

Saudi National Renewable Energy Program Round 1 — “Scaling Up”

Energy powerhouse Saudi Arabia launches global stimulus for the renewables sector, creating new opportunities for sponsors and lenders.

The Saudi Arabia Renewable Energy Investment Forum (SARIEF)¹ took place in Riyadh this week on 17 and 18 April. The two-day forum introduced the National Renewable Energy Program (NREP) through a series of presentations and workshops led by various government stakeholders. This *Client Alert* provides insights into the NREP, the opportunities for sponsors and lenders, and how the Government of the Kingdom of Saudi Arabia intends to support the NREP in securing of 9.5GW of renewable energy generation by 2023.

NREP

The Ministry of Energy, Industry and Mineral Resources (MEIM) manages and executes the NREP,² which directly supports the National Transformation Program 2020 (NTP) and Vision 2030.³ The NREP aims to substantially increase the share of renewable energy in the Kingdom’s total energy mix, targeting the generation of 3.45 GW of renewable energy by 2020 under the NTP and 9.5 GW by 2023 towards Vision 2030.

Renewable Energy Project Development Office (REPDO)

MEIM has established REPDO,⁴ an official office within MEIM, as the office responsible for delivering the NREP.

During the SARIEF, REPDO forecast a total of six procurement rounds between now and 2023 with each round being procured annually during that period. REPDO anticipates that rounds 1 to 2 will be predominantly solar photo-voltaic (PV) and wind with a small percentage of concentrated solar power (CSP). REPDO anticipates that although solar PV and wind will continue to dominate rounds 3 to 6, these rounds will also feature an increasing percentage of solar CSP and waste-to-energy (WTE). REPDO has forecast that by 2023, PV will account for approximately 5.5 GW, wind will account for approximately 2.5 GW, CSP will account for approximately 1 GW, and WTE will account for approximately 500 MW.

The entire generation mix is anticipated to be spread across “28+ parks” with projects falling into roughly one of three sizes: ≤50MW, 300-400MW and ≥1GW.

Round 1 of the NREP — Midyan and Sakaka

REPDO has prequalified 27 companies for the 400 MW Midyan Wind IPP and 24 companies for the 300 MW Sakaka Solar PV IPP.⁵ Companies that have not prequalified as a managing or technical member for

these projects can still participate as part of a consortium formed by one of the prequalified managing or technical members.

The RFP for Sakaka was released to the prequalified bidders on 17 April 2017 during the SARIEF, and the RFP for Midyan is expected to follow in May. Bid submissions are due in early September 2017.

Like the conventional IPPs procured by the Saudi Electricity Company (SEC), both projects will be developed on a build-own-operate (BOO) basis. However, unlike the conventional IPPs wherein SEC has traditionally taken a 50% stake in the project company, the successful bidder will own 100% of the project company for these projects.

Round 2 of the NREP is expected to launch in the fourth quarter of 2017.

Government Support and Incentives

As mentioned above, no government entity will invest in the project company responsible for the Midyan and Sakaka IPPs, and REPDO expects the projects to use limited or non-recourse debt financing. However, the government is providing other incentives and soft support for the projects, as follows:

- Enabling 100% foreign direct ownership in the project company and allocating a renewables-specific account manager at the Saudi Arabia General Investment Authority (SAGIA)⁶ who will work together with REPDO in expeditiously securing the investment license required for such foreign ownership;
- Opening access to project financing through the Saudi Industrial Development Fund (SIDF)⁷, who can finance up to 75% of project costs subject to a US\$320 million cap as a soft loan, and the Public Investment Fund, who can finance up to 40% of project costs subject to a US\$1.57 billion cap;
- Paying up to 50% of the salaries for all Saudi nationals employed in the projects for up to two years through the Human Resources Development Fund (HRDF);
- Maintaining a positive tax environment through 20% corporate tax, no tax on personal income, tax exemptions of 15% on capital expenditures and related expansions in certain regions of the Kingdom as well as adopting the principle of carrying forward taxation losses for an unlimited period, and maintaining double taxation treaties with more than 20 countries;
- Providing customs duty exemptions for primary raw materials and spare parts for up to two years;
- Eliminating restrictions on repatriation of capital;
- Providing project sites at nominal value and eliminating fees for registration of real estate interests; and
- Adopting of accelerated assets depreciation principles.

Centralized Offtake — the Principle Buyer

Currently, the state-utility Saudi Electricity Company acts as offtaker of all electricity generated in the Kingdom. However, the government plans to reorganize the power sector by establishing a “Principle Buyer” to act as the principle offtaker of all conventional and renewable generated power, as well as through other steps such as splitting SEC into four independent generation companies.

REPDO has confirmed that the Principle Buyer will act as offtaker under the NREP. This assumes that the government will establish the Principle Buyer prior to signing the power purchase agreement with the Midyan and/or Sakaka project company either later this year or early next year.

Given that the Principle Buyer will be a newly established company, both sponsors and lenders will want to understand whether the government will provide some form of credit support in relation to the Principle Buyer's offtake obligations and its obligation to purchase the project upon early termination, as was the case with the earlier conventional IPPs.

Conclusion

REPDO's prequalification of so many leading developers for round 1 provides widespread business opportunity for both sponsors and lenders, but also creates stiff competition. Bidders face a challenge ahead in balancing new requirements for local content while still offering a competitive levelized cost of electricity (LCOE), particularly in light of the record lows being achieved in other parts of the world.

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Endnotes

¹ See www.saudirenewableenergyforum.com.

² See www.meim.gov.sa.

³ See http://vision2030.gov.sa/sites/default/files/NTP_En.pdf.

⁴ See www.powersaudi Arabia.com.sa.

⁵ See <https://powersaudi Arabia.com.sa/web/attach/news/Round-1-RFQ-Shortlist-Press-Release.pdf>.

⁶ See www.sagia.gov.sa.

⁷ See www.sidf.gov.sa.