Republic of Ghana

STATEMENT BY THE MINISTER FOR ENERGY, HON. JOHN-PETER AMEWU AT A PRESS CONFERENCE ORGANIZED BY THE MINISTRY OF ENERGY

20^{TH} SEPTEMBER 2018

Colleague Ministers

Directors of the Ministry of Energy

Friends from the media

Ladies and gentlemen

A pleasant good morning to you all

Thank you ladies and gentlemen of the press for honouring our invitation to participate in today's press conference. Your consistent contributions and continual dissemination of information on our energy sector to the good people of Ghana is commendable. I urge you to keep up the good work.

Today's press conference has been convened to inform you and the good people of Ghana about happenings in the Energy Sector, particularly, issues relating to stable power supply, power purchase agreements, electricity tariff reduction, emergency power plants, natural gas, petroleum product prices, Bulk Oil Storage and Transportation Company Ltd (BOST), just to mention a few.

<u>POWER SECTOR</u>

Financial and legal burdens arising from over contracting of Excess Capacity

Ladies and gentlemen, as at the end of 2016, ECG had signed 14 Power Purchase Agreements (PPA) which were operational with combined capacity of 1104MW. Another 18 PPAs signed by ECG with a combined capacity of about 6,000MW and 8 PPAs were under discussions with total capacity of 2116MW. This in addition to existing generation capacity from hydro, the VRA plants at Aboadzi and Tema; and the

TICO plant will result in a total installed capacity of about 11,000MW if the committed capacity are all deployed. This will by far be more than the current peak demand of 2400MW. Even at an annual growth in demand of 10%, our country will not be able to utilize this capacity in two decades.

The over-contracting of capacity has imposed serious financial and legal obligations on government and power consumers.

To address these, the Ministry of Energy tasked a Committee led by the Energy Commission to review all PPAs signed by the Electricity Company of Ghana (ECG) for conventional thermal power projects. The Committee reviewed 26 out of 30 PPAs ECG had initiated. The other 4 were not reviewed because they were already operational. The combined generation capacity of the 26 PPAs reviewed amounted to 7,838MW.

The review noted that the projected capacity additions from the PPAs were far in excess of the required additions inclusive of a 20% system reserve margin from 2018 to 2030 and would result in the payment of capacity charges for the dispatched plants. The review recommended that:

I. 8 PPAs with combined capacity of 2070 are to proceed without modification;
II. 4 PPAs with a combined capacity of 1,810MW be deferred to 2018-2025;
III. 3 PPAs with a combined capacity of 1,150MW be deferred beyond 2025; and

IV. 11 PPAs with a combined capacity of 2,808MW be terminated.

Pursuant to the review exercise, Government stands to make significant savings from the deferment and/or termination of the reviewed PPAs. The estimated cost for the termination is $402.39 million, compared to an average annual capacity cost of USD 586 million each year or a cumulative cost of $7.217 billion from 2018 to 2030. This yields an estimated saving of $6.8 billion over the 13 year period.

Electricity Tariff Reduction

Ladies and gentlemen, upon assuming office in 2017, the Government was confronted with an unfriendly investment climate arising from high cost of energy to industry and residential consumers. The high cost of power, particularly for industrial customers, had serious implications leading to the shutdown of businesses and laying off of workers. Many electricity customers also resorted to self-generation, which resulted in artificial reduction in demand for electricity and therefore reducing ECG sales volume and its financial sustainability. This was due to the fact that after 600kWh, the tariffs were over 40 US Cent/ kWh.

In fulfilment of our Manifesto promise to reduce electricity tariffs drastically, government made submissions to the PURC for tariff review based on the various interventions made in the energy sector. The objectives of the tariff reductions were therefore to provide relief to electricity customers, stimulate demand and spur economic growth and create jobs.

Consequently, the PURC announced significant reductions in electricity tariffs effective March 15, 2018 as follows:

- Industrial Customers - 30%
- Residential Customers - 17.5%
- Mining Sector - 10%
- Special Load Tariff Customers - 25%

Ladies and gentlemen, the reduction in tariffs were influenced by a number of interventions by government in the energy sector including:

- Renegotiation of PPAs on cost of generation;
- Recalibration of domestic gas prices; and
- Revenue requirement of utilities based on updated customer population.

