

Excerpts from National Audit Office performance audit report entitled 'An Analysis of the Effectiveness of Enemalta Corporation's Fuel Procurement' dated July 2013, and Enemalta Corporation feedback provided on 3 July 2013

FPC Meeting [Fuel Type]	Bidders	Bidder Price	Negotiated Contract Price
25 June 2008 [Jet A1]	Litasco	Various (Note below table refers)	
	BP Oil International Ltd	+19.65 USD/MT	
	MOCH S.A.	+12.00 USD/MT	
	Global Integrated Solutions Ltd	Bid not quoted	
	Totsa	+36.75 USD/MT	+35.50 USD/MT
	BB Energy	No offer submitted	
Original Enemalta Comments at Exit Stage (represented in report – 2.1.22)	In their offer both BP Oil and MOCH S.A. quoted a pricing basis on the average of the CIF NWE Jet A1 quotations, whereas Totsa offered pricing based on the average of the FOB MED Jet A1 quotations. At the time, the price differential between the FOB MED and CIF NWE quotations stood at \$38/MT (the FOB MED quotation being cheaper than the CIF NWE) This explains why the Totsa offer was more attractive than the other received bids.		
22 January 2009 [Gasoline]	Kolmar Group AG	+43.00 USD/MT	
	BB Energy	+35.75 USD/MT (Option 1) & +25.15 USD/MT (Option 2)	
	Fairdeal S.A.	+19.30 USD/MT (Cargoes 1 & 6) & +22.10 USD/MT (Cargoes 2 – 5)	
	BP Oil International Ltd	+32.00 USD/MT	
	Totsa	+22.50 USD/MT	+21.90 USD/MT
Original Enemalta Comments at Exit Stage (represented in report – 2.1.20)	Following a review of this tender, it can also be noted that Totsa offered an additional 30-day credit period (that is, 60 days in total) whereas Fairdeal quoted payment terms of 30 days. The additional 30 days offered by Totsa were subject to interest rate charge.		
18 May 2009 [Gasoil]	BB Energy	+4.50 USD/MT	
	RBS Sempra Energy Europe	No offer submitted	
	Baraca International Corporation	-20.00 USD/MT	
	FAL Oil Co Ltd	+3.98 USD/MT	
	Totsa	-6.05 USD/MT	-7.55 USD/MT
Original Enemalta Comments at Exit Stage (represented in report – 2.1.24)	Baraca International Corporation mentioned in their offer that they will be able to deliver the following product D2-Gas Oil, L-O,2-62 Gost 305-82 which is a Russian spec that is unknown to the Corporation and does not fit the mandatory product specifications requested for this tender. No other details were provided in relation to the other important required mandatory clauses.		
20 July 2010 [Jet A1]	Totsa	+24.50 USD/MT	
	BB Energy	+16.40 USD/MT (Option 1) or	+14.00 USD/MT

		+14.40 USD/MT (Option 2)	
	Baikal Business Company Ltd	-5.00 USD/MT	
	Petrodeal	+24.95 USD/MT (Option 1) or +32.25 USD/MT (Option 2)	
Original Enemalta Comments at Exit Stage (represented in report – 2.1.26)	This tender was issued for both the supply of Jet A1 and the provision of security stocks. In the submission sent by Baikal Business Company Ltd there was no mention of security stock and did not provide the required EU origin declaration. Furthermore the product specifications being offered could not be verified. All the above were mandatory requirements as stipulated in the tender.		
19 November 2010 [Biodiesel]	Fuel Serve Ltd	Could not be determined	
	Edible Oil Refining Company Ltd	1.076 Euro/Litre (Note below table refers)	
	Hemok Polska	+0.5122 Euro/Litre (Option 1) or +0.4692 Euro/Litre (Option 2) or +0.8955 Euro/Litre (Option 3)	+0.8935 Euro/Litre
	BB Energy	No offer submitted	
	Mission Biotechnologies	+570 Euro/1,000 Litres	
	ADM International Sarl	+0.185 Euro/Litre	
Original Enemalta Comments at Exit Stage (not applicable)	No comments were put forward by Enemalta in relation to this specific case.		

2.1.10 The minutes of all FPC meetings presented in Table 1 were analysed by the NAO audit team. Several significant and critical shortcomings were noted while analysing these minutes, most specifically with reference to those meetings held in 2008 and 2009, where NAO's concern intensifies. Minutes taken during meetings held in 2008 and 2009 were lacking the most rudimentary level of detail, were mostly handwritten and with no summary of the meeting discussions and decisions taken. To this effect, no records of formal meeting documents were found. These minutes also lacked a basic record of names of Committee members present during the respective meetings, or members absent from the same. The majority of these minutes were not signed by those members present during the meeting. This extremely poor form, in terms of record keeping, rendered it impossible for NAO to effectively audit what actually happened during these meetings, making it difficult to deduce what was discussed and ultimately decided upon. A random sample of such minutes has been reproduced in Appendix A.1 for ease of reference.

