

**IN THE FOURTH SESSION OF THE SIXTH
PARLIAMENT OF THE FOURTH REPUBLIC OF
GHANA**



**REPORT OF THE JOINT COMMITTEE ON
FINANCE AND MINES & ENERGY**

ON THE

**GAS SALES AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA
AND WEST AFRICA GAS LIMITED (BVI) FOR
THE DELIVERY OF 180,000 MMBTU/D OF GAS
AT TEMA FOR THE RUNNING OF SELECTED
THERMAL POWER PLANTS**

OCTOBER, 2016

Acc No : 3687

Class No: CR|GOG \$BVI116

**REPORT OF THE JOINT COMMITTEE ON FINANCE AND MINES
& ENERGY ON THE GAS SALES AGREEMENT BETWEEN THE
GOVERNMENT OF GHANA AND THE WEST AFRICA GAS
LIMITED (BVI)**

1.0 INTRODUCTION

The Gas Sales Agreement between the Government of the Republic of Ghana and the West Africa Gas Limited (BVI) for the Delivery of 180,000 MMBTU/d of Gas at Tema for the running of Selected Thermal Power Plants was laid in Parliament on Tuesday, 18th March, 2016 by the Hon. Minister responsible for Power, Mr. Seth Terkper.

The Agreement was subsequently referred to the Joint Committee on Finance & Mines and Energy by the Rt. Hon. Speaker for consideration and report pursuant to the Standing Orders of the House.

2.0 DELIBERATIONS

The Joint Committee met with the Deputy Minister for Power, Hon. John Jinapor and Officials of the Ministry to consider the Agreement. In attendance were Officials of the Volta River Authority (VRA) and Members of the Team that negotiated the Agreement.

The Committee is grateful to the Hon. Deputy Minister and the Officials for their attendance and for providing clarifications on issues raised at the meeting.

3.0 REFERENCE DOCUMENTS

The Committee referred to the under-listed documents during its deliberations:

- i. The 1992 Constitution; and
- ii. The Standing Orders of Parliament.

4.0 BACKGROUND INFORMATION

Fuel for thermal plant operations in Ghana has predominantly been Light Crude Oil (LCO) until the commercial operation of the West African Gas Pipeline Project. Recent augmentation of Gas supply has come from the Atuabo Gas Processing Plant.

However, the number of ongoing thermal power plants projects coupled with the unreliable gas supply from the West African Gas Pipeline has brought to the fore the need to secure gas from other sources of fuel to complement the

domestic supply which is not adequate for the existing as well as the upcoming thermal plants.

In furtherance of this objective, the Ministry of Power signed a Gas Sales Agreement with the West Africa Gas Limited (BVI) for the supply of additional gas to complement gas supply from Ghana Gas and Nigeria. As an international economic transaction, this Agreement requires Parliamentary approval in accordance with Article 181 (5) of the 1992 Constitution.

5.0 THE AGREEMENT

5.1 The Gas Sales Agreement was signed on 7th October, 2015 and was subsequently revised. This culminated in the negotiation of an Addendum to the Gas Sales Agreement.

5.2 The Addendum led to an increase in the contract quantity of gas from 219,000,000 Million British Thermal Units (MMBTU) for a five (5) year contract period to 657,360,000MMBTU over a ten year contract period. As a result, the daily Contract quantity increased from 120mmscf/d to 180mmscf/d.

6.0 PARTIES TO THE AGREEMENT

6.1 The parties to the Gas Sales Agreement are the Government of Ghana, represented by the Ministry of Power, and the West Africa Gas Limited (BVI).

6.2 The Government of Ghana

The Government of Ghana is represented under the Agreement by the Ministry of Power. The Ministry is mandated to initiate and formulate policies to ensure the effective and efficient generation, transmission and supply of power to all sectors of the economy of Ghana in an environmentally sustainable manner.

6.3 West Africa Gas Limited (BVI)

The West Africa Gas Limited (BVI) is a Company registered in British Virgin Islands with office address at Trident Chambers, P.O. Box 146, Wickhams' Cay 1, Road Town, Tortola, British Virgin Islands.

7.0 DESCRIPTION OF THE PROJECT

7.1 The Agreement relates to the delivery of 180,000 MMBTU of gas per day to run selected thermal plants within the Tema Power Enclave for a period of ten (10) years.

The breakdown of the daily and annual delivery volumes are as shown in Table 1 below:

Table 1: Volume of Gas to be delivered under the Agreement

Contract Year	Daily Contract Quantity (in MMBTU)	Annual Contract Quantity (in MMBTU)
1	180,000	65,700,000
2	180,000	65,700,000
3	180,000	65,700,000
4	180,000	65,880,000
5	180,000	65,700,000
6	180,000	65,700,000
7	180,000	65,700,000
8	180,000	65,880,000
9	180,000	65,700,000
10	180,000	65,700,000
Total Volume of Gas	657,360,00	

7.2 The project also includes the building of a Floating Storage Regasification Unit (FSRU) for the processing of the Liquefied Natural Gas (LNG).

