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

REPORT OF THE

FINANCE COMMITTEE

ON THE

**THE 2016 ANNUAL REPORT OF THE PUBLIC INTEREST
AND ACCOUNTABILITY COMMITTEE (PIAC) ON THE
MANAGEMENT OF PETROLEUM REVENUES**

28th NOVEMBER, 2017

1.0 INTRODUCTION

The 2016 Annual Report of Public Interest and Accountability Committee (PIAC) on the Management of Petroleum Revenues was presented to Parliament on Tuesday, 11th July, 2017 in accordance with the Petroleum Management (Act 815) and the Standing Orders of the House referred to the Finance Committee for consideration and Report

The Committee met with the Deputy Minister for Finance, Hon. Abena Osei Asare, the Deputy Minister for Energy, Hon. Joseph Cudjoe, the Deputy Governor, Dr. Johnson Asiama, the technical team from the Public Interest and Accountability Committee (PIAC), Ghana Revenue Authority (GRA), Bank of Ghana (BOG), Ghana National Petroleum Company (GNPC), Ghana National Gas Company (GNGC), the Ministry of Finance (MOF), the Jubilee Partners Tullow and Kosmos and the Petroleum Commission to consider the Referral and reports as follows:

2.0 REFERENCE

The Committee referred to the following documents

1. The 1992 Constitution of Ghana
2. Petroleum Revenue Management Act, 2011 (Act 815)
3. Standing Orders of Parliament

3.0 BACKGROUND

The Public Interest and Accountability Committee (PIAC), established under Section 51 of the Petroleum Revenue Management Act, 2011 (Act 815) is required to prepare and publish two reports – semi and annual reports – each year detailing how much petroleum revenue has been collected during the period under review and how the amount so collected has been utilized.

The Reports, among others is to provide oversight and monitoring of the management of petroleum revenues. The reports are also expected to capture the performance of the Ghana Petroleum Funds (GPFs) and the feedback received from the citizenry during the PIAC public consultations.

In accordance with its mandate, PIAC has prepared the Annual Report on the management of petroleum revenues for the year 2016.

The 2016 Annual Report is the sixth annual Report of PIAC. The Report examines crude oil production, marketing, distribution and utilization of

the petroleum revenues while making recommendations on the judicious use of the petroleum funds.

4.0 OBJECT OF THE REPORT

The object of the Report is to inform the House and the general public on the management and use of the petroleum revenues for the year 2016.

5.0 KEY FINDINGS

5.1 Oil production

During the period, a total of 32,297,780 barrels of crude oil was produced. This production was lower by 5,113,881 barrels representing a decline of 13.7% of 2015 production of 37,411,661 barrels. Of the amount, 26,981,640 barrels were produced from the Jubilee fields and 5,316,140 barrels were produced from TEN fields.

5.2 GAS Production

For 2016, total gas produced amounted to 44,951 million standard cubic feet (MMScf). Out of this amount, 38,420 MMScf was produced from Jubilee and 6,531 MMScf was from TEN.

5.3 Oil lifting

For 2016, a total of 27 liftings were carried out by the Jubilee Partners to lift 26,134,013 barrels leaving a balance of 847,627 barrels.

In respect of TEN, a total of 12 liftings were made to lift 4,631,494 barrels by the partners leaving a balance of 684,646 barrels at the end of the period.

5.4 Marketing

Ghana's crude oil from the Jubilee Field was sold at an average price of US\$46.13 per barrel which compares favourably with the average dated Brent price of US\$44.01 as well as the average achieved price of all the Jubilee Partners (Tullow – US\$41.7; Anadarko – 43.93; and Kosmos – 45.94);

Kosmos and Tullow, however were able to sell a portion of their liftings at a higher price as a result of their respective hedging policies, realising a unit price of US\$73.76/barrel and US\$61.7/barrel respectively.

5.5 Petroleum Receipts

Total petroleum receipts for the year 2016 amounted to US\$ 247,175,394.26 (GH¢972,547,412.39). This was lower by US\$ 148,997,514.74

(approximately 38% decrease) in petroleum revenues compared to the 2015 amount of US\$396,172,909. Details of the sources of Receipts is captured in Table 1 below:

Table 1: Petroleum Receipts

	Item	Amount (US\$)	%
1	Jubilee Royalties	57,851,210.69	23.4
2	Carried and Participating Interest	149,936,375.74	60.66
3	Surface Rental	465,029.74	0.19
4	Corporate Tax	29,546,823.00	11.95
5	Gas Royalties	379,554.50	0.15
6	Gas CAPI	8,923,251.85	3.61
7	PHF Income	73,148.74	0.03
	Total	247,175,394.26	100

