

# Al Ezzel power plant

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When news broke that the Kingdom of Bahrain was looking to upgrade its dilapidated power sector, the industry sat up and paid attention. It has that effect when you start bandying around figures like US\$1.9bn, writes Ed Berry.

The rush was on to get in on the ground floor and lay the framework for future projects with the kingdom's first ever IPP project. And at the value of US\$490m, this project represents only a quarter of the work on the horizon.

The Bahrain government announced the project in July last year. But it was more than just a project, the Al Ezzel combined cycle power plant was to act as the benchmark for future investment, clearing the way for privatisation on a much wider scale.

In establishing the Al-Ezzel IPP, Bahrain followed in the footsteps of the faster developing Gulf states, becoming the fifth member of the Gulf Cooperation Council (GCC) to approve private power production.

The successful – and comfortably over-subscribed – signing of the financial documentation was achieved within four months of the preferred bidder being named, demonstrating the country's efficient approach to its first IPP.

An extra bonus to investors came with the government's willingness to enter into a long-term power purchase agreement (PPA). Its good sovereign credit rating and established legal framework also made Bahrain increasingly attractive to private investors in the power sector.

The 20 year tenor agreed for the plant, adds to the project's unique nature, representing the longest tenor achieved for a project finance deal in Bahrain. The government will also fast track the development of the project in order to meet the country's urgent need for additional power capacity.

Along with the growth in population and rapid urbanisation has come a vastly increasing demand for electricity. The long overdue reconstruction of the creaking power network comes at a time when the requirements of industry and the necessity for domestic air conditioning have led to an average annual growth in power demand of 7 per cent.

This continued growth has led the government to estimate that the country will require a new power plant every two or three years. The 950MW Al Ezzel plant will cover one third of the country's power consumption – for now.

The construction of the plant near the capital city heralds the start of the Bahraini Ministry of Electricity and Water's (MEW) four-year privatisation programme, putting an end to a difficult past when it lacked the necessary investment plans to keep up with its rapidly developing economy.

The combined cycle gas-turbine power plant will be built in the Hidd Industrial Estate on Musharaq Island, near the capital. The site is made up of two blocks of two gas turbines and one steam turbine. It is being constructed on reclaimed land 3km south of Bahrain's international airport. The plant also benefits from direct access to sea water for cooling and an easy access to gas supplies from nearby existing installations.

Al Ezzel is being specifically designed and constructed according to strict directives and local regulations in order to minimise the impact to the local population and the environment.

Commissioning of the plant is scheduled to for the winter period 2006/2007 and it is expected to produce 500 new jobs in the area.

Transaction

After an international tender procedure which saw five bidders shortlisted, the contract for the US\$490m project was awarded on a BOO basis to Suez-Tractebel and Gulf Investment Corporation (GIC) – operating under the trade name of Al Ezzel Power Company.

The consortium’s bid of US\$21.5/MWh was 16 per cent below the next lowest bid and was considered very competitive.

As lead sponsors, the consortium initially owned 50 per cent of the project company. The syndicate was later expanded by a further nine participants who divided the US\$379m loan package evenly. In the near future, the project company may float up to 35 per cent of its shares on the Bahraini stock exchange.

Siemens Power Generation was contracted to carry out the engineering, procurement and construction work on the plant on a fixed-priced, turnkey basis.

There is an additional facility to provide the performance bond required under the PPA, with a total value of around US\$53m (20m Bahraini Dinars).This facility was provided by a local bank.

MEW signed the PPA for the offtake of 100 per cent of the plant’s output under a 20-year agreement, commencing 1 May 2007. During the early operational period – slated to start in April 2006 – the plant will deliver more than 470MW.

Gas will be supplied by BAPCO – the Bahraini state oil company – under a non-interruptible contract that is coterminous with the PPA, effectively isolating the project from BAPCO performance risk.

The consortium was named preferred bidder on 27 June 2004 and project close was reached on 22 November 2004.

The transaction demands were especially harsh given that negotiations were launched in July and carried on through the summer holiday period, Ramadan and the Eid holiday.

Project Name	Al Ezzel
Location	Hidd Industrial Estate, Marana, Kingdom of Bahrain
Description	First independent power project (IPP) - 950MW -to be developed in Bahrain on a BOO basis
Sponsors	Suez-Tractebel (Belgium) and Gulf Investment Corporation (Kuwait). Each party owns 50 per cent of the project
Operator	Al Ezzel Power Company
EPC Contractor	Siemens
Offtake	Electricity to be sold to the Ministry of Electricity and Water (100 per cent)
Gas supply	BAPCO
Total Project Value	185m Bahrain Dinars (US\$490m)
Total Debt	143m BD (US\$379m) Including a US\$7.5m standby overrun facility.
Total Equity	42.5m Bahrain Dinars (US\$112.7m)
Debt : Equity Ratio	77.3 : 22.7
Pricing	Not made public
Tenor	20 years
Initial Mandate Lead Arrangers	HSBC Bank Middle East US\$245m Société Générale US\$245m
Lead Arrangers	ANZ, ING, Mashreqbank, Royal Bank of Scotland, Bayerische Landesbank, Calyon, Gulf International Bank, Mizuho Corporate Bank. Standard Chartered
Participants	HSBC Bank Middle East, Société Générale, ANZ, ING, Mashreqbank, Royal Bank of Scotland, Bayerische Landesbank, Calyon, Gulf International Bank, Mizuho Corporate Bank Standard Chartered (US\$45.4m each)
Legal advisor to banks	Shearman & Sterling

Legal Advisor to Sponsors	Milbank Tweed
Legal Advisor to Sponsors (Local)	Hassan Radhi & Associates
Legal Advisor to Government	BNP Paribas
Legal Advisor to Government (Local)	Al Mahmood & Zu’bi
Consultant: Model Audit	Pannell Kerr Forster
Consultant: Technical Consultant	Stone & Webster
Consultant: Insurance Consultant	Millers Insurance Services
Date of Financial close	22 November 2004

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