

**IN THE THIRD SESSION OF THE SEVENTH PARLIAMENT OF THE FOURTH
REPUBLIC OF GHANA**

REPORT OF THE FINANCE COMMITTEE

ON

THE 2018 ANNUAL REPORT ON THE PETROLEUM FUNDS

AND

**THE 2018 RECONCILIATION REPORT ON THE PETROLEUM
HOLDING FUND**

1.0 INTRODUCTION

Further to the presentation of the Budget Statement and Economic Policy of the Government of Ghana for the year ended 31st December, 2019, the 2018 Annual Report on the Petroleum Funds was first presented to the House pursuant to Section 48 of the Petroleum Revenue Management Act, 2011 (Act 815) as amended by Act 893.

The 2018 Reconciliation Report on the Petroleum Holding Fund was also presented to the House on Monday, 8th April, 2019 pursuant to Section 15 of the Petroleum Revenue Management Act, 2011 (Act 815) as amended by Act 893.

The reports were referred to the Finance Committee for consideration and report in accordance with Article 179 of the 1992 Constitution, and Orders 140 (5) and 169 of the Standing Orders of the House.

The Committee met and considered the Report with a Deputy Minister for Finance, Hon. Charles Adu Boahen, and officials from the Ministry of Finance, Bank of Ghana, Public Interest and Accountability Committee (PIAC), Volta River Authority, Ghana Revenue Authority, Ghana National Petroleum Corporation (GNPC), KOSMOS Energy, Ghana National Gas Company, Tullow Oil Company and Controller and Accountant General's Department and reports as follows;

2.0 DOCUMENTS REFERRED TO

The Committee referred to the following documents:

1. The 1992 Constitution;
2. The Petroleum Revenue Management Act, 2011 (Act 815) as amended (by Act 893); and
3. The Standing Orders of Parliament.

3.0 PURPOSES OF THE REPORTS

The purpose for submitting the 2018 Annual Report on the Petroleum Funds is to comply with Section 48 of Act 815 which mandates the Minister for Finance to submit to the House audited financial statements of the previous year which include the:

- (i) receipts and transfers to and from the Petroleum Holding Fund,
- (ii) deposits into and withdrawals from the Ghana Stabilization Fund (GSF) and the Ghana Heritage Fund (GHF), and
- (iii) Balance Sheet, including a note listing the qualifying instruments of the Ghana Petroleum Funds.

The 2018 Annual Report on the Petroleum Funds covers receipts and payments made to the Petroleum Holding Fund up to September, 2018

The purpose of the 2018 Reconciliation Report on the Petroleum Holding Fund is also to comply with Section 15 of Act 815 which provides that not later than the end of the first quarter of each year after the commencement of this Act, the Minister for Finance should reconcile the accrual total petroleum receipts and the Annual Budget Funding Amount of the immediately preceding year and report on same to Parliament. The report covers receipts and payments made to the Petroleum Holding Fund for the entire year.

4.0 OBSERVATIONS

4.1 DEVELOPMENTS IN THE UPSTREAM PETROLEUM SECTOR IN 2018

- The Committee observed that Production operations on the three producing fields – Jubilee, Sankofa Gye-Nyame, and Tweneboa-Enyenra-Ntomme (TEN) – were stable within the year, notwithstanding the planned shutdowns associated with the Jubilee FPSO Turret Remediation Project (TRP). There was however relatively low production from the Jubilee Field as a result of three (3) planned shutdowns to resolve the damaged turret bearing on the Jubilee FPSO. The completion of the second phase of the TRP to stabilize the turret bearing helped to improve production. The FPSO Kwame Nkrumah was successfully rotated to its permanent heading of 360 degrees.
- The TEN and Jubilee Field Partners also successfully completed the installation and commissioning of the TEN-Jubilee interconnection pipelines in the first half of the year. The pipelines are to enable gas transfer between the two fields. Furthermore, on the TEN Field, a new producer well, NT05-P, was brought on-stream in August 2018, while EN02-P and EN08-P wells began water production in September 2018.
- The Ghana National Petroleum Corporation (GNPC) and its Offshore Cape Three Points (OCTP) Partners (Eni and Vitol) successfully achieved technical first gas from the Sankofa Gye-Nyame (SGN) Field.

