The impacts of Acwa Power’s low tariff bids

Jon Whiteaker

12/05/2015

Saudi Arabia-based developer Acwa Power has again bid lowest in an open tender for a power project in the Middle East and Africa. This month, it offered the cheapest tariff for the Hassyan coal-fired project in Dubai.

Despite Acwa’s reputation as a low bidder, the sponsor still managed to shock the market in late 2014 when it offered under $0.06 per KWh for the second phase of Dubai Electricity and Water Authority’s (DEWA) Al Maktoum solar photovoltaic complex – or about two cents cheaper the cost of gas-fired power in the emirate. DEWA named an Acwa-led consortium as preferred bidder in January 2015.

In the past year, Acwa has also won contracts to build and operate a gas-fired project in Oman (Salalah 2), two new concentrated solar power (CSP) facilities in Morocco (Noor II & III) and a CSP project in South Africa (Redstone tower). It is also a favourite for the ongoing coal-fired power tenders in South Africa and Botswana, and is expected to be a strong contender for the upcoming procurements of the Fadhili combined heat and power project in Saudi Arabia, the Sohar/Ibri combined-cycle project in Oman, and the third phase of DEWA’s solar complex.

Acwa’s triumphs come at an opportune time: it intends to launch an initial public offering (IPO) later this year. An adviser, Banque Saudi Fransi, has been appointed for the share offering, but a firm launch date has yet to be set.

But rivals – and even some bankers – argue that Acwa is sacrificing returns to boost market share, and thus build its balance sheet.

Deconstructing the project model

Acwa stridently denies this allegation.

The sponsor contends that companies need to deliver returns to shareholders, and that it is not in grantors' interest to award 20-25-year concessions to an entity unable to turn a profit. This may be especially so in the Middle East, where several countries’ state-owned power companies – including those in Saudi Arabia, Kuwait, Oman, the UAE and Morocco – are both grantors and project stakeholders.

“The offtakers also share the asset ownership and the associated returns, and the procurement evaluation process ensures that those investment returns, which are also prescriptive in most cases, are deliverable," Rajit Nanda, chief investment officer at Acwa in the UAE told *IJGlobal*.

Michelle Davies, a partner at Eversheds in London, suggests that Acwa’s critics have taken “a naive view.” "What Acwa Power has done, as far as I can see, is to deconstruct the traditional project model, by utilising its expertise to identify risks it did not need to pay third parties to take on its behalf," she said.

Acwa is also thought to be preparing itself for the beginning of a major solar push in its home state of Saudi Arabia, which in 2010 set a target of 23,9000MW of renewables produced by 2020 and 54,000MW by 2032. The country's plans have stalled in recent years, with no projects procured to date, but its solar potential is enormous.

Acwa's tariff offered in Dubai could prove strategic: it may tempt the new Saudi rulers to reconsider the advantages of solar power.

Paradigm shift

Acwa is reticent to go into too much detail about how it structures bids, beyond citing a dedication to rigour and innovation. Nanda argues that multiple sponsors are bidding below-market power prices in the region; Acwa just happens to be at the forefront of this shift, he explained.

"The markets are showing signs of warming up and being receptive to the new paradigm," he said. "Acwa is just showing the way through its cost leadership in the sector."

Engie (formerly GDF Suez) has also continued to win deals regionally, winning more in fact to date than Acwa has in the increasingly active South African power market. Engie also recently bid almost a cent lower than Acwa for the Gulf of Suez wind project in Egypt. An Actis- and Mainstream Renewables-led group went even lower, proposing a price of $0.0396 per kWh, albeit through an alternative bid that strayed from the bid requirements.

Cost advantages

Global renewable power prices have fallen steeply recently, and solar has benefited from cheaper panel prices. Developers in the Middle East and Africa have responded with lower proposed tariffs for renewables projects, and even for conventional projects.

But the winners tend to be the same, which has made the market even more concentrated. Acwa and Engie have won the majority of MENA projects in recent years – and at a time of waning opportunity in the Middle East.

Both sponsors enjoy cheaper sources of capital than smaller developers. And both have been more successful than Japanese developers in the region, which share this advantage. An exception was Mitsubishi beating an Engie-led consortium for the 2,400MW Facility D project in Qatar earlier this year; Acwa had dropped out before the bidding stage.