

# AD FONTES – BACK TO SAUDI FOUNTAINS

THE CLOSING IN OCTOBER 2017 OF THE 250,000 M<sup>3</sup>/DAY SHUAIBAH SECOND EXPANSION IWP UNDER THE SAUDI WATER & ELECTRICITY COMPANY IWP/IWPP PROCUREMENT PROGRAMME OF THE KINGDOM OF SAUDI ARABIA BRINGS THE TOTAL COMMITTED DESALINATION CAPACITY OF THE SHUAIBAH COMPLEX TO APPROXIMATELY 1.3 MILLION CUBIC METRES PER DAY, MAKING THIS THE LARGEST PRIVATELY OWNED DESALINATION COMPLEX ON THE PLANET. **ANIL VIJAYACHANDRAN**, EXECUTIVE MANAGER, **ABDULLAH BADRUDDIN**, MANAGER OF **ACWA POWER'S** ACQUISITIONS AND PROJECT FINANCE GROUP, ALONG WITH **YASSER YAQUB**, LEGAL PROJECTS EXECUTIVE DIRECTOR – HEAD OF FINANCE OF **ACWA POWER'S** LEGAL PROJECTS, RECOUNT KEY ASPECTS OF THE DEAL.

In late 2016, on the basis of a projected supply shortfall in the Madinah Al Munawarah region starting from the Hajj season 2019, ACWA Power submitted a preliminary proposal to Water & Electricity Company (WEC) to rapidly mobilise and raise capital and leverage the synergies from its existing assets in the Shuaibah complex.

On the basis of an internal review that highlighted the difficulty of ensuring delivery of water by H1/2019 through a comprehensive competitive procurement process, WEC and Saline Water Conversion Corporation (SWCC) (the procurers) decided to initiate detailed discussions with ACWA Power. They engaged Synergy Consulting Inc, Clifford Chance and Fichtner (the advisers) for the proposed transaction, and in conjunction with the advisers, issued an RFP package that set out their requirements and modalities for submission of the proposal.

ACWA Power was awarded the project in late March 2017 on the basis of a value proposition that ensured:

- (i) Timely commissioning of the facility to deliver water by H1/2019 through the initiation of works using on-balance sheet funding even prior to signing of the water purchase agreement (WPA);
- (ii) Competitive tariffs through the utilisation of synergies arising from the nearby Shuaibah-3

**TABLE 1 - THE PROJECT**

	Description
Type:	Greenfield Independent Water Project
Location	120km South of Jeddah, next to Shuaibah Water & Electricity Company (SWEC) IWPP and inside Saline Water Conversion Corporation (SWCC) premises
Scope	25 year build, own and operate (BOO) concession
Capacity	250,000 m <sup>3</sup> /day (55 MIGD/day)
Technology	Reverse osmosis (dual pass)
Electricity	Procured by WEC
COD	May 2019
Total investment	US\$325m

IWPP and the sea water reverse osmosis (SWRO) expansion and procurement of the most innovative and cost-competitive engineering-procurement and construction (EPC) and financing solutions; and

(iii) Unmatched ability to deliver on time and within budget, and operational reliability as demonstrated through the largest privately owned desalination fleet in the region.

The WPA was signed with WEC in mid-June 2017, and financial close was achieved early in October 2017. The project was funded with commercial debt and equity with leverage of 85:15 and US\$275m of debt raised from a consortium of international commercial banks and – for the first time for a greenfield project and for a project with no South Korean content – South Korean insurance companies.

## About the project

The 250,000 m<sup>3</sup>/day desalination project is based on reverse osmosis technology and is designed as a standalone facility contiguous to ACWA Power's existing Shuaibah-3 IWPP project, with independent intake and outfall structures and interconnection infrastructure, bringing the total desalination capacity of the complex to approximately 1.3 million m<sup>3</sup>/day, making this the largest privately owned desalination complex on the planet.

The project has 10 trains optimised for (n-1) operational redundancy without standby trains, and has a double-pass design to allow for delivery of significantly higher quality water than is the norm for the region.

The project is designed to adhere to the most stringent environmental standards, including the IFC Performance Standard and EHS Guidelines, Equator Principles III and the KSA General Authority of Meteorology & Environmental (GAMEP) environmental standards.

## The sponsor in partnership with the procurer’s advisers conducted thorough due-diligence of the contractor’s capacity and status

With the objective of ensuring minimal impact on marine life, a detailed mapping of sea-bed flora was conducted prior to the start of works, translocation into a purpose-built “nursery” is ongoing and the overall design will ensure maximal new marine life colonisation post-completion of works.

