

**IN THE FIRST SESSION OF THE FIFTH PARLIAMENT OF
THE FOURTH REPUBLIC**

**REPORT OF THE COMMITTEE ON MINES AND ENERGY ON
THE 2010 ANNUAL BUDGET ESTIMATES OF THE
MINISTRY OF ENERGY**

1.0 INTRODUCTION

The Budget Statement and Economic Policy of the Government for the 2010 Financial year was presented to Parliament by the Minister for Finance and Economic Planning, Dr. Kwabena Duffuor, on Wednesday 18th November, 2009 in accordance with Article 179 of the Constitution. The draft budget estimates for the Ministry of Energy were referred to the Committee on Mines and Energy for consideration and report pursuant to order 188 of the Standing Orders of Parliament.

2.0 SITTINGS

The Committee held two Sittings to deliberate on the referral. In attendance were the two Deputy Ministers, Hon. Dr. Kwabena Donkor and Hon. Emmanuel Armah Kofi Buah, the Chief Director of the Ministry Mr. W.K Kemevor and other Heads of Agencies of the Ministry of Energy and Officials of the Ministry of Finance and Economic Planning (MOFEP)

The Committee acknowledges with thanks, the inputs of the Deputy Ministers and all officials who attended upon it.

3.0 REFERENCES

The following documents were referred to during the discussions:-

- i. The 1992 Constitution of the Republic of Ghana
- ii. The Standing Orders of the Parliament of Ghana
- iii. The Budget Statement and Economic Policy of the Government of Ghana for the 2010 Financial year.

- iv. The Budget Statement and Economic Policy of the Government for the 2009 Financial year

4.0 **DEPARTMENTS / AGENCIES OF THE MINISTRY**

The Ministry of Energy has supervisory jurisdiction over 11 Agencies. These are as follows:

- i. Energy Foundation
- ii. Energy Commission
- iii. Ghana National Petroleum Corporation (GNPC)
- iv. National Petroleum Authority (NPA)
- v. Volta River Authority (VRA)
- vi. Electricity Company of Ghana (ECG)
- vii. Bulk Oil Storage and Transportation Company Limited (BOST)
- viii. Ghana Cylinder Manufacturing Company (GCMC)
- ix. Tema Oil Refinery (TOR)
- x. Bui Power Authority
- xi. Ghana Grid Company Limited (GRIDCo)

All the above mentioned Agencies are self financing and therefore do not receive direct Government subvention for their operational and administrative activities. They nonetheless receive Government support for specific programmes. This is done through direct budgetary support or through Government guaranteed loans and other facilities.

5.0 **GHANA'S ENERGY SECTOR VISION**

The vision of the Energy sector is to achieve universal access to modern energy forms by 2020 and to become a net exporter of oil in West Africa by 2015.

6.0 MISSION STATEMENT

The mission of the Ministry is to formulate, monitor and evaluate policies for the provision of secure, safe and reliable supply of energy to meet Ghana's developmental needs in an efficient, competitive and environmentally sustainable manner.

7.0 MEDIUM TERM OBJECTIVES OF THE MINISTRY

In order to achieve the above mission the Ministry of Energy has set for itself the following objectives for the medium term:

- i. To increase access to adequate, reliable and economically priced modern forms of energy supply.
- ii. To diversify the national energy mix including the use of environmentally friendly indigenous sources of energy.
- iii. To ensure the efficient management of the energy sector.
- iv. To ensure productive and efficient use of energy.
- v. To promote private sector participation in the energy sector.

