**MINISTRY OF ENERGY**

**RESPONSE TO THE NDC PRESS STATEMENT ON THE STATE OF THE ENERGY SECTOR IN GHANA**

**FRIDAY 14TH FEBRUARY 2020**

**Introduction**

On Wednesday, the 12 of February 2020, the National Democratic Congress (NDC) held a press conference on the state of the energy sector in Ghana. This statement is a response by Government to the unsubstantiated claims and allegations, as well as the factual errors and misrepresentations contained in their statement.

**NDC:** That they adopted policies and programmes to ensure the nation consistently increased its share in most petroleum agreements that were negotiated. And that Ghana's share in the three oil-producing fields kept increasing – from 13.6% to 20%.

1. **JUBILEE (2007)                                                    13.6%**
2. **TEN                                                                         15%**
3. **SANKOFA GYE-NYAME Fields                         20%**

They added that this incremental sequence in the growth of Ghana’s shares under the NDC government clearly demonstrates a conscious and consistent effort to increase Ghana's stake in petroleum agreements.

**Response:** The NDC cannot claim credit for the growth in government take in these contracts. These Petroleum Agreements were all negotiated and signed by the NPP government under President Kufour. All the Petroleum Agreements that are producing crude oil in Ghana were signed by the Kufour's Government.

**NDC:** That all the thirteen (13) petroleum agreements that came to force under the NDC had enhanced fiscal terms and increased national stake.

**Response:** If those Petroleum Agreements did not have enhanced fiscal terms that would have been problematic because they were signed after several discoveries of crude oil, an indication of relatively de-risked basins.

In spite of this, the NDC failed to understand conditions of the market at the time they signed these agreements, hence the increased fiscal terms achieved in the Petroleum Agreements have taken us nowhere for most of them.

The 13 Agreements signed by the NDC were signed between 2013 and 2016. Out of these, the only companies that have met their minimum obligations are ENI and Springfield. AGM had to change ownership under the NPP Government before it could meet its obligations. The remaining 10 companies were to drill 11 wells. They have not drilled a single well. They were to spend $700 million, but they spent only $30 million. These are the contracts with the so called enhanced fiscal terms. We have always said that zero percent of 100 is zero. So if you have the highest fiscal terms in contracts that do not lead to production, it amounts to nothing.

The NDC on various platforms has attributed their failure to the ITLOS provisional judgement that froze activities during the period. However, it is important to note that only three of the Agreements the NDC signed were affected by ITLOS – AGM, AMNI International and ERIN Agreements. Even one of the companies affected by ITLOS, AGM has recently announced crude oil discovery. What happened to the rest?

We must understand that fiscal terms alone do not define the success of Government negotiations of oil contracts. The experience and financial capacity of a company are equally important. Afterall, the objective of every government is to negotiate a contract that can result in oil production. A fiscal strategy should therefore inspire increased reserves and production. However, the NDC’s negotiated fiscal terms have not achieved these.

**NDC:** That they took a bold step in establishing the Public Interest and Accountability Committee(PIAC) as an independent statutory body mandated to promote transparency and accountability in the management of petroleum resources in Ghana.

**Response**: The NDC created a weak PIAC as the Committee was not given teeth to bite, but to merely produce semi-annual and annual reports, whose adverse findings cannot be enforced. PIAC cannot prosecute or summon officials.

The NPP government is currently holding consultations with stakeholders on a draft natural resources governance bill, which is going to empower PIAC to enforce its findings.

The NPP Government is committed to transparency and accountability in the oil and gas industry. The NPP government passed the General Petroleum Regulations which provided significant transparency reforms including a requirement to disclose beneficial ownership information in Petroleum Agreements, and disclose marketing contracts signed by GNPC, as well as Corporate Social Responsibility projects.

The Petroleum (Exploration and Production) Act provided for the establishment of a Register of Petroleum Agreements and the application of Open and Competitive bidding of oil blocks. However, it took the commitment of the NPP Government to establish the register and to conduct Ghana’s first open bidding round for oil blocks.

