THE 2016 SUPPLEMENTARY BUDGET- PLAYING THE OSTRICH WITH POWER SUPPLY IN A RECORD LOW OIL REVENUE ERA

27th July, 2016

The supplementary budget for 2016 has been presented to parliament for approval. The Africa Centre for Energy policy, in consonance with our mandate on the governance of the energy sector wishes to present our analysis of the statement. The analysis therefore focuses on the power sector and the Petroleum sector.

The Power Sector

The power sector generation challenges which plunged the country into four year of power crisis saw substantial improvement in power supply to the grid which was enough to eliminate the supply deficit. ACEP at the time recognised the efforts made by government to introduce new generation plants and procurement of fuel to bring on stream some existing power plant.

However, we cautioned that the situation was too fragile for comfort. The challenge with fuel insecurity and the addition of more expensive generation plant posed real threat to both supply and demand security respectively. Also, lack of reserve margin made it unrealistic to declare an end to load shedding. It is therefore not surprising that today we are back to load shedding, though officially not recognised as such.

The budget highlighted some positive steps being taken to improve the governance of power sector and restore the financial viability of Volta River Authority (VRA).

1. The decision to comply with Energy Sector Levy Act 2015 (Act 899) to use the accruing levy to restructure the debts of the VRA is commendable. The Minister proposes to ring-fence the legacy debt for repayment through a debt service account, which consolidates Energy Sector Levy, VRA's receivables and flows from debts service reserves.
2. The Minister also indicated that steps are being taken to scrutinise the terms of Power Purchased Agreements (PPA) as parts of efforts to de-risk the fiscal position of the country. This is timely to ensure that nonperforming agreements are cancelled per the contract terms. There are many power agreements that were signed last year under emergency which have failed to deliver on the terms of the contracts. These include AKSA, TEI and the second barge from

Karpower. Given that the current challenge is induced by lack of fuel, investment into alternative sources of fuel should be become a focal issue.

There are also challenges in the power sector which the budget did not address sufficiently or at all:

1. Government has procured 400,000 barrels of crude oil for the dual thermal plants. This is helpful but the assurance needed beyond that is how to sustain timely delivery of fuel to the plants to ensure consistent supply of power from available plants. The excuses with unavailability of fuel has become too many largely because planning to exploit the advantage of dual fuel plants has been abysmal. The problem with FPSO Kwame Nkrumah should send the signal that domestic source of gas will not provide the needed supply security. This is why the failure to mention progress made on the proposed LNG projects is worrying.
2. It is unclear why it is still necessary for the Finance Ministry to continue to micro manage the procurement of fuel for power generation after adjusting the tariffs to raise the needed financing for the utilities. There is also no indication that this will change going forward. It is important that VRA is allowed to take control of its operation and become directly accountable for the management of the supply of power.
3. The minister also proposed to micro manage future financial commitments of VRA; in loan and credits to require the express permission of the Ministry of Power and Finance. This is not in keeping with the need to restructure the state agency away from direct government control, which indeed is the reason VRA is now financially paralysed. The picture being painted that VRA management is the reason for its financial woes is erroneous. The problem is the direct interference by the two ministers in the governance of the power sector. VRA made profit as recent as 2011. This can be replicated if they are allowed to simultaneously take independent decision and remain accountable to government. VRA should also be supported with sovereign, as done for private companies, to raise financing. For example, why is VRA not being supported with government guarantee to raise funds to revive T3 plant rather than selling it to Ameri.
4. The minister promised in the 2016 Budget to conduct a research into the impact of load shedding on businesses. This was not done in the first half of the year. Neither was any update given in the supplementary budget. The trend in electricity consumption makes this impact analysis very critical. Ghana was projected to consume 2400MW of power by the end of 2014. Given a growth rate of 10% as we are told by the energy Commission, Ghana's demand should be around 2900MW at peak in 2016. However, the trend does show that demand has actually declined, as the total peak demand today averages 2000MW. All other things being equal, this apparent contraction in energy intensity is worrisome for a country that aspires for industrialisation. We therefore need to be cautious about electricity demand projection and the number of IPPs being hurriedly mobilised with government guarantees.

5. Another Power Agreement which is before Parliament is Early Power 400MW thermal plant estimated to cost $953 million. ACEP is studying the contract and its financial implication for the power sector and will come out soon with the analysis.
6. ACEP is worried about power supply security without Nigeria gas. Our analysis show that without Nigeria gas load management will continue at least to the end of the year. The total available capacity at Peak will be in the region of 2000MW which is equal to the 2,000MW currently demanded at Peak. This also leaves no reserve margin for unexpected loss of a generation unit given the consistent unreliability of some on the plants.

