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### Saudi renewable energy program must show tangible progress to maintain investors' interest mergermarket

- First tenders possible in 2014
- Need for clarity on incentive program
- Huiyin Group, Wartsila Corp, Absolute Energy Capital and Adwan Group interested in investing

Saudi Arabia will have to push ahead with its renewable energy investment plans if wants to maintain traction with investors, according to sources.

Tangible progress such as the launch of tenders and clarity of the legal framework are necessary to maintain the interest of current foreign investors and to convince those as yet undecided whether to step in, Matthias Kittler, principal at German Cleantech advisory firm Apricum said.

Kittler felt that 2013 was a disappointing year. There were high expectations for the launch of a first "introductory tender" by King Abdullah City for Atomic and Renewable Energy (KA-CARE) in 2Q13, but to date no tender has been launched. KA-CARE announced an alternative energy development program that will see the installation of up to 54GW of renewable capacity in Saudi Arabia by 2032. Given the slow development in 2013, investors have started to shift their focus to other markets in the MENA region, such as Morocco, Jordan or Kuwait, Kittler commented.

Some foreign companies, including the German players **Belectric**, **Conergy** and **Phoenix Solar** and the American **First Solar**, are already present in the country together with some local firms such as **ACWA Power**. Others are ready to invest but not before having seen some tangible progress (e.g the launch of tenders and a clarification of the incentive scheme), Kittler said. He noted that interest in JVs and partnerships between foreign and local companies has been reported in the past and remains high.

Liquidity is widely available in the region and is ready to be deployed, especially if the government manages to set the rules of the game in the most transparent manner, thereby ensuring the business the highest degree of long term-stability / predictability. This would definitively boost the appetite and confidence of both local and international investors willing to put their capital to long-term use, according to Alberto Pisanti, CEO at UK investment firm **Absolute Energy Capital**.

#### Some positive signs

KA-CARE's program will offer opportunities for companies specializing in engineering, procurement and construction companies (EPCs) and Independent Power Producers (IPPs), according to a company source. The organization is committed and the first project will be tendered "very soon," he added, but declined to elaborate further.

At the end of December, KA-CARE launched the Saudi Renewable Resource Atlas, a renewable energy resource dataset showing the country's solar radiation, spectrum, wind speeds, humidity, and dust and atmospheric conditions. The Atlas will help developers of concentrated solar power (CSP) and photovoltaic (PV) plants.

Oil company **Saudi Aramco** has been promoting and developing its renewable energy strategy for some time and conditions seem right for the first implementation steps, such as the launch of tenders, Kittler said. Changes in the top management at **Saudi Electricity Company (SEC)** are expected to see a strategic shift towards renewable space, he added.

Ziad bin Mohammed Al-Shiha replaced Ali bin Saleh Al-Barrak as SEC's CEO at the beginning of January. Al-Shiha was previously VP of Saudi Aramco's Power Systems Group. Under his management, Saudi Aramco established the Renewable Energy Division to enter the solar and wind energy sector. Expectations are that Al-Shiha will very likely drive the growth of a renewable energy division within SEC.

## Challenges

Clarity of the legal framework and the incentive schemes is necessary to attract investors in the country, according to sector experts.

Pisanti believes that setting a clear and extended regulatory framework will allow the government to obtain more competitive offers on its tenders as a result of (i) the investors' ability to spread their investment costs over a longer period of time (e.g. 20-25 years) and (ii) their requirement for a smaller risk premium both on the debt and the equity tranches.

The power purchase agreement (PPA) incentive program or the feed-in tariff should be the two available options, he said. He believes PPAs will be used for the bigger plants that will eventually be put on offer for concession and tender, while the feed-in tariff model could be a good solution to facilitate the installation of smaller plants that would not justify a tendering process.

The private sector needs incentives since traditional energy is very cheap at present. Industrial companies and households would not buy expensive renewable energy when they have cheap and subsidized energy, an industry source commented.

Furthermore, according to experts, issues such as the required "local content" (e.g. utilization of local services and local employees) for the KA-CARE projects, the Islamic financing structure and the ownership of land (e.g. specific local rules for foreign ownership) increase the uncertainty for investors in the region.

The climate in Saudi Arabia can pose challenges renewable energy technology, as sand and high temperatures could reduce modules' performance, Pisanti said. However, he believes these challenges can be overcome and believes that the kingdom's strategy to develop the entire value chain is a step in the right direction.

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## Potential investors

The China-based **Huiyin Group** is scanning the Saudi market for cooperation opportunities, including joint ventures, a company source said.

“We have some business plans for the area and believe they are going to be successful,” the source noted before adding that “this is why we are looking for a Saudi partner.” The future and the success of the business depend also on the possibilities the local market will offer, he commented. The Group is interested in being part of a consortium for IPPs.

“We are interested in building our EPC capability in Saudi Arabia,” a company source at Finnish **Wartsila Corporation** also said. The company is interested in joining a consortium to bid for KA-CARE’s projects, he added.

"UK investment firm Absolute Energy Capital is very open to joint-venture partners in Saudi Arabia, to invest either in this region or abroad," said Pisanti. “We believe a JV to be the perfect cooperation model to combine our technical, operational and management experience on the one side, and capital on the other."

Pisanti said that the management of Absolute Energy met HSBC, Riyadh Bank as well as Samba and JP Morgan and added that they are open to working with any other financial institutions.

Saudi companies are also interested in investing. **Adwan Group**, a private Saudi company active in chemicals and construction, is exploring the renewable energy sector to see how to enter it, according to a company source. This could lead to a JV or even an acquisition of a renewable technology provider that will be used as a vehicle to bid for projects, he added.

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