

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

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

ON

- i. **MULTI-PARTY DEED BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA, GHANA NATIONAL PETROLEUM
CORPORATION, THE BANK OF GHANA, ENI GHANA EXPLORATION
& PRODUCTION LIMITED AND VITOL UPSTREAM GHANA LIMITED
IN SUPPORT OF THE DEVELOPMENT OF THE SANKOFA AND GYE
NYAME OIL AND GAS PROJECT IN RESPECT OF THE OFFSHORE
CAPE THREE POINTS PETROLEUM AGREEMENT (OCTP PA).**

- ii. **DEED OF SOVEREIGN GUARANTEE BETWEEN THE GOVERNMENT
OF THE REPUBLIC OF GHANA (AS GUARANTOR), ENI GHANA
EXPLORATION & PRODUCTION LIMITED AND VITOL UPSTREAM
GHANA LIMITED (AS CONTRACTORS) IN SUPPORT OF THE
DEVELOPMENT OF THE SANKOFA AND GYE NYAME OIL AND GAS
PROJECT IN RESPECT OF THE OFFSHORE CAPE THREE POINTS
PETROLEUM AGREEMENT (OCTP PA).**

July 2015

PARLIAMENT OF GHANA LIBRARY
PARLIAMENT HOUSE
OSU - ACCRA

THE BOARD OF DIRECTORS OF THE COMPANY HAS APPROVED THE
PROVISIONS OF THE ARTICLES OF ASSOCIATION AND THE
MEMORANDUM OF ASSOCIATION OF THE COMPANY.

IN WITNESS WHEREOF, I have hereunto set my hand and
the seal of the Company, this _____ day of _____,
20____.

DIRECTOR

SECRETARY

CHAIRMAN

REGISTRATION NO. 123456789
INCORPORATED IN SINGAPORE
12-12-2024

IN THE THIRD SESSION OF THE SIXTH PARLIAMENT OF THE FOURTH REPUBLIC

**REPORT OF THE JOINT COMMITTEE ON FINANCE AND MINES AND ENERGY
ON THE MULTI-PARTY DEED BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA, GHANA NATIONAL PETROLEUM CORPORATION, THE
BANK OF GHANA, ENI GHANA EXPLORATION AND PRODUCTION LIMITED
AND VITOL UPSTREAM GHANA LIMITED IN SUPPORT OF THE DEVELOPMENT
OF THE SANKOFA AND GYE NYAME OIL AND GAS PROJECT IN RESPECT OF
THE OFFSHORE CAPE THREE POINTS PETROLEUM AGREEMENT (OCTP PA)**

AND

**DEED OF SOVEREIGN GUARANTEE BETWEEN THE GOVERNMENT OF THE
REPUBLIC OF GHANA (AS GUARANTOR), ENI GHANA EXPLORATION AND
PRODUCTION LIMITED AND VITOL UPSTREAM GHANA LIMITED (AS
CONTRACTORS) IN SUPPORT OF THE DEVELOPMENT OF THE SANKOFA AND
GYE NYAME OIL AND GAS PROJECT IN RESPECT OF THE OFFSHORE CAPE
THREE POINTS PETROLEUM AGREEMENT (OCTP PA)**

1.0 INTRODUCTION

The requests for approval of the Multi-Party Deed between the Government of the Republic of Ghana, Ghana National Petroleum Corporation, the Bank of Ghana, ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited in support of the development of the Sankofa and Gye Nyame Oil and Gas Project in Respect of the Offshore Cape Three Points Petroleum Agreement (OCTP PA) **and** Deed of Sovereign Guarantee between the Government

of the Republic of Ghana (as Guarantor), ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited (as Contractors) in support of the development of the Sankofa and Gye Nyame Oil and Gas Project in respect of the Offshore Cape Three Points Petroleum Agreement (OCTP PA) were respectively presented to the House by the Hon. Minister for Finance Mr. Seth Emmanuel Terkper on Tuesday, 21st July, 2015 in accordance with Article 181 of the 1992 Constitution.

The Rt. Hon Speaker referred the two requests to the Joint Committee of Finance and Mines and Energy for consideration and report in accordance with Order 169 and 188 of the Standing Orders of the House.

The Joint Committee was assisted in its deliberations by the Hon Ministers for Finance and Petroleum, Mr. Seth Emmanuel Terkper and Mr. Emmanuel Armah-Kofi Buah respectively and Hon. Deputy Ministers of Finance and Petroleum, Mrs. Mona K. Quartey and Messrs. Cassiel Ato Baah Forson and Ben Dagadu, as well as officials from the Ministries of Finance and Petroleum.

