



# News Release

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## CC PUBLISHES FINAL REPORT ON DOMESTIC BULK LP GAS

Customers who use LPG (liquefied petroleum gas) for domestic heating and cooking should find it easier to switch suppliers following measures that are to be introduced by the Competition Commission (CC), after concluding its investigation into the domestic bulk LPG market.

The CC today published its final report, at [www.competition-commission.org.uk](http://www.competition-commission.org.uk), which confirmed its provisional conclusion reached in August 2005 that there is an adverse effect on competition in the supply of domestic bulk liquefied petroleum gas (LPG) in Great Britain (GB) and Northern Ireland (NI). The CC will now be taking measures to remedy the problems identified.

CC Chairman Peter Freeman, who chaired the investigation, said:

We have now finished this investigation. Our conclusion is that competition is not working as well as it should in this market, and that LPG consumers are losing out as a result.

In particular, if customers have to change supplier, they have to change their tank as well. They face a number of other difficulties in switching supplier, both in terms of their contracts and the information made available to them.

This has restricted competition between suppliers, discouraged entry and expansion by new suppliers, and led to higher LPG prices for many customers.

As a result, we will be introducing measures to enable tank transfer when a customer wishes to switch supplier, make the switching process easier, improve the terms of customer contracts, and give customers better information.

LPG is used for household heating, cooking and heating of water, in almost 150,000 households in the United Kingdom. Customers tend to be based in rural areas with no access to the mains gas network, and faced an average bill in 2003 of approximately £800. Most suppliers retain ownership of the tanks, with only a small minority of customers owning their own tanks.

### Findings on the adverse effect on competition

After careful investigation and deliberation—including a customer survey, hearings with, and detailed submissions from, suppliers, trade associations and relevant government bodies, and technical consultants—the CC has concluded that the following features prevent, restrict or distort competition for the supply of LPG in GB and NI:

- (a) the widespread practice, when a customer switches supplier, of the outgoing supplier removing its tank from the site and of the incoming supplier replacing it with an essentially similar tank, with the consequential costs of removing and installing tanks, which:
  - (i) to the extent that these costs are reflected in up-front charges to individual customers, acts as a barrier to customer switching;
  - (ii) to the extent that these costs are borne by the incoming supplier, acts as a disincentive to competing for the business of existing LPG customers and/or, only in GB, leads them to offer a higher price than would otherwise be the case;
  - (iii) to the extent that the practice gives rise to customer inconvenience (whether actual or perceived), acts as an additional barrier to customer switching; and
  - (iv) given the cost disadvantages potential competitors face in competing with an incumbent supplier and given the relatively low number of new customers in the market for the supply of domestic bulk LPG (or, in NI, the prospects for decline in the market), acts as a barrier to expansion;
- (b) the lack of information among customers in that:
  - (i) some customers are not aware of their ability to switch supplier or of alternative suppliers;
  - (ii) suppliers often do not provide sufficient information in advance about customers' liability for switching charges; and
  - (iii) there is uncertainty about the likely level of inconvenience of the switching process, which contributes to customer perception of inconvenience;
- (c) the imposition of contractual restrictions on switching, including the use of lengthy fixed minimum terms in introductory contracts; only found in GB, requiring contract renewal (with a further lengthy fixed minimum term) as a condition of selective discounts; three-month notice periods for termination; and lack of clarity as to the extent of contractual liability; and
- (d) limited ability of suppliers to identify and target their marketing efforts on each other's customers.

The CC has also found two further features that reduce competition only in GB:

- (a) the lack of information among customers in that:
  - (i) customers generally are not aware of prices on offer from alternative suppliers and face some search costs in finding the cheapest supplier; and
  - (ii) customers cannot accurately assess which supplier will be most competitive over the 'whole life' of the supply arrangement, which is likely to inhibit them from seeking alternative price quotations and switching to another product; and
- (b) the practice among most suppliers of offering selective discounts to customers, in that, given the high level of switching costs in the market for domestic bulk LPG, they reduce the potential rewards to competitors for attempting to win customers away from their

current suppliers and thereby create a disincentive for firms to compete to win customers from one another.

Whilst the CC acknowledges the overriding need to ensure safety in the supply of LPG, nonetheless, after considering a wide range of evidence—including a report by technical consultants, and discussions with the HSE, as well as hearings with, and submissions from, the parties to the investigation—the CC has found that none of the adverse effects of the features of the LPG market identified above stem from safety requirements.

