



ACEP'S COMMENTS ON THE AMERI RENEGOTIATED CONTRACT

27th July, 2018

The Africa Centre for Energy Policy (ACEP) takes notice of the Novation and Amendments to the AMERI contract presented to parliament for ratification. The AMERI contract has been on the public radar for the past three years for an obvious position that the contract was overpriced, depriving the Ghanaian public value for money in a \$510 million deal. The commitment of the current government was to renegotiate the contract to bring relief to the public through the electricity tariffs. Sadly, the proposed amendment to the contract appears more burdensome than the existing contract.

Status of the existing contract

The first year of the contract was fully paid for by the NDC government before it exited power. This translates to \$102 million, which is the full value of the required payments for the 250MW plant at an availability rating of 90%.

The AMERI Company presented invoice to the tune of \$151.66 million to the NPP government between February 2017 and June 2018. Out of this amount, \$69million has been paid by the NPP government, leaving an outstanding balance of \$82.66 million. An invoice to the tune of \$8.5 million shall be due and submitted to government by 31st July, 2018. This will bring the total outstanding invoiced amount to \$91.16 million.

It is important to mention that the total settlement to date (under both NDC and NPP government) therefore is about \$171 million. Under the \$510 million contract, government has about two and half years left to own the 250MW plant, conditioned on the payment of the outstanding balance of \$339million.

Agreed settlement terms for Novation and Amendment of the AMERI contract

Government, in the proposed amendment, commits to pay \$39 million of the \$91.16 million outstanding amount for the executed part of the original AMERI contract, which will bring direct government payments to AMERI to \$210million. The new company, Mytilineos International Trading Company Ltd, has pledged to settle part of government's outstanding indebtedness, the sum of \$52 million to AMERI. In exchange the existing AMERI contract is

novated to Mytilineos with amendments for a new tenure of 15 years. This means that \$300 million is the liability assumed by Mytilineos in return for the 15 years deal.

What does Mytilineos Get in return

For the 15 years deal Mytilineos will be paid \$75 million every year. This will amount to \$1.125 billion over the period. This translates to \$825 million gains to the company in exchange for the assumption of the government's \$300 million outstanding liability under the existing AMERI contract.

What does AMERI lose?

Nothing. The Ministry of Energy insisted, in agreement with public opinion, that AMERI was making \$150 million under the original contract which it did not deserve for just playing a middle man role. The Committee established by the Ministry recommended that the agreement be renegotiated or abrogated if AMERI fails to negotiate to save Ghana money. However, the new agreement does not in any way suggest that AMERI would not make the \$150 million from Ghanaians. Mytilineos has agreed to settle AMERI's interest under the proposed amendment. In fact AMERI has communicated to the public that it has divested its interest. This means that the savings anticipated by the Minister's committee will not be made. As evidence, the full entitlement to AMERI for the executed period of the existing contract will be paid by government (\$47.5 million) and Mytilineos (\$52 million) under the proposed amendment. It is safe to say that this is influencing the high cost of the new deal because Mytilineos will have to cover the full cost of the outstanding contract with AMERI and the upfront payment of \$52million to AMERI on behalf of Ghana.

METKA in transition to Mytilineos

METKA, which is the EPC contractor to AMERI, is owned by the same person who owns Mytilineos – the contractor under the proposed amendment. Under the original AMERI contract, METKA was entitled to \$72 million for five years as the EPC contractor to AMERI. For this amount METKA wholly financed and delivered the plant, and was supposed to manage the plant for five years. Now METKA has brought in a sister company to take over the AMERI contract at \$75 million for 15 years. This is even more than the 72 million under AMERI for 5 years. What this means is that METKA's entitlement in the AMERI deal is prolonged for 13 more years.

Government's claim of \$405.06 million savings under the proposed amendment to the existing AMERI contract.

Government tagged as savings the difference between the original tariff of 14.5918 cents/KWh under the existing contract and the new tariff of 11.7125 cents/KWh under the proposed amendment. This computation is not reflective of the true savings to the State of the renegotiated deal.

This is because government’s renegotiation ought to be in relation to capacity charges component of the tariff only. ACEP’s analysis of the data in the Minister’s memo to parliament reveals that, government’s renegotiation would lead to a reduction in capacity charges by 1.8201 cents/kWh (the difference between 5.6253 cents/kWh of capacity charges in the existing contract and 3.8052 cents/kWh of capacity charges in the proposed amendment). But this would be the savings for the remaining 2.5 years of the existing contract, translating to \$89.69 million. From 2020, government would pay \$937.5 million for 12.5 years at 3.8052 cents/kWh under the proposed amendment as against savings of \$89.69 million over the remaining 2.5 years under the existing agreement. Overall, the government will incur cost of \$937.5 million under the proposed amendment. Government’s calculation of alleged savings of **\$405.06 Million** based on the 2.8793 cents/kWh savings on tariff is therefore inaccurate and misleading.

Conclusion

The existing AMERI contract that was seen to be very expensive at 510 million cashflow over 5 years, was expected to be renegotiated to achieve better terms for the country. But from ACEP’s analysis, the proposed amendment to the AMERI agreement brings greater cost to government than the existing deal. The total cash flow for the renegotiated deal is 1,125,007,380. Given that half of the AMERI contract has been executed government would be paying a total of \$1.375 billion for the AMERI power plant over approximately 18 years instead of the original \$510 million.

We have discounted the number in the annex table which shows that discounted or not the renegotiated contract is not better than the original contract.

Annexes

Item	Cashflow	Discounted
Unexecuted part (2.5 years) of the AMERI Contract	\$255 million	\$209 million
New 15 years Deal with Mytilineos	\$1.125 Billion	\$587 million
Savings for the first 2.5 of the Mytilineos contract	\$89.7 million	\$73.6 million
Cost to Ghana for the next 12.5 year of the Mytilineos contract	\$937 million	\$587 million