**NDC:** That they repositioned BOST and TOR to become strong companies only for the NPP government to weaken them. And that they secured two (2) million barrels of Ghana's crude oil from the TEN fields to be processed by TOR.

**Response:** The NDC almost collapsed TOR and BOST. The claim that BOST and TOR were strengthened cannot be true. Contrary to the NDCs claim that BOST was making profits during their time, the facts do not support this.

BOST in January 2017 when the NDC handed over power owed **$624 million** to suppliers, BDCs and related parties in respect of crude oil imports for processing at TOR and refined products which got lost from BOST tanks. But as at February 2020, the outstanding amount to settle to clear the books now stand at $57 million.

An audit on BOST accounts shows that between the periods 2013 to 2016, there was a significant rise in the net losses by the company with the highest net loss of GHC 569 million recorded in the year 2016.

The 2018 management account showed a **70%** reduction in losses from the previous year, 2017. Similarly, the 2019 management account indicated a further **41%** reduction in the loss level from the year 2018. This steady decline in the loss level of the company, from 2017 to 2019, shows that during the year 2020, the company will likely make a profit. BOST under the NPP Government is in a better position.

BOST continues to pursue its objectives including holding strategic reserves of petroleum products. Other private depots also hold sufficient stocks, which together with BOST provide enough buffer for product supply.

We want to assure the people of Ghana that unlike the NDC’s time when we had long queues at petroleum stations for three days in June 2014 due to fuel shortage, the Akufo-Addo Government will never expose Ghanaians to such a crisis. The following shows our reserve position:

Petrol 3.5 weeks

Diesel 4.7 weeks

Aviation fuel 8.7 weeks

LPG 1 week

On the Tema Oil Refinery, the 2 million barrels of crude oil referred to by the NDC was not refined at the end of 2016 because the plants were not operational. How do you secure crude for processing by a plant that is not operational? It does not make sense. Under the stewardship of the NPP government, TOR undertook a shutdown maintenance which enabled the facility to refine the 2 million barrels of crude in 2017.

**NDC:** They accused the government of renegotiating the AGM Agreementunder bizarre and opaque circumstances. They stated:

“In the renegotiated agreement, GNPC’s additional participating interest was reduced from 15% to 3%. As if that was not enough Explorco’s commercial interest of 24% was dropped to Zero”.

**Response:** The AGM Petroleum Agreement was signed under the NDC Government. However, the company could not meet its minimum obligations. Following the acquisition of the company, the new owner presented a request for renegotiation to provide some incentives to support the prospects presented by the block, described as the deepest oil block in Ghana. This renegotiation is allowed under the petroleum law and in the Agreement itself. Government granted some incentives, which resulted in the company drilling two mandatory wells and an additional well. The increase in investments led the company to make oil and gas discoveries in 2019. The incentives provided have paid off as the intended objectives have been achieved.

The Government also took advantage of the request for renegotiation to evaluate the financial position of GNPC in relation to its ownership interest in the block. Given its many commitments and the need to prevent it from being over-exposed, GNPC decided to divest part of its paid interest.

Curiously, the NDC was economical with the truth by concealing from Ghanaians that the NPP government also renegotiated Ghana’s free carried interest from 10% to 15%; and local participation from 2.5% to 5%. This is intellectual dishonesty. Negotiation is give and take. In our view, we had a net gain. Additionally, crude oil discoveries have been made under this renegotiated contract.

This also means that Ghana’s take has increased without the requirement to invest about a billion United States Dollars the country would have been required to do under the previous Agreement. This has reduced GNPC’s exposure.

**NDC:** That their investigations have revealed that a new company by name Quad Energy (which was subsequently awarded a 5% free carried interest) was registered a month before the Akufo-Addo led Government triggered the Parliamentary processes to amend the Petroleum Agreement, and that this beat the imagination of many well-meaning Ghanaians and experts in the petroleum sector.

**Response:** The qualification to be an indigenous Ghanaian company in an oil license is that the company must be incorporated in Ghana and must have 80% of its management and 100% of all other staff being Ghanaians. The said Quad Energy is therefore qualified by law to participate in an oil block.

