Middle Eastern Power Deal of the Year 2013: Rabigh 2

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An ACWA Power-led consortium managed to close the financing for the Rabigh 2 independent power project by December 2013. This was despite the decision of the grantor, the Saudi Electric Company (SEC), to change the plants fuel source just days before the deal was originally due to sign in March 2013. Following SECs decision, the consortium convinced the state utility to shelve a proposed retendering process by offering the lowest ever tariff for an IPP in the countrys history.

ACWA Power, MENA Fund and Samsung C&T Corporation were initially named preferred bidders on Rabigh 2 in January 2013. Under the original procurement the sponsors were to build, own and operate a 2,060MW heavy fuel oil plant on the western coast of the country. SEC is to retain a 50% stake in project company Al Mourjan For Electricity Production and will be the sole offtaker from the plant under a 20-year power purchase agreement.

By March the sponsors had assembled a club of local and international lenders for a $2.4 billion debt financing and were preparing to highlight the record speed at which the deal had been put together. Then in early April, one day before invitations to the official signing ceremony were due to go out, SEC said that it was changing the fuel source to natural gas. Sources close to the Saudi Arabian market suggest that general government policy had shifted towards gas-fired power.

In September the grantor confirmed that the ACWA consortium would remain the preferred bidder. The consortium had won the HFO-based contract with a tariff of $0.0235 per kWh, a higher tariff than ACWA had offered on the countrys last IPP, Qurrayah, but ended up offering a record low $0.019 per kWh to win the gas-fired project.

I believe that SECs decision not to retender is largely due to timing, as a new tender process would have likely taken over a year, but the low tariff price certainly helped. We had to convince the offtaker that we were providing value and a certain level of comfort, the same as it would have had if it had chosen to re-tender, said Soudki Atassi, associate director of acquisitions and project finance, ACWA Power.

The MENA Fund dropped out of the project during the change-of-fuel negotiations, leaving ACWA holding 37.5% and Samsung 12.5% of the project company. Project costs dropped to $1.6 billion following the switch to gas, with the sponsors investing $375 million. The project company will sell all of Rabigh 2's output to SEC under a 20-year power purchase agreement. Construction of the plant is expected to take 3.5 years.

Banks provided all of the projects $1.2 billion debt financing. In addition to the debt financing, Banque Saudi Fransi, National Commercial Bank, Bank Al Bilad and Bank Al Jazira provided an

Al Mourjan for electricity production

STATUS

Signed December 2013

SIZE

$1.6 billion

DESCRIPTION

2,060MW gas-fired IPP located near Jeddah, Saudi Arabia

GRANTOR

Saudi Electric Company

SPONSORS

ACWA Power, Samsung, Saudi Electric Company (SEC)

DEBT

$1.2 billion

COMMERICAL LENDERS

Banque Saudi Fransi, Al Rajhi Bank, National Commercial Bank, Samba Financial Group, Alinma Bank, Standard Chartered, KfW-IPEX, Mizuho, Bank Al Bilad, Bank Al Jazira

GRANTORS FINANCIAL ADVISER

Citigroup

GRANTORS LEGAL COUNSEL

Baker Botts

COMMERCIAL SPONSORS LEGAL COUNSEL

Chadbourne & Parke

LENDERS LEGAL COUNSEL

Allen & Overy

LENDERS ENGINEER

Leidos Engineering LLC

LENDERS INSURANCE ADVISOR

INDECS

equity bridge loan, denominated in Saudi Riyals, which will be refinanced at completion. That piece is priced at 150bp above the Saudi interbank offered rate (Sibor).

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The main debt component has a tenor of 20 years and is split between riyal and US dollar tranches. Banque Saudi Fransi, National Commercial Bank and Samba Financial Group participated in an Istisna Ijara, while Al Rajhi Bank and Alinma Bank provided a Wakala Ijara facility. The two tranches, which together amount to the riyal equivalent of $924 million, have pricing beginning at 155bp over Sibor, rising to 200bp post-construction.

The dollar debt is priced at 190bp pre-construction, rising to 255bp over Libor. Mizuho Bank, KfW-IPEX, Samba and Standard Chartered Bank were the lenders on this $276 million piece. The sponsors have had to accept slightly higher pricing for all of the debt than they would have received for the oil-fired deal, and have reportedly also scrapped a more aggressive financing structure that would have seen the only 85% of the loan amortize over the life of a longer 25-year PPA.