The Committee is grateful to the Hon. Ministers, the Hon. Deputy Ministers and officials from the two Ministries for the assistance.

2.0 REFERENCE

The Committee referred to the following documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana;
- Petroleum Revenue Management Act, 2011 (Act 815); and
- Petroleum Agreement between the Government of the Republic of Ghana, Ghana National Petroleum Corporation, ENI Exploration and Production Limited and Vitol

Upstream Ghana Limited in respect of the Offshore Cape Three Points Petroleum Agreement

3.0 BACKGROUND

The Sankofa and Gye Nyame Oil and Gas Project is Ghana's first gas-to-power project with the capacity to satisfy the gas requirements of the thermal plants currently installed in the country. Due to its strategic significance, Government requested that the Offshore Cape Three Points (OCTP) partners sell the gas to the domestic market to meet local energy demand. This position is in line with Article 14.16 of the Offshore Cape Three Points Petroleum Agreement (OCTP PA), which provides that where the Contractor identifies a domestic market, it shall negotiate a gas sale agreement with GNPC for domestic gas sales to the local market.

Since the OCTP gas was to be sold in the domestic market, GNPC and GoG were required to put in place a robust security package to support GNPC's payment obligations under the Gas Sales Agreement. This is to mitigate the downstream payment risk and provide the necessary comfort for the investments to be made by the OCTP Contractor. The Security Package documents streamline and document the payment processes for the off-take of gas by downstream purchasers and payments into and from the Petroleum Holding Fund to GNPC, established under the Petroleum Revenue Management Act, 2011, (Act 815).

The Deed of Sovereign Guarantee and Multiparty Deed were subsequently negotiated with technical support from the World Bank. In addition to the Gas Supply Agreement (GSA), the negotiating parties have also executed an amendment to the Head of Agreement and concluded negotiations on the Multi-Party Deed and the Deed of Sovereign Guarantee. The Trust and Escrow Deed and the Calculation Deed are in the final stages of negotiation.

4.0 JUSTIFICATION FOR THE PROJECT

Parliament in December 2014 approved the Petroleum Agreement between the Government of the Republic of Ghana, Ghana National Petroleum Corporation, ENI Exploration and Production Limited and Vitol Upstream Ghana Limited in respect of the Offshore Cape Three Points Petroleum Agreement to enable GoG to fully negotiate the project documents with the OCTP Contractor. After the approvals in December 2014 GoG negotiated the Multi Party Deed and Deed of Sovereign Guarantee with the OCTP partners to allow for project implementation. The project can only fully commence after Parliamentary approval has been obtained in accordance with Article 181(5) of the Constitution.

5.0 PROJECT DESCRIPTION

The Sankofa and Gye Nyame Oil and Gas Project is a joint development project to be undertaken by ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited in respect of development of commercial discovery of Oil and Gas in the Offshore Cape Three Point Contract Area. The project is Ghana's first gas-to-power project expected to produce about 171 million cubic feet of Gas per day for support power generation in Ghana. Gas volumes from the Sankofa gas field alone can satisfy the gas requirement of all thermal plants currently installed in the country.

The Project, estimated to cost US\$7.9 billion, would be an integrated oil and gas project. Phase-1 for the production of oil, with first oil from the Sankofa and Gye Nyame Fields expected in August 2017. Phase-2 which is the production of gas is expected to deliver first gas in February 2018.

The project is expected to be financed by the OCTP operators namely Eni Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited through a combination of equity and shareholder loans.

7.0 KEY TERMS OF THE AGREEMENT

7.1 *Amendment to the Heads of Agreement for Commercialization of Non-Associated Gas*

The Heads of Agreement (HoA) essentially commits the Parties to ensuring that all other related key commercial and security agreements, fiscal interventions and critical project milestones are executed within agreed timelines. It also defines the roles to be played by each party to the agreements across the entire gas value chain including the development of infrastructure and approvals. The milestones have been amended to allow the parties more time to finalize negotiations of the relevant documents and prepare for the project. Some time lines were made more realistic, including those for GoG to finalize a World Bank Partial Risk Guarantee (PRG) as part of the security structure and ensure that the relevant infrastructure to receive and transport the gas is put in place.

7.2 *OCTP Security Package*

The security package comprises the attached Multi-Party Deed and Deed of Sovereign Guarantee. It also includes a Trust and Escrow Deed and a Calculation Deed, which are purely operational agreement between GNPC and the OCTP Contractor.

