

Government of Ghana and Cenpower Agree Gas Supply Agreement to Secure Cost Savings of up to \$3.0 billion

- Cenpower agrees to switch to natural gas as primary fuel, committing itself to using Ghana's abundant natural resources.
- The conversion to natural gas by Cenpower, which will provide cost savings of approximately \$3.0 billion, demonstrates significant momentum in this administration's implementation of the Energy Sector Recovery Programme (ESRP).
- Government of Ghana calls on all Independent Power Producers to emulate Cenpower and CENIT in advancing solutions to ensure the long term sustainability of the energy sector.

Accra, Wednesday 7 October 2020

This week, Cenpower Generation Company Limited (Cenpower) has committed to switching its primary fuel from light crude oil (LCO) to natural gas and signed a gas supply agreement (GSA) with the Ghana National Petroleum Corporation (GNPC). Gas operations are expected to begin by the end of this week.

Government welcomes this significant milestone and commitment from Cenpower. The GSA is a key part of the proposal put forward by Government during negotiations with Cenpower and will deliver substantial cost savings, estimated at \$3.0 billion over the remaining term of the Cenpower PPA. Furthermore, conversion to natural gas will have important environmental benefits, as emissions will be lowered and Ghana's abundant natural gas resources effectively utilised for the benefit of the Ghanaian people and business community. Additionally, the move to natural gas will alleviate the considerable pressure on Government from its take-or-pay commitments with fuel suppliers and allow for the substitution of imported fuels with locally available natural gas, thus positively impacting the capital account.

Cenpower is a major power producer in Ghana, providing approximately 10% of Ghana's total electricity generation. This project is an excellent example of the public and private sectors working together in Ghana to attract private investment while ensuring sustainable development.

Presently, Ghana pays over US\$500 million a year for unused electricity. Most of the power PPAs are legacy agreements, entered into under the previous administration in an uncoordinated and short-sighted attempt to end *dumsor*. The tariffs agreed were not competitive and have contributed significantly to the build-up of debt in the sector and oversupply of energy.

This Government, in collaboration with the World Bank, established the Energy Sector Recovery Programme (ESRP), identifying the policies and actions needed for financial recovery in the energy sector over a five-year horizon (2019-2023). As part of these reforms, Government is taking steps to institute competitive bidding for future additional capacity, so as to ensure that future tariffs are fair and in line with expected pricing benchmarks.

Government has demonstrated its commitment to the ESRP by actively developing whole-of-sector initiatives and reforms, including implementation of the Cash Waterfall Mechanism (CWM) in April 2020, which allows tariff revenues of the Electricity Company of Ghana (ECG) to be distributed in a more transparent manner. As well, Government is managing payment of energy sector arrears, despite the challenging fiscal situation, which has been exacerbated by the COVID-19 pandemic.

The Government negotiating team, established under the Energy Sector Recovery Task Force (ESRTF), which is helmed by the Senior Minister, is working bilaterally with independent power producers (IPPs) and gas suppliers (GSs) under the ESRP Consultation Process, to secure more favourable agreements for both parties and achieve a balanced energy sector capable of delivering fair, long-term energy partnerships and solutions. Government has undertaken these discussions in good faith and urges all

IPPs to continue working closely with the Government negotiating team to conclude negotiations as soon as possible. In September, Government successfully secured terms for an amended PPA with CENIT Power Limited.

As part of the ESRP Consultation Process, Government has also directly engaged IPP lenders in negotiations, offering to refinance outstanding facilities at a discount through a designated Energy Fund. Clearly, lenders have a crucial role to play in alleviating the debilitating financial strain on Government – arising from the onerous and unbalanced legacy energy sector contracts – by renegotiating on terms that provide significant tariff reductions. Globally, financial institutions are having to reconsider their positions in light of the impact of the COVID-19 pandemic and its devastating impact on national economies, including triggering defaults and credit downgrades. Government urges lenders to take a sensible and pragmatic approach and urgently consider the refinancing proposals in order to conclude negotiations as quickly as possible.

The Hon. Minister for Finance, Ken Ofori-Atta said:

“We welcome Cenpower’s commitment to Ghana and recognize Cenpower’s conversion to gas as a significant step in helping regenerate Ghana’s energy sector.

In recent weeks, there has been increased momentum under the ESRP Consultation Process towards resolving some extremely challenging legacy issues inherited from the previous administration.

We encourage all other IPPs to engage constructively with the Government negotiating team to conclude negotiations as soon as possible. IPPs have a vested interest and a significant role to play in providing a stable energy supply as well as ensuring a fair, balanced and sustainable energy sector for the people of Ghana.

As ever, this Government is committed to building a competitive and dynamic energy sector, where private investments can thrive and the interests of the Ghanaian people and businesses continue to flourish.”

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