The Energy Sector Challenges Should Be The "Opening Prayer" Of The Government Of Ghana

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The Africa Centre for Energy Policy (ACEP) would like to congratulate the President of the Republic of Ghana and the Government on the electoral victory in the December elections. We wish the Government well and hope that the aspirations of the Ghanaian people will drive governance processes to make Ghana a better nation.

Recognizing that our challenges are many as a country, a new government such as we have today cannot enjoy any honeymoon particularly in relation to the energy sector which is a critical nerve of the Ghanaian economy. ACEP has consistently supported the government of Ghana and public discourse with policy alternatives in the energy sector. This, we will continue to do in accordance with our objective of ensuring good governance anchored on transparency, accountability and dedication to nation building.

The challenges of the energy sector are many, with alarming signals that could derail the national economy into distress for a very long time. We also recognize, at the same time, that the potential of the sector to transform the economy is enormous. This "double edged sword" situation requires efficient leadership that can carefully align the energy sector decisions with the rest of the economy. The energy sector situation, as articulated below, requires that the government takes significant interest in aligning the sector to the growth of the economy.

The Power Sector

The power sector challenges are far from over regardless of the relative stability in supply to consumers today. The additional generation capacity to the grid, no doubt, helped to provide power to replace unavailable power from T3 thermal plant, Akosombo, Kpong Hydro Plant, Asogli and others. However, the other challenges such as financial distress of the utility companies, fuel supply security, high tariff, and suppressed demand, do not only threaten the stability of power supply, but explosion of the economy as a whole.

Financial Challenges

The utility companies continue to reel under financial distress. The recent attempts at restructuring their indebtedness to the banks has not yet translated to improved relationship and confidence in the sector by the banks. The Volta River Authority (VRA) for instance, still struggles to secure letters of credit to procure fuel for its plants. This is worrisome, particularly in the light of huge burden on consumers through the energy sector levies to normalize the situation. As a result of its financial challenges, VRA has missed important maintenance schedules which now threatens supply stability in the short term. The T1 plant will have to shut down because of noncompliance with maintenance agreement with Ansaldo, VRA's technical contractor, to which VRA owes about €2m. Also, the GT2 of the T1 plant will have to shut down for about two months when Ansaldo returns to work.

Fuel Supply Issues

Beyond the fuel supply constraints linked to financial distress of the sector, indigenous supply of gas will also suffer when the FPSO Kwame Nkrumah goes out for maintenance. This will affect supply of gas to power plants in the Aboadzi enclave. If Ghana is unable to secure gas supply, DUMSOR will return. There is therefore the need to ensure availability of Light Crude Oil (LCO) for the dual fuel plants in the hope that gas from TEN project will be on schedule to keep AMERI running.

Given that TAPCO and TICO are due for maintenance shutdowns, Nigeria gas remains the obvious option for averting possible load shedding. The government will therefore have to initiate discussion with Nigeria to increase gas supply to power Asogli and KTTP which can provide relief to offset the shortfall from Aboadzi. This brings to the fore the need to comprehensively deal with VRA's indebtedness to NGas and WAPCo. In the face of eminent shortfall in supply, Akosombo could be the next target as the water level has improved this year. We would want to caution against any attempt to run the plant at full capacity anytime soon.

Cost of Electricity and Expensive Power Plant

Electricity tariff in Ghana is among the highest in the world and the highest in the sub-region. This affects the competiveness of Ghanaian businesses and consumers in general. This was occasioned by the imposition of taxes and levies, and the procurement of expensive generation plants. The effect has been the stagnation of demand and resultant poor industrial growth. This calls for critical examination of the factors affecting tariffs; taxes and expensive generation options, so that some relief can be passed on to consumers.

In resolving the above challenges, ACEP would like to highlight the following recommendations to government in line with its manifesto and citizens' expectations:

1. **a. Transparently tackle the debt of the power sector agencies -** Government should immediately set in motion accelerated programmes to settle the debt of the utilities to create healthy institutions to manage the delivery of power. We hereby remind the government of its promise to **develop and implement an energy sector financial restructuring and recovery plan with liquidity management mechanisms for the utility companies.** Government should let the public know how much has accrued from the energy sector levy which was instituted by the past government and its utilization so far. Government should, in that process, let the public know for

how long they have to pay the levy so that the relief from payment of the levy can be anticipated and tracked.

2. **b. Audit the Power sector -** We urge government to fulfill its manifesto promise to **conduct a technical audit of power sector infrastructure, and develop and implement a 10 year master plan.** This audit is relevant to ascertain the efficiency and robustness of the power sector infrastructure to serve our need for a stable power supply.

c. Reduce Taxes on Electricity Tariff - We also urge government to fulfill its promise to **reduce taxes on electricity tariffs to provide immediate relief to households and industry.** The 17.5% VAT on industrial consumers should as a matter of urgency be removed to improve the cash flow of businesses and their productivity.

1. **d. Renegotiate expensive power agreement, cancel nonperforming ones and adopt competitive procurement processes -** government should take steps to renegotiate the terms of the AMERI, Karpower and AKSA contracts and pass on the relief to consumers. We are convinced that value for money was not achieved in those contracts. We further urge government to fulfill its promise to **institute competitive bidding processes for future generation addition** to ensure value for money and abolish the current practice of single sourcing all power contracts.