8.0 OVERVIEW OF THE 2009 APPROVED BUDGETARY ALLOCATION TO THE MINISTRY OF ENERGY

The Ministry of Energy was allocated a total sum of GH¢317,243,469 for its activities for the 2009 financial year. The breakdown of the sources of funding is as follows:

- i. Government of Ghana - GH¢6,070,589 (1.91%)

- ii. Donor support - GH¢286,172,880 (90.21%)
- iii. Multilateral Debt Relief Initiative (MDRI) - GH¢25,000,000 (7.88%)

The allocation per expenditure Item is provided in the table below:

NO.	ITEM OF EXPENDITURE	2008 BUDGET ALLOCATION (GH¢)	ACTUAL EXPENDITURE AS AT 31/08/09 (GH¢)	VOTES BALANCE AS AT 31/08/09	% UTILISED
1.	PERSONNEL EMOLUMENT	1,889,875.00	1,325,694.00	564,181.00	70.1
2.	ADMIN. EXPENSES	267,322.00	397,459.40*	-	148.7
3.	SERVICE COST	213,883.00	134,989.60	78,893.40	63.1
4.	INVESTMENT				
	GoG	3,699,510.00	2,064,130.12	1,635,379.88	
	DONOR	286,172,880	185,550,883.15	100,621,996.85	
	MDRI	25,000,000.00	12,006,250.00	12,993,750.00	
	TOTAL	317,243,469	201,479,406.27		31.2

*The variation in Item 2 was as a result of direct release of GH¢130,137.40 from MOFEP for the payment of salary related allowances.

9.0 THE MINISTRY'S ACHIEVEMENTS IN 2009

The Ministry of Energy in 2009 undertook the following Projects and activities:

1. The completion of 126 megawatts Tema Thermal 1 Power Project (TTIPP).
2. The installation of 49.5 megawatts Tema Thermal 2 Power Plant (TT2PP) which is about 95% complete.

4. Signing of a Memorandum of Understanding with the Brazilian Government for the development of a 90 megawatts Juale hydro project.
6. An assessment of the National Electrification Scheme (NES) to determine the accessibility rate of electricity in the various regions and districts in the country.
7. Approval of the phase 1 plan for the development for the Jubilee field and,
8. A total of 240 communities were connected to the national electricity grid under the National Electrification Scheme.

10.0 OUTLOOK FOR 2010

For the 2010 financial year, the Ministry of Energy would focus on actions aimed at upgrading the transmission and distribution systems while stepping up rural electrification to ensure increased access to electricity by household and industry.

10.1 Power Sub Sector

Power Generation Capacity Expansion

In order to increase the power generation capacity of the country and to ensure efficient and reliable supply of power for the country, the Ministry intends to undertake the following projects in 2010:

- i. The completion and commissioning of the 49.5 megawatts Tema Thermal 2 Power Project (TT2PP)

- ii. Commencement of the 132 megawatts combined cycle power project to be sited near the VRA Thermal Power Plant in Aboadze.
- iii. Operationalization of the 125 megawatts Osagyefo Power Barge.

10.2 Increased Access of Rural Communities to the National Electricity Grid

In order to accelerate the pace of expansion of access to electricity, the Ministry plans to undertake the following ongoing and new projects will be undertaken:

- i. Extension of electricity to about 800 communities will commence under a credit facility by China International Water and Electric Corporation (CWE)
- ii. Extension of electricity supply to about 1200 communities will also commence under a financing agreement by US Exim Bank.
- iii. Extension of electricity to 200 communities under SHEP-4 will be completed.
- iv. Connection of 106 communities to National Grid to be financed by the ECOWAS Bank for Investment and Development (EBID)
- v. Connection of 79 communities in the Ashanti and Eastern Regions to the National Grid which is to be financed by BNP Paribas Bank.

10.3 Renewable Energy

The Ministry is to vigorously pursue the promotion of renewable energy technologies (solar, wind and mini hydro projects) to maximize the country's energy needs. Also solar electrification projects in schools, security services and health centres will continue.

