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A tale of two IPPs

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The first ranked bidder letter has been awarded to the Acwapower/Kepco team on the Rabigh IPP and there is a degree of confidence that the US$2.5bn scheme will be funded this summer. Fog still surrounds the Raz Al Zour IWPP project, with the government looking at an EPC alternative but now moving back to an IPP. By **Rod Morrison**.

The Acwapower/Kepco team has been made first ranked bidder on the 1,200MW oil-fired Rabigh independent power project (IPP). This means that the banks backing the competing International Power/Suez/Saudi Oger bid have been stood down and can now move to the Acwa bid. The Acwa bid was well ahead of the IP proposal when the bids went in late last year – 12.59 halalahs per kWh compared with 16.56 – but the IP teams believed it had stronger bank underwriting commitments, an obvious advantage in the current market.

The Acwa team has, nevertheless, been able to work up its financing and convince the client, Saudi Electric Company (SEC), and its adviser Citigroup that it has the necessary project financing in hand. The plan centres on a US$1bn Islamic tranche, US$900m of which has already been underwritten by Al Rajhi, Alinma and Samba. Two more banks are considering the facility, NCB and Saudi Fransi, and the amount could be increased. The tenor runs for 20 years with a balloon at the end taking it to closer to 24 years. Average pricing is around 250bp to 300bp.

There is a US$400m 24 year international bank tranche. This is 100% covered by KEIC. While KEIC's standing is less than other OECD export credit agencies (ECAs), the cover still provides capital weighting advantages to the banks. This tranche is being reviewed by some of the IP banks – Bayerische Landesbank, Calyon, SMBC and Standard Chartered. KEIC's involvement backs Kepco's equity involvement in the scheme and is not linked to equipment. Pricing has yet to be determined.

The final tranche is a new to the region, and to the project finance market in general, and its success or otherwise will be keenly watched. China Exim is providing a US$500m 24-year loan. Pricing has yet to be determined. The tranche is linked to the Shandong Electric Power Construction and Dongfang Electric Corporation construction joint venture picked for the scheme. The project will therefore test both Chinese equipment in the international projects market and China Exim – although Chinese equipment is regularly used in big deals in India.

The client is SEC. It is expected that the power purchase agreement (PPA) will be signed by the end of May and that financial close will follow in the summer at the end of July. SEC is providing a full guarantee on the project on payments and termination, but this will not be backed by the Ministry of Finance (MoF). SEC is currently rated AA–. If its rating falls below BBB, or the government holding in SEC drops below 51%, SEC will need to find a new BBB rated guarantor, which could be the MoF.

The issue of MoF guarantees on projects in the kingdom remains important, although it has been clouded of late by the general project funding problems. National Water Company (NWC) is seeking MoF cover on its water privatisation deals. Rumours suggest this was initially refused, although with the worsening credit conditions NWC and its adviser HSBC has asked again for the first scheme in the country-wide programme, the two Riyad wastewater schemes totalling US$1bn, which were due out to the developer market last summer.

Power utilities Marafiq and WEC are said to be moving back to full MoF guarantees as well. Marafiq has a second independent water and power project (IWPP) due to go out to developers shortly in a scaled-back version of the scheme that went out initially.

Water & Electricity Company (WEC) is, however, currently focused on finding a solution to its Ras Al-Zour problem. There are a series of rumours surrounding the scheme, which has suffered from the apparent withdrawal of Malakoff from the winning Sumitomo/Al Jomaih consortium. WEC and officials as high up as the Minister of Finance had been seriously considering stopping the IPP process on the scheme and reverting to a traditional EPC on the US$5.5bn project. But this could have been rejected back in favour of the IPP. This would mean either second ranked bidder Acwapower moving into the lead position or the scheme being retendered.

The government has been keen to see other companies come into the power market, given that Acwa has won all the projects up to now. Another rumour suggests that the Sumitomo team, and its attractive US$2.5bn JBIC financing, is still alive and will be given a six-month extension and a tariff increase. But this appears not to be the case. Ironically, the Sumitomo team had its debt financing in place, although that has now lapsed, but fell over on the equity returns its bid needed. Tariff increases are a sensitive subject across the Gulf IPP market at the moment and have been rumoured on all the schemes – whether by direct or indirect means.