PRESS STATEMENT

THE 2015 SUPPLEMENTARY BUDGET - EFFORTS AT ENDING POWER CRISES COMENDABLE; BUT MANAGEMENT OF PETROLEUM REVENUES WORRYING - ACEP Accra, 23 July 2015

Following the presentation of the 2015 Supplementary Budget by the Minister of Finance, the Africa Centre for Energy Policy (ACEP) wishes to express our opinion on the Budget as well as offer some practical prescriptions for the efficient management of the energy sector. In line with our mandate, our opinion focuses on the energy sector – ending the power crises and management of petroleum revenues.

1.0 Power Sector

1.1. Ending the Power Crises – Uncompleted Projects versus Emergency Power Plants.

We have taken note of the efforts by Government to complete the following power projects before the end of the year:

1. 220MW Kpone Thermal Power Project (KTPP);
2. 110MW Tico Expansion Project;
3. 180MW first half of Asogli 360MW Phase 2 Project; and
4. VRA TT2PP (38 MW) expansion project.

These projects will add about 550MW to installed capacity. However, in addition to the above projects, Government has arranged for various emergency power plants aimed at adding another 1800MW to installed capacity.

(i)225MW Powership (Preparatory works in progress), which is an IPP project;

(ii)250MW Ameri Project in Takoradi, which is a Build Own Operate and Transfer (B.O.O.T) arrangement with Government for 5 years after which the plant will be handed over to Government to run for the remaining 15 years of the plant's lifespan. Civil works have commenced under this project.

(iii)370MW AKSA Project (Commercial Contract sent to Parliament), which is an Emergency Power Agreement (EPA) Project for 5 years with option to negotiate a further term with ECG;

(iv)110MW TEI project (Commercial proposal submitted to Parliament), which is an Emergency Power Agreement (EPA) Project for 4 years with option to negotiate a further term with ECG; and

(v)300MW GE Early Power Project (Commercial Agreement under review), which is also an Emergency Power Agreement (EPA) Project.

Thus in the short-term, about 2300MW of generation capacity will be available for operation. THIS NO DOUBT WILL END THE POWER CRISES WHEN THESE PROJECTS ARE REALIZED. But this is not without a huge cost to the state.

Our review of the Emergency Power Agreements shows that value for money has not been considered. Also the plants are very expensive and will require an adjustment in electricity tariffs by more than 60%.

Considering that the current shortfall in power supply of 600MW is due mainly to gas supply interruptions and lack of planning to take advantage of fallen crude oil prices, the number of emergency plants may become quite wasteful given that consumers will continue to pay capacity charge of an average of 4.5 cents/Kwh when these plants are not in operation. Government is also required to pay both capacity and energy charge in the Agreement with AKSA when the plant is not operating.

It is also important to highlight the looming danger in government action to contract long term emergency power solutions while it has signed up to the Millennium Challenge Compact which makes government's commitments after signing the compact not binding on the concessionaire. This exposes the public purse to significant risk, estimated to be in excess of US$350m in only Capacity Charges for the emergency plants every year if the concessionaire does not see value for money in the Emergency plants.

It is also important to note that several deadlines relative to the 220MW Kpone thermal and 110MW Tico Expansion projects have been missed and any further delay in delivering the projects by the end of the year will undermine efforts at ending the power crises this year.

1.2. Recommendations

We recommend the following options:

1. The number of emergency power plants be reduced to 700MW whilst effort should be directed at existing uncompleted plants as well as initiate appropriate schemes to attract private investments.
2. Alternatively, the contractual period for the emergency power plants, 4-5 years for most of them should be reduced to 2 years by which time the short to medium term projects would have been completed. This saves Government and consumers significant amount of revenues.
3. Government should provide the status report on the preparatory works for the deployment of the emergency plants considering that the site for the APR/Ameri plant was expected to be ready by end of June 2015. This will help with planning especially by industrial and commercial consumers.
4. Government should commit to procuring and securing light crude oil for power generation. The current crude oil price averaging $53/bbl, competes favorably with Gas price in barrel terms. It is therefore not a viable excuse to site crude oil as an expensive alternative to gas in power generation at this time.

