

20 November 2013

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Hon Jason Azzopardi,

Chairman,

Public Accounts Committee

Hon Chairman,

This is in response to Hon. Caruana's request of 28 October 2013 as communicated to Enemalta by the Clerk Assistant to the House via an email dated 29 October 2013.

In her request, Hon Caruana "tablet li tinghata informazzjoni dwar kemm kien hemm shipments, u liema kienu, fejn gie registrat li kellhom fuel off spec wara li kienet diga inghatat il-multa tal Euro 250,000".

It is pertinent to note, for correctness purposes, that the penalty imposed on Trafigura, as per agreement dated 21 September 2011, amounted to \$250,000. Furthermore, it is likewise of interest that after the imposition of the penalty there were no unplanned non-conformities on the sulphur content. This may be attested from Table 1 below:

Name of ship	Supplier	Delivery date	Sulphur
Sueva	Trafigura	27 Sep 2011	0.43
Iron Point	Shell	19 Jan 2012	0.672
Santa Teresa	Trafigura spot	13 Feb 2012	0.7
Richard Maersk	Trafigura	4 Mar 2012	0.698
Zapphire	Shell	30 Mar 2012	0.586
AS Lutetia	Trafigura	2 Apr 2012	0.7
Baltic Sea 1	e-on	12 Apr 2012	0.7
Torn Tevere	e-on	11 May 2012	0.68
Cotton	e-on	16 Jun 2012	0.69
Cargo	Trafigura	29 Jun 2012	0.649
Baltic Freedom	Trafigura	6 Sep 2012	0.692
Conti Humboldt	Trafigura	26 Sep 2012	0.698
Baltic Wind	Trafigura	17 Mar 2013	0.699
Baltic Chief 1	Trafigura	14 Apr 2013	0.699
Baltic Chief 1	Trafigura	8 May 2013	0.695
Bixbite	Trafigura	2 Jun 2013	0.685
Paradise Bay	Trafigura	28 Jun 2013	0.699
Emerald	Trafigura	12 Jul 2013	0.699
King Earnest	Shell	19 Aug 2013	0.69

Table 1 – Sulphur levels – Consignments Sep 2011 – Aug 2013



d) [REDACTED]

The impact of the nitrogen content in fuel on the production of NOx is much lower than the impact of atmospheric nitrogen, and NOx emissions are kept within the permitted limits through routine adjustment of combustion controls. The same adjustment in combustion controls is used to adjust for different CCR levels. The CCAI according to the engine manufacturer should be below 850-870. Enemalta's specification is for the lower limit. In view of the above-mentioned fact that these non-conformities do not result in additional costs or damages, there have been instances, as attested through Table 3 above, where the Corporation accepted consignments with levels higher than the tender-set limits.

The cost of fuel is based on the market price of the 1% S fuel oil with a premium which reflects the additional cost of very low sulphur cutter stock fuel oil. This is used to bring the total sulphur content of the blend down to 0.7%. The concentration of nickel and nitrogen do not influence the cost and neither does the CCR and CCAI. Apart from the sulphur content, the only other significant price driver is the aluminium and silicon content, which in all cases were to specifications.

It is also pertinent to note that, quite apart from the contractual considerations, Enemalta is bound by regulations and directives, namely:

- Quality of fuels Regulations (SL 423.29)
- Large Combustion Plant Regulations (LN 172 of 2010)
- National Emissions Ceilings for certain atmospheric pollutants Regulations (LN 383 of 2012)

In all cases of exceedances listed above, Enemalta remained strictly within the boundaries and limits imposed by these regulations, and such abidance can be attested by the competent regulatory authorities, namely MEPA and MRA.

[REDACTED]

Technically, the Corporation could have refused the consignment on outside-specification grounds. However, it is deemed probable, even in view of the lack of material damage as indicated above, that the supplier would have sued the Corporation for such refusal. Additionally, refusing lightly a consignment has already been proved to be impractical, and to have far-reaching negative consequences, in view of the precariously low stock levels held locally in reserve by the Corporation. Opting to create a local buffer store has already been shown to be an exercise that expenditure for which would run into tens of millions of euros.

Likewise, opting to refuse a contracted consignment and going for a 'spot' replacement purchase is similarly non-realistic: (a) the supplied consignment would not necessarily be within specifications even



for the critical components such as sulphur and (b) costs would probably be exorbitant as the supplier would be aware of Enemalta's precarious situation at the time of the transaction.

It is in view of all the above considerations, and with the highest level of responsibility, that the Corporation on occasion currently accepts consignments with out of specification minor components provided such acceptance does not jeopardise EMC compliance with the regulations indicated above.

The prevailing policy of ensuring a reduction in tariffs to consumers furthermore convinces Enemalta to keep to the practice of accepting these minor non-conformities in so long as such action is not of detriment to either environment or plant.

Despite this acceptance behaviour on the part of the Corporation, Enemalta feels that limits/thresholds as featuring in tender documents should remain unchanged.

I trust the above answers the question posed by Hon Caruana and provides sufficient insight as to the rationale behind Enemalta's decisions in this regard.



Dr Charles M'angion
Chairman