Table 1: Chronological Overview of FPC Meetings 2008-2011

Year	Date of Meeting	Type of Fuel for which Contract was Awarded
2008	25 February 2008	Fuel Oil
	27 February 2008	Diesel & Gasoil
	06 May 2008	Light Heating Oil
	26 May 2008	Gasoline
	25 June 2008	Jet A1
2009	22 January 2009	Gasoline
	05 May 2009	Fuel Oil
	18 May 2009	Jet A1
	18 May 2009	Gasoil
	07 July 2009	Diesel
	25 September 2009	Gasoline
2010	15 January 2010	Fuel Oil
	23 April 2010	Fuel Oil
	14 May 2010	Diesel
	02 June 2010	Unleaded Petrol
	03 June 2010	Gasoil
	20 July 2010	Jet A1
	22 October 2010	Diesel
	19 November 2010	Blodiesel
23 November 2010	Fuel Oil	
2011	18 January 2011	Gasoline

	18 January 2011	Jet A1
	12 May 2011	Diesel
	05 July 2011	Biodiesel
	12 July 2011	Gasoil
	10 August 2011	Unleaded Petrol
	07 October 2011	Jet A1
	14 December 2011	Diesel
	22 December 2011	Fuel Oil

Notes:

1. The diesel and gasoil contract awarded during the FPC meeting dated 27 February 2008 was in actual fact one contract awarded for the simultaneous supply of two different types of fuel.
2. The terms 'Gasoline' and 'Unleaded Petrol' are synonyms, and have been reproduced as sourced in their corresponding original documentation.

2.1.11 Between mid-2009 and mid-2011, minutes of the FPC meetings were kept in a different format. A table was used to summarise the bids received and due for adjudication. This table included the following details: quantity offered, origin of the fuel, quantity measure, quality, laytime, inspection costs, price base, premium/discount, payment terms and surety requirement. NAO noted that although this manner of record keeping represented a marked improvement over the previous years, these minutes still lacked details such as the basis upon which decisions were made as well as a list reconciling which Committee members were present and which were absent. Despite the fact that these minutes were duly signed by those present, the signatures were not followed by a clear identification of the persons signing the document, and therefore, once again, one cannot deduce which Committee members were in fact present. A random sample of FPC meeting minutes corresponding to this period is reproduced in Appendix A.2 for ease of reference.

2.1.12 A significant positive improvement was witnessed by NAO from mid-2011 onwards, as the audit team reviewed appropriately signed minutes duly maintained in files relating to tenders adjudicated from the afore-indicated date onwards. Details corresponding to the decision-making process, together with a record of the final decision taken, as well as quotations received, were all accordingly filed with respect to each meeting.

2.1.13 Further to the analysis of the various FPC meeting minutes, NAO also undertook an in-depth analytical review of the bids submitted and duly adjudicated by the aforementioned Committee. Essentially, NAO analysed the:

- a. Completeness of recording of submitted bids as represented in the FPC minutes;
- b. Basis for selection of bids for further negotiation; and
- c. Conformity of negotiated and agreed upon prices with the eventually signed contract for the provision of fuel.

2.1.14 With respect to the first point, that is, the completeness of recording of submitted bids as represented in the FPC minutes, and on the basis of information retrieved in files provided by Enemalta, NAO's analysis indicates that all tender bids submitted were duly recorded as received and subsequently adjudicated. NAO considers it important to state that the aforementioned analysis was limited in terms of validity, that is, this Office was not able to triangulate information provided by the Corporation with other sources, thereby ensuring completeness of records.

2.1.15 As indicated in the preceding text, the basis of tender adjudication by the FPC is based on a number of factors; however, NAO considers the most critical and determining in eventual selection to undoubtedly be the premium¹ paid over and above (or in certain circumstances, under) the Platts price. Platts is a provider of petrochemical market information, and a source of benchmark price assessments utilised when trading in the commodity markets. The following tables present an overview of the bids received with respect to tenders issued for the procurement of fuel, categorised on a year-by-year basis. All bids received in this respect are listed, and also included are details regarding the negotiated price finally arrived at.

¹ The premium represents an additional mark-up (or in certain cases, a discount), submitted by the tendering party, over and above the market-established Platts price.

