Executive summary

Ghana’s economic growth momentum is likely to be sustained, with energy expected to drive such growth. The proper utilisation of natural gas for energy generation to augment the power sector is critical for the country. In a workshop organised through a joint effort by IMANI Centre for Policy and Education (IMANI, Ghana) and Fondazione Eni Enrico Mattei (FEEM, Italy) key stakeholders in Ghana were brought together to discuss natural gas price formation and the implications for industrial development and inclusive growth. This was based on the findings of a research report produced by IMANI and FEEM. Key amongst the findings was that, while the average delivered cost of gas in Ghana is $ 6.55/mmbtu, the average sales price is $8.55/mmbtu to power producers, resulting in significant downstream rents in excess of $2/mmbtu. Participants shared their perspectives in relation to the absence of clarity in the gas sector’s regulation and pricing, the high price of ENI gas that comes into the mix of cheaper gas from TEN & Jubilee, government’s deliberate intervention to nominate a single shipper to move gas across the sector and the need for an intelligent incentive drive to incite commensurate private sector investment in the gas sector. The declining demand for electricity, the need for a critical review of the current situation of demand-supply dynamics as well as the issue of institutional pluralism in the gas sector were also discussed. Policy action points shared by participants generally centered on regulatory alignment in the gas sector, rationalisation of non-payment of the power sector utilities for gas supplied and reduction in gas prices for industrial drive and socio-economic growth and development of Ghana.

Introduction

Ghana is seen as amongst the few sub-Saharan countries projected to experience a real annual GDP growth of over 7% in the medium term. This expected growth can be achieved provided there is stable power supply to act as catalyst. The power sector which predominantly depends on hydro-energy is however, challenged. Notwithstanding, the delimitation of the maritime boundary has allowed the discovery of natural gas which can be used to complement the power sector for stable supply of electricity to boost economic activities and growth. Natural gas has thus, become a significant contributor to Ghana’s socio-economic development. In this respect, the pricing of natural gas, how it permeates into the energy mix and its translations into tariffs for industries, commercial and residential users are important issues in relation to development for Ghana.

As part of its immense contributions towards Ghana’s energy sector, IMANI Centre for Policy and Education (IMANI) in collaboration with Fondazione Eni Enrico Mattei (FEEM) organised a workshop on natural gas price formation and the implications for industrial development and inclusive growth in Ghana on the 21st of January, 2019. The workshop brought together key officials in government agencies working within the energy sector, ministries, companies and civil society organisations that have a stake in Ghana’s energy sector.

Objectives of the event

The set of objectives for the workshop are as follows:
To facilitate a deeper understanding on natural gas utilisation and gas pricing for broad-based development synergy and inclusive growth;
To examine and understand the gas policy environment vis-à-vis the policy loopholes; and
To ultimately initiate relevant policy action points for substantial reforms in the gas sector to drive development.

Highlights of key presentation

The workshop saw the launch of the report on “Natural Gas Price Formation in Ghana: Implications for Industrial Development and Inclusive Growth” prepared through a joint effort by IMANI and FEEM. This report was presented by both Dr. Theophilus Acheampong (IMANI Senior Research Fellow) and Prof. Manfred Hafner (FEEM Senior Research Fellow). Dr. Acheampong spoke on the policy environment of the gas sector by focusing on the political economy around gas pricing, and an adopted analytical framework which was used to determine the price make-up of gas resources. Prof. Manfred discussed gas pricing methodology, placing emphasis on Oil Price Escalation (OPE), Gas-On-Gas Competition (GOG), Bilateral Monopoly (BIM), Netback from Final Product (NET), Regulation: Cost of Service (RCS), Regulation: Social and Political (RSP), Regulation: Below-Cost (RBC) and No Price (NP). The findings of the report also provided an impetus to the discussion of the recurrent debt or non-payment issues of power utilities in Ghana and the implications on the long term viability of the gas sector. One specific finding of the research was that, while the average delivered cost of gas in Ghana is $6.55/mmbtu, the average sales price is $8.55/mmbtu to power producers, resulting in significant downstream rents in excess of $2/mmbtu.

Key issues during discussions

During the discussion session, Mr. Bentil (IMANI Senior Vice President) largely centered his perspective on the absence of clarity in the gas sector’s regulation and pricing which need to be addressed. Both Dr. Theophilus Acheampong (IMANI Senior Research Fellow) and Prof. Manfred Hafner (FEEM Senior Research Fellow) made their contributions in respect of clearing bottlenecks that tend to thwart effective and efficient utilisation of natural gas domestically, in order to give room for exportation of oil. Key amongst their proposals were the reduction in the prices of gas which will help lower electricity tariffs, addressing issues of information asymmetry on pricing through publications of rules on price determination, and intelligent incentive drive to incite commensurate private sector investment in the gas sector.

Making his contributions to the discussion, Mr. George Amoako Adjei (Director of Commercial Operations for Ghana Gas) commented on the role of Ghana Gas in the gas value chain and justified the pricing methodology used by PURC. He reiterated that:

“........PURC has changed the pricing methodology about eight months ago to the Adjusted Weighted Cost of gas at the rate of $7.29/mmbtu.......The reason for the change in pricing methodology is to allow a cost-spread of the expensive ENI gas to the lower cost level of other gas resources from Jubilee, TEN and other sources in order to allow for a fall in price".
He then argued that a review of the high price of ENI gas, which comes into the mix of cheaper gas from TEN, Jubilee and others, against the backdrop of government’s deliberate interventions to nominate a single shipper to move gas across the sector is very essential.