5.6 Distribution of Petroleum Revenue

Out of the US\$247.18 million petroleum receipts, US\$229.03 million (representing 92.66%) was distributed to GNPC, the ABFA and the GPFs. The balance of US\$18.15 million remained as undistributed balance in the Petroleum Holding Fund (PHF) Account. Details of the distribution is contained in Table 2 below:

Table 2: Distribution of Petroleum Revenue

Item	Amount (US\$)	%
Transfer to GNPC	88,497,092.01	38.64
o/w Equity Financing Cost	58,114,054.06	
o/w Crude Oil Net Carried and Participating Interest	27,546,696.50	
o/w Gas Net Carried and Participating interest	2,836,341.45	
GOG Net receipts for distribution to ABFA and GPFs	140,536,308.24	42.95
o/w ABFA	98,375,415.77	
o/w Ghana Infrastructure Investment Fund	17,215,697.76	
o/w Ghana Petroleum Funds (GPFs)	42,160,892.47	
o/w Ghana Stabilization Fund	29,512,624.73	12.89
o/w Ghana Heritage Fund	12,648,267.74	5.52
Total Payments	229,033,400.26	100
Total Payment in GH¢	903,981,801.14	

6.0 OBSERVATIONS

6.1 Regulations for the Sector

The Deputy Minister informed the Committee that the Ministry of Finance has almost completed the draft Regulations to the Petroleum Revenue Act, 2011 (Act 815). She conceded that the Ministry had delayed in passing the law and indicated that the draft regulations had been in and out of the Attorney-General's Department for a while. The necessary corrections have now been effected and very soon the Regulations would be gazetted.

6.2 Payment of legacy debts

The Deputy Minister for Finance informed the Committee that following the recent issue of the ESLA bond, Government has commenced discussions with the relevant institutions under the Energy Sector to clear the legacy debt. She assured the Committee that all debts under the Energy Sector would be settled with the proceeds of the Bond as soon as possible.

6.3 Return on Investment

The Deputy Governor, Dr. Johnson Asiama agreed with the Committee that the returns on investments for the Ghana Stabilization Fund and Ghana Heritage Fund were low. He assigned the low returns to the prescribed instruments being used for investment. He reiterated his earlier comment to the Committee in other meetings that there is the need to review the investing instruments in Act 815. It would enable the Bank to invest in other instruments that have higher yields.

The Deputy Minister informed the Committee that the Ministry was in the process of reviewing Act 815 and soon this matter would be addressed.

6.4 Shutdown of FPSO called off

The technical team informed the Committee that the planned shutdown of the FPSO scheduled for October, 2017 was called off. The shutdown was meant to undertake the necessary repairs to the turret bearing that is damaged. It was explained that a number of partners have planned a number of scheduled maintenances of their equipment. In order to reduce shutdown periods and maximize production, all the partners met and decided on a new date for the shutdown. This is to ensure that all the necessary maintenance works are carried out concurrently. February and April, 2018 have been scheduled for the shutdowns to complete work on the turret bearing. All other repair works by the partners would also be carried out at that time.

6.5 Refurbishment of landed properties

The Report indicated that an amount of US\$12.45 million was spent on GNPC landed properties classified as “capital projects”.

The technical team from GNPC responded that in view of the increased scope of work including production, development and exploratory field works, there was the need to rehabilitate all its building facilities and construct new ones in some cases. The facilities include those in Accra including the training school, Tema and Takoradi.

6.6 56% Increase in the Amount of Money Spent Contesting the Maritime Boundary Dispute with Ivory Coast

The Report revealed that the cost of the Maritime Boundary Dispute with Ivory Coast at ITLOS increased by 56% from US\$1,81 million in 2015 to US\$2.82 million in 2016.

The technical team explained that the final determination of the dispute was imminent and GNPC needed to ensure that the experts engaged to defend Ghana were properly resourced to deliver a positive verdict for the country.

The Final verdict occurred on 23rd September, 2017. The Court upheld the use of the Equidistance Method to determine the boundary starting from the new boundary point 55plus (BP55+). Consequently, none of Ghana’s active upstream petroleum projects was negatively impacted by the final ruling. It is expected that companies who were previously affected by the dispute would resume normal operations to implement their work programmes.

6.7 Efforts to recover the US\$50 million Advancement to Ministry of Finance for the Western Corridor Roads

The Technical team from GNPC informed the Committee that the Corporation had served a demand notice to the Minister for Finance in respect of the advancement. They were hopeful of a favourable response.

