



**REPORT OF THE FINANCE COMMITTEE ON THE
CREDIT AGREEMENT BETWEEN THE
GOVERNMENT OF THE REPUBLIC OF GHANA
AND AGENCE FRANCAISE DE DEVELOPPEMENT
(AFD) FOR AN AMOUNT OF €50,000,000.00 TO
FINANCE THE EXECUTION OF THE KPONG
GENERATION STATION RETROFIT PROJECT**

1.0 INTRODUCTION

The Credit Agreement between the Government of the Republic of Ghana and Agence Francaise de Developpement (AFD) for an amount of fifty million Euros (€50,000,000.00) to finance the execution of the Kpong Generation Station Retrofit Project was laid in the House on Monday 3rd September, 2012.

Pursuant to Order 169 and 171(1) of the Standing Orders of the House, the Agreement was referred to the Finance Committee for consideration and report.

The Committee met and considered the Agreement with the Deputy Minister of Finance and Economic Planning, Hon. Fifi Kwetey, Deputy Minister for Energy, Hon. Inusah Fuseini and officials from the Ministries of Finance and Economic Planning (MOFEP) and Energy and hereby presents this report to the House pursuant to order 161(1) of the Standing Orders of the House.

2.0 BACKGROUND

Kpong Generation Station

The Volta River Authority (VRA) is a public body established under the Volta River Development Act, 1961 (Act 46) and later amended by the Volta River Act, 2005 (Act 692). The Authority intends to retrofit the Kpong Generating Station to provide a further 30 years operation of the generation plant.

The Kpong Hydro Electric Power Generating Station is located some 24km downstream of the Akosombo Hydro Electric Power Generating Station. It has four (4) generating units, each individually rated at 40 MW. The plant is operated in tandem with the Akosombo Plant as a run-of-the-river plant with Kpong head-pond balancing the Akosombo discharge with daily regulation.

The Volta River Authority (VRA) intends to modernize and improve the reliability and maintainability of the power plant equipment at the Kpong Generation Station for the next 30 years.

Feasibility Studies for the Pwalugu Multi-Purpose Dam Project

Development of the Pwalugu, Kulpawn, Daboya and Juale Hydroelectric Power Projects on the White Volta, one of the tributaries of the Volta Lake, were identified in prefeasibility study report by Coyne et Bellier in 1993.

In line with the Government of Ghana's energy sector strategy to promote the development of indigenous energy resources as a way to enhance energy supply security in Ghana and VRAs mandate to develop the hydroelectric potential of the Volta Basin, VRA sought assistance from the Agence Francaise de Developpement (AFD) to finance the preparation of the feasibility study of the potential sites identified.

After discussions with the AFD, it was agreed that the proposed project at Pwalugu was priority and should be considered by the AFD for financing. This is because the Pwalugu Dam will be a multi-purpose facility as it will also serve as an irrigation facility and also for flood control.

Prepayment Meters for NEDCo

The Volta River Authority (VRA) intends to improve the financial performance of the Northern Electricity Distribution Company Limited (NEDCo), the subsidiary of VRA in charge of distributing power in the North of the country.

The VRA plans to purchase and install thirty thousand (30,000) prepayment meters for the NEDCo under this Facility with the view to improving NEDCo's receivables and also reduce commercial losses attributable to customer metering.

Capacity Building in Financial Modelling

In view of the changing environment in which the VRA operates (new generation mix, new markets, new tariffs) and the need to be able to borrow money at improved rates, the VRA needs to run a robust and state-of-the-art financial model. This component of the project will be dedicated to the capacity building of VRA in financial modeling.

3.0 PURPOSE OF THE LOAN

The purpose of the facility is to obtain funds from Agence Francaise de Developpement (AFD) to undertake a project aimed at:

- Retrofitting the Kpong Generating Station
- Enabling VRA to launch Feasibility Studies for the Pwalugu Multi-Purpose Dam Project

- Improving the financials of the Northern Electricity Distribution Company (NEDCo), the subsidiary of VRA in charge of distributing power in the North of the country
- Improving VRA's financial modeling capacities to enable it to borrow on a non-sovereign basis in the future.

4.0 TERMS OF THE CREDIT

The terms of the facility are as follows:

LOAN AMOUNT	:	€50,000,000.00
Grace Period	:	7 years
Repayment Period	:	20 years
Maturity Period	:	27 years
Interest Rate	:	1.99% p.a.
Commitment Fee	:	0.50% p.a.

