

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

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

ON THE

**THE PETROLEUM AGREEMENT BY AND AMONG
THE GOVERNMENT OF THE REPUBLIC OF
GHANA, THE GHANA NATIONAL PETROLEUM
CORPORATION (GNPC), GNPC EXPLORATION
AND PRODUCTION COMPANY LTD AND
SPRINGFIELD EXPLORATION AND PRODUCTION
COMPANY LIMITED FOR THE CONDUCT OF
EXPLORATION AND PRODUCTION OPERATIONS
IN THE WEST CAPE THREE POINTS BLOCK 2
OFFSHORE GHANA**

MARCH, 2016

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NATIONAL PETROLEUM CORPORATION (GNPC), GNPC
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POINTS BLOCK 2 OFFSHORE GHANA**

1.0 INTRODUCTION

The Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC), the GNPC Exploration and Production Company Limited (GNPC Explorco) and Springfield Exploration and Production Company Limited in respect of the conduct of exploration and production operations in the West Cape Three Points Block 2 Offshore Ghana was laid in Parliament on Tuesday, 1st March, 2016 by the Hon. Minister for Petroleum, Mr. Emmanuel Armah-Kofi Buah in accordance with Article 268 of the 1992 Constitution.

In pursuance of Orders 156 and 188 of the Standing Orders of Parliament, the Petroleum Agreement was referred by the Rt. Hon. Speaker to the Select Committee on Mines and Energy for consideration and report.

2.0 DELIBERATIONS

The Committee met with the Hon. Minister for Petroleum, Mr. Emmanuel Armah-Kofi Buah and his deputy, Hon. Benjamin Dagadu and Officials of the Ministry to consider the Petroleum Agreement. In attendance were Officials of the Petroleum Commission, the GNPC and Representatives of the Standing Government Negotiating Team to assist the Committee in its deliberations.

The Committee expresses its profound gratitude to the Hon. Minister and his Deputy and the Officials for assisting in the deliberations.

4.0 REFERENCE DOCUMENTS

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

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

- iii. The Petroleum Commission Act, 2011 (Act 821);
- iv. The Income Tax Act, 2015 (Act 896);
- v. The Ghana National Petroleum Corporation Act, 1983 (PNDCL 64);
- vi. The Petroleum (Exploration & Production) Act, 1984 (PNDCL 84);
- vii. The Environmental Protection Agency Act, 1994 (Act 490);
- viii. The Environmental Impact Assessment Regulations, 1999 (L. I. 1652); and
- ix. The Petroleum (Local Content and Local Participation) Regulations, 2012 (L. I. 2204).

5.0 BACKGROUND

In furtherance of Clause 4 (10) of the West Cape Three Points (WCTP) Petroleum Agreement, Kosmos Energy Ghana Limited relinquished approximately 1,370 sq. km. of its Contract Area to the State. Kosmos now holds the Discovery Areas for Mahogany, Teak and Akasa (MTA).

The relinquished area was then divided into two Blocks (i.e. Blocks 1 & 2) and declared open for petroleum operations by the Minister for Petroleum in December, 2013.

In all, twelve (12) companies expressed interest in the Blocks and were subsequently invited to review geological and geophysical data in respect of the area.

Springfield Exploration and Production Company Limited was among the companies that visited the GNPC Data Room to review the data over the area in April, 2014.

Following this, Springfield E&P and Taleveras Limited (Taleveras) submitted a joint application for exploration and production rights over Blocks 1&2 comprising 1,370 sq. km in June, 2014.

The Block Application Evaluation Committee evaluated the joint application between July and August, 2014 and thereafter informed the applicants that they would be considered for only Block 2 which is approximately 673 sq. km.

Taleveras, the proposed operator, however, did not meet the required technical and financial criteria. In view of this, the Minister directed that

Taleveras be replaced with a technical partner with requisite technical and financial capabilities. Accordingly, Vaalco Energy Inc. replaced Taleveras in October, 2014 as joint applicant and proposed operator for the Block. Vaalco Energy was evaluated and found to possess the required capabilities by the Block Evaluation Committee and approved by the Minister. However, in course of negotiations, Vaalco Energy withdrew from the partnership, citing the continuous slump in oil prices and its corporate decision to cut down on exploration budget, as reasons for its withdrawal.