- GNPC signed a Petroleum Agreement (PA) with ExxonMobil over the Deep Water Cape Three Points (DWCTP) Block, subject to parliamentary ratifications. In line with the local content legislation, ExxonMobil has selected Ghana Oil Company Limited (GOIL) as its indigenous partner.
- The Petroleum (Exploration and Production) (General) Regulations, 2018 (L.I. 2359) was passed into law in August 2018. Key provisions in L. I. 2359 include Transparency Requirements such as the Disclosure of Beneficial Ownership of Prospective Bidders, and Content of the Petroleum Register.
- The Petroleum Commission and Aker Energy Ghana commenced regulatory meetings to promote, regulate, and manage the efficient production of upstream petroleum. The accounts of Hess were audited to validate the project cost before Aker Energy completely took over the block. The Cost Audit report was also duly completed.

Currently, the Petroleum Commission is reviewing Drilling Permit for two wells submitted by Aker Energy, the operator of the Deepwater Tano Cape Three Points (DWT/CTP) blocks. The two wells are Pecan 4A and South East, in which review of the Pecan-4A appraisal well was 90 percent complete as at 31st December, 2018.

- The Committee observed that a Local Content Fund has been established in line with Section 64 of the Petroleum (Exploration and Production) Act, 2016 (Act 919). The Fund is expected to boost the competitiveness of indigenous companies by providing financial resources for citizens and indigenous Ghanaian companies engaged in petroleum activities. Modalities for managing and administering the Fund have been developed and are awaiting appropriate approvals. The Fund Guidelines has also been prepared, awaiting Board approval, for onward submission to the Minister for Energy.
- Ghanaian participation in the upstream petroleum industry progressed during the period. As at the end September 2018, about 600 indigenous

Ghanaian companies had registered with the Commission to supply goods and services to companies in the oil and gas industry. The total value of contracts awarded to indigenous Ghanaian companies and Joint Ventures amounted to US\$799 million, representing an increase of 44 percent, according to data from Tullow and ENI. Out of this amount, a total of US\$453 million worth of contracts were awarded to indigenous Ghanaian companies, while contracts awarded to Joint Venture companies amounted to US\$346 million. Additionally, Aker Energy awarded contracts worth US\$40.3 million to Joint Venture companies, in accordance with their local content obligations.

- Other strategies that are being developed to maximise indigenous Ghanaian participation in the oil and gas industry are as follows:
 - Unbundling strategies to increase local participation;
 - Shortening contract duration to broaden participation;
 - Reservation of goods and services for indigenous companies;
 - Specification of bid evaluation criteria (greater weight for Local Content);
 - Specification of minimum in-country spend/local content levels;
 - Full implementation of the requirements of L. I. 2204 (particularly, Regulations 3 and 13); and
 - Application of sanctions, including penalties for breaches of the provisions of the Regulations.

4.2 Analysis of 2018 Petroleum Receipts (US\$)

For the year 2018, total petroleum receipts amounted to US\$977,124,929.30 (GH¢ 4,529,679,839). The breakdown of the receipts is shown in Table 1 below.

Table 1- Analysis of 2018 Petroleum Receipts (US\$)

	Budget	Actual	Variance
	A	B	C=A-B
	US\$	US\$	US\$
Royalties	165,929,743.00	265,606,240.49	99,676,497.42
Carried and Participating Interest	341,497,148.00	548,334,881.13	206,837,733.47
Surface Rentals	1,593,226.00	938,896.25	(654,329.85)
Corporate Income Tax		160,606,804.77	160,606,804.77
PHF income		1,638,106.66	1,638,106.66
Gas Royalties	17,684,861.00	-	(17,684,860.71)
GAS Carried and Participating Interest	142,702,924.00	-	(142,702,924.30)
Total Petroleum Receipts	669,407,902.00	977,124,929.30	307,717,027.46

4.3 Allocation of the 2018 Petroleum Receipts

The 2018 petroleum receipts were allocated based on the provisions of the Petroleum Revenue Management Act, 2011(Act 815) as amended (Act 893).