10.4 Petroleum

The following key projects and activities are expected to be undertaken in the petroleum sub-sector:

- i. Start-up of oil production from the Jubilee field and appraisal of the two other fields in the Deep Water Tano and West Cape Three Points Contract Areas with a view to developing these fields.
- ii. The establishment of a gas gathering and processing infrastructure to ensure optimization of natural gas resources from the Jubilee field as well as other fields in the Tano/Cape Three Points basin.
- iii. Establishment of a framework for ensuring transparency and accountability in relation to oil and gas revenues as well as complying with Extractive Industry Transparency Initiative (EITI) principles.
- iv. Lending the needed support to local industry to participate in the production requirements of oil and gas development activities.
- v. Development of a strategic plan for the provision and improvement of Infrastructure for the benefit of communities near the oil and gas fields.
- vi. Development of environmental protection plans for the oil and gas sector.
- vii. Developing an LPG programme aimed at ensuring nationwide availability of the product at affordable prices to reduce reliance on firewood. Also bulk storage depots are to be expanded for security of petroleum products whilst rural kerosene distribution implementation project will continue and enhanced.

11.0 ALLOCATION FOR THE 2010 FINANCIAL YEAR.

The Ministry of Energy has been granted a total sum of GH¢ GH¢329,783,764 to execute the above activities for the 2010 financial year. Out of the total amount, GH¢6,097,303 representing 1.85% is expected to come from GoG while GH¢293,686,461 representing 89.05% is expected to come from Donor support. The remaining GH¢30,000,000 representing 9.1% is expected to come from MDRI. The breakdown of the Budgetary Allocation for the Ministry for the 2010 financial year is presented in the Table below:-

NO.	SOURCE OF FUNDS	PERSONAL EMOLUMENTS GH¢	ADMINISTRATION GH¢	SERVICE GH¢	INVESTMENT GH¢	TOTAL GH
1.	GOG	2,230,053	374,250	325,000	3,168,000	6,097,303
2.	DONOR	-	-	-	293,686,461	293,686,461
3.	MDRI	-	-	-	30,000,000	30,000,000
GRAND TOTAL		2,230,053	374,250	325,000	326,854,461	329,783,764

12.0 OBSERVATIONS AND RECOMMENDATIONS

12.1 Electricity Accessibility

The Committee was informed by officials of the Ministry of Energy that a recent assessment on the progress of the National Electrification Scheme

revealed that national accessibility rate for electricity is about 65% which is one of the highest in Africa.

This remarkable achievement notwithstanding, the study noted that accessibility in the three Northern Regions (Northern, Upper East and Upper West) was lower than the national average. Accessibility in the three regions range between 28% -30%.

The Committee therefore recommends that the Ministry of Energy should as matter of urgency secure additional funds to accelerate electrification in the three regions to prop them up to be at par with the national average.

12.2 Cost Recovery

The Committee observed that the three power utility companies (VRA, GRIDCo & ECG) are currently under funded and this is affecting the quality of service delivery.

It was noted that the current tariff for VRA of Gh¢0.0602kwh was approved in November 2007. This was equivalent to US\$0.0635kwh. The over 50% depreciation of the cedi between November 2007 and October 2009 has eroded the value of the current tariff, which is now equivalent to US\$ 0.0414/kwh.

The devaluation of the cedi coupled with an increase in the thermal mix and the attendant rising crude oil prices, put severe strain in the financial position of the VRA and other utilities companies.

The Committee further noted that Government has over the years provided support to the utility companies in an effort to absorb the gap. Part of the support is in the form of crude oil imports and the financing of other major

projects of the companies. It was noted however that the 2010 budget statement made no provision to absorb the funding deficit. The Committee was informed that VRA would require a tariff of GH¢0.154 to break even.

The Committee recommends to the Ministries of Finance and Economic Planning, and Energy to draw up a programme to clear the debt of the companies. In addition, the Committee wishes to appeal to the PURC to review the tariffs for the utility companies to reflect current economic conditions.

12.3 Improvement of Infrastructure

The Committee observed that the five utility companies would require about US\$ 636,630,000.00 and GH¢143,083,300.00 to re-tool and also expand existing infrastructure to cater for increasing demand.

The break down is indicated in the table below:

	US\$	GH¢
VRA	241,030,000	48,250,000
ECG		69,433,300
GRIDCo	73,000,000	
BOST	273,600,000	25,400,000
BPA	50,000,000	
TOTAL	636,630,000	143,083,300

The Committee however observed that no provision has been made in the current budget to support the five companies

In view of the above the Committee is urging MOFEP to explore all avenues to secure adequate funding for these utility companies to improve upon their infrastructure to ensure better service delivery.