In view of this late withdrawal, the Minister directed that negotiations be continued. However, Springfield E&P shall be required to assign a significant portion of its Participating Interest to a Technical Partner with requisite financial and technical capabilities, who will be a Joint Operator of the Block within three hundred and sixty five (365) days after the effective date of the Petroleum Agreement. The Technical Partner shall be approved by the Minister for Petroleum and shall work under the supervision and support of the GNPC.

6.0 THE CONTRACT AREA

The Contract Area (Block 2) forms part of the relinquished portion of the West Cape Three Points Block, formerly operated by Kosmos. It lies immediately west of the Eni Block in the Cape Three Points Basin and north of the UB Offshore Cape Three Points South and Eco Atlantic's Deepwater/Cape Three Points West blocks. The proposed area is approximately 673 sq. km, and lies in a water depth ranging from 500m to 1,600m.

The Area is fully covered by 3D seismic data acquired in 2005 and 2007. Between 2008 and 2012, five (5) wells were drilled in the Area. These are Odum 1&2, Makore 1, Dahoma and Banda 1. Odum-1 led to a discovery but encountered heavy oil with net pay of 22 meters and API between 17.8° and 18.5°, while Banda-1 encountered a 3m light oil and gas column.

7.0 PARTIES TO THE AGREEMENT

The parties to the Petroleum Agreement are the Ghana National Petroleum Corporation (GNPC), the GNPC Exploration and Production Company Limited (GNPC Explorco) and the Springfield Exploration and Production Company Limited.

7.1 Ghana National Petroleum Corporation (GNPC)

The Ghana National Petroleum Corporation (GNPC) is a public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDC L 64). The GNPC has by virtue of PNDCL 64 the right to undertake

exploration, development and production of petroleum over all Blocks declared by the Minister to be opened for petroleum operation. GNPC is further authorized by the law to enter into association by means of a Petroleum Agreement with a Contractor for the purpose of exploration, development and production of petroleum.

7.2 GNPC Exploration and Production Company Limited (GNPC Explorco)

GNPC Exploration and Production Company Limited (GNPC Explorco) is a wholly owned subsidiary of GNPC. It is a company incorporated under the laws of Ghana, with its registered office at Petroleum House, Harbour Road, Tema. GNPC Explorco is currently a partner in six licenses offshore Ghana where in most cases it is co-operating with well-established and experienced operators in the oil and gas industry.

7.3 Springfield Exploration and Production Company Limited

Springfield E&P is an indigenous exploration and production company, incorporated on 27th March, 2008. The Company forms part of the Springfield Group, which comprises a number of subsidiaries incorporated to provide downstream and upstream services within the petroleum industry across West Africa. The strength of these subsidiaries lies in the downstream industry, where they are engaged in the trading and distribution of crude and petroleum products.

The Company possesses a team of experts with extensive experience in the upstream industry. Further, Springfield has a technical arm called Fairfax Limited which has technical personnel with over twenty years experiences in petroleum exploration and production.

8.0 KEY PROVISIONS OF THE PETROLEUM AGREEMENT

Some of the key provisions in the Agreement are:

8.1 Duration of the Agreement

Per Article 23 of the Petroleum Agreement, the term of the agreement is twenty-eight (28) years. The Agreement would however expire after five and half (5^{1/2}) years if no commercial discovery is made within the term of the Agreement.

8.2 Exploration Period and Work Programme

The exploration period is five and half years (5^{1/2}) and divided into three phases as follows:

i. Initial Exploration Period

The initial exploration period has been agreed to last for two and half (2½) years. During the period, the Contractor shall conduct Geological and Geophysical studies and drill one (1) exploration well.

The Contractor has undertaken to expend at least Thirty Million United States Dollars (US\$30,000,000.00) as its minimum expenditure obligation.

ii. First Extension Period

The first extension period is one and half (1½) years. During this period, the Contractor shall conduct geological and geophysical studies and drill one (1) exploration well.

The Contractor's minimum expenditure obligation is Thirty Million United States Dollars (US\$30,000,000.00).

iii. Second Extension Period

The second extension period is one and half (1½) years. During the Second Extension Period, Contractor shall conduct geological and geophysical studies and drill one (1) exploration well.

The Contractor's Minimum Expenditure obligation for the work is Forty Million United States Dollars (US\$40,000,000.00).

8.3 Assignment of Interest

The Petroleum Agreement provides that any assignment either directly or indirectly should be done with the prior consent of the GNPC and the Minister for Petroleum (Article 25 of the Petroleum Agreement). Again, any assignee shall be bound as a party by the terms of the Agreement and accordingly the Contractor shall provide an unconditional undertaking to the effect that the assignee shall assume all the obligations under the Petroleum Agreement.

