchange
Looking Ahead

• Strengthen compliance
• Encourage investment in
  o Investment in supply chain
  o Innovation in distribution
  o Innovation around cylinder management
• Lower LPG hardware cost
• Share experiences
• Formation of a strong EALPGA?
Looking ahead

- Set up & streamline Pool
- Eliminate malpractices
- Broaden distribution
- Target rural consumers
Thank you