The Deputy Minister for Finance indicated that the US\$50 million was part of the legacy debt. She reiterated her earlier submission that given the issuance of the ESLA bond, all legacy debts in the Energy Sector would be paid.

6.8 Growing Debt in the Energy Sector

PIAC observed that GNGC is caught up in a vicious cycle of the indebtedness of the Energy Sector utilities.

The technical team conceded that even though Government is making efforts to pay off the existing debts owed to GNGC, new debts were incurred for the year 2016, VRA was still unable to pay for the gas it bought. This is adversely affecting GNGC in its ability to meet its obligations to GNPC

6.9 Failure to Collect Due Taxes

The Report revealed that an amount of US\$27.31 million being Corporate Income Tax paid in 2016 was in respect of audits and additional assessment of Tullow's operations between the period 2011 and 2014.

PIAC expressed the concern about the length of time took the GRA to determine that additional tax revenue to be paid.

GRA explained that the tax audit are ongoing and that efforts had been sped up. The Authority assured the Committee that it would ensure that all monies due the State were recovered timeously.

6.10 Sale of Gas to Other Entities and Emergence of Potential Competition

The Report revealed that Ghana National Gas Company (GNGC) sold lean gas to Wangkang Company during the period. PIAC was of the view that since the total amount to Gas produced by GNGC currently was insufficient to meet the combined demand of the VRA plants and the AMERI plants in the Western enclave, GNGC should not be allowed to sell its products to any other company. PIAC therefore recommended that GNGC should sell gas only to VRA

The Chief Executive Officer of GNGC pointed out that for the period, VRA didn't pay anything for the supplies made. This situation had adversely affected its cash flow position, hence the need to look for alternative sources of revenue. He further stated that the Company acted within its mandate as the law provides that they can sell gas other entities too.

7.0 RECOMMENDATIONS

7.1 Growing Debts in the Energy Sector

The Committee noted that despite Government's effort to settle the legacy debts in the Sector by the issuance of the Bond, new debts have been incurred. The failure of VRA to pay for gas supplied to it may likely result in another legacy debt.

The Committee therefore urges Government to ensure that VRA pays for gas supplied to it to prevent another energy debt.

7.2 Tax collections

The Committee also expressed concern about the time it takes for GRA to conduct the relevant tax assessments of the various oil companies.

It therefore recommends to the House to urge the Minister for Finance to ensure that GRA conducts timeously the relevant tax assessment on all the oil companies to ensure compliance.

7.3 Sale of Gas to Other Entities and Emergence of Potential Competition

The Committee disagreed with PIACs recommendations on the issue of the sale of gas to other entities other than VRA. The Committee held the view that best practices demand that VRA pays for gas supplied to it. VRA's failure to pay for the supply of lean gas during the period impacted negatively on the operations of Ghana National Gas Company (GNGC).

Management of GNGC therefore had no other option than to resort to ways of raising the needed funds to fund its activities. The Committee is also of the view that since selling lean gas to other entities was within the law and so long as the required allocation to VRA is met, GNGC should not be prevented from undertaking these ventures to enable it raise funds to meet its financial obligations. Further, competition helps promote efficiency.

The Committee therefore urges GNGC to keep exploring ways within its legal framework to finance its activities.

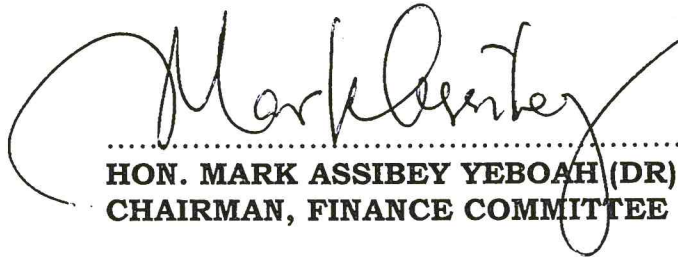
8.0 CONCLUSION

The Committee has carefully considered the Report and is of the view that the Report satisfies the requirements of Act 815. It also urges the various Oil and Gas Agencies and Stakeholders to implement the valuable recommendation in the 2016 PIAC Report as required by Law.

The Committee accordingly recommends to the House to adopt this report and adopt the Annual Report on the Management of Petroleum Revenues

by the Public Interest and Accountability Committee (PIAC) for the year 2016.

Respectfully submitted.



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HON. MARK ASSIBEY YEBOAH (DR)
CHAIRMAN, FINANCE COMMITTEE



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EVELYN BREFO-BOATENG (MS)
CLERK, FINANCE COMMITTEE