

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

**REPORT OF THE FINANCE  
COMMITTEE**

**ON THE**

**ANNUAL REPORT ON THE  
MANAGEMENT OF THE ENERGY  
SECTOR LEVIES AND  
ACCOUNTS FOR THE YEAR 2017**

MAY 2018



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**1.0 INTRODUCTION**

The Annual Report on the Management of the Energy Sector Levies and Accounts for the year 2017 was *laid* in the House on 23<sup>rd</sup> March, 2018 by Deputy Minister for Finance, Hon. Kwaku Agyeman Kwarteng on behalf of the Minister for Finance. The Report was subsequently *referred* to the Finance Committee for consideration and report in accordance with article 103 of the 1992 Constitution and Order 169 of the Standing Orders of the House.

The Committee met and considered the Report with the Deputy Minister for Finance, Hon. Charles Adu-Boahene, the Chief Director and other officials from the Ministry of Finance and the Ghana Revenue Authority (GRA). Also present were officials from the Ministry of Energy, Volta River Authority (VRA), Ghana Grid Company Limited (GRIDCo), Electricity Company of Ghana (ECG), ESLA Plc, Road Fund, Energy Commission, National Petroleum Authority (NPA), Bulk Oil Storage and Transportation Company (BOST), Tema Oil Refinery (TOR), Northern Electricity

Distribution Company (NEDCo) and the Controller and Accountant General's Department.

The Committee is grateful to the Hon. Deputy Minister, the Chief Director and the other officials from the Ministry of Finance and GRA, officials from the Ministry of Energy and the other allied Institutions for attending upon the Committee.

## **2.0 REFERENCES**

The Committee referred to and/or was guided by the following documents *inter alia* during its deliberations on the Bill:

- The 1992 Constitution of the Republic of Ghana
- The Standing Orders of the Parliament of Ghana
- Interpretation Act, 2009 (Act 792)
- The Budget Statement and Economic Policy of the Government of Ghana for the 2017 Financial Year
- The Energy Sector Levies Act, 2015 (Act 899) as amended.

## **3.0 BACKGROUND INFORMATION**

Ghana's energy sector was faced with some challenges prior to the introduction of the Energy Sector Levies Act, 2015 (Act 899).

State Owned Enterprises (SOEs) operating in the energy sector struggled to effectively manage their hardcore liabilities. These

liabilities which had been a major impediment to the smooth operation of these institutions, increased their exposure to credit and liquidity risk, and consequently impacted significantly on the balance sheets of their creditor banks.

To address these challenges, Government passed the Energy Sector Levies Act (ESLA) in December 2015 with full implementation beginning in 2016.

The levies imposed by the Act, are derived from the sale of petrol, diesel, marine gas oil, residual fuel oil, liquefied petroleum gas, kerosene, and electricity. The Agencies charged with the responsibility for the collection of the levies are the Ghana Revenue Authority (GRA), National Petroleum Authority (NPA), Electricity Company of Ghana (ECG), Northern Electricity Distribution Company (NEDCo) and the Volta River Authority.

The Report is the second on the management of the energy sector levies and accounts and covers the performance of the levies and utilization of the funds for the 2017 financial year in line with the provisions of Act 899.

## **4.0 OBSERVATIONS**

### **4.1 Levies imposed by the Act**

The Committee noted that two levies are imposed by the Energy Sector Levies Act, 2015 (Act 899). These are the Energy Debt Recovery Levy (EDRL) and the Price Stabilization and Recovery Levy (PSRL). The law requires the transfer of the EDRL

collections into two established accounts, 32.0% into the Energy Debt Service Account (EDSA) and 68.0% into the Power Generation and Infrastructure Support sub-Account (PGISsA). The PGISsA receives an additional 60.0% and 40.0% of the National Electrification Scheme Levy (NESL) and the Public Lighting Levy collections respectively.

#### **4.2 Utilization of Funds**

The funds collected into the established accounts are required by the provisions of Act 899 to be utilized mainly for the recovery of the hardcore legacy debts of the Tema Oil Refinery (TOR), Volta River Authority (VRA) and other players in the power generation, transmission and distribution chain. The collections are also to be utilized for the payment of downstream petroleum sector foreign exchange under recoveries, boost power generation and investments in power infrastructure, to ensure nationwide sustainable power supply and also to provide buffers for under recoveries or subsidies to stabilize petroleum prices for the consumer.

#### **4.3 Programmed and Revised Collections for 2017**

A total amount of GH¢3,752.57 million was initially programmed for collection in 2017. This amount was however revised to GH¢3,444.27 million. The reduction was mainly on account of Government policy to reduce the Public Lighting Levy (PLL) from 5% to 3% on the price per KWh of electricity consumed. Similarly, the National Electrification Scheme Levy (NESL) was

reduced from 5% to 2% on the price per kWh of electricity consumed.