The security package is premised on the fact that GoG requires the OCTP Contractor to sell all its gas produced to GNPC, and is as such structured on a “take or pay” basis. It sets out the basis for a gas payment structure to ensure that gas supplied by the OCTP Contractor to GNPC to domestic market, is paid for. It also ensures that GNPC as a Buyer performs its obligations to Eni and Vitol, the Suppliers. These obligations will be backstopped by GoG through, among other things, a World Bank Partial Risk Guarantee cover of US\$500 million and a sponsor’s shareholder loan guarantee of US\$200 million, which encumbers IDA allocation to Ghana in the amount of US\$175 million to cover the risk of payment default by GNPC. The Sovereign Guarantee will cover any further payment shortfalls that may occur. A World Bank security will be negotiated and signed between Ministry of Finance and the World Bank, prior to the effectiveness of the PRG.

7.3 *The Security Package*

The Security Package is primarily based on revenue flows from domestic gas sales through a main escrow GNPC Disbursement Account that is backed by an escrow reserve holding account that GNPC will fund with a minimum balance of 4.5 months of gas sales. The escrow reserve holding account is also backed by a sovereign guarantee for up to US\$100 million in the event of a shortfall in the account.

7.4 *The payment security arrangement*

The payment security arrangement have been structured on a mechanism that assumes payment first from GNPC's net carried and participating interest out of petroleum revenues generated from the Sankofa Gye-Nyame, Tweneboa-Enyenra-Ntomme and jubilee fields, followed by the Escrow Reserve fund and the World Bank Letter of Credit. This is backstopped, among other interventions, by a sovereign guarantee from the government. The OCTP Contractors may also seek Multilateral Investment Guarantee Agency (MIGA) insurance in addition to the guarantees provided by GoG and backed by the World Bank and will encumber GoG's International Bank for Reconstruction and Development (IBRD) allocations in the amount of US\$200 million.

7.5 *Multi-Party Deed (MPD)*

The MPD is an umbrella agreement among the state, GNPC, BoG and the OCTP Contactors. The purpose of the MPD is to clarify and streamline the process of payment into the Petroleum Holding Fund (PHF) and from the PHF to GNPC, as GNPC's flow serve primarily as security for the gas payments. The MDP therefore sets out the timing and process of the payments from downstream purchase of gas, as well as how compliance may be verified by the Contractor.

The Deed defines the respective roles of the various parties to the agreement in ensuring the uninterrupted flow of funds to pay for gas off-take by GNPC. Under the MPD, for example, the BoG is responsible for ensuring timely payments into the Escrow and Offshore Disbursement Account, into which some petroleum funds will be lodged and disbursed under the project. Bank on Ghana must also facilitate currency convertibility, approve the sale and purchase of domestic gas in US dollars and guarantee the transferability of funds, all of which are already provided for by law. Failure to comply with this process will be deemed a credit default that would expose GNPC and the State to suspension of OCTP gas supply and or the liability of termination payments.

8.0 OBSERVATIONS

Urgency of the facility

The Committee was informed that the approval two Deeds which are intended to restore the OCTP Contractor's expected return over the OCTP license period very is urgently required. It was explained that the negotiations which started immediately after the approval of the facility in December, 2014 was only concluded on 14th June, 2015. And as part of the negotiations, the Government and the OCTP Contractor agreed on certain critical milestone events that are expected to be in place by agreed timelines, failing which the State would suffer consequences including increase in the price of gas, or suspension or termination for the project by Contractor. It was further added that termination of the Agreement may also lead to damages to the Contractor. The expiry date for the Partial Guarantee from World Bank was indicated as 31st July, 2015. It is therefore important for Parliamentary approval to be obtained before the expiry date indicated.

Justification for the Project

Commenting on the need for the project, the Minister for Finance indicated that gas is of a strategic importance for the long term transformation of Ghana's economy. The Hon. Minister added that the current power crisis the nation is facing presents a host of economic challenges that require an urgent rebalancing of Ghana's energy mix to include the use of domestic gas to improve energy security. According to the Hon. Minister with the high costs associated with the use of Light Crude Oil (LCO) for power generation and the unreliability of gas supply from the West African Gas Pipeline, the development and access to long-term cheaper gas feedstock in Ghana would offer immense economic gains to the country and augment Government's efforts to increase Ghana's generation capacity by attracting the necessary investment into the energy sector.