The subject of a local company acquiring interest in an oil block is a commercial one. It depends on the commercial partners, i.e the international oil company and the local company.

It must be noted also that Quad is a consortium of old local Ghanaian companies, who all quality to operate in the oil and gas industry and not new as the NDC wants to portray.

**NDC:** That the AKER/AGM agreement is the highest level of betrayal by this Government as it clearly smacks of corruption and raises serious transparency and accountability issues because of concessions granted to Aker Energy in the amended agreement.

**Response:** We find it curious why the NDC alleges lack of transparency and corruption in the Aker project. The Agreement and all its contents were scrutinized and approved by Parliament which included the minority bench. The allegation therefore betrays the NDC’s understanding of transparency. The NDC has as yet not mentioned any corrupt act involving any official of the Government in the Aker contract. We challenge them to do so.

On the incentives provided to Aker Energy, we should understand that project economics can be enhanced with incentives when market conditions adversely affect the prospects of profitability and the NDC knows this well. The decision to incentivize the project was further informed by the imminent threat of declining crude oil production and its potential effect on our economy.

The oil production profile of Ghana shows that the contributions of the three producing fields will peak and reach plateau levels of approximately 230,000 bbls per day in 2020 and maintain that production level up to 2023 after which production levels will begin to decline if new fields are not brought on line.

If we have to discuss incentives, then the NDC was the first to provide incentives to an oil company (ENI in the Sankofa Gye Nyame Project), through a Supplementary Agreement and a Fiscal Support Package. The incentives were:

1. An exempt debt-to-equity ratio of 2:1 at 7% interest on the commercial loans of the Contractors, when the original Agreement did not have such exemptions. The 7% interest allowed was too high as most commercial loans attract much less interest rates. These exempted the interest expenses from tax deduction.
2. A gas price of $9.8 per mmBtu. If you added this to the transportation fee, it became the most expensive globally for an indigenous gas. This price competed with imported LNG price.
3. The Government and GNPC offered through the Supplementary Agreement to make the initial gas price of $9.8/mmBtu viable by providing a fiscal package to the tune of $250 million. A total of $125 million was to be provided by GNPC upfront, whilst the remaining fiscal concessions amounting to another $125 million to be provided by Government was to ran over the project life.
4. In the event that GNPC was unable to make an upfront payment in cash to the Contractors, it would allow the Contractors to over-lift GNPC’s share of oil at the beginning of production of oil.
5. The Government was required under the Security Package and Fiscal Support Agreement to issue five (5) different Sovereign Guarantees estimated at about $1.5 billion in addition to World Bank and IDA guarantees.
6. A Government Disbursement Account to be used for payment for gas supplied to GNPC was to be established; and GNPC was required to transfer its 55% share of the carried and participating interests from the Jubilee fields into the Account. GNPC could not use its funds for any purposes, until after Sankofa gas payments were made. This was to grind GNPC’s operations to a halt.
7. The Gas Sales Agreement provided for take or pay clauses and prioritized Sankfa gas over all others.

The implications of these incentives were very grave for the country. These were:

1. The country lost revenue as a result of the exemption of interest expenses from tax deductibility.
2. The negotiated gas price of $9.8 per mmBtu ensured that the composite domestic gas price became $8.8 per mmBtu. The price of our indigenous gas was more expensive than imported gas from Nigeria which was sold at $8.3 per mmBtu.
3. As a result of prioritizing Sankofa gas over Jubilee gas which President Kufour negotiated for free for Ghana; and TEN gas which is very cheap, we have not been able to maximize the use of our free Jubilee gas; as we are compelled to off-take more Sankofa gas. We take 70 mmscfd of gas from Jubilee which is free against 154 mmscfd from Sankofa.
4. As a result of less gas off-take from Jubilee, oil production from the Jubilee fields has declined. For example, it is estimated that we lose about 15,000 bbls of crude oil per day because of the higher Gas-to-Oil Ratio. Multiply 15,000 bbls by 365 days – 5,475,000 bbls a year assuming no lose production days; multiply by $60 per barrel, it gives you US$328.5 million lost to the Jubilee partners and Ghana. Ghana is losing money because of NDC Government’s recklessness; and Tullow Oil is about to lay off 25% of its workers mostly Ghanaians.
5. The NDC claims success over the 50% domestic requirement for LPG which is processed by the Atuabo Gas Processing Plant. Now you know that, if we were maximizing gas export from the Jubilee fields, we could have been supplying 100% of our LPG requirement.