2.0. Gas Supply Security

2.1. Disruption in Gas Supply from Atuabo

The budget provides that the Atuabo Gas Processing Plant delivers 80mmscf of gas per day for thermal plants at Aboazi as well as 400 metric tons of LPG a day to the domestic market. Considering the effect of the shutdown of the plant as a result of technical challenges on the FPSO, and the consequent decline in production from Jubilee by about 38%, we are surprised that the Budget failed to highlight this as well as quantify its effects on the government programmes including revenue projections.

2.2. New Gas Projects

We wish to commend the Government for the following projects aimed at providing security of gas supply, one of the major requirements for stabilizing power supply:

a. Memorandum on Reverse Flow of Atuabo Gas in the West Africa Gas Pipeline has been submitted to Cabinet for consideration.

b. Emergency LNG project to be delivered in five months at Tema by West African Gas Limited; and c. Regular LNG project to be delivered by Quantum Power Ghana Gas in the 2nd Quarter of 2016

2.3. Recommendations

We recommend that:

1. Cabinet should consider these projects serious as it will provide respite to the power plants in Tema including the Kpone Thermal Power Plant, which is near completion, as well as solve Nigeria's erratic gas supply challenge to Ghana.
2. We also urge Government to live up to its financial commitment, as we know that VRA owes both Nigeria Gas and Ghana Gas, a situation that has destabilized gas supply from Nigeria in particular.

2. Petroleum Revenues and Expenditure

2.1. Management of Petroleum Revenues

a. Transfers for ABFA and Ghana Petroleum Funds

The Budget provides that transfers to the ABFA account for the period Jan-May 2015 amounted to GH¢539,161,068. This was more than the programmed budget of GH¢419,942,337. Coincidentally, the realized benchmark revenue was also put at GH¢539,161,068. This implies that no transfers were made to the Ghana Petroleum Funds. Under the law before its amendments, Government was supposed to transfer the excess over the programmed budget, an amount of GH¢119,218,731, to the Funds. This was not done contrary to the law, which was in force until June.

The budget also indicated a transfer of GH¢205 million from the Ghana Stabilization Fund. Given that the budget was revised down with a lower ABFA, it is not clear what the transfer was meant for. Transfers from the Stabilization Fund are to address shortfalls in ABFA. To the extent that the realized ABFA was more than the programmed ABFA for the period January to May, Government must come clear on the basis for the transfers from the Ghana Stabilization Fund and its utilization.

b. Revision of Crude Oil Price

Government has revised the benchmark crude oil price to US$57/bbl. Given expected daily production of 102,033 barrels of crude oil, this will reduce expected total petroleum receipts to GH¢1,766.9 million (1.3% of GDP) in line with the amended PRMA. However, unlike the original benchmark price of US$99.38/bbl which was indexed to the moving average price of crude oil prices in line with the PRMA; and the initial revised crude oil price of US$52.8/bbl indexed to the forecast price of IMF, there is no justification or index for the new benchmark price of US$57 per barrel. This only shows abuse of discretion and under-estimation of revenues in order to channel the excess to debt re-payment.

c. Revision of the cap on the Ghana Stabilization Fund

The Budget also proposes a revision in the cap on the Ghana Stabilization Fund from US$300 million to GH¢150 million for the rest of the year (About US$47 million). The Minister attributes this to "the downward revision of the expected oil revenue for 2015, resulting from the drastic decline in world oil prices". The new proposal will lead to a reduction by US$253,125,000 from the original cap for the year (about 84%) as against a decline in expected oil revenues by 58%. This is rather bizarre except to satisfy the Ministers desire to use the GSF for other financing purposes. The Minister has discretion to set the cap but in exercising this discretion, Section 30(2c) of the law requires "the need to ensure that sufficient funds are available when needed for transfers to meet unanticipated petroleum revenue shortfall."

