

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

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**REPORT OF THE SELECT COMMITTEE ON MINES
AND ENERGY**

ON THE

**PROJECT IMPLEMENTATION AGREEMENT ON
THE POWER PURCHASE AGREEMENTS
BETWEEN KARPOWER GHANA LIMITED AND
THE ELECTRICITY COMPANY OF GHANA (ECG)
FOR THE SUPPLY OF TWO (2) 225MW
POWERSHIPS IN TEMA AND SEKONDI**

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PROJECT IMPLEMENTATION AGREEMENT ON THE POWER
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COMPANY LIMITED AND THE ELECTRICITY COMPANY
OF GHANA (ECG) FOR THE SUPPLY OF TWO (2)
225MW POWERSHIPS IN TEMA AND SEKONDI**

1.0 INTRODUCTION

The Project Implementation Agreement on the Power Purchase Agreements between Karpower Ghana Company Limited and the Electricity Company of Ghana (ECG) for the supply of Two (2) 225MW Powerships in Tema and Sekondi was laid in Parliament on Tuesday, 20th December, 2016 by the Hon. Minister for Roads and Highways, Alhaji Inusah Abdulai Fuseini on behalf of the Minister responsible for Power.

The Project Implementation Agreement (PIA) was subsequently referred to the Committee on Mines and Energy by the Rt. Hon. Speaker for consideration and report to the House pursuant to Order 188 of the Standing Orders of Parliament.

2.0 DELIBERATIONS

The Committee met with the Hon. Deputy Minister for Power, Mr. John Jinapor and Officials of the Ministry including the Technical Advisor to the Minister, Mr. Francis W. K. Dzata to consider the PIA. Officials of the Electricity Company of Ghana (ECG) and Karpower Ghana Company Limited (KGCL) were in attendance to assist the Committee in its deliberations.

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

3.0 REFERENCE DOCUMENTS

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

- i. The 1992 Constitution;
- ii. The Standing Orders of Parliament;
- iii. The Public Utilities Regulatory Commission Act, 1997 (Act 538);
- iv. The Environmental Protection Agency Act, 1994 (Act 490);

- v. The Power Purchase Agreements between the Karpower Ghana Company Limited (KGCL) and the Electricity Company of Ghana (ECG) 225MW Powership in Tema; and
- vi. The Power Purchase Agreements between the Karpower Ghana Company Limited (KGCL) and the Electricity Company of Ghana (ECG) 225MW Powership in Sekondi.

4.0 BACKGROUND INFORMATION

- 4.1 In June, 2014, KGCL and the ECG executed two Power Purchase Agreements (PPAs) for the provision of a total of 450MW of power into the country's national grid through the supply of 2 x 225MW power barges in Tema and Sekondi for a period of ten (10) years. The PPAs were executed in line with the Government's policy of meeting the country's medium term energy needs and to address the intermittent interruptions in power supply in recent years.
- 4.2 Pursuant to these PPAs, the Government of Ghana is required to execute and deliver Government Consent and Support Agreement (GCSA) to the KGCL for the implementation of the project. However, before this could be done, the Government changed the GCSA as a form of governmental support to the Pull/Call Option Agreement (PCOA) by a Cabinet decision dated 11th February, 2016.
- 4.3 In furtherance of this new development, the Government and the KGCL agreed that the PCOA was not an appropriate form of governmental support in view of the nature of the project envisaged under the PPAs. This was because upon early termination of the project, there will not be any project asset or company shares in relation to the project which may be subject to a put or call by either party.
- 4.4 Consequent to this, the KGCL proposed to change the GCSA to a Project Implementation Agreement (PIA). The Government agreed to give the company such a limited support under the PIA in recognition of the fact that the Company has been operating since December, 2015 without any form of formal government support as required under the PPAs. The Government also took into account the fact that the PCOA, as approved by Cabinet was not appropriate form of Governmental support for the project.
- 4.5 The PIA was subsequently approved by Cabinet on 10th November, 2016 and same was laid in Parliament for its approval in accordance with Article 181 (5) of the 1992 Constitution.

5.0 THE PROJECT IMPLEMENTATION AGREEMENT

The PIA comprises some consents and approvals under which the Government of Ghana has committed to facilitate the acquisition of regulatory permits and licenses. Under the Agreement, the Government undertakes to use its best endeavours to support KGCL to secure any consents and approvals required by KGCL from relevant public authorities for the smooth implementation and operation of the power barges. They include the power generation license, environmental permit and port clearance. The KGCL, on its part, will have to fulfil all its obligations under the PPAs and application requirements to trigger the performance of Government's obligations.