5.0 OBSERVATIONS

The Committee was informed of the scope of works of the Project as comprising the following four components:

- a. Supply and installation of equipment and all other services necessary for the following systems and sub-systems under the Kpong generation Station Retrofit Project:
- Generators and Digital Excitation Equipment
 - Turbine and Auxiliary Equipment
 - Generator Refurbishment/upgrade (Stator core Replacement and Rotor Re-insulation)
 - Digital Governors
 - Generator Transformer
 - Unit Controls, Protection and SCADA Equipment
 - Powerhouse Station Service Equipment (Mechanical)
 - Powerhouse Station Service Equipment (Electrical)
 - Intake gates, Intake Stop Logs, Draft Tube Stop Logs, Spillway Gates, Spillway Stop Logs, Trashracks and Embedded Parts
- b. Feasibility study for the development of the Pwalugu Multi-purpose Dam, involving
- The full feasibility and detailed design of the Pwalugu site
 - The Environmental and Social Impact Assessment (ESIA) including Environmental and Social Management Plan (ESMP) and the Resettlement Action Plan (RAP) of the Pwalugu Multi-purpose Dam.
- c. Procurement and installation of thirty thousand (30,000) prepayment meters and the associated vending systems for the Northern Electricity Distribution Company Limited (NEDCo).
- d. Building VRA's financial modeling capacity to enable it to borrow at more improved rates in the future. This entails
- A review of the financial model that the VRA is developing internally\Assitance to VRA in the implementation of the Oracle Hyperion

- Other services aimed at improving VRA's financial modeling capacity.

As to how much of the loan facility would be appropriated towards the various components, the Committee was informed of the project component cost breakdown as follows:

Item	Component	AFD Loan Amount (US\$ million)
1	Kpong Generation Station Retrofit	38.6
2	Feasibility Studies for the Pwalugu Multi-purpose Dam	5.6
3	Purchase and Installation of Prepayment Meters	1.5
4	VRA Financial Modeling Capacity building	0.3
5	Contingencies	4.0
Total		50

It was explained to the Committee that the Contingency provision of US\$4.00 million is aimed principally at catering for contingencies that may arise from the Kpong Generation Station Retrofit component, since projects of that nature usually come with significant contingencies.

The committee noted that whilst efforts are being put into adding more to the country's power generation capacity, it is also of cardinal importance to maintain the existing 2000MW installed capacity, hence the retrofit of the

Kpong Generation Station for the next 30 years was found to be in the right direction.

Benefits to be derived from the project include improvement in the reliability of electricity supply to meet national requirement and for export, improved and modernized electricity distribution infrastructure to reduce system losses, enhanced financial viability of the VRA and NEDCo, as well as a strengthened institutional and management capacity for the smooth development and operation of the power sub-sector.

Some Honourable Members of the Committee admonished the VRA and NEDCo to take a cue from the recent demonstrations embarked upon by residents of Tamale against the newly installed prepayment meters in the Municipality, so that such "contentious meters" are not imported under the this project. Members further advocated a rigorous customer education by Utility Companies to ensure that customers appreciate the need for the utilization of prepayment meters.

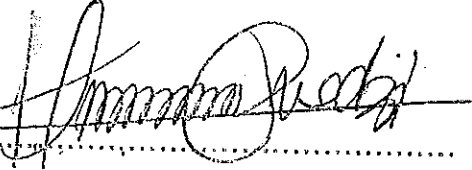
6.0 CONCLUSION

The Committee has critically examined the Facility and found that the project would help to enhance the reliability of power supply in the country.

The Committee therefore recommends to the House to adopt this report and approve by resolution, the **Credit Agreement** between the **Government of the Republic of Ghana** and **Agence Francaise de Developpement (AFD)** for an amount of *fifty million Euros* (€50,000,000.00) to finance the execution of the **Kpong Generation Station Retrofit Project** in accordance with article 181 of the 1992

Constitution and sections 3 and 7 of the Loans Act, 1970 (Act 335).

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI
CHAIRMAN, FINANCE COMMITTEE



PEACE A. FIAWOYIFE (MS.)
CLERK, FINANCE COMMITTEE

29TH SEPTEMBER, 2012.