

Power plants drive new construction projects

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From Kuwait to Saudi Arabia, power plants are becoming the Gulf's new symbols of growth as the region's development focus shifts from soaring towers to infrastructure. The recent drought in project financing has left the Gulf's shores littered with the shells of half-built property developments, some of which may never be completed. GCC governments are now pushing the region's banks to direct lending to power and water projects instead, and have announced plans to award contracts for a flurry of developments in the sector.

Last week, Kuwait's electricity and water ministry said it planned to launch bidding rounds for 3.3 billion Kuwaiti dinars (Dh41.08bn) of electricity generation and water desalination projects by the end of next year. In all, five power plants are planned to add 6,700 megawatts (Mw) of generating capacity.

The state-owned Dubai Electricity and Water Authority said it would invest Dh13bn (US\$3.53bn) this year in new projects as part of a multi-year Dh75bn programme to increase Dubai's electricity and water supplies.

The moves reflect the greater direct and indirect role governments are expected to play in project financing to ensure that necessary infrastructure projects are not derailed, as private-sector lenders continue to be reluctant to advance credit.

As a result, the strategic importance of development projects is taking precedence over

their potential to generate quick profits in decisions on which projects move ahead.

“Governments are expected to replace the private sector as the leading entities to announce new mega-projects,” said a recent report by the Wharton School of the University of Pennsylvania on GCC investment. “The emphasis has shifted from real estate to human capital and infrastructure.”

After propping them up with liquidity injections, GCC governments have considerable influence with the banks. Where additional funds are needed from offshore lenders, government support for power projects could also boost confidence among credit providers.

Some key power-sector developments, including Bahrain’s \$1.6bn Al Dur electricity project, were close to securing financing, according to industry sources.

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Some Gulf states have also shown willingness to invest directly in their power sectors, at least as an interim measure.

Earlier this month, the Saudi government approved the creation of a state-owned enterprise to invest in power-generation projects in the kingdom. The Water and Electricity Holding Company will initially take over the 32 per cent stakes in three Saudi power and water projects currently held by a government-owned investment fund, but would build on those assets through commercial deals. As the investment climate improves, the new company could offer some or all of its shares to the public, said Abdullah al Shehri, the vice governor for regulatory affairs of the Saudi Electricity and Cogeneration Regulatory Authority.

In one of its highest-profile energy projects, the UAE is pressing ahead with plans to develop a fleet of nuclear power stations to meet a projected 9 per cent annual increase in electricity demand in the country over the next decade.

Emirates Nuclear Energy Corporation, the organisation running the nuclear implementation programme, recently began pre-qualifying teams of companies to bid on a contract to build the UAE’s first atomic power plant, setting a deadline of late this month for the submission of documents.

The potential consortium leaders, all suppliers of nuclear reactors, include France’s Areva, the US firms, Westinghouse and GE, Japan’s Toshiba, and Korea Electric Power Corporation.

The Ras al Khaimah Government, through its RAK Investment Authority, recently

bought into an Indonesian coal-mining project to provide fuel for a planned coal-fired power plant in the emirate.

Elsewhere in the Gulf, gas is the fuel of choice for most power projects, and that is spurring a surge of government investment in gas development.

Saudi Aramco, the Saudi national petroleum company, is accelerating the development of two recently discovered gasfields. It has included the Arabiyah-Hasbah development in its five-year plan for 2010-2014. Last month, Aramco said it would invest \$60bn in boosting the kingdom's gas-production capacity over the next five years.

Abu Dhabi National Oil Company is evaluating bids for a major project to boost gas production by integrating offshore and onshore gas developments, and is expected soon to announce a final decision on a plan to develop the Shah sour gasfield with the US company ConocoPhillips.

Beyond the Gulf, India, another power-hungry nation, last week announced the launch of its biggest auction of onshore and offshore oil and gas exploration licences. Its government, which expects to attract \$3bn in exploration commitments, is also accepting bids on projects to extract gas trapped in coal seams.

“The most effective antidote for the meltdown is the generation of economic activity,” said R S Pandey, the Indian government's petroleum secretary.