

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



REPORT OF THE FINANCE COMMITTEE

ON THE

*GOVERNMENT CONSENT AND SUPPORT AGREEMENT (GCSA) BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF GHANA AND JACOBSEN JELCO
GHANA LIMITED RELATING TO A 360 MW COMBINED CYCLE DUAL FUEL
POWER PLANT FACILITY AT ABOADZE*

AND

*GCSA DEED OF ACKNOWLEDGEMENT AND CONSENT AGREEMENT
BETWEEN THE GOVERNMENT OF THE REPUBLIC OF GHANA, JACOBSEN
JELCO GHANA LIMITED AND EKSPORTKREDIT NORGE (AS LENDERS AGENT)
RELATING TO A 360 MW COMBINED CYCLE DUAL FUEL POWER PLANT
FACILITY AT ABOADZE*

DECEMBER 2014

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GHANA*

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JACOBSEN JELCO GHANA LIMITED AND EKSPORTKREDIT NORGE
(AS LENDERS AGENT) RELATING TO A 360
MW COMBINED CYCLE DUAL FUEL POWER PLANT FACILITY AT
ABOADZE**

1.0 INTRODUCTION

The Government Consent and Support Agreement (GCSA) between the Government of the Republic of Ghana and Jacobsen Jelco Ghana Limited relating to a 360 MW Combined Cycle Dual Fuel Power Plant at Aboadze and GCSA Deed of Acknowledgement and Consent Agreement between the Government of the Republic of Ghana, Jacobsen Jelco Ghana Limited and Eksportskredit Norge (as Lenders Agent) relating to a 360 MW Combined Cycle Dual Fuel Power Plant at Aboadze were presented to Parliament on behalf of the Minister for Energy by the Hon. Deputy Minister of Energy and Petroleum, Mr. John Abdulai Jinapor on Thursday, 27th November, 2014 and referred to the Finance Committee

for consideration and report in accordance with Article 181(1), (2) and (5) of the 1992 Constitution and Order 169 of the Standing Orders of the Parliament of Ghana.

Pursuant to the referral, the Committee met with the Hon Minister of Energy and Petroleum, Mr. Emmanuel Armah Kofi Buah, the Hon. Deputy Minister of Finance, Mr. Cassiel Ato Baah Forson and Officials of the Ministries of Energy & Petroleum and Finance and the Electricity Company of Ghana and considered the referral.

The Committee is grateful to the Hon. Ministers and officials of the two Ministries and the Electricity Company of Ghana for the assistance.

2.0 REFERENCE

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

- The 1992 Constitution of Ghana; and
- The Standing Orders of the Parliament of Ghana;

3.0 BACKGROUND

As part of the Government policy thrust to increase the installed capacity of the country's electricity generation from the current 2,000 MW to about 5,000 MW by 2016, Electricity Company of Ghana (ECG) and Jacobsen in December, 2014 executed a power Purchase Agreement (PPA) under which Jacobsen agreed to supply ECG with 360MW of electrical power and energy under a 25-year term. As part of the PPA arrangement Jacobsen requested for government support as a form of guarantee to back-up ECG payments since one of the key challenges facing the development of private power plants in Ghana is bankability. The GCSA and GCSA Deed of Acknowledgement and Consent Agreement and Power Purchase Agreement are therefore needed to give comfort to financial institutions to support IPPs in Ghana.

4.0 **THE PROJECT**

The project involves the development, ownership, operation and management of a 360 MW Combined Cycle Dual Fuel Plant to be located near Aboadze in the Western Region of Ghana. The project will be financed through a mixture of equity and shareholder loan of 15% and debt 85%.

5.0 **PROJECT COST**

The total estimated cost for the Engineering, Procurement and Construction (EPC) for the 360 MW Combined Cycle Dual Fuel Plant is US\$ 637.4 million. The breakdown is as follows:

Description	Cost (US\$)
Engineering Procurement & Construction Contract	- 501.8
Land Purchase	- 4.0
Insurance	- 5.4
Development Cost	- 20.0
Development Fee	- 18.0
Financing Fee	- 66.5
Commitment and Interest During Construction	- 19.7
Legal Fee	- 1.1
Independent Engineers	- 0.8
Total Capital Cost	- 637.4

6.0 **GOG OBLIGATIONS**

As part of its support for the project, the Government of Ghana undertakes to guarantee;

- Currency availability, transferability, convertibility and offshore transactions subject to Ghanaian regulatory and legal requirements;
- Not to place restrictions on the repatriation of profits;
- ECG payment obligations;
- Not to change laws (to ensure no better or worse situation);
- An assurance for the granting of permits on time if all requirements are met;

- An assurance of payment for delays caused by GoG entities on condition that Jacobsen has met all legal requirements;
- Protection of the investment against discriminatory action and expropriation; and
- To waive off all taxes related to the project.

