Jubail: declaration for independents

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Saudi's first independent power project (IPP) ? the $169 million project debt for the Jubail Energy Company cogeneration plant (otherwise known as the SADAF Cogen project) at the Al-Jubail petrochemicals complex ? closed on July 16 after commercial contract signing on July 9.

The deal has achieved a number of notable benchmarks: it is the first Saudi independent power project (IPP) to reach financial close and consequently the first Saudi IPP to be financed in the international markets on a limited recourse basis; it is also expected to be the first Saudi IPP to start commercial operations ? forecast start date is in the second quarter of 2005.

SADAF Cogen began in earnest in September 2000 when four consortia ? Enelpower, CMS Energy and National Power Company (NPC), Enron and Xenel Industries, and Mitsubishi Corporation ? put forward bids for the build-operate-transfer (BOT) project. CMS (25%) and NPC (75%) ? a joint venture between Al-Zamil Group and El Seif Group ? won the contract in April 2001 with their joint venture SPC Jubail Energy Company (JEC).

Under current Saudi law IPPs can only function as captives or sell to industrial zones. Consequently the project is necessarily an inside-the-fence deal for SADAF (a 50:50 joint venture between Shell Chemicals and Saudi Basic Industries Corporation (SABIC)). Saudi Aramco is fuelling the 250MW/510 tons/hour steam cogen plant with SADAF offtaking the entire electricity and steam output for its adjacent styrene monomer plant under a 20-year tolling agreement.

The extra power ? significantly cheaper than Saudi grid supply ? will boost styrene production by an additional 500,000 mt/y raising total styrene capacity to 1 million mt/y over the next few years. Siemens is EPC contractor on the project.

The deal has been dogged by global political events and heightened regional risk perception, notably at IBJ/Mizuho which originally supported the JEC bid. The project would not have been bankable with classic project insurance arrangements and necessitated SADAF using its commercial weight to bring down premiums with what is described as a ?bulk-buy? insurance package.

The swift close by lead arrangers Credit Agricole Indosuez (CAI) and local affiliate Banque Saudi Fransi ? just four months, and with only 15% of the structuring in place when they were mandated according to CAI ? has surprised the market. Saudi Aramco's BOT package of four cogeneration plants ? total output 800MW ? was widely tipped as the best bet for a template to IPP development in the kingdom. But Aramco has only just finished the initial bidding process with two final consortiums in the running ? International Power/Saudi Oger/Mitsui and Mitsubishi/Korea/Electric Power.

The JEC/SADAF Cogen loan is in three parts: a $152 million, 15.5-year term loan priced at 100bp over libor rising in steps in years six and 12 to 140bp; a $7.5 million standby facility for cost overruns at 110bp; and a $10 million bond. The original IBJ/Mizuho-backed deal incorporated a $60 million equity bridge loan, which has been replaced with $40 million equity direct from the sponsors.

The offering memorandum was circulated to five local and regional banks on May 15 with a reply deadline of July 11. Three of the five joined the lead arrangers: Arab National Bank, Riyad Bank (global security agent) and Apicorp.

The 15.5-year tenor is long given the deal is a Saudi first. But, two significant factors gave lenders comfort. First, the tolling contract with SADAF is for 100% offtake. Second, the 20-year term of the tolling contract provides a long tail to the debt ? 6 years-plus. Lenders also managed to secure step-in rights on the tolling agreement and, at the request of SADAF, the component of the termination payment available under the tolling contract that relates to outstanding senior debt is to be provided by way of a direct arrangement with SADAF.

Such arrangements, in many cases precedents in the kingdom, presented legal counsel ? Allen & Overy for the arrangers, Linklaters for the counterparty (SADAF), and Shearman & Sterling for the sponsors ? with numerous challenges.

For the first time much of the project documentation has been done under Saudi law, which allows for the assigning of lenders' rights to the project contracts, but does not allow lenders to register any security over physical assets.

Similarly, a security instrument usually required by lenders in limited recourse financings ? a share pledge from the project company ? was also impossible since shareholders of a Saudi limited liability company like JEC are not able to waive their pre-emptive rights with respect to the transfer or sale of shares. This issue was addressed through the creation of two intermediate shareholders between the project company and the sponsors ? one in Bahrain and another in the Cayman Islands.

JEC/SADAF Cogen is expected to be seen historically as the trailblazer that opened the Saudi IPP market.

That Saudi needs IPP development is certain: Saudi's total installed electricity capacity is around 19,000MW, not including power generated by 25 desalination plants. Of these, nine are dual system plants, which provide 3,214MW excess power per day. With electricity demand, growing at 3.8% annually, required output is expected to reach nearly 60,000MW by 2020.

That deals will become easier to structure ? implicit in Resolution 169 government reform in 1998 ? is less certain.

Jubail Energy Company
(SADAF Cogen)

Status: Closed 16 July 2003

Description: Limited recourse financing for first Saudi IPP

Sponsors: CMS; NPC

Counterparty: SADAF

Total project cost: $200 million

Project debt: $169 million

Lead arrangers: Credit Agricole Indosuez; Banque Saudi Fransi

Arrangers: Arab National Bank; Riyad Bank (global security agent); Apicorp

EPC contractor: Siemens

Sponsor counsel: Shearman & Sterling

Lender counsel: Allen & Overy

Counterparty counsel: Linklaters