A total amount of US\$977.12 million from Petroleum Receipts was allocated to GNPC as Equity Financing Cost, and its share of the net Carried and Participating Interest, ABFA and the Ghana Petroleum Funds. Details of the allocation is shown on Table 2 below:

Table 2 – Distribution of Petroleum Receipts for 2017

Item	US\$
Transfer to GNPC	305,273,896
o/w Equity Financing Cost	201,104,903
o/w Crude oil net Carried and Participation Interest	104,168,993
ABFA and GPFs	671,851,033
o/w Annual Budget Funding Amount	235,103,316
o/w Ghana Petroleum Fund	436,747,717
o/w Ghana Stabilization Fund	305,723,402
o/w Ghana Heritage Fund	131,024,315
Total	977,124,930

4.4 Utilization of the Annual Budget Funding Amount (ABFA)

The Committee was informed that for the year 2018, a total amount of GH¢1,546,376,951 was programmed for ABFA, with GH¢463,913,085 being for Goods and Services and GH¢1,082,463,866 for CAPEX. The outturn was GH¢827,653,566.25 giving a variance of GH¢718,723,384.75 as follows:

Table 3 – Utilization of the ABFA as at September, 2017

Item	Budgeted (GH¢)	Actual (GH¢)	Variance (GH¢)
Agriculture	251,465,991.00	126,185,356.21	125,280,634.79
Physical Infrastructure and Service Delivery in Education	465,913,085.00	419,871,012.44	46,042,072.56
Physical Infrastructure and Service Delivery in Health	50,000,000.00	22,702,127.91	27,297,872.09
Road, Rail and Other Critical Infrastructure	773,997,875.00	255,365,118.69	518,632,756.31
PIAC	5,000,000.00	3,529,951.00	1,470,049.00
	1,546,376,951.00	827,653,566.25	718,723,384.75

4.5 Balance on the ABFA Account

The Committee observed that the opening balance on the ABFA Account was GH¢400,914,441. The amount also represent the unspent allocation to the Annual Budget Funding Amount (ABFA) in 2017. The actual ABFA receipts during the year under review was GH¢1,079,031,436.26. A total of GH¢827,653,566.25 was spent during the year, leaving a balance of GH¢652,292,311 at the end of the year.

The Committee noted that the utilized amount of GH¢827.65 million represents 76.70% of total ABFA receipts and that was in accordance with the provisions of section 21(4) of the PRMA. The amount utilized includes Goods and Services of GH¢421.03 million and CAPEX of GH¢406.62 million.

4.6 Non-disbursement of GH¢400 Million

In response to whether the 2017 allocation of GH¢400 million has been disbursed as required, the Ministry said that it was yet to. It explained that the current Government procurement procedure for capital assets creates undue delays. As a result, the Ministry was unable to timeously process related payments before the repeal of the 2017 Appropriations Act. Unfortunately, the disbursements under the US\$400 million expenditure were also not captured in the 2018 Appropriations Act.

The Ministry of Finance therefore opined that there is the need for the Ministry of Finance to come to Parliament to seek approval in order to effect the required payments. It assured the Committee that very soon a request would be made to Parliament in this regard.

The Committee was informed that the Ministry of Finance further intends to review the procurement processes in order to address the issue of procurement delays.

4.7 Performance of the Ghana Petroleum Funds

The Committee was informed that as at 31st December, 2018, the Ghana Petroleum Funds (GPFs) balance stood at US\$866.38 million. This is made up of US\$ 485.17 million being the balance for the Ghana Heritage Fund (GHF) and US\$381.20 million as balance for the Ghana Stabilization Fund (GSF).

The total realized returns since inception of the GPFs to end December, 2018 was US\$43.96 million, of which the GHF contributed US\$30.43 million and GSF contributed US\$13.54 million.

4.8 No receipts from Gas Royalties

The Committee observed in paragraph 68 of the Report that during the period under review, there were no receipts from gas royalties in 2018.

The officials from GNPC explained that as part of the Agreement with the Contractor for the Sankofa fields, GNPC is to use its gas volumes to liquidate its debt. Due to this, GNPC has been assigning its volumes for the debt repayment.