Ghana's Total interest in the Project

Responding to the Committee's concern regarding the total interest of Ghana in the project, an official of the GNPC stated that Ghana stands to get more than 50% of the income that would accrued from the project. He indicated that this would be in the form of revenues from

Corporate Taxes, Royalties, Participation and Carried Interest and surface rentals. The estimated benefits to be derived by the state were given as stated below:

i.	Working Interest – Participating and Carried (20%)	: US\$ 5.45 billion
ii.	State Royalty (10%)	: US\$1.74 billion
iii.	State Income Taxes	: US\$ 3.60 billion
iv.	Additional Oil Entitlement	: US\$ 325 million

The Committee was informed that these estimates were based on a long-term average oil price of US\$ 90 per barrel and an initial gas price of US\$ 9.80 per mmBtu. Gas from the project is estimated to generate a total of 800MW of power from a simple cycle power plant and 1,200MW where combined cycle power plant is used.

It was further indicated that though the project has a life span of 18 year, there is the potential for more reserves after the life span of the project.

Cost Control Measures

On the measure to control possible inflation of cost in respect of the execution of the project the Committee was informed that adequate measures have been put in place to prevent the possible inflation of cost by the operators of the project. Officials from the Ministry of Petroleum informed the Committee that the Offshore Cape Three Point Petroleum Agreement contains explicit provisions that give approval rights to the GNPC as partner which will be duly exercised to keep cost within limits. Additionally, guidelines and regulations governing activities in the upstream petroleum industry issued by the Petroleum Commission will provide further checks on the expenses to be included as part of production/ operational costs.

Payment of Security Arrangements

The Committee was informed by the Minister of Finance that the payment of the security arrangements have been structured on a waterfall mechanism that places the utilization of the Sovereign Guarantee as the last resort. The Minister explained that payments will be made first from GNPC's net carried and participating interest out of petroleum revenues generated from the Sankofa Gye-Nyame, Tweneboa-Enyenra-Ntomme and Jubilee fields, followed by the Escrow Reserve fund and then the World Bank Letter of Credit. The Sovereign Guarantee from the

Government will be the last intervention after other interventions have fully be exhausted. The Hon Minister was hopefully with all parties comply with their obligations, the invocation of the Sovereign Guarantee may not be necessary.

Meeting Payment Obligations by Power Off-taker

The Committee was informed that to guarantee that GNPC meets its payment obligations to the Contractors, there must be an effective collection of tariff along the gas utilization value chain. To this end there is the need to restructure state institution involved in the production, transmission and distribution of power. The Minister for Finance indicated that government has instituted measures such as opening of an escrow account into which revenue streams from the project when it becomes operational would be paid into for subsequent payment to the investors. The Minister cited the ongoing reforms at the ECG under the Millennium Compact II and the introduction of prepaid meter system as some of the measures to enhance efficiency in revenue generation.

Economic and Social Impact

The Committee was informed that the development of natural gas reserves from the Sankofa and Gye Nyame field will contribute immensely to the energy security of nation and enhance the economic development of Ghana. The Minister for Mines and Energy explained that the Project Partners are expected to invest a total amount of US\$7.9 billion in the project over the next three year with oil production starting in August 2017 and that of gas in the first quarter of 2018. In the view of the Hon. Minister the Sankofa and Gye Nyame Oil and Gas Project would secure a reliable supply of gas to augment supply from the Jubilee field for power generation and Gas supply from the Sankofa gas field alone could satisfy the total gas requirement of all thermal plants currently installed in the country. Some of the specific benefits to the nation were highlighted as follows:

- i. Increased petroleum revenues to the State on the back of its stake in the OCTP license;
- ii. Savings from gas price reduction achieved by GNPC proposed investments in the pipeline and receiving facilities;
- iii. Creation of employment opportunities from the new gas project;

- iv. Enhanced national energy security and positioning of Ghana as a regional hub for energy supply to the rest of West Africa;
- v. GNPC's strategic role as a national gas aggregator will ensure competitively-priced gas to support domestic energy prices which is expected to facilitate the relocation of industries in Ghana;
- vi. Access to long-term cheaper gas feedstock which can offer economic relief from the current power crisis facing the nation;
- vii. Development of robust power sub-sector with expected strong IPP contribution to growth in the energy sector;
- viii. The development of a strong local content platform and participation in the petroleum sector;
- ix. The development of a requisite institutional capacity to manage a gas system; and
- x. Securing a long-term future of Ghana's energy sector that will speed-up the transformation of the economic fortunes of the country.