In departing from the law, the new cap on the GSF now constitutes only about 14% of the new projected ABFA for the year, too low to accommodate any further shortfalls in the ABFA. This perhaps is why the Minister sponsored the amendments to the PRMA, which allows it to revise the benchmark revenue when price and production movements change. Unfortunately, this shifts Ghana's prized countercyclical policy to pro-cyclical spending of the petroleum revenues.

Also, based on the original cap of US$300 million, the GSF reached this level by the end of the first quarter of 2015 during which the original cap was still in force. This consisted of the closing balance of US$286.6 million in the Fund and new receipts of US$22.7 million due the Fund by the end of the first quarter of 2015. By revising the new cap to GHS150 million (US$47 million), the Minister is forcing an excess revenue in the GSF of close to US$263 million for transfers to the Sinking Fund and the Contingency Fund. Thus, there is no consistent policy on the cap and utilization of the GSF, for the purpose for which it was established, a situation that exposes the management of petroleum revenues to continuous experimentation.

2.2. Sweeping of the Sinking Fund

The Budget also exposes that US$100 million transferred into the Sinking Fund from the excess over the cap on the GSF was swept by the Bank of Ghana in March 2015. In our view, the Bank of Ghana used the money to repay government indebtedness to the Bank, a condition prescribed by the IMF's programme. Thus, since government still owes the Bank without fulfilling its debt obligations to the Bank, further transfers promised by the Budget into the Sinking Fund is at the risk of being swept again. We are therefore surprised that Government is reducing the cap on the GSF to create artificial excess revenue for transfer to the Sinking Fund. We ask “What will happen to the Sinking Fund going forward?”.

The solution prescribed by government in the Budget is inadequate; to wit, “Going forward, corrective measures will be taken to ensure that government Accounts established by statutes are protected from general sweeping. This will be achieved by differentiating Bank of Ghana’s monetary survey requirements from those of the public accounts in classifying the government’s accounts for liquidity, investments and other statutory purposes”. The only condition that will prevent general sweeping of government accounts by the Bank of Ghana is to fulfill its debt obligations to the Bank. Otherwise, any petroleum revenues transferred to the Sinking Fund is in danger of being used for purposes other than those prescribed by the government. “

2.3. Government Expenditure and the effects of lower Oil Prices

The Budget revised down government recurrent and capital expenditure blaming it on lower oil revenue inflow as a result of the decline in crude oil prices as follows:

1. Goods and services expenditure have been revised downwards by GH¢113.6 million from GH¢1,970.0 million to GH¢1,856.4 million.
2. Domestically financed capital has been revised downwards by GH¢722.8 million, down from GH¢2,557.4 million to GH¢1,834.5 million.
3. Transfers to GNPC from the oil revenue have been revised downwards from GH¢697.7 million to GH¢497.9 million.

This suggests that government’s fiscal efforts have now been tied to increasing dependence on oil revenues, a situation akin to “dutch disease”. However, oil revenues do not constitute a significant proportion of total government revenues. In the 2015 Budget, the projected oil revenues was 3.1% of GDP out of a total revenue estimated at 24% of GDP; and the revised oil revenues now stand at 1.3% of GDP out of a total revenue of 22.8% of GDP. Thus, Ghana is not an oil dependent country, and why the government recurrent and capital expenditure have to suffer as a result of decline in oil revenues, shows weak domestic fiscal effort.

2.4. Recommendations

i. To limit the dangers of Ministerial discretion in petroleum revenue management, Government must as a matter of urgency submit to parliament a Legislative Instrument to guide the application of the many discretionary provisions in the amended PRMA, particularly on issues relating to the revision of the benchmark revenue, estimating crude oil prices when any revision in the benchmark revenue becomes necessary, setting the cap on the Ghana Stabilization Fund and transfers to the ABFA and the Ghana Petroleum Funds.

ii. Government should reconsider its increasing dependence on petroleum revenues for capital expenditure since volatility in revenues would continue to undermine the capital programme in the annual budget. Instead, government should increase its domestic fiscal effort to mobilize domestic non-oil revenues to finance capital development. In this case, petroleum revenues should be used for countercyclical spending.