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Saudi Renewables: Is the sleeping giant finally awakening?

On 1 June 2016, Saudi Electricity Company (“**SEC**”) invited expressions of interest from potential lead developers for the development of two 50MW solar photovoltaic (“**PV**”) Independent Power Plants (“**IPPs**”) in Al-Jouf and Rafha, Kingdom of Saudi Arabia, with their output to be sold to SEC under a long-term Power Purchase Agreement. These new IPPs are expected to attract unprecedented interest from global solar energy players, as well as established regional power developers. Is the Saudi renewables sector, for so long the sleeping giant in the renewable energy world, finally awakening?

History

For many years, as renewable energy projects were developing with increasing pace in North Africa and, more recently, in the Emirates of Abu Dhabi and Dubai, the global renewable energy industry wondered when the Kingdom, long considered the perfect natural setting for large-scale renewable energy projects, would finally embrace renewable energy and add it to its power generation mix.

In 2013, King Abdullah City for Atomic and Renewable Energy (“**KA Care**”) released its “white paper” for the competitive procurement of renewable energy projects and announced the Kingdom’s intention to install 54GW of renewable energy generation by 2032. Unfortunately, the progress of the renewable energy program in the Kingdom has been slow in the intervening years with the exception of some pilot and experimental renewable energy projects and two integrated solar combined cycle power plants (Waad Al Shamal ISCC and Doha 1 ISCC) with a third, the 3,780MW Taiba ISCC (also being procured on an EPC basis), currently in the bid phase. There are a number of possible explanations as to why the Kingdom has not moved forward with its renewable energy program—its lack of cost competitiveness against conventional power generation (which relies on heavily subsidized fuel prices) and the absence of a single Government entity being empowered to implement a renewable energy program, are two of the more commonly heard explanations.

Recent Developments

Saudi Vision 2030

In late April 2016, the Saudi Cabinet approved “Saudi Vision 2030,” which has been described as a wide-ranging privatization and economic reform program, aimed at repositioning the Saudi economy away from its dependence on oil export revenues and government spending. For the renewable energy sector, Saudi Vision 2030 offers encouragement to potential power developers and other renewable energy industry participants through:

- setting an “initial” target of 9.5GW of renewable energy to be installed in the Kingdom by 2023, although no specific quotas for solar and wind have been mentioned;
- establishing the “King Salman Renewable Energy Initiative” (which is also expected to be released imminently and we note that it is one of the initiatives of KA Care referred to in National Transformation Program 2020 (see

more below)) with legal and regulatory frameworks for the deployment of renewable energy and the involvement of the private sector;

- the establishment of a competitive renewable energy sector through the gradual liberalization of the fuels market; and
- the localizing of manufacturing and R&D in renewable energy.

National Transformation Program 2020

On 6 June 2016, the “National Transformation Program 2020” was approved by the Saudi Cabinet. The National Transformation Program 2020 has been developed to help fulfill Saudi Vision 2030 by establishing strategic objectives based on Saudi Vision 2030 and identifying the initiatives necessary for achieving specific interim targets in 2020. Significantly, KA Care has the responsibility for the following strategic objectives under the National Transformation Program 2020:

- enabling renewable energy to contribute to the national energy mix in the amount of 3.45GW by 2020; and
- increasing the local content in the industrial and service value chains and localization of expertise in the renewable energy sector (from 25% to 35%) by 2020;

KA Care will spend over SR5 billion on new initiatives over the next five fiscal years to help fulfill these strategic objectives and these new initiatives will include the launch of the “King Salman Renewable Energy Initiative,” localization of renewable energy technology to support the Kingdom’s power and water desalination sectors, development of necessary legislation and development and localization of industrial and service opportunities and support of private sector partnerships.

Establishment of the Ministry of Energy, Industry and Mineral Resources

Khalid Al-Falih has been appointed the Minister of Energy, Industry and Mineral Resources, which is potentially significant for the renewable energy program in the Kingdom as:

- the Ministry of Water and Electricity no longer exists—the responsibility for the power sector now rests with Al-Falih’s ministry;
- Al-Falih holds one of the key positions in the implementation of Saudi Vision 2030; and
- Al-Falih’s ministry is expected to control most of the key stakeholders in the Kingdom’s renewable energy program, which include KACST, KAUST, SIDF, NICDP and KA Care. This should result in a more streamlined decision-making process that reduces the likelihood of disagreements between Government entities and different ministries, which has been one of the challenges faced by the power sector in the Kingdom in the past.

Looking Ahead

- It will be interesting to see whether the Rafha and Al-Jouf solar PV IPPs follow SEC’s well-established IPP model that began with the oil-fired Rabigh IPP in 2009 or whether the project documentation will reflect the impending restructure of SEC, which, in the first phase, will see a Government-owned “principal buyer” entity replace SEC as the offtaker and existing SEC power assets transferred into four generation companies. We expect that developers and lenders alike will be particularly focused on the extent (if any) to which the bankability of the

project documentation has been impacted by potential changes to the SEC IPP model due to the impending SEC restructure.

- Private power developers and other renewable energy industry participants should see the Rafha and Al-Jouf solar PV IPPs as a sign of the Kingdom's commitment to implement a significant renewable energy program, particularly given the recent developments in the Kingdom (including the plans to reform fuel subsidies, which will close the gap in the costs of generation between conventional and renewable energy) which will add impetus to the execution of the renewable energy program and the development of a local renewable energy industry.
- The King Salman Renewable Energy Initiative, when it is released, should contain more details about the Kingdom's renewable energy plans, including a timetable for the implementation of new projects and the types of renewable energy generation which the Kingdom plans to utilize.
- We note that SEC is also planning a 10-50MW wind IPP project in Umiju, so power developers should anticipate a renewable energy program based primarily on onshore wind and solar projects (in the case of solar, utilizing concentrated solar power technology as well as PV technology). Given the size of new solar projects in Dubai and Abu Dhabi, we also expect that 200 MW-plus renewable energy projects are inevitable in a market with energy demand as significant as the Kingdom's.
- It is undoubtedly an interesting and exciting time for renewable energy industry participants and one which we will continue to monitor with interest.

For over 40 years, Shearman & Sterling LLP has worked on some of the most significant I(W)PP projects in the GCC, including, most recently, the DEWA solar PV IPP project in Dubai. In the Kingdom, Shearman & Sterling LLP has offices in Riyadh, Jeddah and Al-Khobar through its association with Dr. Sultan Almasoud & Partners and our practice in the Kingdom is fully integrated with Shearman & Sterling LLP's global network of 20 offices in the Middle East, Asia, Europe and the Americas. This gives our Saudi Arabian clients and our international clients doing business in the Kingdom direct access to a top tier Saudi law practice that is backed by the skills and experience of every expert in our global network.

Contacts



Marwan Elaraby
Co-Regional Managing Partner of
Europe, Middle East & Africa
T +971.2.410.8123
marwan.elaraby@shearman.com



Dr. Sultan Almasoud
Partner
Saudi Arabia
T +966.11.211.2000
sultan.almasoud@sa.shearman.com



Sanjarbek Abdukhalilov
Partner
Saudi Arabia
T +966.11.211.2000
sanjarbek.abdukhalilov@sa.shearman.com



Iain Elder
Partner
London
T +44.20.7655.5125
iain.elder@shearman.com



Brendan Hundt
Counsel
Saudi Arabia
T: +966.11.211.2000
brendan.hundt@shearman.com



Matthew Powell
Partner
Abu Dhabi
T: +971.2.410.8125
matthew.powell@shearman.com

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