12.4 Power Outages

The Committee registered its dissatisfaction about the frequent power outages in the country. Officials from ECG informed the Committee that the power outages are as a result of over loaded and obsolete network systems which require urgent replacement. The officials noted that funds secured through the sovereign bond were inadequate to complete the re-tooling and expansion programme by the three utility companies.

The Committee noted that the Government has over the years approved a number of loans for purposes of improving power prior generalization transmission and distribution. The Committee however observed that despite these huge investments in the sector, the quality of service has not seen any significant improvement.

The Committee recommends that the power utility companies should provide the Committee with a comprehensive report on their expansion and refurbishment programme.

12.5 Technical and Financial Audit – Osagyefo Power Badge

As captured in the 2010 Financial Policy of Government, the refurbishment of the Osagyefo Power Badge progressed. This notwithstanding, the GNPC is in the process of conducting a technical and financial audit on the facility to determine the extent of work done. The operationalisation of the Badge, the Committee noted, will go long way to improve the country's power generation capacity.

The Committee is urging GNPC to make available, the report on the technical audit on the Badge to relevant stakeholders particularly Parliament.

12.6 Revenue from Saltpond Oil Field

The Committee noted with dissatisfaction that revenue from oil produced from the Saltpond oil fields was not disclosed in the 2010 financial policy of Government.

It is the view of the Committee that the proceeds should have been explicitly disclosed to signal Government's intention of being transparent in the administration of oil revenues when the country begins commercial production in 2010. The Committee however requested and was granted detail information on the number of barrels produced from the field and the amount realized. A total of 92,284 barrels was lifted this year and an amount of US\$5,495,864.

The Committee is therefore urging MOFEP and the Ministry of Energy to be transparent and disclose information on revenue from oil to Parliament in future.

12.7 BOST under Recovery

The Committee was informed by officials from BOST that an amount of US\$50 million is due the company as a result of under recovery of cost. This has negatively affected the operations of the company. The Company as a result is unable to execute its core mandate of maintaining strategic fuel stock nationwide.

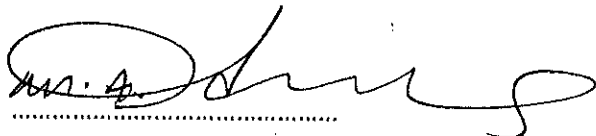
The Committee noted that in addition to providing strategic fuel stocks the company currently stock fuel for operational purposes at some of its depots following the successful completion of its expansion program.

It was revealed that BOST will require an amount of GH¢83,000,000.00 to replenish its depleted stock across the country. It was further revealed that the scraping of the strategic stock levy since 2005 and the non revision of BOST margin from its current GH¢0.15 has affected the financial health of the company.

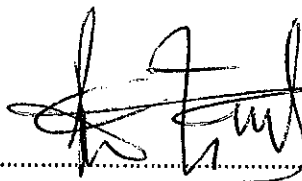
The Committee accordingly recommends that the Ministry of Energy, in collaboration with MOFEP, should take appropriate measures to assist BOST replenish its stock to avert any national disaster. The Committee is also urging the National Petroleum Authority to restore the strategic stock levy as well as revise the BOST margin to reflect current economic reality to enhance efficient service delivery by BOST.

13.0 CONCLUSION

Considering the important role of energy in alleviating poverty and accelerating growth and development, and having carefully considered the Ministry's justifications for the Budget Estimates for 2010, the Committees recommends that the House approves the sum of **Three Hundred and Twenty Nine Million, Seven Hundred and Eighty-three Thousand, Seven Hundred and Sixty-five Ghana Cedis (GH¢329,783,765)** for the Ministry of Energy for the 2010 financial year.



HON. MOSES ASAGA
CHAIRMAN, COMMITTEE ON MINES
& ENERGY



CAMILLO PWAMANG (MR)
CLERK, COMMITTEE ON MINES
& ENERGY

11TH December, 2009