### Contractual structure

This project demonstrates the viability of the offtaker, WEC, post-restructuring of the sector and public statements of intent by the government in regards to a proposed change in ownership for the entity. Furthermore, for the first time an IPP/IWPP/IWP project was offered and achieved financial close in the KSA without any state-owned/parastatal equity ownership, although there is an enabling mechanism in the documentation allowing for accession of such entities post-financial closing.

EPC services are provided by the Spanish/Italian consortium of Abengoa and Fisia on a lump-sum turnkey contract basis. This was the first non-recourse project financed transaction with international commercial banks involving Abengoa as part of a contracting

consortium post-Abengoa concluding its global restructuring exercise and having emerged from the bankruptcy crisis that dominated the international media in 2016/17.

The sponsors in partnership with the procurer’s advisers conducted thorough due-diligence of the contractor’s capacity, status of restructuring activities, and staffing plans, and evolved a comprehensive strategy to utilise the unparalleled experience of Abengoa with new-build SWRO desalination plants while also insulating the project from the associated potential risks. This included (i) the setting up of an onshore/offshore JV structure between Abengoa and Fisia with contractual arrangements, including bespoke arrangements with sub-contractors and suppliers, that ensure the technical and financial viability of the JV even in the worst-case scenarios as well as unprecedented levels of direct oversight over all EPC activities for the owner, and (ii) evolution of innovative milestone payment schemes that optimise for tariff while also allowing the JVs to minimise their unfunded liabilities and need for secured credit lines.

O&M services are provided by NOMAC, a subsidiary of ACWA Power, which already operates the largest desalination fleet in the world, approximately 3 million cubic metres per day. In addition, the land for the project is leased from SWCC, and the project will deliver water into SWCC’s potable water pipeline network in accordance with a water interconnection agreement. A snapshot of the contractual framework is provided in Figure 2.

FIGURE 1 - THE SITE

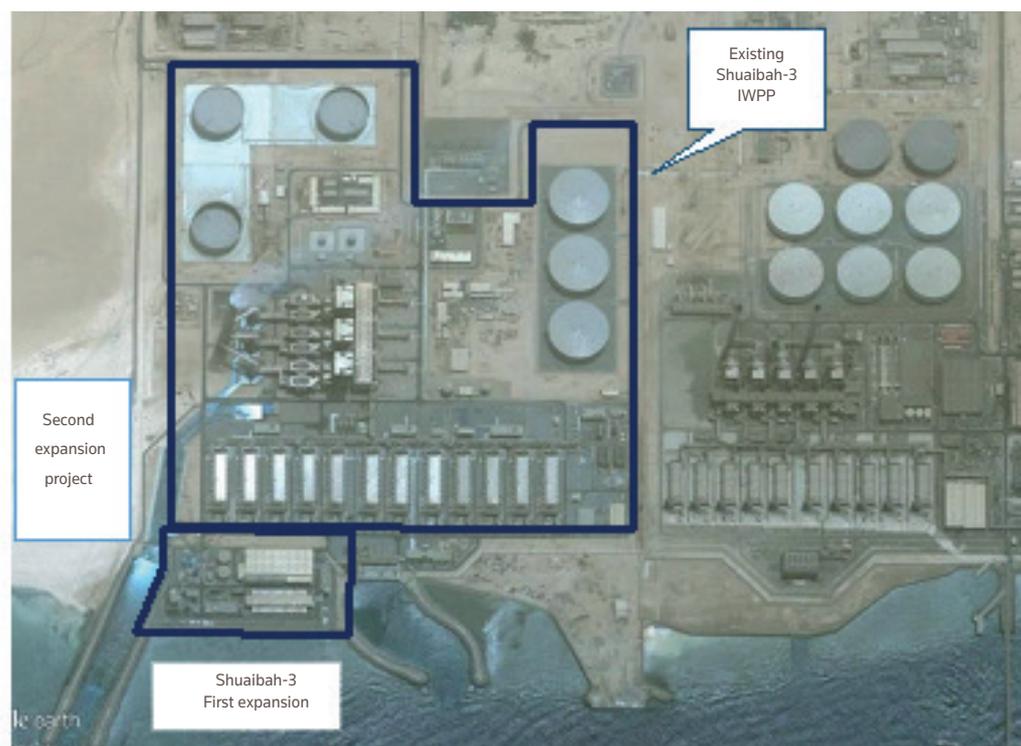
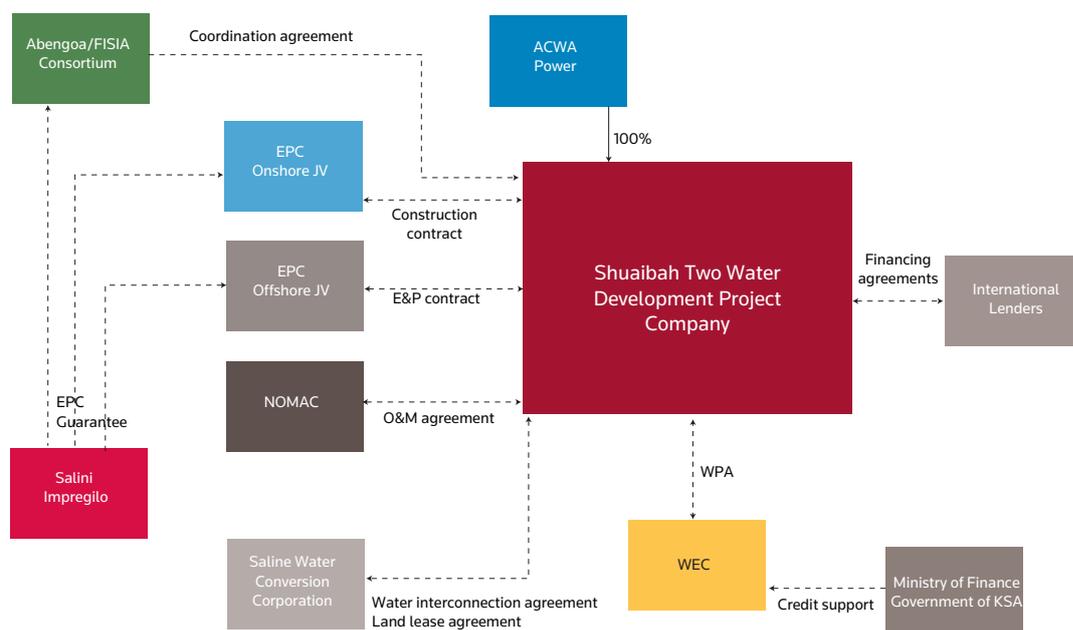