2.1.16 The above approach was essential, in the sense that the audit team was provided with severely limited information with respect to the tender submissions and subsequent adjudication. In the absence of such information, NAO reviewed primary documentation, that is, submitted tender bids. As stated earlier, focus in this regard was directed towards the premium or discount offered in relation to the Platts price, and NAO's analysis in this regard centred on whether the FPC selected the bid with the lowest premium for eventual negotiation. It was not possible for the audit team to determine the importance, or otherwise, of other factors such as security stock, and multiple pricing options depending on quality specifications, among others, due to the absolute lack of information documenting such a critical decision-making process.

[Clauses 2.1.17 – 2.1.19 not included]

2.1.20 As stated above, 25 out of the 30 tenders reviewed exhibited congruence in terms of negotiations being undertaken by the FPC with what appeared (given the absence of any information or record available to aid the audit team to understand the Committee's decision-making process) to be the most favourable bid. Nonetheless, NAO noted one instance, relating to the FPC meeting dated 22 January 2009, where the original bid submitted by Totsa with respect to the supply of gasoline was extremely close, in terms of premium, to the bid submitted by Fairdeal S.A. (Table 6 refers). Although the bid submitted by Fairdeal appears to have initially been more favourable, the FPC chose to negotiate with Totsa, eventually closing at a rate close to Fairdeal's original submission. No record detailing or explaining this course of action was made available to NAO, barring a brief explanation submitted by Enemalta regarding credit terms. Enemalta stated that Totsa offered an additional 30-day credit period, that is 60 days in total, albeit against an interest rate charge, whereas Fairdeal quoted payment terms of 30 days.

2.1.21 The first instance when the selected tender bid was, prima facie, and based on the premium variable only, not the most favourable, relates to the FPC meeting held on 25 June 2008. Here the Jet A1 fuel tender was again awarded to Totsa, despite the fact that BP Oil and MOCH S.A. had submitted what appear to have been more favourable bids. Once again, NAO was not able to determine the basis of the Committee's selection, given that no record of the Committee's discussions or workings were retained on file.

2.1.22 When queries were raised with the Corporation in respect to the above, Enemalta stated that the offers submitted by BP Oil and MOCH S.A. quoted a pricing basis on the average of the Cost Insurance Freight Northwest Europe (CIF NWE) Jet A1 quotations, whereas Totsa offered pricing based on the average of the Free On Board Mediterranean (FOB MED) Jet A1 quotations. According to statements made by Enemalta, at the time, the price differential between the FOB MED and CIF NWE quotations stood at \$38/MT (the FOB MED quotation being cheaper than the CIF NWE). This, was in Enemalta's view, a possible explanation as to why the FPC considered the Totsa offer as more attractive than the other received bids. However, NAO's review of relevant documents did not indicate any workings or calculations in line with the above justifications put forward by Enemalta.

2.1.23 Similar instances arise with respect to the FPC meetings dated 18 May 2009, 20 July 2010 and 19 November 2010. In the 2009 case, Totsa was awarded a tender for the supply of gasoil, when Baraca International Corporation had submitted a far more favourable bid. The integrity and validity of this bid might have been a concern to the Committee given the significant variance from all other bids; however, no record of such concern, or explanations indicating why this bid was not to be considered were retrieved on file.

2.1.24 Notwithstanding the above, when further queries were raised, Enemalta stated that Baraca International Corporation made reference to D2-Gas Oil, L-O,2-62 Gost 305-82,

which was a Russian specification that was unknown to the Corporation, and did not fit the mandatory product specifications established through this particular tender. Furthermore, Enemalta stated that no other details were provided in relation to the other important required mandatory clauses.

2.1.25 Similar concerns abound with respect to the July 2010 case, in which circumstance the accepted bid by BB Energy was not the most favourable. In this case, Baikal Business Company Limited submitted a bid with a far more favourable premium, once again, significantly lower than all other bids received. Doubts regarding the validity of such a bid, or explanations attesting to why such a bid was not favourably considered were not retrieved on file, and the only note to this effect stated, "No specific details were given as required by issued tender." In effect, review of the tender document indicated that the majority of its text was in the Russian language, except for details relating to the quantity to be supplied, payment terms and the Platts discount. The Hemok Polska November 2010 case, vis-à-vis ADM International Sarl followed similar patterns.

2.1.26 When further queries were raised with respect to the July 2010 Baikal Business Company Limited case, Enemalta stated that this tender was issued for the supply of Jet A1 and the provision of security stock. Enemalta claimed that the tender bid submitted by Baikal Business Company Limited made no reference to security stock and did not provide the required EU origin declaration. Furthermore, the Corporation stated that the product specifications being offered could not be verified, and that all of the above were in breach of the mandatory requirements as stipulated in the tender.