



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

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

**ON THE**

***THE FISCAL SUPPORT AGREEMENT AND SECURITY  
PACKAGE TERM SHEET AMONG THE GOVERNMENT  
OF THE REPUBLIC OF GHANA, GHANA NATIONAL  
PETROLEUM CORPORATION, ENI AND VITOL IN  
RESPECT OF THE DEVELOPMENT OF THE SANKOFA  
AND GYE NYAME OIL AND GAS PROJECT.***

December 2014



**REPORT OF THE JOINT COMMITTEE ON FINANCE AND MINES  
AND ENERGY ON THE FISCAL SUPPORT AGREEMENT AND THE  
SECURITY PACKAGE TERM AMONG THE GOVERNMENT OF THE  
REPUBLIC OF GHANA, GHANA NATIONAL PETROLEUM  
CORPORATION (GNPC), ENI GHANA EXPLORATION AND  
PRODUCTION LIMITED AND VITOL UPSTREAM GHANA LIMITED  
IN RESPECT OF THE DEVELOPMENT OF THE SANKOFA AND GYE  
NYAME OIL AND GAS PROJECT**

**1.0 INTRODUCTION**

The request for approval of the Fiscal Support Agreement and the Security Package Term Sheet among the Government of the Republic of Ghana, Ghana National Petroleum Corporation (GNPC), ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited in respect of the development of the Sankofa and Gye Nyame Oil and Gas Project was presented to the House by the Hon. Minister for Finance Mr. Emmanuel Seth Terkper on Thursday 4<sup>th</sup> December, 2014 in accordance with Article 181(5) and 174 (2) of the 1992 Constitution.

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

The Committee was assisted in its deliberations by the Hon. Minister for Finance, Mr. Emmanuel Seth Terkper, the Hon. Minister for Energy and Petroleum, Mr. Emmanuel Armah Kofi Buah, officials from the Ministries of Finance and Energy and Petroleum and considered the referral.

The Committee is grateful to the Ministers and officials for attending upon it and assisted in the deliberations.

## **2.0 REFERENCE DOCUMENTS**

The Committee referred to the following additional documents during its deliberations:

- The 1992 Constitution of Ghana;
- The Standing Orders of the Parliament of Ghana; and
- Supplementary Agreement for Submission of OCTP Plan of Development Phase 1 Oil between the Ghana National Petroleum Corporation and ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited

## **3.0 BACKGROUND**

The Government of the Republic of Ghana, Ghana National Petroleum Corporation and Heliconia Ghana Limited entered into an agreement in respect of the Offshore Cape Three Points Petroleum Agreement (OCTP) governing the OCTP Oil and Gas Project on 2<sup>nd</sup> March 2006. The current Operator, ENI Ghana, was farmed into the OCTP Petroleum Agreement (PA) in September 2009.

As part of the conditions for accepting the ENI farm-in, GNPC successfully negotiated an additional 5% participating interest in the license on behalf of the State. This increased the State's working interest in the OCTP Block to 20%.

Between 2009 and 2012, Non Associated Gas discoveries were made by GNPC and its OCTP partners, in the Sankofa Main, Sankofa East and Gye Nyame fields with total estimated reserves of 1.15 trillion cubic feet (Tcf). Oil was also discovered in Sankofa East with a reserve base of about 131 million barrels.



In March 2013, ENI declared, in accordance with Article 14.15 of the OCTP PA, that the gas discoveries could be produced commercially. Given the proximity of the gas discoveries, the Contractor proposed that the gas discoveries be jointly developed by the OCTP Contractor.

Pursuant to Articles 14.15 and 14.16 of the OCTP PA, ENI and Vitol commenced with GNPC on an appropriate gas price and other contractual arrangements for the disposition of the gas.

Due to the strategic importance of the Project to the economy, and given the limited reserve, Government requested the OCTP partners to sell the gas to the domestic market to meet Ghana's increasing energy demand. This is in line with the provisions in Article 14.16 of the OCTP PA, which requires the Contractor to negotiate a gas sales agreement with GNPC for the sale of gas to the domestic market where it identifies a domestic market.

As part of the negotiations, GNPC is expected to provide security to give comfort to the investors about GNPC's readiness to buy and pay for the gas. A Gas Sales Term Sheet, Heads of Agreement and Security arrangements, including a World Bank Partial Guarantee (PRG) and a sovereign guarantee were proposed by ENI /Vitol and negotiated with the Government, to support GNPC's performance and payment obligations under the proposed project.