9.0

AMENDMENT PROPOSED

The Committee observed during the scrutiny of the Multi-Party Deed specifically Schedule 2 that certain administrative arrangements/responsibilities being carried out by Officers of the Ministry of Finance have been captured in the Deed. The Committee considers this as internal arrangements which could be varied as circumstances may demand. In the view of the Committee, the ultimate responsibility for the day-to-day administration and execution of government policy lies with the Minister responsible for Finance. The Committee accordingly proposes an amendment to reflect this fact. Below is the Committee's amendment:

Schedule 2, Part A: Agreed Payment Process- Amendment Proposed- delete the provisions under 4 and insert the following:

“4. In respect of each Cargo lifting, all of the following shall occur **on or before PD0+30** in the order set forth below:

- (a) the MoF shall issue a *MoF oil sales proceeds letter (in the agreed form)* signed by the Hon. Minister or Deputy Minister of Finance, detailing:

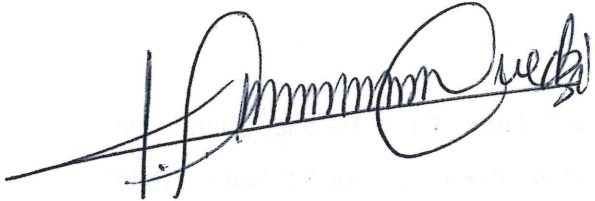
- (i) the total Oil Sales Proceeds attributable to such lifting;
 - (ii) the payment allocation to GNPC from such total Oil Sales Proceeds of GNPC Equity Financing Costs and GNPC Net CAPI Revenues; and
 - (iii) the payment allocation to the State from such total Oil Sales Proceeds.;
- (b) promptly following the signing of the *MoF oil sales proceeds letter*, such letter shall be sent to the Controller and Accountant General (CAG), copied to the BoG and GNPC;
- (c) promptly following receipt of the *MoF oil sales proceeds letter*, the CAG shall then issue a *CAG letter (in the agreed form)* to the BoG, copied to the Governor of BoG, GNPC, Minister of Finance, Deputy Minister of Finance and Budget Director, within three (3) Business Days of receipt of the *MoF oil sales proceeds letter*; and
- (d) following receipt of the *CAG letter*, BoG shall promptly transfer from the Petroleum Holding Fund in US Dollars in immediately available funds to the Gas Sales and Net CAPI Sub-Account, all monies allocated to GNPC from the Oil Sales Proceeds other than GNPC Equity Financing Costs (i.e. GNPC Net CAPI Revenues). Notwithstanding the foregoing, all such monies allocated to GNPC from Oil Sales Proceeds shall be credited to the Gas Sales and Net CAPI Sub-Account in US Dollars in immediately available funds no later than PD0+30”

9.0 CONCLUSIONS

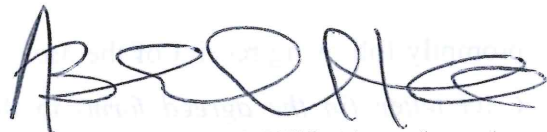
The Joint Committee having carefully examined the referrals, recommends to the House to adopt its report and approve the Multi-Party Deed between the Government of the Republic of Ghana, Ghana National Petroleum Corporation, the Bank of Ghana, ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited in support of the development of the Sankofa and Gye Nyame Oil and Gas Project in Respect of the Offshore Cape Three Points Petroleum Agreement (OCTP PA) and Deed of Sovereign Guarantee between the Government of the Republic of Ghana (as Guarantor), ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited (as Contractors) in support of the development of the Sankofa and Gye Nyame Oil and Gas Project in respect of the Offshore Cape Three Points Petroleum Agreement

(OCTP PA) in accordance with Article 181 of the 1992 Constitution and Orders 169 and 188 of the Standing Orders of the Parliament of Ghana subject to the proposed amendments.

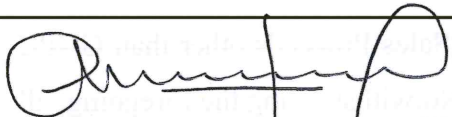
Respectfully submitted



HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)



HON. AMADU B. SOROGHO
(CHAIRMAN, COMMITTEE ON MINES & ENERGY)



ROSEMARY ARTHUR SARKODIE
(CLERK, FINANCE COMMITTEE)



PEACE ABLA FIAWOYIFE
(CLERK, COMMITTEE ON MINES & ENERGY)

July, 2015