7.0 OBSERVATIONS

The Committee made the following observations during its deliberations:

7.1 Late submission of the PIA

The Hon. Deputy Minister for Power informed the Committee that considerable time was spent in designing a structure of governmental support that best suits the peculiarities of the Karpowership project and minimizes the country's exposure. He also stated that more time was needed to hold extensive negotiations with the key stakeholders to ensure that the country achieved best possible benefits under the project. He stated that the approval of the PIA is critical to fulfil the condition precedent for the project which has not been met and overdue because the first barge has since December, 2015 been delivering power to the national grid. He also further stated that the approval was urgently needed to remedy ECG's default situation under the PPAs.

7.2 Competitive Tariff Regime

Officials of the Ministry of Power informed the Committee that the tariff structure achieved under the PPAs offers the cheapest operating thermal plants in the country. The Committee was informed that the PURC has approved a levelized tariff of US Cents 12.760/kWh for the project for the first five years of the project for use of Heavy Fuel Oil (HFO) at a reference price of USD 240/MTon and US Cents 15.4660/kWh for use of Natural Gas (NG) at a reference price of USD 10.605/MMBTu for the remaining 5 years as shown in the Table below. Additionally, since the Powership has been designed for multiple fuel operational flexibility (i.e. to operate in combined cycle mode on

either NG, HFO or Marine Oil), there is the possibility to achieve a reduced tariff when the price of any of the fuels goes down. The project has highly competitive tariff and offers the people of Ghana value for money and needs to be supported by way of the PIA.

TABLE: PURC APPROVED TARIFF FOR THE PROJECT UNDER THE PPAs

NO.	PHASE TARIFF		
	Year 1 – 5	HFO	NG
1.	Capital Recovery	4.2461	4.2461
2.	Fixed O & M	2.0147	2.0147
3.	Total Capacity Charge	6.2608	6.2608
1.	Fuel Recovery Charge	6.1040	9.0280
2.	Variable O & M	1.0487	0.8300
3.	Total Energy Charge	7.1527	9.8580
	Total Electricity Charge	13.4135	16.1188
	Years 6 - 10	HFO	NG
1.	Capital Recovery	2.9404	2.9404
2.	Fixed O & M	2.0147	2.0147
	Total Capacity Charge	4.9551	4.9551
1.	Fuel Recovery Charge	2.9404	2.9404
2.	Variable O & M	2.0147	2.0147
	Total Electricity Charge	4.9551	4.9551

LEVELIZED FOR 10 YEARS

	<i>HFO</i>		<i>NG</i>
	<i>(US Cents/kWh)</i>		
1.	Capital Recovery	3.5933	3.5933
2.	Fixed O & M	2.0147	2.0147
3.	Total Capital Charge	5.6080	5.6080
1.	Fuel Recovery Charge	6.1040	6.1040
2.	Variable O & M	1.0487	1.0487
3.	Total Energy Charge	7.1527	7.1527
4.	Total Electricity Charge	12.7607	12.7607

7.3 Stakeholder Engagement

Officials of the Ministry of Power informed the Committee that the Ministry held extensive consultations with relevant Stakeholders in relation to the project. They stated that representatives of the Ministry of Power, Ministry of Finance, Ministry of Justice and Attorney-General's Department, ECG and KGCL were consulted during the negotiation of the Agreement. Such an engagement ensured that the State secured the best possible benefits under the Agreement.

7.4 Expected Economic Impacts of the Project

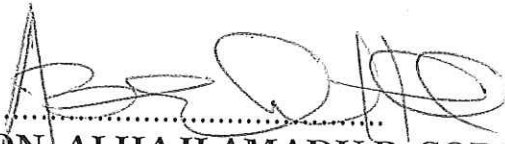
The Committee noted that upon the approval and the subsequent execution of the Karpowership project would generate immense economic benefits to the State. Apart from increasing the total installed power generation capacity of the country by 450MW towards reliable supply, the projects would generate significant economic benefits. The project is also expected to improve the standard of living of Ghanaians through the provision of reliable, uninterrupted and the lowest cost power supply and promote industrial development. The project is again expected to create about 1000 direct and indirect jobs within the project period. Further to this, the Karpowership Project provides various exposures and training for Officials in power agencies and employment and training opportunities for Ghanaian private businesses.


8.0 CONCLUSION AND RECOMMENDATION

The Committee, after critical examination of the PIA, is of the view that the Agreement is favourable to the State in terms of its competitive tariff structure and the enormous economic potential that the State stands to gain if the company is supported to execute the project.

It therefore recommends to the House to adopt its Report and approve the Project Implementation Agreement on the Power Purchase Agreements between Karpower Ghana Company Limited and the Electricity Company of Ghana (ECG) for the Supply of Two (2) 225MW Powerships in Tema and Sekondi in accordance with Article 181 (5) of the 1992 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

DECEMBER, 2016