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DEAL ANALYSIS: Qurrayah IPP

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ACWA Powers ability to win an independent power project in Saudi Arabia its own back yard is undisputed, but in winning its latest 3,927MW project, the largest IPP in the world, the ACWA Power-led consortium beat its rivals by a considerable distance. The scope of the project, which is essentially two IPPs in one, came about because ACWA Power had the wherewithal and audacity to submit a dual bid to the grantor, the Saudi Electricity Company. The bid blew all competitors out of the water and saved SEC the trouble of tendering a Qurayyah 2.

In November 2010, the SEC issued a request for proposals for a 2,000 MW gas-fired power plant at Qurayyah on the eastern coast of Saudi Arabia, next to existing SEC facilities. A consortium led by ACWA Power, including Samsung C&T and MENA Infrastructure Fund submitted a bid on 26 March that proved to be the lowest tariff by a margin of 15.6% under the second bidder. ACWA Power bid R0.07416 ($0.019 at current rates) per kWh opposed to the next best, Marubenis R0.085702 per kWh. The bid was a record benchmark for the GCC region and 45% cheaper than the $0.28 per kWh achieved by GDF Suez on Riyadh PP11, the last similarly sized gas-fired IPP in the country, from December 2009.The ACWA consortium was duly declared first ranked bidder on 1 June.

But the tariff compression didnt end there. The consortium also submitted an alternative proposal doubling the installed capacity to 3,927MW, with an even cheaper tariff of R0.07073 per kWh making the difference with the second ranked bidder 21%, which SEC accepted in August. It is likely that this tactic would only work in Saudi Arabia, which has a consistent pipeline of one 2,000MW deal per year. ACWA was able to take advantage of economies of scale and maintain the sponsors internal rate of return by obtaining cheaper construction pricing from Samsung

C&T, pooling spare parts, reducing operating costs and sharing the same seawater intake and outflow infrastructure.

The record tariff reflects highly competitive offers from the full project spectrum including Samsung C&T as contractor, Siemens as equipment provider, ACWA Power subsidiary NOMAC as operation and maintenance contractor, and strong bank appetite.

People say that we were able to bid such a low tariff because its in our backyard, says Pascal Martese, director, acquisition & project finance at ACWA Power. Yet the reality is that we were able to put together a package with a competitive EPC price, a tight O&M agreement and a very aggressive deal from an eclectic bank group. Commissioning of the plant is expected between 31 March and 30 June 2014 with operation scheduled to occur on the 30 June 2014.

The $2.795 billion project cost is met with a Murabaha equity bridge loan of $724 million and debt of $2.071 billion, on a 74:26 debt-to- equity ratio. The cheapest source of funding is the $548 million US Ex-Im direct tranche, followed by the $1 billion Islamic riyal tranche. Dollars and riyals are split 50/50 in the financing, the maximum the sponsor could go to allow hedging of the riyals. The involvement of the international banks is limited to around $200 million, with around $70 million of the $179 million uncovered tranche committed by local banks and international banks funding the $76 Kexim-covered tranche. KfW solely funded the $128.5 million Hermes-covered tranche. The Kexim payment guarantee covers 100% of payment obligations, while Hermes provides a comprehensive 95% insurance cover.

Although small, the uncovered tranche came in under the pricing benchmark set down by Shuweihat 3, with pricing starting at

160bp dropping to 145bp post-construction and ratcheting to 200bp. Other than the US Ex-Im and Hermes credit facilities which have a tenor of construction plus 14 years and are amortised on a linear basis, all facilities have a tenor of construction plus 19.5 years with a 15% balloon.

Says ACWAs Martese: The first big challenge for the financing was to get the three ECAs up to speed quickly, as none of them had committed to a comprehensive term sheet at bid stage.The negotiation with the agencies went on from July until October.

Hajr Electricity Production Company
Status: Signed 2 December 2011. First draw on equity bridge on 7 December 2011.
Total project cost: $2.795 billion
Description: Development of 3,927MW IPP in Saudi Arabia
Sponsors: ACWA Power (17.5%), Samsung C&T (17.5%), MENA Infrastructure Fund (15%), Saudi Electric Company (50%)
Mandated lead arrangers: Banque Saudi Fransi, National Commercial Bank, Standard Chartered, HSBC, Samba, Saudi Arab British Bank, Arab National Bank, SMBC and KfW
Equity bridge providers: Arab National Bank, Banque Saudi Fransi, National Commercial Bank, Samba Capital, Saudi British Bank, and Saudi Hollandi Bank.
Sponsor legal counsel: Chadbourne & Parke
Lender legal counsel: Allen & Overy
SEC legal counsel: Muhannad Al-Rasheed and Baker Botts
SEC financial adviser: Citi
SEC technical adviser: Fichtner
EPC Contractor: Samsung