7.0 COMMERCIAL TERMS

The contract price in respect of each contract year shall be the sum of the costs of LNG delivered and that of regasification. In this regard, the parties have adopted the following commercial terms:

7.1 LNG Pricing

The price for each LNG cargo delivered shall be based on a Brent indexed price using the formula below:

Brent \leq \$40/bbl.	:	\$7.15(floor)/MMBTU
\$40/bbl. \leq Brent \leq \$80/bbl.	:	8%Brent+\$3.95/MMBTU
Brent \leq \$80/bbl.	:	10%Brent + \$2.35/MMBTU

7.2 Re-gasification Unit Cost:

The re-gasification unit cost is \$2.20/MMBTU for LNG supply of 180 mmscf/d.

8.0 OBSERVATIONS

The Committee made the following observations during its deliberations:

8.1 Cost of the Project

Officials of the Ministry of Power informed the Committee that the total cost of the project will be recovered through the gas pricing formula contained in the Agreement.

8.2 Tax Waivers

The Committee noted that the Agreement exempts, where applicable, the Contractor from the payment of certain taxes including import taxes, excise duties and petroleum taxes. The Contractor shall however be liable for the payment of personal income taxes and corporate taxes.

The Committee was of the view that the approval of the Agreement does not constitute an automatic grant of waiver of taxes. The required waiver should be presented to the House for consideration after the determination of the actual value of the taxes being exempted

8.3 Securing Reliable and Cheaper Source of Fuel

The Committee was informed that some of the Thermal Plants within the Tema Power Enclave are often unavailable due to the dwindling levels in gas supply from the West African Gas Pipeline. The execution of the Gas Sales Agreement is intended to augment current gas supply and to ensure reliable and affordable source of fuel to the enclave. Thermal plants by their nature operate much more reliably on Gas as fuel, compared to liquid fuels such as diesel or Light Crude Oil. It is therefore expected that the introduction of LNG as fuel would reduce routine maintenance of the plants, thereby prolonging their operating hours for power generation. It was further noted that besides the efficient use for gas as fuel sources for thermal plants, gas as fuel is also far cheaper than light crude oil.

8.4 Social and Economic Impacts of the Project

The implementation of the Gas Sales Agreement will contribute immensely towards addressing the power generation challenges relating to fuel supply to

run thermal plants in the country. The lack of adequate reliable source of fuel for thermal plants has contributed largely to power supply challenges facing the country. It will also reduce the impact of the current energy challenges on the economy, particularly the industrial sector and also lead to job creation.

8.5 Negotiation of the Agreement

The Committee was also informed that the Gas Sales Agreement received considerable amount of consultation to secure the national interest. Officials of the Ministry of Power informed the Committee that the Ministry engaged all relevant Stakeholders in the Power Sector including officials of the Volta River Authority and the Electricity Company of Ghana. They also stated that the Gas Sales Agreement was reviewed by the Ministry of Justice and Attorney-General's Department.

8.6 Improving Fuel Supply for Thermal Plant

The Committee was informed that current domestic gas and the contracted gas supply from the West African Gas Pipeline would not be enough for all the thermal plants, both existing and future ones in the country. Taking into consideration the unreliability of supply from West African Gas Pipeline coupled with the dwindling proportion of hydro in the power generation mix, the Minister indicated that it was necessary to bring gas from other sources to supplement existing supply. Hence, the introduction of LNG as one of the fuel solutions for the country. It was further noted that the introduction of LNG would ensure the realization of the vision of Ghana to increase installed capacity from thermal sources.

8.7 Payment Guarantee

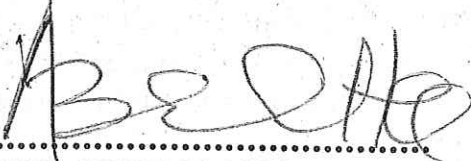
The officials of the Ministry of Power informed the Committee that the Government of Ghana is required to provide an initial standby letter of credit acceptable to the Contractor in the amount of One Hundred and Forty Million United States Dollars (US\$140,000,000) covering a period of three (3) months. The purpose of the letter of credit is to backstop payment obligations to the Contractor and shall be maintained and renewed in accordance with Article 2.4 of the Agreement.

9.0 CONCLUSION AND RECOMMENDATION

The Committee has duly scrutinized the Gas Sales Agreement and is of the view that the supply of the gas would significantly contribute towards ensuring stable and reliable power supply to support the socio-economic development of the country.

In this regard, the Committee recommends to the House to adopt its Report and to approve the Gas Sales Agreement (including the Addendum to the Gas Sales Agreement), between the Government of the Republic of Ghana and the West Africa Gas Limited (BVI) for the delivery of 180,000 MMBTU/d of Gas at Tema for the Running of the Selected Thermal Power Plants in accordance with Article 181 (5) of the Constitution.

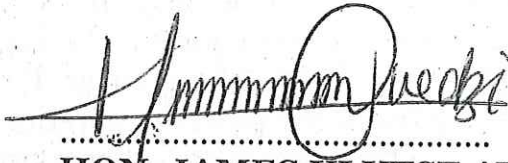
Respectfully submitted.




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HON. ALHAJI AMADU B. SOROGHO
CHAIRMAN, COMMITTEE ON
MINES AND ENERGY



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PEACE FIAWOYIFE (MS)
CLERK TO THE COMMITTEE



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HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE
COMMITTEE



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EPHRAIM AMU
ASSISTANT CLERK TO THE
COMMITTEE

OCTOBER, 2016