

09<sup>th</sup> September 2024.

**“CONCERNS OVER THE PROPOSED MERGER OF THE VOLTA RIVER AUTHORITY (VRA),  
BUI POWER AUTHORITY, ECG, AND NEDCO: URGENT NEED FOR GOVERNMENT TO  
RECONSIDER MERGER BILLS”**

The Institute for Energy Security (IES) have taken note of the recent draft bill proposing the merger of the Volta River Authority (VRA) with Bui Power Authority, the combination of the Electricity Company of Ghana (ECG) with the Northern Electricity Distribution Company (NEDCo), and the establishment of an independent Thermal Power Authority.

The IES' attention has also been drawn to media publication of stories reflecting significant opposition by the VRA staff and the Ghanaian government regarding the proposed restructuring of key institutions in the energy sector. The IES glean from the publications that the VRA staff view the potential merger and privatization of assets as detrimental to the organization, the country's energy security, and the affordability of electricity.

The IES finds the VRA staff group's opposition justifiable in several respects. First, they raise concerns about the long-term financial stability of VRA, particularly if profitable parts of the organization like the thermal assets are privatized. Second, they argue that VRA's ability to generate diverse sources of power (hydro, thermal, and renewable) is essential to national energy security and restricting it could weaken its role. Third, the staff claim that VRA's support for NEDCo ensures consistent electricity supply to underserved regions, and disrupting this support may have social and economic repercussions. Lastly, the staff feel excluded from key decisions, raising suspicions that these reforms might prioritize private interests over the nation's welfare.

After careful analysis of the concerns raised by the staff group, we find their opposition to be both valid and critical to the future of Ghana's energy security and affordability. In IES' assessment, the proposed bill presents significant risks to the stability of Ghana's power sector, and to VRA's operational and financial health, especially regarding the separation of its thermal assets.

Below are the key concerns and recommendations:

***Key Concerns***

1. To the extent that the allocation of hydro-generated power is determined by the Electricity Market Oversight Panel (EMOP), VRA's flexibility in managing its customer base and financial health is restricted to exclude bilateral customers like the mines and the export market. Selling primarily to ECG and VALCO, both of which have delayed payments, could exacerbate VRA's liquidity problems, as it would have limited options for recovering outstanding debts. Payment delays reduce VRA's cash flow, making it difficult to invest in maintenance or expand operations, and increase its reliance on external borrowing, which could weaken its long-term sustainability.

2. The staff groups have raised concerns that separating the thermal power assets of VRA from its hydro asset may lead to the gradual privatization of these critical assets. We support this concern, as thermal power generation forms a key pillar of VRA's revenue. It is the revenue from unregulated thermal power sales that helps augment and stabilize cash flow for the VRA. If the proposed bill removes thermal assets from VRA's control, it could jeopardize the organization's financial viability, as it would lose a significant revenue stream.
3. The Cash Waterfall Mechanism (CWM) is designed to ensure equitable distribution of revenue across the power sector. However, VRA receives a paltry 30% of what it is owed from power sales to ECG under the cash waterfall mechanism month-on-month. This represents a major threat to VRA's liquidity, as it would be receiving less cash than needed to maintain operations and service its debts. If these liquidity challenges persist, VRA could face operational difficulties.
4. VRA has highlighted that ECG and VALCO owe millions of dollars in unpaid bills, which exacerbates VRA's liquidity challenges. With the current CWM generating a backlog of revenue entitlement to the VRA, this non-payment threatens the sustainability of the entire organization. The merger of ECG with NEDCo, without addressing these financial shortcomings, could make matters worse.
5. In the context of the government owing independent power producers (IPPs) over US\$2 billion, the financial health of an independent Thermal Power Authority is far from guaranteed. The creation of an independent Thermal Power Authority could exacerbate the existing financial burden on the government if it inherits the same capacity charge obligations. This could lead to strained relationships with IPPs and, in turn, compromise power reliability if the IPPs cut off supply due to non-payment.

### ***Recommendations***

1. We urge the government to conduct extensive engagement with all relevant stakeholders, including VRA staff, and industry experts, to ensure that the proposed changes are thoroughly vetted and understood by all parties. Transparent dialogue is essential to avoid potential pitfalls that could harm the sector, but rather ensure that the best interests of the nation are prioritized.
2. VRA should retain control over its thermal power plants. These plants are crucial to VRA's financial health and their removal would severely compromise the authority's operational sustainability. We urge the government to reconsider the creation of an independent Thermal Power Authority.
3. The government must urgently resolve the outstanding debt issues between VRA, ECG, and VALCO. These entities' failure to meet their payment obligations has created a severe liquidity crisis for VRA, and this



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must be corrected before any structural changes are made.

4. A thorough impact assessment should be conducted on the cost implications of merging VRA's hydro assets with Bui Power Authority. Any move that risks increasing electricity tariffs must be reconsidered in light of the economic challenges facing Ghanaians.

5. With the government currently owing independent power producers (IPPs) over US\$2 billion, it is critical to address this debt before creating any new energy authorities. The IPPs play a crucial role in maintaining power supply, and any shutdown threats due to non-payment could severely affect the reliability of Ghana's electricity supply.

6. It is imperative to encourage competition and innovation in the distribution sector. As a result, the ECG and NEDCo should be allowed to operate independently for purposes of quality service delivery.

While the proposed merger and restructuring of Ghana's power sector may have its proponents, we believe that the risks far outweigh the benefits in its current form. The focus should be on stabilizing and strengthening the existing institutions such as the VRA, Bui Power Authority, ECG, and NEDCo, rather than dismantling them. We urge the government to reconsider the bill and work towards solutions that preserve Ghana's energy security, affordability, and long-term sustainability.

Signed  
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