The NPP Government has proven to be better managers of the oil and gas sector. This is because:

1. We have renegotiated the domestic gas price from $8.8 per mmBtu to $6.08 per mmBtu. The gas price would have been lower if Sankofa gas price was less expensive.
2. We have restored the price of Ghana’s gas from jubilee to zero from the $3 per mmBtu which the NDC government imposed on Ghanaians. Why did they do this?
3. We have recently negotiated with the gas producers to increase gas export from jubilee from 70 mmscfd to 125 mmscfd to recover more oil and increase LPG supply from domestic sources.

The NPP government has recently launched a new strategy for the upstream oil and gas sector anchored on aggressive exploration and the attraction of companies with track record. This has become necessary because the value of oil may decline in future as a result of climate change and declining funding for fossil fuel projects. It is therefore imperative that our strategy to provide incentive is

aimed at exploiting as much potential reserves as we find to maximize benefits to the nation while oil is still valuable.

**NDC:** That the utilisation of revenues especially ABFA and ESLA proceeds under this administration has been most disappointing. The provided for instance that, in the 2018 financial year, only 49% of ABFA expenditure was used for capital expenditure whilst 51% was utilized for the supply of goods and services, a clear violation of the Petroleum Revenue Management Act.

**Response:** This demonstrates the NDC’s poor understanding of the law that they passed – the Petroleum Revenue Management Act 2011 (ACT 815).

There is no requirement anywhere in the law requiring a dedicated allocation of the ABFA to capital expenditure. Section 21(4) of the law provides for a minimum of 70% of ABFA to be used for public investment expenditure. Public investments do not necessarily mean capital expenditure. For example, in the year of reference and subsequently, our Government allocated more of the ABFA towards the Free Senior High School Programme. Is that not public investment?

Due to the fact that part of the expenditure from the allocation to the Free Senior High School programme went to non-capital spending, the NDC misunderstood this to mean a violation of the Law. This is wrong.

Section 21(4) of the Petroleum Revenue Management Act 2011 (Act 815) provides as follows:

“For any financial year, a minimum of seventy percent of the Annual Budget Funding Amount shall be used for public investment expenditure consistent with the long-term national development plan or with sub-section 3”.

Interestingly, apart from the fact that expenditure on providing free senior high education to our people is the most significant public investment; section 3 of the Law which lists items to be invested in includes “service delivery in education, science and technology”.

Therefore if we were to evaluate the spending of the ABFA on public investments as per section 3 of the Act 919, one would realize that we exceeded the minimum 70% consistent with the law. The NDC must come again.

**NDC**: That due to their foresight, they successfully completed the Atuabo Gas Processing Plant, which has dramatically improved reliable fuel supply in Ghana, reduced the cost of fuel for thermal power production, saved the country over US$300Million per annum due to a reduction of about 80% in LCO imports.

**Response**: We applaud the NDC government for building the Gas Processing Plant. It continues to play a significant role in the energy space of our country. However, the attempt to play politics with it should not cloud the NDC’s judgement into claiming savings without exposing the cost of their inactions on the project.

You will recall that the project executed by SINOPEC, failed to meet several completion dates. Indeed, the project was delayed for four years as a result of the NDC Government’s indecision and corrupt motives. The decision to build the gas processing plant was not made by the NDC government. The Kufour Government agreed with the Jubilee partners to construct the plant, when it successfully negotiated 200 billion cubic feet of free gas for Ghana. However, upon coming into office, the NDC opted for a loan facility to undertake the project. The World Bank’s offer to give a concessionary facility to the Government to build the plant was also turned down. The Government instead went for a facility from the China Development Bank leading to the award of the EPC contract to SINOPEC.