In view of the fact that the two Agreements constitute international Agreement between the Government of Ghana and ENI/Vitol and are guaranteed by Government and also confer tax benefits on ENI and Vitol, Parliamentary approval is being sought in accordance with Articles 181 (5) and 174 (2) of the 1992 Constitution.

#### **4.0 FISCAL SUPPORT AGREEMENT FOR THE DEVELOPMENT OF OCTP PHASE 1 – OIL**

To help reduce the gas price, the State and GNPC agreed to equally contribute to fiscal and other incentives to the Contractor to the tune of US\$250 million. These incentives are contained in the Supplementary Agreement between GNPC and the Contractor

Parties and in the Fiscal Support Agreement between the State and the Contractor Parties. These agreements relate to upfront measures that have been agreed to enable the attainment of gas price of 9.80/ mmBtu effective from 2014 to be achieved. The Government of Ghana under the Fiscal Support Agreement among GoG, ENI and Vitol also agreed to some fiscal interventions to the tune of US\$125 million to assure a low gas price needed to deliver OCTP Phase 2- Gas. The interventions are:

- i. Tax deductibility of interest on shareholders and commercial loans (of actual interest cost) on the Contractor in the form of a deemed 7% interest charge on shareholder or commercial loans and a deemed debt to equity ratio of 2:1. The present value of this fiscal intervention is US\$105 million.
- ii. Fiscal treatment of abandonment costs as production expenditure to allow the Contractor to treat the cost of decommissioning as production expenditure to realize a net present value benefit of US\$20 million.

#### **.0 OCTPA SECURITY PACKAGE TERM SHEET**

The Security Package Term Sheet sets out the basis for the establishment of a gas payment structure to secure the gas payments and performance obligations of GNPC to ENI and Vitol. The Security Package Term Sheet is primarily based on revenue flows from domestic gas sales through a main escrow GNPC Distribution Account that is backed by an escrow reserve holding account that GNPC will fund with a minimum balance. These obligations will be backstopped, among other things, by a World Bank (WB) Partial Risk Guarantee cover of US\$600 million plus US\$100 million, which encumbers International Development Authority (IDA) allocation to Ghana in the amount of US\$150 million, to cover the risk of payment default by GNPC and a sovereign guarantee up to US\$100 million that will cover any further payment shortfall that may occur. The OCTPA Security Package Term Sheet also allows the Supplier to seek Multilateral Investment Guarantee Agency (MIGA) insurance in addition to the guarantees provided by GoG and backed by the World Bank.



## 6.0 THE PROJECT COST

The project which is expected to cost approximately US\$8 billion would be an integrated oil and gas project. Phase -1 is for the production of oil, with first oil from the Sankofa-Gye-Nyame Field expected in August 2017. Phase 2 which is the production of gas, project first gas to come on stream in the second quarter of 2018. The project is expected to be financed by ENI and Vitol through a mixture of equity and shareholders debt.

## 7.0 OBSERVATIONS

### *Government Obligations and Justification for the Project*

Responding as to the actual obligations of the State/GNPC under the agreement the Minister of Finance stated that the State and GNPC agreed to equally contribute to a fiscal and other incentives to the Contractor to the tune of US\$250 million. The Minister added that the Government of Ghana under the Fiscal Support Agreement among GoG, ENI and Vitol also agreed to some fiscal interventions to the tune of US\$125 million to assure a low gas price needed to deliver OCTP Phase 2- Gas. Details of the interventions are:

- a. Tax deductibility of interest on shareholders and commercial loans (of actual interest cost) on the Contractor in the form of a demand 7% interest charge on shareholder or commercial loans and a deemed debt to equity ratio of 2:1. The present value of this fiscal intervention is US\$105 million.
- b. Fiscal treatment of abandonment costs as production expenditure to allow the Contractor to treat the cost of decommissioning as production expenditure to realize a net present value benefit of US\$20 million.

The Minister explained that with the high cost 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 power generation capacity by attracting the necessary investment into the energy sector. The Minister further reiterated the urgent need to integrate the utilisation of

Ghana's domestic gas into the country's energy mix to improve energy security and emphasised that the purpose of the Agreement and the incentives therein just seek to put in place a security arrangement to assure investors of GNPCs ability to buy and pay for the gas to be produced by ENI and Vitol at the OCTP PA.