Plant	Available MW off-peak	Available MW at Peak
Akosombo	400	400
T1	150	150
T2	320	320
Ameri	235	235
Karpower	219	219
Bui	-	180
KTTP	90	90
CENIT	105	105
TT1PP	105	105
TT2PP	105	105

Kpone Hydro	40	80
Total	**1780**	**2000**

Recommendation

We recommend the following;

1. Government should take steps to cancel or renegotiate Emergency power agreement which have failed to deliver on contract terms. This could free up some capacity charges and ultimately the need to adjust tariffs to finance the charges.
2. Government should transfer ownership of the T3 plant to VRA and through support from the Energy Sector Levy or government guarantee acquire a new turbine for the plant. This option is better that the BOOT arrangement with Ameri who only have to invest in the turbine and own the plant for 5 years.
3. Immediate steps should be taken to finalise arrangement to bring in LNG to improve on fuel security.

The Oil Sector

Once again Ghana has been exposed to revenue volatility; not just resulting from decline in oil prices, but also production. This is what happens when government plays the ostrich with the boom period. For an estimated $484.79 million in petroleum revenues for the first half of the year, government only got $87.15million. This is the lowest revenue Ghana has ever realised since oil production started in 2010. There is no other time to appreciate the signal than now, that oil revenues should be invested as capital to aid economic diversification, failing which the budget continues to be revised on account of oil revenue shortfalls.

Revenue Investments

The expenditure of oil revenues thrives on the discretionary powers of the minister of finance. Section 21(5) of the Petroleum Revenue Management Act 2011 (Act 815), gives the Minister the discretionary powers in the absence of a National Development plan, without any consultation with the public. Even when Civil Society Groups did public consultation and advised the Minister, he rather preferred to “boom spray” the revenues to many projects, engineering time and cost overruns in projects funded with oil revenues. In the absence of strategic diversification Ghana’s budget will continue to depend on oil revenues and be subjected to extreme unpredictability as a result of commodity price volatility as was seen in the first half of the year and in 2015.

Stabilization Funds

The Ghana Stabilization Fund (GSF) was established under Sections 11 and 12 of the PRMA (as amended) to primarily support the budget in times of petroleum revenue shortfalls. Between 2011 and 2015, the GSF received a total US$604,223,296.80 from the Petroleum Holding Fund (PHF). However, about US$376,949,906.9 (representing 62.4% of petroleum revenues transferred to the GSF) has been used for purposes other than budget relief. A total of $335,761,690.2 was transferred to a debt service account in 2014 and the Sinking Fund in 2015 for debt repayment, while no detailed account has been provided on the use and management of a total of US$41,188,216.74 that were transferred to the Contingency Fund in 2014 and 2015. Meanwhile, only US$53,685,578.98 (representing a paltry 8.9% of total transfer to GSF from the PHF) have so far gone to support the budget since the establishment of the GSF in 2011. The GSF has gradually lost its essence to become a transit account for debt repayment.

The supplementary budget statement shows how the moving cap on the GSF promised in the Budget last year has been dishonoured by the Minister. In the absence of capping rules, the GSF stands the risk of mismanagement from excessive discretionary powers over decisions of acceptable thresholds that provides enough buffer to absorb shocks injected by revenue volatilities.

Now, the Ghana Stabilization Fund (GSF) has been capped to US$100 million, down from 2015 cap of US$150 million. Reducing the cap on the GSF to free more revenues for debt financing through the Sinking Fund defeats the purpose of the GSF and Ghana's development investments, especially in this period of slumping petroleum prices.

The Ghana Infrastructure Investment Fund (GIIF)

The GIIF was established by Act (877) to invest in diversified infrastructure projects for national development. One of the sources of the revenue to the fund is Annual Budget Funding Amount (ABFA) of petroleum revenues. Therefore, good governance of the GIIF is as important as the expenditure of every remaining cedi from Oil revenues.

Even though allocations have been made to the fund over the past two years, management staff of the fund has not been put in place. Rather, the Minister is investing the accumulated fund. The Minister recently invested $250 million of the fund in private banks. Now he has taken another decision to invest the fund in fuel-tanks. This structural breakdown could defeat the management practices identified in the law and questions the governance of the GIIF and thereby risking oil revenues invested in the fund.

Recommendation

ACEP recommends the following for the management of oil revenues

1. Parliament should demand investment plan for oil revenue from the Minister of Finance to ensure that the economy is manage to withstand cyclicality associated with petroleum revenues.
2. The Ghana Stabilisation Fund should be regulated to preserve the effect of the fund. The continuous downward revision of the cap renders the fund incapable of achieving the objectives set out in the law.
3. The Minister should urgently set up the management of the GIIF and allow the management to be guided by the law in selecting projects to support.