I am glad to announce that, reduction in electricity tariffs has brought enormous relief to electricity customers particularly industry and commercial customers such as manufacturers, tailors, hair dressers, and traders. This is expected also to spur economic growth and create jobs which would have otherwise been lost.

Emergency Power Plants

Ladies and gentlemen, during the power crisis of 2013 to 2016, the then Mahama led government, signed a number of emergency power plants including the Karpower plant, AMERI and AKSA plants. Government is reviewing the status of these emergency plants with a view to determining the implications of their continuous operations.

For Karpower, government has taken a decision to continue the use of the plant for a strategic reason. Following the signing of the commercial agreements to develop the OCTP field in 2015, the then government failed to put adequate measures to create demand for the domestic gas to be produced from the field. At the same time, the government agreed to a take-or-pay arrangement up to 154 mmscfd. In the absence of the infrastructure to evacuate gas to the power enclave in Tema and inadequate demand for gas in Takoradi, GNPC will be confronted with a huge bill of $40 million every month for gas not consumed.

Faced with this challenge, government has decided to relocate the Karpower barge to Takoradi and to convert it to a gas plant, to create demand for up to 90 mmscfd whilst the balance is evacuated to the Tema Power Enclave through the limited capacity provided by the West African Gas Pipeline. This arrangement ensures that $40 million every month will not go to waste.

Government is reviewing the other emergency power plants and will announce its outcomes shortly.

PETROLEUM SECTOR

Gas Issues

Ladies and gentlemen, with regards to the OCTP field development, I am happy to note that the main project has been successfully completed and gas has been flowing from the fields since July this year.

I would like to state however that some of the genuine concerns expressed by the NPP at the time we were in opposition have been vindicated. We were concerned that there was no plan to provide the infrastructure for evacuating the gas to be produced to demand centres including the Tema Power and Industrial Enclave which was going to leave gas stranded in Takoradi. We were also worried about the high gas price negotiated by the government.

To date, we have made significant interventions that have addressed some of our concerns. These include:

a. Reverse flow project: To prevent gas from being stranded in Takoradi whilst power plants in Tema lack cheaper gas as alternative fuel, government decided to undertake a project that will allow for gas to reverse flow from Takoradi to Tema through the West African Gas Pipeline. The project is expected to be completed by November this year. This project has become necessary because at the time the commercial contracts for the development of the OCTP gas were signed in 2015, there was no plan to fully utilize the gas to be produced although we were committed to a take or pay obligation. This will ensure that excess gas in Takoradi is transported to Tema for power generation as well as for other industrial use. Government is working with the OCTP partners and other relevant stakeholders to execute outstanding commercial agreements between the parties for the entire project to be completed on time.

   Meanwhile, ahead of the reverse flow project, the partners agreed to construct a bypass facility to evacuate gas to Tema and reduce the surplus in Takoradi. The construction of the bypass facility is being finalized to allow for gas to flow soon. The facility will also provide flexibility in the gas transportation system when the main reverse flow project is completed.

b. The price of gas: The negotiated gas price was fixed at \$9.8/mmBtu. Although a domestic gas, the price was higher than imported gas from Nigeria fixed at \$8.4/mmBtu. The NPP government found this unacceptable and sought a renegotiation of the gas price on account of savings made from the project cost, initially estimated at \$7 billion. I am happy to announce that government has successfully renegotiated the headline gas price to \$7.89/mmBtu. This gives the country and bulk gas customers a savings of \$2 on every mmBtu of gas purchased which translates into several millions of United States Dollars.

Ladies and gentlemen, to recover more oil from the fields, government has approved an amendment of the Plan of Development (POD) for the integrated OCTP Oil and Gas Project. This also paves way for the OCTP Partners to continue to evaluate the company's reservoirs with a view to submitting in the coming weeks, options on how to develop and produce the company's reservoirs as part of the overall OCTP Integrated Oil and Gas Project. It will also ensure that an incremental upstream value of \$2.4 billion in cash flow is created to be shared among the parties. This enhances the State's (including GNPC) net expected benefits on a present value basis.