8.4 Dispute Resolution

The Agreement provides that all disputes relating to the Agreement shall be resolved by consultation and negotiation in the first instance. Where the first procedure fails, the dispute shall be settled exclusively through international arbitration at the International Chamber of Commerce. The Agreement prohibits pre-award attachment.

8.5 Relinquishment

Per the terms of the Agreement, the Contractor has undertaken to relinquish thirty percent (30%) of the Contract Area at the end of the Initial Exploration Period. At the end of the First Extension Period, the Contractor shall further relinquish thirty percent (30%) of the original Contract Area. At the end of the Second Extension Period, the Contractor will be required to relinquish the remaining contract area except discovery, development and production areas.

9.0 FISCAL TERMS

9.1 The fiscal terms agreed under the Agreement includes royalty payments, Additional Oil Entitlements and surface rentals. The details are indicated in Table 1 below:

Table 1: Details of the Fiscal Elements

Item	Agreed Terms	
	Existing Discovery	New Discovery
Royalty – Oil	10%	12.5%
Royalty – Gas	8%	10%
Carried Interest	5%	11%
Additional Interest	5%	17%
GNPC Explorco Commercial Interest	5%	5%
Corporate Income Tax	35%	35%

9.2 Additional Oil Entitlements

In the event of commercial discovery, Additional Oil Entitlements would accrue to the State upon the attainment of agreed Rates of Return. The details are as shown in Table 2.

Table 2 : Additional Oil Entitlement of the State under the Agreement

Rate of Return	Entitlements
< 12.5%	0%
≥12.5% ≤ 17.5%	10%
≥17.5% ≤ 22.5%	15%
≥22.5% ≤ 27.5%	20.0%

$\geq 275\% \leq 32.5\%$	25.0%
$\geq 32.5\%$	30%

9.3 Surface Rentals

The Contractor will also pay surface rentals in respect of the Block as shown in Table 3.

Table 3: Surface Rentals Payable to the State under the Agreement

Period	Rent Payable Per Annum
Initial Exploration Period (0 – 3 years)	US\$50/sq. km
First Extension Period (3 – 4.5 years)	US\$100/sq. km
Second Extension Period (4.5- 6 years)	US\$100/sq. km
Development and Production Period (Beyond 6 years)	US\$200/sq. km

10.0 OBSERVATIONS

The Committee made the following observations during its deliberations:

10.1 Benefits to the State

The Committee noted that the Agreement offers an enhanced fiscal package compares favourably with existing Petroleum Agreements in the same Basin with similar features. The Table 4 below compares the fiscal benefits of the new block and those obtained under the Heritage and the Sahara Petroleum Agreements.

Table 4: Comparison of Fiscal Terms under the Petroleum Agreement and the Heritage and Sahara Petroleum Agreements

Fiscal Package	Springfield	Blue/Heritage	Sahara
Royalty Oil	12.50%/10%	12.50%	12.50%
Royalty Gas (Domestic)	10%	10%	7.5%
Royalty Gas (Export)	NIL	NIL	5%
Initial GNPC Participation	11%/8%	12%	10%
Additional Participation	17%/5%	13%	15%

Commercial Interest	5%	8.8%	NIL
Income Tax	35%	35%	35%

10.2 Capabilities of the Contractor

Regarding the capability of the Contractor, the Committee noted that Springfield E&P Limited has since its establishment in Ghana recruited a team of experts who have acquired decades of experience in the upstream industry. Again, Springfield has a technical arm called Fairfax Limited which has technical personnel with over twenty years experiences in petroleum exploration and production. Springfield is also required to boost up its technical team within one year by assigning significant portion of its participating interest to a Technical Partner who shall be a joint operator. The technical partner must possess the requisite technical and financial capability that is acceptable to the GNPC and approved by the Minister for Petroleum. In this regard, Officials of the Ministry informed the Committee that Springfield had presented an evidence indicating the commitment of Schlumberger to provide technical support until a Technical Operator was found.

