Dok. 43

Brincat Anna at Parlament-MT

From:	Mercieca Janice at Enemalta [janice.mercieca@enemalta.com.mt]
Sent:	Wednesday, 23 October 2013 14:49
To:	Brincat Anna at Parlament-MT
Cc:	Azzopardi Jason at Parlament-MT
Subject:	PAC Session Number 17 – 21 October 2012, in connection with NAO report – An Analysis of the effectiveness of Enemalta's Fuel Procurement
Attachments:	financial differential 0.7% and 1.0% sulphur.docx

Dear Ms Brincat,

With respect to the requested information by Hon. Caruana during the above captioned session of the Public Accounts Committee, attached please find the reply.

Regards

Janice Mercieca

The Honourable Chairman
Public Accounts Committee
House of Representatives
The Palace
Valletta

23 October 2013

Re: *PAC Session Number 17 – 21 October 2012, in connection with NAO report – An Analysis of the effectiveness of Enemalta's Fuel Procurement*

Honourable Chairman,

During the session of 21 October 2013 of the Public Accounts Committee, Hon. Caruana requested information in connection with the financial differential of fuel oil with a sulphur content of 1.0% and 0.7%, particularly during those instances in 2011 when Trafigura supplied fuel oil with a sulphur content exceeding 0.7%.

As explained during the said session, the fuel oil prices published in the 'Platts European Marketscan' under the heading 'Mediterranean Cargoes – CIF Med (Genova/Lavera)' quote prices for a sulphur content of 1.0%. The 0.7% fuel oil sulphur grade is not quoted under this same heading and therefore the financial differential between the two sulphur grades cannot be determined upon the Platts publications. Furthermore, the price margin (the premium or discount which is added to the average of the Platts quotations) agreed with the supplier when purchasing fuel oil with sulphur content of 1.0% or 0.7% is an important indicator to establish the financial differential between the respective sulphur grades.

The price margin offered by the suppliers reflects a number of factors, primarily the prevailing market conditions and the supplier's availability of blending stocks. The latter factor is an important element which essentially determines the level of competiveness of the supplier and therefore the margin offered can considerably differ from one supplier to the other based on their flexibility when it comes to blending the product. The price margin incorporates another element which reflects the credit period allowed by the supplier for payment to be effected. For instance the fuel oil contract with Trafigura during 2011 offered payment terms of 60 New York banking days after the date the vessel tenders notice of readiness at the discharge port. Another important element which is also incorporated in the price margin relates to the open credit terms offered by the supplier which reflects the credit risk determined by the supplier in the possible event that Enemalta defaults. It is important to emphasise that Enemalta's financial standing is rated as junk (B+) by Standard and Poor's

Based on the above rationale, it is very difficult to quantify a price differential between the two sulphur grades at one point in time. The price differential can only be determined based upon assumptions which would however still contribute to a significant margin of error.

During the period between January 2011 and February 2012, Enemalta purchased from Trafigura fuel oil 0.7% sulphur at a unit price which is equal to the average of the high quotations for Fuel oil 1.0% CIF Med quoted on Platts plus a premium of US$5.5 per metric tonne. With respect to the 1.0% sulphur fuel oil, one can assume a flat price margin that can be applied to the average Platts quotations, that is, neither a discount nor a premium will be reflected to the average quotations of fuel oil 1.0% as published on Platts. Based on this assumption and disregarding the above mentioned factors determining the price margin such as the credit risk profile of Enemalta and the prevailing market conditions, this would create a net premium of US$5.5 per metric tonne which can be applied as the price differential between the two sulphur grades, that is, 1.0% and 0.7%.

It is pertinent to note that the average sulphur content of the fuel oil product delivered over the whole contract with Trafigura was in fact 0.7% since the high sulphur deliveries were compensated by low sulphur deliveries below 0.7% for which Enemalta paid no additional premium.

Please note that the above information is based on a series of reasoned and important assumptions carried out by Enemalta on its knowledge of the operating environment and markets concerned. Furthermore, Enemalta's actions in this regard are based on these important assumptions, risks and uncertainties which may be difficult to predict. Consequently, these assumptions, risks and uncertainties may cause actual results to differ materially.