The keys to renewable energy success in the Middle East

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ABSTRACT

The Middle East is ramping up efforts to diversify its energy portfolios. The flagship Shams 1 solar project in Abu Dhabi has recently completed and Saudi Arabia has released an important white paper on renewable energy. But several issues in the white paper are in need of clarification and development of renewable power in Saudi will likely involve further hurdles. Fair and reasonable feed-in tariffs remain a priority to facilitate implementation of renewable programmes throughout the GCC. With the recently-announced completion of the 100 megawatt Shams 1 solar project in Abu Dhabi and Saudi Arabia's publication of a white paper on renewables, the Middle East seems to be on the verge of an energy revolution.

FULL TEXT

The completion of a flagship solar project in Abu Dhabi and a recent white paper on renewable energy in Saudi Arabia suggest there is more to come

KEY TAKEAWAYS
- The Middle East is ramping up efforts to diversify its energy portfolios;
- The flagship Shams 1 solar project in Abu Dhabi has recently completed and Saudi Arabia has released an important white paper on renewable energy;
- But several issues in the white paper are in need of clarification and development of renewable power in Saudi will likely involve further hurdles;
- Fair and reasonable feed-in tariffs remain a priority to facilitate implementation of renewable programmes throughout the GCC.

With the recently-announced completion of the 100 megawatt Shams 1 solar project in Abu Dhabi and Saudi Arabia's publication of a white paper on renewables, the Middle East seems to be on the verge of an energy revolution.

The region is ramping up efforts to diversify its energy portfolios away from an almost complete reliance on fossil fuel to meet booming electricity demand from a rapidly growing population.

Shams 1 is the first in a series of renewable energy projects that will power 20,000 homes in the emirate, which pumps around 2.65 million barrels a day. In another significant development, Saudi Arabia, the world's biggest oil producer, has announced that it would like the country to go 100% renewable and low carbon in the next few decades.

"The Middle East has long been a heavily hydrocarbon-based economy," said Robin Bayley of Shearman &Sterling in Abu Dhabi. "Regions with vast hydrocarbon resources can lack the incentive to look to renewable power."

The publication of Saudi's white paper on its renewable energy programme is an important milestone on the journey to renewable power in one of the Middle East's most promising solar markets. It sets out a multi-phase programme of renewable projects across power types including solar, geothermal, wind and waste-to-energy projects.

The first tenders for solar plants are scheduled for the first half of this year, according to the February white paper from the King Abdullah Centre for Atomic and Renewable Energy (K.A.CARE), the government entity responsible for developing the Kingdom's renewable and nuclear energy resources.

White paper concerns

The paper is reportedly gaining significant interest from developers. However, a number of key issues are in need of clarification before renewable programmes can start to be rolled out in the region.

"The white paper in Saudi is a sign that progress is being made, but moving from the white paper to development will involve a lot of further hurdles," said Bayley.

One concern is the costs of connecting a project to the grid and how those costs are passed through into the project. The Saudi programme incorporates the cost of grid connection into the cost of the bid and ultimately into the tariff.

"We're not clear on whether there are enough feasible sites for there to be a programme on the scale proposed," said Bayley.

"Whether the economics of a bid are favourable could depend on the proximity of the project site to the existing grid," he added.

The paper also places a big emphasis on local content. It states:'Local content will be evaluated on the basis of the total money spent on goods and services provided by permanent establishments in the Kingdom as approved by a certification body to be established by K.A.CARE, as well as for training and research and development activities performed in the Kingdom.'

Maximum points will be given for systems with 60% or more local content.

"Developers will be asking how much local content can realistically be sourced while still maintaining a competitive and coherent bid," said Iain Elder, of Shearman &Sterling's Abu Dhabi office.

Saudi's renewable framework gives preference to contractual supply arrangements that are part of the bid.

"It seems that the government is expecting a bidder to turn up with a signed EPC [engineering procurement and construction] contract as part of the bid," said Elder. "We query how practical that is at the bid stage."

Promoting competition

The lack of fair and reasonable feed-in tariffs to allow competition with heavily subsidised thermal power generation is a key reason why implementation of renewable energy programmes has been slow in the Gulf.

"For renewable energy to work, we need to see a reassessment of the price the population in these regions is prepared to pay for power," said Elder. "The only way to get a feed-in tariff that works is if the wider energy sector falls in behind it."

The recently-completed Shams 1 project addressed this dilemma. To get around the solar project's higher tariffs, the government paid a significant portion of the tariff itself.

The rest of the charge was passed through to the end consumer. This created a bifurcation of the tariff charge, known as the green payment agreement.

"Shams has effectively pushed back the need for a legal and regulatory environment for renewable projects in the UAE because the government directly paid a substantial part of the tariff in lieu of a feed in tariff or equivalent incentive," said Saul Daniel, an Abu Dhabi-based partner with White &Case.

"But in relation to other markets in the region, setting up the legal and regulatory framework to allow renewable projects to compete is what's needed now," he added.

See also:

Middle East solar first explained http://www.iflr.com/Article/2958367/Search/Results/Middle-East-solar-first-explained.html

UAE attractive yet challenging http://www.iflr.com/Article/3130833/Search/Results/UAE-Attractive-yet-challenging.html

The future of oil, gas and power http://www.iflr.com/Article/3083862/Search/Results/The-future-of-oil-gas-and-power.htmlThe next best thing http://www.iflr.com/Article/3110427/Search/Results/The-next-best-thing.html

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