The reduction in the two levies resulted in a net loss of ESLA proceeds amounting to GH¢308.30 million, constituting 8.22% of estimated collections for the year 2017.

Details of the total programmed and revised ESLA collections for 2017 are presented in the table below:

**Table 1: 2017 Programmed and Revised Annual Target Collection**

No	Energy Sector Levy	2017 Initial Programmed Collection	2017 Revised Programmed Collection	Mid-Year Revision to the Revised Annual Target	Diff b/n Revised Programmed and Mid-Year Revision
1	Energy Debt Recovery Levy	1,358,050,000	1,358,050,000	1,358,048,482	(1,518)
2	Price Stabilization and Recovery Levy	415,344,429	415,344,429	415,344,429	-
3	Public Lighting Levy	307,535,998	184,521,599	228,973,991	44,452,393
4	National Electrification Scheme Levy	308,808,090	123,523,236	189,712,986	66,189,750
5	Road Fund Levy	1,331,420,000	1,331,420,000	1,331,424,693	4,693
6	Energy Fund Levy	31,410,000	31,410,000	31,871,340	461,340
<b>7</b>	<b>Total ESLA 2017</b>	<b>3,752,568,517</b>	<b>3,444,269,264</b>	<b>3,555,375,921</b>	<b>111,106,657</b>

Source: GRA, NPA, ECG, NEDCO, MoF

#### **4.4 Collections and Distribution for the Year 2017**

For the 2017 financial year, a total amount of GH¢2,862.81 million was lodged into the ESLA accounts of total collections of GH¢3,155.48 million. The disbursement and utilization amounted to GH¢2,422.70 million, the breakdown of which were as follows:

- GH¢181.76 million in debt recovery for TOR,
- GH¢47.0 million in downstream foreign exchange under-recoveries,
- GH¢919.03 million for the payment of power utility debts, and
- 21.73 million for premix and Residual Fuel Oil (RFO) subsidy.

In addition to these payments, GH¢905.3 million and GH¢23.73 million were transferred to the Road Fund and Energy Fund to support road maintenance and the activities of the Energy Commission respectively.

#### **4.5 Non-Transfer of PLL and NESL into PGISsA**

In consonance with the amendment to the Act, the reduction in the levies implies that the PLL and NESL collections would no longer be transferred into the Power Generation and Infrastructure Support sub-Account (PGISsA).

The PLL collections are to be paid to Electricity Distribution Companies (EDCs) to cover the cost of providing public lighting,



as well as to the Ministry Responsible for power to support investments into and the maintenance of traffic lights, street lights, public lights and highways.

The NESL collections on the other hand are to be transferred into the National Electrification Fund to support the National Electrification Programme to improve access to electricity.

#### **4.6 Underperformance of the Levies**

The Committee noted that both actual collections and lodgments were below target by GH¢403.63 million (11.0%) and GH¢95.81 million (3.0%) respectively.

The Committee sought to know the cause(s) of the below target performance and the following reasons were given as the ***reasons for the shortfall in actual collections:***

- A weaker demand for petroleum products on the domestic market resulting from a more stable power supply in 2017 compared to the same period in 2016
- Change in consumer attitude towards energy conservation
- Gradual shift towards the consumption of renewable energy such as solar, and
- Lower than programmed recovery of electricity bills

The shortfall in total lodgments was however explained as having been caused mainly by two factors:

- GRA retention on the Road Fund and Energy Fund Levy collections, and
- Cash in transit whose lodgment fell into 2018.

Details of the performance of the Energy Sector Levies for the year ending 31<sup>st</sup> December 2017 are presented in the table below:

**Table 2: Performance of the ESLs for the year 2017 (GH¢'million)**

No.	Levy	Programmed	Actual Collection	Lodgment	Programmed -Actual	Actual-Lodgment	%Actual-Lodgment
1	EDRL	1,358.05	1,293.03	1,293.03	65.02	0.00	0.00
2	PSRL	415.34	345.31	345.92	70.03	(0.60)	0.00
3	PLL	228.97	179.71	179.71	49.27	0.00	0.00
4	NESL	189.71	151.08	151.08	38.63	0.00	0.00
5	RFL	1,331.42	1,151.96	1,058.11	179.47	93.84	0.08
6	EFL	31.87	30.65	28.08	1.22	2.57	0.08
7	<b>Total</b>	<b>3,555.38</b>	<b>3,151.74</b>	<b>3,055.93</b>	<b>403.63</b>	<b>95.81</b>	<b>0.03</b>

Source: Ministry of Finance

#### **4.7 E.S.L.A Plc and Issuance of Energy Bond**

The Ministry of Finance in October 2017 sponsored the establishment of E.S.L.A Plc, a Special Purpose Vehicle (SPV) to issue Cedi-denominated medium to long term amortizing bonds on the back of the Energy Debt Recovery Levy (EDRL) receivables within the ESLA to repay legacy debts of up to GH¢10.00 billion.