A comparison of the savings the NDC is claiming with the cost of the project as well as the revenue losses to the state reveals a lot about the character of the NDC. It is estimated that the four year delay in the completion of the project cost our country an annual average of $550 million, which translated into $2.2 billion. The losses were from VRA’s loss of revenue due to the money used for LCO purchases, lost revenue from LPG for Ghana Gas and gas sales revenue. The cost of the protracted power crises from 2012 over the period as a result of the delay in the completion of the project cannot be quantified. The Jubilee partners had to build a third reinjection well at a cost of $100 million in October 2013. The excessive re-injection of gas has led to a higher Gas-to-Oil Ratio, leading to crude oil production loss and its revenue. We are still losing revenue to date.

**NDC**: That the NDC Government ended “dumsor” and challenged us to switch off President Mahama’s power plants and the Gas Processing Plant to see the unimaginable magnitude of Dumsor Ghana will witness.

**Response:** Such a myopic challenge is not surprising coming from the NDC. I wonder what would have happened to the country under the NDC government of President Mahama if they switched of plants built by Dr. Kwame Nkrumah, President Rawlings and President Kuffour. Therefore, it is simplistic to assume that only President Mahama built power plants in Ghana.

We wish to remind the NDC that we are using the ‘Mahama power plants’ not because there are no other generating plants most of which are owned by government, but because they committed the state to take or pay contracts over those plants which require us to pay for the power even if we don’t use the power. President Akufo-Addo will not subject Ghanaians to such a challenge by shutting down the plants and still be paying for them with taxes from Ghanaians.

On the causes of dumsor, we state emphatically that the power crises was not technical. It was financial. As at the time we had power shortage, our installed capacity was over 3,000MW, whilst peak demand stood at 1,800MW. The government failed to raise money to buy fuel when gas was not available.

Even when the NDC was leaving office, dumsor was still a major part of our country’s story. It did not only claim the position a Minister who failed to help President Mahama end it, but extracted a golden confession. The Hon. John Jinapor in October 2016 reportedly confessed “**Frankly, money is a challenge**”.

# ECG workers as at July 2016 also confessed “Mahama ‘sitting on’ dumsor timetable – ECG workers”, according to reports quoting Mr. Samuel Tetteh Agbetor, chairman of the Western Regional Workers’ Union of ECG. (Source: <https://www.ghanaweb.com/GhanaHomePage/NewsArchive/Mahama-sitting-on-dumsor-timetable-ECG-workers-457347>)

The NDC’s solution to dumsor was to sign several unwanted Power Contracts, some of which today have imposed serious financial burden on the state due to excess capacity payments.

In 2018, the cost of excess power generation capacity was an estimated $320 million in capacity charges. As a result of new power plants commissioned in 2019, the excess generation capacity increased the capacity charge costs to $620 million annually.

Power contracts are signed on take-or-pay basis, which means that the cost of power has to be paid whether the power is used or not. This is what has given rise to the excess power payments.

Under the current PURC methodology for electricity, capacity charges for excess capacity generation are not included. The Government has been compelled to find money to finance part of this.

The NDC has no moral grounding to speak on Ghana’s energy sector after such abysmal failure to manage the sector, and the people of Ghana can attest to this as we all witnessed the wanton abuse of our patience. Theirs was a period of deal making instead of strategy driven solutions.

**Conclusion**

The Government of President Akufo-Addo has demonstrated significant commitment and resolve to manage the energy resources of our country efficiently for the benefit of our people. As a government, we take criticisms, but such criticisms should be constructive; and not based on propaganda deliberately packaged to deceive the people of Ghana for political advantage.

There is no doubt that the NDC showed extreme recklessness in negotiations of oil contracts and power contracts, which to day are suffocating our country, over-burdening our national budget and adversely affecting the pace of national development.

The NPP government wishes to assure the people of Ghana that we will not relent in ensuring that the vision of our President in applying our energy resources to build and expand Ghana’s industrial base to secure sustained economic transformation, and to create wealth and jobs for our people is achieved.