Dr. Isaac Doku (Director, Commercial Service of the Volta River Authority) commented on the declining consumption of electricity, and called for a critical review of the current demand-supply dynamics, with the anticipation that a reduction in gas prices will trigger positive multiplier effects on the power sector to help achieve the projected economic growth. He was very emphatic on the need to reduce electricity tariffs. He tacitly stated that:

“...............so much gas has to be shifted from ENI, somebody will have to be displaced. We’ve got cheap gas that is sitting there, and that can also be thrown into the mix ...... so as to bring the prices down. But here we are, saddled with the gas from ENI, so we still cannot bring the price of electricity down. This is an issue that needs to be addressed.........”

In a direct response to the gas pricing regime, Dr. Nii Darko Asante (Technical Director of Energy Commission) reiterated the government’s current effort in updating the gas pricing policy which was approved by cabinet in 2012. He revealed that the shift of gas pricing regime from Import Parity Pricing to the Weighted Average Cost will be characterised by quarterly reviews. This mechanism will help the appropriate pricing of gas based on time periods for gas flows. He also justified why Ghana does not embrace the RBC pricing approach, despite its predominant use in Africa. He clearly avowed that:

“In Ghana, we don’t have Regulation: Prices Below Cost [RBC]. That was a very deliberate policy we took, that we didn’t want to create the problems we have in the power sector within the gas sector. If we put ourselves in a position where the government of the day will be faced with the prospects of increasing prices, the likelihood that there will rather be the tendency to introduce a subsidy will have been very high. This is because, price shock is something no government will have wanted”.

Mr. Hasson Nawab (Advisor-Ministry of Energy and Petroleum) revealed that despite upstream levies having serious implications on gas delivery in the Ghana, there is not much room for reviewing and bringing the levies down as they feature significantly in government’s budgeting processes. In terms of pricing mechanisms, he added that Ghana as a natural gas producing country is not ready for Gas-On-Gas Competition (GOG) which is a pricing mechanism predominantly used in North America, and increasingly gaining popularity in Europe. Mr. Hassan Tampuli (Chief Executive Officer, National Petroleum Commission) commented on institutional pluralism in terms of regulatory roles that exist in the gas sector, and the need for a re-look to ensure institutional and regulatory alignment, moving into the future.

Sharing his perspective, Dr. Steve Manteaw, the Chairman of the Public Interest and Accountability Committee (PIAC) opined that, there should be regulatory alignment such that institutions including Petroleum Commission, Energy Commission and others could be brought under one umbrella. He further stressed on the need to ensure clarity in relation to the start and end points of upstream and downstream sectors to ensure uniformity in actions by gas institutions in the country.
Summary take home points

Moving forward, the key policy action points shared by participants centered on the need for:
- Regulatory alignments in the gas sector;
- Rationalisation of non-payments of the power sector utilities for the supply of gas resources; and
- Reduction in gas prices to fuel industrialisation and socio-economic growth and development.

Social media analytics

GhanaWeb
https://www.ghanaweb.com/GhanaHomePage/NewsArchive/Government-needs-to-revise-gas-prices-
regularize-gas-sector-Policy-Analysts-716990

JOY FM

Ghana News Agency
http://www.ghananewsagency.org/economics/ghana-needs-to-reduce-the-price-of-gas-to-aid-
industrialisation--144334

Class FM Online
https://www.classfmonline.com/1.12180047

Adom Online
https://www.adomonline.com/ghana-news/tariff-on-gas-to-go-up-from-march/

The Ghanaian Times

BestNewsGH
industrialisation/

Peace FM

Modern Ghana
industrialisation.html

Reporting Oil and Gas
http://www.reportingoilandgas.org/36892-2/

The Independent Ghana

The Finder

YOUTUBE
GhanaWeb: Ghana lacks clarity on gas pricing and regulation – Kofi Bentil (IMANI – FEEM Gas workshop)
https://www.youtube.com/watch?v=CvhfdYIMTu4

NewsWireGH: Natural gas is crucial to Ghana’s economy, needs better pricing strategy
https://youtu.be/gBSiBB-mmRg
REDUCE KILLER GAS PRICE
To lower electricity tariffs and fuel industrialisation

TUC condemns politicisation of journalist’s murder

Roads Ministry disburses GH₵3.58bn, but still owes GH₵3.94bn

John Kumah courts Indian investors

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**Social media metrics**

#GasPrice #IMANIReport

- **FACEBOOK**

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**NB:** Organic Reach – the total number of people who were shown IMANI’s posts on their timelines without boosting (unpaid distribution)

- **TWITTER**

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**NB:** Impressions – the number of people who viewed our tweets. Engagements – the number of people who interacted with our tweets
Photo gallery
Economic context: Ghana’s growth momentum likely to be sustained

Real GDP growth recovered to 8.5% in 2017, 6.2% in 2018 after three years of sluggish growth (power on-off – a.k.a. dumsor)

- Growth underpinned by improving fundamentals – inflation, fiscal balances, stable currency
- Increasing demand for natural resources – oil sector growth
- Rapid urbanisation, increasing service sector activity and domestic demand
- Energy needed to catalyse this growth: 10% y/y demand growth for power

Ghana vs. Venice Region’s Average

Source: IMF, World Economic Outlook, Oct 2018