The first tranche of GH¢4,783.97 million was issued under a programme consisting of bonds with tenures of 7 and 10 years. At the close of the books, the 7-year bond was said to have been fully subscribed and successfully issued GH¢2,408.60 million, priced at a rate of 19.0%. The 10-year bond on the other hand raised GH¢2,375.35 million, priced at a rate of 19.5%.

#### **4.8 Reduction in SOE Indebtedness**

The Committee was informed that the utilization of ESLA proceeds together with the issuance of the Energy Bond has resulted in a reduction of the liabilities of the State Owned Enterprises in the Energy Sector by over 40.0% at the end of 2017. Out of a total legacy debt of GH¢9,393,512,841.22, an amount of GH¢3,960,636,357.75 was said to have been paid as at 31<sup>st</sup> December, 2017.

The Committee observed that though the total energy sector indebtedness of the country may effectively remain the same, what the E.S.L.A. arrangement does is to give a reprieve to the energy sector and the creditor financial institutions to enable them function more efficiently.

#### **4.9 Ensuring Financial Viability of Energy Sector SOEs**

The Committee noted that that the payment of the legacy liabilities of SOEs operating in the Energy Sector is not a sufficient approach to solving the challenges confronting the sector.

As to what was being done to ensure the sustainable viability of these organizations, the Committee was informed that a vigorous restructuring exercise of the SOEs is currently ongoing to return these institutions to a path of profitability and operational viability. The restructuring exercise of the SOEs was said to include the implementation of a cash waterfall

mechanism and a monitoring regime to ensure that the entities do not lapse into the same debt ridden trap in the future.

#### **4.10 Excess Lodgment into the EDSA**

The Committee observed that even though actual collection in respect of the Energy Debt Service Account amounted to GH¢413.77, yet a higher amount of GH¢438.89 million was lodged into that Account for the period. As to how the lodgment exceeded the actual collection, it was explained to the Committee that this happened because there were funds carried over from the previous period.

#### **4.11 Lower lodgments into the Infrastructure Support Sub-Account**

The Committee's scrutiny revealed that an amount of GH¢940.09 million was actually collected in respect of the Power Generation and Infrastructure Support sub-Account (PGISsA) for the year 2017. However, only GH¢687.47 million was actually lodged into that sub-Account.

To this, officials from the Ministry of Finance explained to the Committee that this was partly due to the phenomenon of collection agencies not lodging the funds in time. Again, the collections were said to be made into a centralized account before lodgments are made into the various accounts hence the time-lag usually experienced between collections and lodgments.

The Committee admonished the Ministry of Finance to ensure that prompt transfers are made into the established accounts to ensure that the legacy debts are paid off so that the ESLA Plc does not have to borrow (issue more bonds) and pay interests thereon.

In light of the above, the Committee requests the Ministry of Finance to transfer forthwith, all untransferred amounts from the collection account to the various established accounts for the purposes thereof.

#### **4.12 Current VRA Debt Status**

The Committee was informed that the total indebtedness of the Volta River Authority (VRA) as at 31<sup>st</sup> December, 2017 stood at the equivalent of US\$1.2 billion. This amount was said to exclude the about GH¢2.05 billion paid out through the E.S.L.A. Plc bonds arrangement.

#### **4.13 Cash waterfall Arrangement**

The Committee was informed that Government is in the process of implementing a cash waterfall arrangement under which all revenue from the energy sector would be lodged into a single account. Out of this account, Independent Power Producers (IPPs) would be paid before distributing the remaining amounts to the SOEs in the sector.

#### **4.14 ESLA Plc Charges**

The Committee enquired to know how much ESLA plc charges the government. To this, the Committee was informed that the Company charges 0.2% of net collections (after deductions of lawyers' fees, stock exchange listing fees) as its administrative fee.

#### **4.15 Irregular Payments from the PSRA**

Section 5(2) of Act 899 (as amended) requires that moneys in the Price Stabilization and Recovery Account (PSRA) shall be used:

- (a) As a buffer for under recoveries in the petroleum sector
- (b) To stabilize petroleum prices for consumers; and
- (c) To subsidize premix and residual fuel oil.

The Committee however noted with concern that an amount of GH¢121.89 million was drawn from the PSRA into the Power Generation and Infrastructure Support sub-Account (PGISsA) to meet payments to VRA's trade creditors with the promise that the amount would be refunded into the PSRA when funds accrue into the PGISsA.