### ***OCTPA Security Package***

Explaining the need for the security package, the Minister of Finance indicated that the main objective for such a package is to give the project investor and their lenders sufficient comfort that their investments would be reasonably secured and protected and is premised on the fact that GOG requires the Contractor parties to sell all its gas production to GNPC. According to the Minister the package consists of Government Sovereign Guarantee of up to US\$100 million which among others, will be backstopped by a World Bank (WB) Partial Risk Guarantee cover of US\$600 million plus US\$100 million, which encumbers International Development Authority (IDA) allocation to Ghana in the amount of US\$150 million, to cover the risk of payment default by GNPC. The Minister added that in order to secure the gas payments and performance obligations of GNPC to ENI and Vitol, the Security Package Term Sheet therefore sets out the basis for the establishment of a gas payment structure for revenue flows from domestic gas sales through a main escrow GNPC Distribution Account that is backed by an escrow reserve holding account that GNPC will fund with a minimum balance. Further the OCTPA Security Package Term Sheet also allows the Supplier to seek Multilateral Investment Guarantee Agency (MIGA) insurance.

### ***Benefits of the Project***

Highlighting the possible benefits of the project, the Minister of Energy and Petroleum stated that the development of natural gas reserves from the Sankofa-Gye-Nyame Field will generate estimated revenue of US\$11.115 billion to the State over the 18-year OCTP project life. The breakdown of the revenue were given as follows:

- |                           |   |                  |
|---------------------------|---|------------------|
| i. Working Interest (20%) | : | US\$5.45 billion |
| ii. State royalty         | : | US\$1.74 billion |



iii. State Income Taxes	:	US\$3.60 billion
iv. Additional Oil Entitlements	:	US\$0.325 billion
<b>Total</b>		<b>US\$11.115 billion</b>

The above estimates, the Minister added were based on an assumed oil price of US\$90/barrel and the initial gas price of US\$9.80/mmBtu

Again, the state is also expected to make significant savings to an estimated sum of US\$ 5.1 billion from gas price reduction from GNPC's proposed investments in the pipeline and receiving facilities. The Minister further mentioned that the project will help create employment opportunities from the new gas business, positioned the country as a regional hub for energy supply through the development of a robust power sector and also assist in the development of the requisite institutional capacity needed to manage a gas system.

***Savings from reduced cost of gas***

The Committee also noted the immense financial benefits in the form of savings to be accrued to the State upon the coming into effect of the Agreements. Savings from gas price reduction achieved by GNPC under the proposed investments in the pipeline and receiving facilities would amount to US\$1.725/mmBtu representing 17.6% of the negotiated gas price to be achieved in the case of the investment of US\$300. This would bring the gas price to US\$8.075/mmBtu, leading to estimated savings of about US\$2.0billion to the State. Upon the additional investment of the US\$193 million in 2016, a further expected reduction in the gas price to US\$7.0135/mmBtu would be obtained, representing an estimated amount of US\$3.1 billion in savings. The Committee believed that these savings would be channeled to other critical areas of the economy for speedy socio-economic transformation.

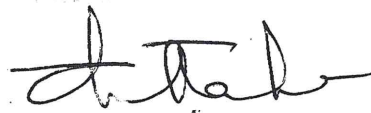
## 8.0 CONCLUSIONS

The Joint Committee having carefully examined the referral is of the view that the implementation of the Project is in line with government policy objective in achieving 5,000MW of installed Generation Capacity by 2016 to meet the growing electricity demand of the country. The Joint Committee therefore recommends to the House to adopt its report and approve the Fiscal Support Agreement and the Security Package Term Sheet among the Government of the Republic of Ghana, Ghana National Petroleum Corporation (GNPC) ENI Ghana Exploration and Production Limited and Vitol Upstream Ghana Limited in respect of the development of the Sankofa and Gye Nyame Oil and Gas Project in accordance with Article 181 (5), 174 (2) of the 1992 Constitution, and Order 169 of the Standing Orders of the Parliament of Ghana.

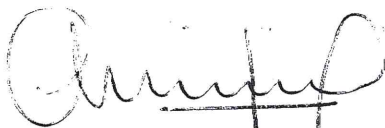
Respectfully submitted.



**HON. JAMES KLUTSE AVEDZI  
(CHAIRMAN, FINANCE COMMITTEE)**



**HON. KWABENA DONKOR (DR.)  
(CHAIRMAN, COMMITTEE ON MINES & ENERGY)**



**ROSEMARY ARTHUR SARKODIE (MRS.)  
(CLERK, FINANCE COMMITTEE)**



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

*December, 2014*