## **Findings on remedies**

In light of its finding of an adverse effect on competition in the markets for the supply of domestic bulk LPG in GB and NI, the CC has decided on the following package of remedies to address the adverse effect on competition and the consequent detrimental effects on customers.

At the time of the publication of its notice of provisional findings, 23 August 2005, the CC consulted on a notice of the actions which might be taken to remedy the adverse effects provisionally identified. Having undertaken considerable work on remedies, including consulting with a number of interested parties, eg the major suppliers, consumer bodies, trade associations and the HSE, resulting in a further consultation on a remedies working paper on 3 March 2006, the CC has now decided on a package of remedies that would be effective and proportionate in addressing those features it has identified as having an adverse effect on competition.

The CC has decided on the following package of remedies:

### **(a) facilitation of tank transfer;**

- (i) a customer's right to request tank transfer;
- (ii) an incoming supplier's right to buy the existing tank from the outgoing supplier; and
- (iii) incoming suppliers being given the opportunity to negotiate a price for a tank with the outgoing supplier, but an obligation on the outgoing supplier to sell for a 'backstop price' determined by a methodology;

### **(b) standardizing, and improving information on, the switching process;**

- (i) outgoing supplier obliged to confirm contractual status of switching customer within seven days;
- (ii) suppliers to effect switches within 42 days;
- (iii) switching charges levied by the outgoing supplier capped at zero;
- (iv) provision of information on how to switch in contracts, on suppliers' websites and on the basis of a telephone call; and
- (v) sending of a 'wake-up letter' to customers at the end of the transition period on the expiry of any exclusivity period;

### **(c) changing customer contracts; and**

- (i) notice periods of no more than 42 days;
- (ii) exclusivity periods of no more than two years; and
- (iii) waiving of remaining notice period where a switch is ready for completion before notice period has expired; and

**(d) better provision of information on suppliers and their offers.**

- (i) suppliers to ensure that their trade associations provide on their websites and on the basis of a telephone call a list of suppliers, the areas they serve, and their contact details;
- (ii) suppliers to include on their invoices a statement that further information on the LPG industry can be obtained on these websites and via those telephone numbers;
- (iii) suppliers to provide customers with quotes (subject to site visit) over the telephone and/or via their websites without previously visiting the site;
- (iv) suppliers to provide on invoices the amount of LPG delivered in litres and the price paid in ppl; and
- (v) suppliers to provide wake-up letters informing customers that they will be, or are, free to switch supplier either, if they are eligible at that time to switch, no later than one month from the end of the transition period or, if not, within one month of the end of the customer's exclusivity period.

The CC considers that its package of remedies should apply to all domestic bulk LPG suppliers, and apply equally in GB and NI.

In addition, in order to improve the awareness of customers in NI of switching opportunities, the CC has recommended to the General Consumer Council for Northern Ireland that it include information on switching domestic bulk LPG supplier in the information it will be providing to consumers on the opening of domestic mains gas and electricity liberalization to competition in 2007.

### **Next steps**

The CC expects to implement these remedies by way of statutory orders to be made towards the end of 2006, with the remedies to take effect after a transition period of up to nine months after the orders are made.

### **Notes for editors**

1. The Enterprise Act 2002 empowers the OFT to make a reference to the CC where it has reasonable grounds for suspecting that any market features may distort competition in the UK or part thereof.
2. The investigation was referred by the OFT on 5 July 2004 (but the final terms of reference were settled on 20 October 2004), and follows an OFT study into the sector.
3. This is the second market investigation completed under the Enterprise Act 2002. Market investigation references are intended to focus upon the function of a market as a whole

rather than the conduct of a single firm in a market. If the OFT has concerns about the conduct of a single firm or firms that have engaged in anti-competitive agreements, it will first consider whether those actions infringe the Competition Act 1998.

4. The CC was required to publish its final report by 4 July 2006.
5. The LPG investigation group consists of: Peter Freeman (Group Chairman), Alan Gregory, Alan Hamlin, Christopher Smallwood, Alan Young.
6. Enquiries should be directed to Rory Taylor on 020 7271 0242 or [rory.taylor@cc.gsi.gov.uk](mailto:rory.taylor@cc.gsi.gov.uk).