The Committee observed that the withdrawal is not in accordance with Section 5(2) of Act 899 and hence admonishes the Ministry of Finance to ensure that the amount is promptly refunded when proceeds accrue into the PGISsA.

#### **4.16 ECG's Indebtedness**

As to how much ECG owed its creditors, the Committee was informed by officials of ECG that the company's total indebtedness as at 31<sup>st</sup> December 2017 stood at GH¢2.9 billion. This includes an amount of GH¢1.2 billion owed to Sinon Asogli, GH¢690 million owed to GRIDCo and GH¢500 million owed to Bui Power Authority. The rest of the debt was said to be owed to VRA, Karpower and some Independent Power Producers.

#### **4.17 GRIDCO's Liabilities**

The Committee was informed that at the end of 2017, GRIDCo's total outstanding liabilities amounted to about GH¢700 million and that this amount was owed principally to PURC, VRA and other Suppliers.

#### **4.18 Suspension of the Price Stabilization Levy**

Pursuant to Section 5(1) of the energy Sector Levies Act, 2015 (Act 899), the Minister for Finance is obliged to *"cause to be opened and maintained an account to be known as the Price Stabilisation and Recovery Account for the purpose of receiving moneys realised from the Price Stabilisation and Recovery Levy"*.

It however came to the attention of the Committee that the National Petroleum Authority (NPA) had allegedly written to suspend the Price Stabilisation Levy.

Asked if that was so, officials of the National Petroleum Authority (NPA) answered in the affirmative and explained that they took authority from the Economic Management Team (EMT) to implement that 'temporary measure' to reduce the price stabilization levy in order to normalize the pricing regime.

The Committee notes that the Minister for Finance is mandatorily required by the law to open a PSRA and to receive into it the Price Stabilisation and Recovery Levy. It would therefore be outside the remit of the law for the NPA to write to cancel or suspend the Levy without an amendment to the law.

The Committee therefore advises the Ministry of Finance to take steps to properly seek an amendment to the law in order to implement any intended variation(s) to the levies in future.

#### **4.19 Road Fund Borrowings**

The Committee observed that in the year 2016, the Road Fund contracted a loan of GH¢1.2 billion from UBA Bank at an interest rate of 31.9%.

Due to the high interest rate of the facility, the financial operations of the Fund became seriously challenged.

In accordance with the 2017 recommendations of the Finance Committee, the loan has been refinanced with another facility from GCB Bank and Fidelity Bank at an interest rate of 22%. Also, the refinancing loan comes with a longer tenure of 3 years instead of the 2-year tenure of the old UBA facility, thus allowing



the Road Fund some space to undertake road maintenance since monthly loan repayments are much lower now.

#### **4.20 Renewable Energy**

The Committee observed that pursuant to Act 541, the Energy Fund has been established for the promotion of energy efficiency, renewable energy and the administrative cost of the Energy Commission.

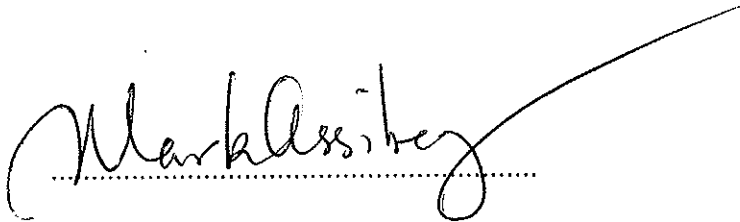
The Energy Commission's *Rooftop Solar Programme (RSP)* has been put in place to provide off-grid electricity to households. To date, about 1000 units have been approved and installed for beneficiaries with another 1000 applications still being processed.

Officials of the Energy Commission intimated to the Committee that the RSP has targeted to approve and install a total of 200,000 solar units to various beneficiary households, especially those in rural areas. They further explained that the Energy Commission is shifting attention of the RSP to rural areas since electricity supply from the national grid in the cities has currently been stabilized.

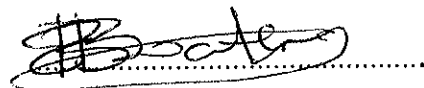
## **5.0 CONCLUSION**

The Committee recommends to the House, in view of the foregoing observations, to adopt this Report and approve the **Annual Report on the Management of the Energy Sector Levies and Accounts for the year 2017** in accordance with Section 6 of the Energy Sector Levies Act, 2015 (Act 899) as amended.

Respectfully Submitted.



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



**MS. EVELYN BREFO-BOATENG**  
**(CLERK, FINANCE COMMITTEE)**

10<sup>TH</sup> MAY, 2018