

Dubai attracts lowest solar tariff, again

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A bid of less than \$0.03 per kWh for the up-to 800MW Mohammed bin Rashid al Maktoum solar project in Dubai could see the Emirate producing the world's cheapest solar electricity. Only 18 months after Dubai achieved the previous record, the GCC state is yet again setting a benchmark for global renewables.

Fotowatio Renewable Ventures (FRV), Masdar and Abdul Latif Jameel (ALJ) entered a bid of \$0.0299 per kWh, putting them significantly ahead of even the closest entrant. The result has left some of their competitors scratching their heads as to how they were able to offer such a low price.

"The tariff is significantly lower than us," one commented. "I'm not sure this is sustainable, it's too cheap".

Cost of financing

One developer suggested that grantor Dubai Electricity and Water Authority's (DEWA) request for proposals (RFP) allows bidders to make "very aggressive" assumptions as to the cost of financing the project.

But even after running analysis modelling their bid with significantly lower debt pricing assumptions, the bidder said they were still unable to achieve tariff pricing close to FRV, Masdar and ALJ's bid.

Added to which, French bank Natixis and Abu Dhabi's First Gulf Bank – who are supporting the lowest bidder, sources said – also offered similar debt pricing terms for some of the other bidders; which may suggest that the cost of finance is not the most significant driver of the low tariff price.

Besides, debt pricing in the Middle East region is edging upwards and shorter tenors are becoming more common. Pricing is being pushed up by a squeeze on local lenders as a result of lower oil prices, with long tenors becoming rarer.

[DEWA is allowing bidders to structure their offerings around mini-perm financings](#), IJGlobal revealed this week, as a response to a reduction in available long-term debt from regional lenders. The FRV consortium's bid involves a soft mini-perm structure, a senior banker involved in the process said.

Even cheaper panels

Cost of financing is one of the pieces that makes up the tariff price. But the costs of engineering, procurement and construction as well as operations and maintenance costs also play a large part in the overall tariff price.

"Capital expenditure has become ridiculously low and is driving lower tariff prices because of a glut of solar modules in the market," the banker commented. "This isn't helped by SunEdison's bankruptcy. Suppliers are stocking up on modules because they're lying idle in factories and there's an overcapacity in the supply market."

The bids are now under evaluation by DEWA and the preferred bidder should be announced within "a few weeks", a source involved in the procurement said. Two bidding consortia commented that they expect to receive clarification requests from 16 May 2016.

Regional rivalry

Another tender for 350MW of solar capacity at Sweihan in the UAE is being run at the same time by the [Abu Dhabi Electricity and Water Authority \(ADWEA\) with 34 companies prequalified in April this year](#).

Market participants had expected the Sweihan procurement to achieve lower pricing than the [\\$0.0598 bid by Acwa Power in November 2014](#) for the second stage of the Rashid al Maktoum project, for which the developer reached [financial close on in July 2015](#).

However the RFP for Sweihan has more stringent requirements around the cost of financing assumptions bidders can make, according to one source, which could drive tariff prices higher.

“Theoretically it should be cheaper because Abu Dhabi has a longer history in independent water producer and independent power producer procurement so it’s more attractive for developers and bankers,” a bidder in the tender said. “But I’m not sure we’re ready to price the tariffs at that level.”

The FRV consortium did not answer questions around the bid but stated that the group was one of a number of bidders to have submitted a proposal for the third phase of Mohammed bin Rashid Al Maktoum and that the technical and commercial proposals are being evaluated by DEWA.

The bids for the third phase of Mohammed bin Rashid Al Maktoum were:

- FRV, Masdar and ALJ: \$0.0299 per kWh
- Jinko Solar Holdings: \$0.0365 per kWh
- ACWA Power and First Solar: \$0.0395 per kWh
- Engie and Marubeni: \$0.04382 per kWh
- EdF Renovables and Nebras: \$0.044819 per kWh

KPMG and Norton Rose Fulbright are the financial adviser and legal adviser to DEWA, respectively. Fichtner is technical adviser to the grantor.

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