FIGURE 2 - PROJECT STRUCTURE



### Financing structure

The US\$325m project has US\$275m of debt raised from a mix of four international commercial banks and two South Korean life insurance providers. The financing comprises 100% uncovered, US dollar-denominated term loan facilities with both a fixed-rate tranche and a floating-rate tranche linked to Libor as well as a standby loan facility.

The floating-rate lenders include Standard Chartered Bank, Bank of Tokyo-Mitsubishi UFJ, Korea Development Bank and Natixis. The fixed-rate lenders are Samsung Life Insurance and KB Insurance from South Korea. The loan has a notional 25-year door-to-door tenor with a 10% balloon payment on scheduled maturity. The transaction demonstrates several firsts:

- A major IWP/IWPP project in the Kingdom of Saudi Arabia has been financed entirely by foreign/non-Saudi institutions;
- A major IPP/IWPP project has been financed in the Kingdom without any state-owned/parastatal equity shareholding at financial close;
- Substantial South Korean financial institutional participation for a project with no South Korean content or ownership; and
- South Korean insurance providers have

invested in a green-field project in the region with construction risk.

There was a significant element of education undertaken in getting the South Korean insurance providers comfortable with the greenfield risk, the proposed EPC and O&M contractors as well as with the overall risk allocation. This involved workshops and site visits and fixed-rate loan arranger Natixis played a significant role in getting them across the line for this project.

The competitiveness of the overall financing allowed for the project to be funded through long-term debt without any refinancing triggers, thereby ensuring the project has no exposure to financing risk over the entire term of concession.

The equity is funded through an equity bridge loan from Arab National Bank on highly competitive terms, with the flexibility for incoming equity investors to accede automatically into the facility.

WEC and SWCC have issued plans and hired advisers for the greenfield procurement of 2.6m to 3.2m m<sup>3</sup>/day of water and 3,000MW of power as well the privatisation of their installed capacity of 4.6m m<sup>3</sup>/day and 7,000MW over the next 12 to 24 months.

This project served as a proof-of-concept for the continuing viability of their concession package, which was last implemented in 2010. The interest evidenced by international and local commercial banks, the availability of new sources of liquidity and the strong interest from participants across the value chain – developers, contractors, advisers – all set the stage for what promises to be the beginning of a bright new era in the Saudi Arabian infrastructure story. ■

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