The Committee recommended and GNPC agreed to furnish the Ministry of Finance details of these arrangement for inclusion in future Reports to Parliament.

4.9 Transfer to the Sinking Fund

The Committee noted that in line with Section 23 (4) of the PRMA, the GSF was capped at US\$300 million in the 2018 Budget. A total of US\$ 283.97 million was withdrawn from the GSF in 2018. This amount, which is in excess of the cap placed on the GSF in the 2018 Budget, was transferred into the Sinking Fund, in accordance with Section 23 (3) of the PRMA.

4.10 Utilisation of GNPC's 2018 Allocations

GNPC received a total amount of US\$286.60 million as at end December 2018 (out of the amount of US\$305.27 million), made up of the following:

- US\$73.80 million from the Jubilee Equity financing (share of development & production cost) ;
- US\$117.89 million from the TEN Equity financing (share of development & production cost);
- US\$53.11 million representing 30% share of net proceeds of Jubilee crude revenue; and
- US\$41.80 million representing 30% share of net proceeds of TEN crude revenue.

GNPC's Expenditure for the year 2018 amounted to US\$ 350,482,698.31. This covered Administrative expenditure, capital projects as well as other petroleum projects. Details of the expenditure is captured in Table 4 below:

Table 4 GNPC's Expenditure for the half Year ending June, 2018

	Item	Amount (US\$)
1	Jubilee Equity Financing Cost	73,683,766.60
2	TEN Equity Financing Cost	131,162,182.87
3	Exploration and Development Projects	47,472,790.47
4	Staff Cost	24,293,996.37
5	Admin. Capital Expenditure	6,694,757.04
6	Capital Projects	13,012,695.02
7	General Operational Expenditure	43,910,550.14
8	Down Stream Project	4,695,643.57
9	SOPCL	1,416,548.00
	GOG Gas related payments – Enclave Roads	4,139,768.23
	Total	350,482,698.31

4.11 Exploration & Development Projects

The Committee observed that a total amount of US\$47.47million of the amount received as GNPC's share of the 2018 Annual Petroleum Funds went to exploration & development projects and funding of the Maritime Boundary Secretariat activities. The expenditure on exploration and petroleum projects included the Corporation's cost incurred on projects other than Jubilee and TEN such as OCTP, Voltaian Basin, North & South Tano projects, etc. as shown in Table 5 below:

Table 5 Exploration and Development Projects

	Activities	Amount
1	OCTP ENI Project	4,884,055.84
2	North & South Tano Petroleum projects	2,463,996.30
3	Voltaian Basin Petroleum	31,368,822.19
4	South Deep Water Tano Petroleum Projects	1,915,333.16
5	Hess	2,959,696.83
6	Ultra Deep Water [Keta Heritage	729,888.24
7	Tano – Heritage	729,888.24
8	A-Z Petroleum	729,888.24
9	Explorco	901,057.78
10	Maritime Boundary Special Project	790,163.64
	Total	47,472,790.47

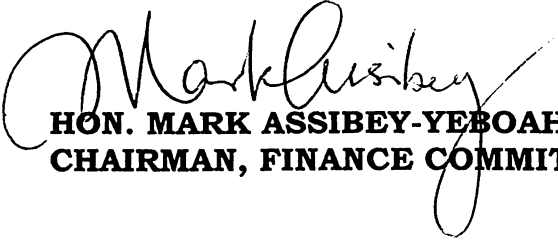
5.0 CONCLUSION


After careful consideration of the Report, the Committee is of the view that the Report generally complies with the requirements of the Petroleum Revenue Act

(Act 815) as amended. It accounted for the use of the petroleum funds and the returns on the Ghana Stabilization Fund and Ghana Heritage Fund.

The Committee accordingly recommends to the House to adopt this report and adopt the 2018 Annual Report on the Petroleum Funds and the 2018 Reconciliation Report on the Petroleum Holding Fund.

Respectfully submitted.


HON. MARK ASSIBEY-YEBOAH
CHAIRMAN, FINANCE COMMITTEE


EVELYN BREFO-BOATENG (MS)
CLERK TO THE COMMITTEE