Also, since the original PoD was based on a 2010 data which may have resulted in less than expected oil recovery rate, the partners have committed to use an updated reservoir model based on a new seismic data acquired in 2016/2017 and more extensive production data in the activities under the amended PoD. The new reservoir model has confirmed that the activities to be carried out within the amended PoD will sustain the oil production and recover the approved reserves.

Government wishes to express our satisfaction with the level of cooperation and collaboration between the partners. We applaud the commitment of the partners to achieving a success story in the OCTP project for our mutual benefits.

Petroleum Product Prices

Ladies and gentlemen, the issue of petroleum product prices has been extensively discussed this week in the media landscape.

First and foremost, it is important that we acquaint ourselves with factors accounting for driving the current global prices which are;

a. OPEC and non-OPEC agreements to cut global production to drive prices of oil up; and

b. The decision of the U.S. to reinstate economic sanctions on Iran.

The National Petroleum Authority (NPA) plays a supervisory role by determining the price benchmarks and ensuring that BDCs and OMCs set their prices in accordance with the Prescribed Petroleum Price Formula which is based on the components of the Import Parity Mechanism.

The NPA reviews the Indicative Prices submitted by each BDC and OMC for every pricing window to ensure that realistic prices are set by

BDCs and OMCs, and to ensure consumers are not taken advantage of in a deregulated environment.

It is worthy to note that price deregulation has led to keen competition amongst Petroleum Service Providers (PSPs) thereby keeping prices very competitive.

Ghana is a net exporter of oil. However, it must be noted that the government receipts from oil exports is not the entire total oil export earnings. It is limited to Ghana government share of oil as prescribed in the Petroleum Agreements signed between the government and IOCs. Besides, Petroleum Revenue management Act 2011 (Act 815) prescribes how government spends its receipts from the exports of crude oil. It is therefore disingenuous for any person or group of persons to call for government to set aside the petroleum revenue law and use the oil for other purposes.

Government Interventions in Petroleum Prices

Ladies and gentlemen, Government has used tax interventions to mitigate the impact of domestic petroleum product price increases. The following are the various tax interventions implemented by government since March 2017 to August 2018:

i. Removal of excise duty on 16th March 2017;
ii. Reduction of the Special Petroleum Tax rate from 17.5% to 15% on 16th March 2017;
iii. Reduction of the Special Petroleum Tax rate from 15% to 13% on 16th February 2018

iv. Conversion of the Special Petroleum Tax from Ad valorem to Specific Tax on 16th February 2018; and
v. Reduction of the Price Stabilisation and Recovery Levies (PSRL) from 1st December 2017; Currently the PSRL has been reduced from GHP12/Lt to zero for petrol, GHP10/Lt to zero for diesel and GHP10/Kg to GHP3/Kg for LPG.

The revenue loss to government on the removal of the Excise Duty and the reductions of the PSRL alone between December 2017 and June 2018 amounts to over Two Hundred and Thirty Two Million Ghana Cedis (GHS232 million).

The Impact of Government Tax Interventions

Due to government tax interventions the current prices of both petrol and diesel are selling at GHp512.00 per litre. The prices for the previous window was GHp490.00 for petrol and GHp494.00 for diesel. This represent a change in price from the previous window by 4.49% for petrol and 3.64% for diesel.

Without government intervention, prices would have been GHp554.25 for Petrol and GHp550.75 for diesel. This would have led to a 13% increase in the price of Petrol and 12% increase in the price of diesel. Therefore, as a result of government interventions, petrol is 9% less expensive than it should have been without the interventions. Diesel is 8% less expensive than it would have been without government interventions.

The significance of government tax reduction can be judged from the fact that the total component of taxes, levies and margins in the ex-pump prices of petroleum products reduced from 40% in March 2017 after the NPP Government came into office to a current 26%.

