

# Shuweihat 3 IPP

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The US\$1.5 billion Shuweihat 3 IPP project in Abu Dhabi is the emirate's first power-only IPP to reach financial close, securing US\$1.1 billion in project finance debt. Launched 14 months ago, it is the replacement project for the Shuweihat 3 IWPP, cancelled in 2009 during the desert-like liquidity of the credit crunched financial landscape.

Most interestingly, the deal is seen paving the path towards a financing of Abu Dhabi's first nuclear plant by South Korean development bank KEXIM, which is set to be built by KEPCO. Moreover, it is a significant project in terms of getting KEPCO and KEXIM exposure to the Abu Dhabi power landscape for the first time.

S3 was first put out to tender in February 2010 with international firms jumping at the chance to bid to build, operate and own a 40 per cent share in the 1,500MW gas-fired facility. A 25-year PPA offtake agreement was on offer from ADWEC, an affiliate of the project's promoter, the Abu Dhabi Water and Electricity Authority (ADWEA). ADWEA would retain 60 per cent ownership of the project.

ADWEA's ninth project is something of a departure for it, with all its previous eight projects being IWPPs. The project has also been developed against the backdrop of Abu Dhabi of the UAE developing a nuclear power programme, which under the current timetable should produce first power in 2017. This being the first project to be developed since nuclear has been set to become part of the mix has led to ADWEA to look at power and water differently.

This can be seen from the distinct mechanisms within the PPA to ensure that plant can be dispatched in the most flexible fashion. There is a so-called reserve shut down regime to essentially make the plant as flexible as possible within the tariff constraints. It's designed as a temporary mechanism so that if at any particular points there is less need for capacity the plant can be taken offline for a period of time and put into reserve shutdown mode.

Obviously, this being an ADWEA-led project, investors were eager to get on board. However, as tradition dictates bids all had to have an IRR specified of at least 13 per cent, making it difficult to hit that hurdle rate.

Like previous projects the contractual template is well known and well understood and allocates risks in a solid fashion. From a sponsor perspective there is no demand risk as such, as it is based around a capacity charge structure. The PPA is structured as an energy conversion agreement, therefore the primary fuel, natural gas, supplied by ADWEC, who is also the offtaker, means fuel risk is well mitigated. "There is a very strong sovereign credit risk backing the underlying payments in this deal," says energy partner at Ashurst, David Wadham, who worked on the deal.

15 bidders were pre-qualified in March 2010. Sources close to the deal agreed that ADWEA sought to diversify its roster of power producers away from its the previous sponsor consortia, GDF Suez, International Power, or Marubeni. Mitsui, for example, while unsuccessful, bid alone having agreed ahead of time to partner with Suez on Abu Dhabi's next planned IWPP, Taweelah C, due to be launched later in the year.

The final three bid teams were:

- International Power with Tepco - Bayern LB, SMBC – EPC: Toshiba
- Kepco with Sumitomo - Mizuho, BNP Paribas - EPC: Daewoo and Siemens
- Marubeni with Kansai and/or Osaka Gas - Standard Chartered, Crédit Agricole – EPC: Hyundai Heavy Industries

The KEPCO and Sumitomo joint venture came in 8.5 per cent cheaper than the highest tariff offered, from GDF Suez. Like Marubeni's proposal, was completely underwritten at the bid stage. The Marubeni-led consortium submitted a bid that came in just 1.5 per cent more expensive in the extremely competitive bid process.

ADWEA asked the teams to bid according to two different scenarios - option one, under which a separate operation and maintenance contract would be awarded to an O&M company set up by the sponsors; and option two, under which the project company would keep O&M in-house.

The first option was the main one used for evaluation, but the second option was considered in detail by ADWEA judges in light of the emirate's impending nuclear power plant, as it will make sense at that time to shut down Shuweihat 3 over the winter months, thereby saving on O&M costs for part of the year.

All bids offered a 1,600MW plant with the exception of the International Power and TEPCO consortium which offered 1,544MW.

The prices submitted were as follows:

- Sumitomo/KEPCO: early power 473MW; option 1, 12.865 fils/kWh; option 2, 13.486 fils/kWh
- Marubeni/Kansai/Osaka: early power 437MW; 13.058 fils/kWh (same price for both options)
- IP/TEPCO: early power 432MW; option 1, 13.437 fils/kWh; option 2, 13.486 fils/kWh

The winning consortium of Sumitomo Corporation and KEPCO was announced in October 2010 and the US\$360 million commercial debt portion for the winning consortium went to market in November 2010. The small but significant commercial piece came alongside direct lending from JBIC and KEXIM of US\$370 million apiece.

The bank group that was selected was as follows, with debt shared evenly among all parties:

- BNP Paribas (lead bank)
- Mizuho (lead bank)
- HSBC
- National Bank of Abu Dhabi
- Bank of Tokyo-Mitsubishi
- Samba
- SMBC

The debt is all senior with a 23 year full tenor, door-to-door – leaving a contracted tail of some four years after the loan reaches maturity. Pricing on the commercial tranche started at 175bps post-construction, rising to 250bps over the tenor period.

ADWEA was advised on the deal by law firm White & Case and HSBC on the financing side. Meanwhile, the sponsor consortium was advised by BNP Paribas and Sumitomo by Consilium. Herbert Smith was international legal counsel, with Trowers & Hamlin providing local counsel.

The project stands out because of its departure from ADWEA's IWPP model. Moreover, the involvement of KEXIM will likely be significant as time goes on and Abu Dhabi looks to potentially finance certain aspects of its nuclear programme. KEPCO has won the nuclear development programme, and KEXIM will undoubtedly play a significant role in its financing.

Therefore, in both the project specification and its financing, Shuweihat S3 is very much a project in the shadow of Abu Dhabi's nuclear plans.

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