10.3 Appraisal Programme

The Petroleum Agreement provides for the appraisal of existing discoveries within the contract area (Odum and Banda Discoveries). The Contractor will be required to conduct an evaluation of the Odum and Banda discoveries within nine (9) months after the Effective Date of the Petroleum Agreement and thereafter proposes an appraisal programme at the end of the period. Again, the Contractor has committed to complete its Appraisal Programme within two (2) years from the date of approval of the Appraisal Programme. The Agreement further contains procedures and timelines regarding submission of the results of the Appraisal Programme and in the event of commercial discovery, the submission of the Plan of Development.

10.4 Decommissioning and Environmental Management Fund

The Committee again noted that the Agreement makes provision for the establishment of a Decommissioning and Environmental Management Fund which will be managed by the Contractor and GNPC. A portion of the revenues from the production from the field will be set aside to build up the ~~fund to finance the decommissioning plan and any environmental accidents~~ that may occur in the course of petroleum operations. As further security, an insurance cover will be taken by the Contractor to cater for any shortfall in

the decommissioning fund.

10.5 Training and Capacity Support

The Committee further noted that the Petroleum Agreement provides for the payment of training and technology support to improve on the capacity of the Petroleum Commission to enhance the effective regulation of the upstream sector. Such payments were hitherto made to the GNPC. The Committee was informed that the change is in line with a ministerial directive. The Training Allowance of One Million United States Dollars (US\$1,000,000.00) per contract year, payable within (90) days of the beginning of each contract year. It is also agreed that the Contractor pays to Petroleum Commission a sum of Six Million United States Dollars (US\$6,000,000.00) as Technology Support under the agreed terms of payment. This will go a long way to enhance the capacity of the Petroleum Commission to perform its regulatory duties.

10.6 Local Content Provisions

Furthermore, it was noted that apart from the fact that all the parties to the Agreement are indigenous companies, the agreement has made adequate provisions to achieve the country's local content aspirations. This is because the parties have committed to provide qualified Ghanaian national employment at all levels including administrative and managerial positions. In pursuance of this obligation, the Contractor is required to submit annual local content plan in line with the Local Content Regulations, 2012 (L.I. 2204). The Contractor is also required to acquire materials, equipment and machinery and consumer goods produced or provided in Ghana by an indigenous Ghanaian company.

10.7 Establishment of Joint Management Committee

The Committee finally noted that the Petroleum Agreement requires that the GNPC and the Contractor establish a Joint Management Committee (JMC) within 30 days after the effective date of the Agreement (Article 6 of the Agreement). The JMC would be composed of two (2) representatives each of the GNPC and the Contractor. The Chairman of the JMC will be appointed by the GNPC. The Committee is also empowered to establish sub-committees to facilitate its work. Amongst the key functions of the JMC will be to oversee, supervise and approve petroleum operations and to also ensure that all approved work programmes and development plans are complied with. The Committee considers that such arrangement will help achieve the needed cooperation in the implementation of petroleum operations.

10.8 Concerns regarding consideration of new Petroleum Agreements

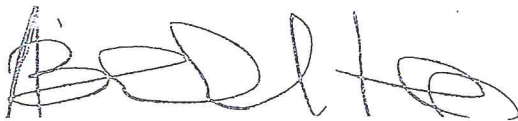
During the Committee's deliberations, some Members were of the view that the Petroleum (Exploration and Production) Bill, 2014 should have been passed into law before any other petroleum agreement could be considered. The Hon. Minister however explained that the Petroleum Agreements under consideration have improved terms as compared to existing Agreements.

11.0 CONCLUSION AND RECOMMENDATION

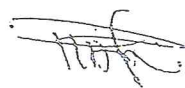
The Committee has critically examined the terms of the Petroleum Agreement and is of the view that the Agreement represents a significant step towards the realization of the country's local content aspirations by offering the opportunity to indigenous Ghanaian companies comprising Springfield, GNPC and its wholly owned subsidiary to participate in the upstream industry. It is also believed that the work programme achieved under the Petroleum Agreement will ensure a thorough exploration of the contract area.

The Committee therefore recommends to the House to adopt its Report and to ratify the Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC), the GNPC Exploration and Production Company Limited (GNPC Explorco) and Springfield Exploration and Production Company Limited in respect of the Conduct of Exploration and Production Operations in the West Cape Three Points Block 2 Offshore Ghana in accordance with Article 268 of the Constitution.

Respectfully submitted.



**HON. AMADU BUKARI SOROGHO
CHAIRMAN, SELECT COMMITTEE
ON MINES AND ENERGY**



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**PEACE FIAWOYIFE (MS.)
CLERK TO THE COMMITTEE**