1. **e. Diversify the energy mix through renewable and options that rely on domestic fuel supply -** the Renewable Energy Act provides incentive for deployment of renewable technologies such as Solar, Biomass and Mini Hydro. Government, in fulfillment of its promise to **increase the proportion of renewable energy in the national energy mix**, should clarify the incentives, simplify processes and encourage investment in these technologies to reduce reliance on importation of fuel for power generation.

The Oil and Gas Sector

Upstream Sector Challenges

The upstream sector of the oil industry has witnessed significant progress since the discovery of oil in 2007. Last year, the TEN field started producing oil and the Sankofa project is also expected to start production in the second half of 2017. Cumulatively Ghana could be producing between 180,000bpd and 200,000bpd upon successful completion of repair works on the turret of the FPSO Kwame Nkrumah.

The challenge going forward is that new commercial discoveries are not being made. The implication is that in the short to medium term, Ghana cannot add new producing fields beyond Jubilee, TEN and Sankofa which will have negative implications on our revenue generation capacity. The Ghana-Ivory Coast boundary dispute and nonperforming exploration agreements are the two key problems hampering discoveries. Some of the companies holding petroleum agreements are not complying with their minimum work obligations. This vindicates ACEP's position, when the contracts were being signed, that the profile of the companies showed that they did not demonstrate adequate capacity to exploit the blocks, and that there was no justification to rush those contracts through parliament.

Oil Revenue Management Issues

The management of petroleum revenues is governed by the Petroleum Revenue Management Act (PRMA) (Act 815). The requirement of the law for the Minister of Finance to prioritize not more than four sectors of the economy every three years has generated confusion as to the spirit and right interpretation of section 21(5) of the law. While the past Ministers of Finance interpreted the law in a manner that allowed thin distribution of the revenue across many sectors, those of us in civil society argue that the investment of the revenues should be more targeted to facilitate early completion of projects and ensure value for money.

Downstream Sector Challenges

The deregulation of the downstream sector has resolved the recurrent government interference in the market which often resulted in under-recoveries and government indebtedness to the Bulk Oil Distributors (BDCs). This has also ensured greater transparency in the pricing mechanism. However, the deregulation process remains incomplete. As a result, the biweekly pricing window has become an automatic price adjustment period for BDCs and OMCs. This has a regulatory effect on the pass-through of the right market price.

Still on the downstream sector, the falling crude oil price in 2015 allowed government to impose new taxes and levies on petroleum products. These include the Special Petroleum Tax (SPT) of 17.5% and the price stabilization and Recovery Levy of 12 pesewas and 10 pesewas on petrol and diesel respectively. Now, with the combined effect of weak currency and the rising crude oil price, these levies are beginning to bite consumers.

To address the challenges in Ghana's oil and gas sector, ACEP would like to highlight the following recommendations to government generally, and in line with their manifesto particularly:

a. Review non-performing contracts and create enabling environment for upstream investments – We urge government to take a critical look at the nonperforming agreements and where companies have failed to fulfill their work obligations, take steps to punish them or abrogate those contracts. The remedy into the future is to ensure that there is aggressive investment attraction drive through the application of the new Petroleum Act 2016, which set in motion the transparent process of awarding petroleum contracts through competitive bidding.

b. Improve transparency in the management of oil and gas resources - We urge the government of Ghana to consolidate the efforts of the past government through the passage of the Petroleum (Exploration and Production) Act, 2016 (Act 917), by passing the Right to Information Bill to enhance transparency in the oil and gas sector as promised in their manifesto. We further entreat the government to continue the development of regulations for the upstream sector. The past government started developing regulations on the Petroleum Act. The Petroleum Commission led the development of Fiscal Metering Regulation, Health and Safety Regulation and Data Management Regulation. Government should continue that process with urgency and also develop regulations on licensing and management of Public Register of Petroleum Agreements.

c. Make targeted oil revenue investments and be fiscally responsible – We want to urge government to recognize that the oil revenues are not enough to do everything and cannot do everything. Therefore, it is important to identify sectors with multiplier effects in the short to medium term. In line with the government's manifesto promises to **invest revenues in infrastructure, health, education and agriculture**, we propose that government should invest significant portions of the oil revenue in agriculture and education sectors which affect many Ghanaians directly with its spillover social benefits. We further urge the government to fulfill its promise to **enact a fiscal responsibility law to bring comprehensiveness, accountability and stability to the entire budgetary process.**

d. Review Levies on Petroleum Products – We propose that the Government of Ghana should do the following:

1. Scrap the price stabilization levy and account for collection in 2016 which we estimate to be in excess of GHS 500 million. This is an element of regulation which has no place in a deregulated market.
2. Convert the SPT from 17.5% to a fixed levy to eliminate the compounding effect of the tax on ex-depot price of products in the midst of rising crude oil price and a weakening cedi.
3. Account and provide justification for why consumers should continue to pay TOR debt recovery Levy. We estimate that consumers finished paying the debt in 2015. Why must we continue to pay for TOR debt recovery levy?
4. Complete the deregulation process of the downstream market to ensure the removal of the biweekly pricing window, to achieve automatic adjustment of market prices.