Notwithstanding these interventions, the international market conditions have weighed strongly against domestic prices of petroleum products as international crude oil prices continue to increase and currently estimated at $78 per barrel. Therefore, apart from the application of the Price Stabilization and Recovery Fund to cushion consumers, government has made progress in its efforts at securing a Government-to-Government oil supply arrangement to address the supply side factors of petroleum product prices.

We are hopeful that these and other measures government is adapting should be helpful in mitigating price behaviour of petroleum products in the foreseeable future.

Bulk Oil Storage and Transportation Company (BOST) MATTERS

Since 2013, BOST was faced with serious financial crises due to mounting debts and financial indiscipline. The accumulation of some of these debts arose as a result of the failure of the then Government's policies. This particularly arose from the inappropriate "merger" between two heavily indebted companies, TOR and BOST. The two companies had the same Managing Director, leading to the breakdown of corporate governance. These developments also exposed capacity limitations on the part of BOST as its low trading skills and expertise presented demonstrable weaknesses.

A Presidential Committee tasked to establish the financial position of BOST recently presented its report which found inappropriate decisions and actions involving BOST transactions, financial indiscipline and recklessness; to be responsible for the poor state of the company's finances and financial losses. Some of the findings are:

a) Unprofitable tolling arrangement ($5.5/MT) with the Tema Oil Refinery (TOR) Limited

Between 2015 and 2016, BOST entered into a tolling arrangement with TOR, in which the refinery was to process crude oil on behalf of BOST at a fee. As per the arrangement, BOST procures its own crude oil and ships it to the refinery for processing into refined petroleum products (e.g. Gasoil, Gasoline, LPG, ATK, etc). BOST then on- sells the products to the domestic and export markets. The tolling fee of $5.5/MT was on the high side compared to the international average tolling fee of $3.5/MT.

Additionally, it was noted that crude oil was imported at a higher premium of $5/bbl compared to the general average premium of $1 - $2 / bbl. The cost of processing the crude oil with all associated expenses in its procurement did not make this transaction profitable.

b) Lower than expected yields from processed crude oil

During the tolling arrangement with TOR, the yields received from the processed crude oil were lower than expected, thereby the sales (Gross Product Worth) from the refined products was far less than the cost of crude oil purchased. BOST therefore incurred losses from this transaction.

c) Some receivables used to pay TOR debts with Traders

Because of the BOST/TOR alliance, some traders dealing with BOST were deducting some of TOR's old liabilities from proceeds of the exports BOST undertook during the period.

d) Trade losses resulting from under-recoveries

BOST had a take or pay agreement with Trafigura and other traders, which far exceeded BOST's capacity to sell to the market. Therefore, in times of price drops BOST incurred far more losses because it always held high stocks of petroleum products in its storage facilities, creating under-recoveries.

e) Repayment of existing loans from trade receivables

BOST was repaying most of its loans from their trade receivables. Therefore, funds expected to be used for payment of product purchases were used to repay loans.

f) BOST overheads were paid from trade receivables due to insufficient funds from BOST margin

About 60% of the funds from BOST margin payments were pledged for the repayment of the Standard Chartered Bank loan. Therefore, BOST was using part of its trade receivable to fund its daily operations (overhead costs of about GHS300M per annum). This situation created a hole in its trade receivables.

The recent payments to Springfield Energy Limited by BOST is one of many claims made by 16 BDCs to BOST for product losses occurring between 2013 and 2016 as reported by the Presidential Committee. The total claims on BOST in respect of product losses by BDCs amount to $44 million. The causes of such product losses must be established to determine records of the storage of those products, those responsible for loading the products, the financial receipts in respect of the products and utilization of the funds.

Government has decided that given the extent of financial recklessness found by the Committee, a Forensic Audit will be commissioned into BOST operations from 2013 to 2018. This will ensure that persons against whom adverse findings will be made will face the full rigors of the law. The audit will also provide recommendations for the restructuring of BOST management, operations and financial management. Full details of findings are expected to be received by end of October as the BOST Board informed in their statement yesterday.

Ladies and gentlemen, on this note, thank you for your kind attention.