7.0 **OBSERVATIONS**

7.1 *The Need for Government Support*

Justifying the need for government support, the Hon. Minister for Energy and Petroleum stated that due to the capital intensive nature of power projects, Government support is required in order to attract private sector investment into the sector. He stressed that government does not assume any direct liabilities under the agreement but undertakes to assume the payment obligations of ECG should ECG default and the default was not cured. The Minister added that in order that this does not happen easily, a payment security arrangement has been provided for in the PPA. The value of the security to be provided by ECG as per the PPA is US\$ 20 million. The Minister explained that the objective of the security is to give the project investors and their lenders sufficient comfort that their investments will be reasonably protected. The Minister further indicated that in the absence of such arrangements, government would have to fund the provision of power generation facilities from its limited budgetary allocations.

7.2 *Contingent Liabilities on Government*

Responding to the level of contingent liability on government with regards to the project, the Deputy Minister of Finance explained to the Committee that under the Agreement ECG undertakes to take delivery and pay for the power to be produced. To ensure the availability of funds to pay for power produced at all time, a bank guarantee revolving fund will be established into which ECG will deposit US\$20 million equivalent to three months of operating income as guarantee. The guarantee account will serve as collateral to indemnify ECG's indebtedness to Jacobsen in case of default. Government will assume the payment obligations of ECG only if it defaults in making funds available in the security account. Again, the agreement makes provision for government to pay for the cost of the project in

case there is the need to terminate the implementation of the project at any time through no fault of the developer.

7.3 *Tariffs*

The Deputy Minister of Finance informed the Committee that the Public Utilities and Regulatory Commission upon a thorough assessment of the financing structure of the operator granted Jacobsen Jelco Ghana Limited two tariff regimes based on the type of fuel use at any given time. The two regimes are as follows:

Type of fuel used	Approved Tariff
1. Natural Gas	11 cents/kwh
2. Liquefied Crude Oil (LCO)	15 cents/kwh

He explained to the Committee that these figures were arrived at using a reference price of US\$100.00 / per barrel for LCO and US\$10.50 for Natural Gas. The Deputy Minister however, indicated that the tariffs are likely to fall further following the reduction of international price of crude and natural gas. The Deputy Minister further added that PURC was able to negotiate a relatively lower tariff for Jacobsen because their source of credit is relatively cheaper. Jacobsen, it was noted is being financed by the Norwegian Government through an export credit facility which is relatively cheaper.

7.4 *Deed of Acknowledgement*

The Minister explained to the Committee that the Deed of Acknowledgement allows the lenders the first right to take over and execute the project when project company defaults in execution. The purpose of this is to give the lender the comfort and assurance that the project will be completed.

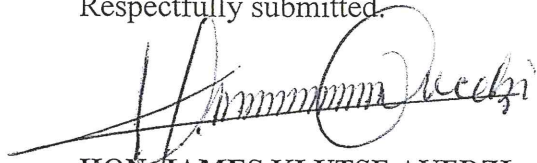
8.0 CONCLUSION

The Committee upon a thorough examination of the Agreement is of the view that, the project when completed has the capacity to increase the country's installed capacity by 13%. Again, the project when completed will make it possible to supply electric power to Ghanaians and help address the perennial power shortages in the country.

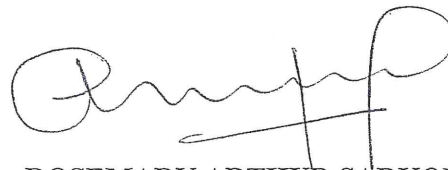
The Committee therefore recommends to the House to adopt its report and approve in accordance with Article 174(2) of the 1992 Constitution, the following:

1. **Request for the Government Consent and Support Agreement (GCSA) between the Government of the Republic of Ghana and Jacobsen Jelco Ghana Limited relating to a 360 MW Combined Cycle Dual Fuel Power Plant Facility at Aboadze; and**
2. **GCSA Deed of Acknowledgement and Consent Agreement between the Government of the Republic of Ghana, and Jacobsen Jelco Ghana Limited and Eksportkredit Norge (as Lenders Agent) relating to a 360 MW Combined Cycle Dual Fuel Power Plant Facility at Aboadze.**

Respectfully submitted.



HON. JAMES KLUTSE AVEDZI
(CHAIRMAN, FINANCE COMMITTEE)



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

December, 2014