

# INTERVIEW

## Project Financing for Natural Gas-fired Power Generation and Desalination Project

Supporting Qatar's IWPP Project Invested in by Japanese Companies

Interview with Deputy Director Kenichiro Kitamura and Deputy Director Hideaki Toyoda, Division 4, New Energy and Power Finance Department I, Infrastructure and Environment Finance Group



Deputy Director Kitamura



Deputy Director Toyoda

### Project Financing to Facility D Gas-Fired Power Generation and Desalination Project

JBIC signed in January 2016 a loan agreement in project financing totaling up to approximately USD1,269 million (JBIC portion) with Umm Al Houli Power (UHP) of Qatar for the Facility D IWPP project. This loan is cofinanced with The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, the Norinchukin Bank, Qatar National Bank, and KfW IPEX-Bank, with a total cofinancing amount of approximately USD2,538 million.

This project involves the construction, ownership, and operation of a natural gas-fired combined cycle power plant and a desalination plant in the south of the capital Doha. UHP is invested in by Mitsubishi Corporation and Tokyo Electric Power Company, Incorporated (TEPCO), together with Qatar Petroleum, Qatar Electricity & Water Company Q.S.C., and Qatar Foundation for Education, Science and Community Development. The electricity and water generated under the project will be sold to Qatar General Electricity and Water Corporation for 25 years, on the BOOT basis.

### Supplying a quarter of Qatar's energy and water

The Facility D IWPP project implements a BOOT\*-based development of the natural gas-fired combined cycle power plant (capacity: approx. 2,400 MW) and desalination plant (capacity: approx. 590 thousand cubic meters/day) in the vicinity of Qatar Economic Zone 3, located south of the capital Doha. The project is carried out by UHP, which was established by Mitsubishi Corporation (MC) and Tokyo Electric Power Company, Incorporated (TEPCO) together with Qatar Petroleum, Qatar Electricity & Water Company Q.S.C., and Qatar Foundation for Education, Science and Community Development. The electricity and water generated under the project will be sold to Qatar General Electricity and Water Corporation for 25 years after the completion of the plants.

"Qatar anticipates an increase in demand for electricity and water at an annual rate of 4%, due to an exploding population and economic growth. About 22% of the country's power supply and 28% of its water supply are expected to be provided by this project."

Kitamura continues to explain the project: "MC and TEPCO have invested a total stake of 30% in UHP, and will set about the project by utilizing the achievements and know-how they gained from their past IPP (Independent Power Producer) and IWPP (Independent Water and Power Producer) projects within and outside of Japan, as well as their experiences and skills accumulated from constructions and operations of power generation plants."

### Providing financial support for winning the formal contract

The Qatari government officially announced the bidding for the project ownership in September 2013 and several consortiums submitted their bids in the international bidding in May 2014.

Toyoda relates, "JBIC received a request for financing when the bidding for project ownership had just been announced in September 2013, and that is when we started to examine the project's risk profile and financing conditions. I have experienced taking part in LNG projects before, but this was the first time for me to be involved in supporting project formation before the bidding. I got a grip on myself as we could not afford to fail on a project of such significance for both Japan and Qatar."

Qatar has track records of IPP and IWPP projects in the past, and JBIC has also provided project financing in 2007 and 2008. In light of such previous examples, we closely examined the characteristics of this project, power and water demand in Qatar, and the basic policy of the Qatari government."

With JBIC's financial support, the consortium of MC and TEPCO tendered a bid and officially won the ownership of the project in May 2015, after negotiations with the Qatari government which lasted as long as one whole year.

### Strengthening relations with Qatar and other Middle Eastern countries

"The Qatari government was hoping for the earliest start of the project operation given the strained supply-demand

The Japan Bank for International Cooperation (JBIC) signed in January 2016 a loan agreement amounting up to approximately USD1,269 million with Umm Al Houli Power (UHP), a Qatari company in which Japanese companies invest in the Facility D gas-fired power generation and desalination project. This loan, provided in project finance (PF), is cofinanced with Japanese and foreign financial institutions including a Qatari financial institution, bringing the overall cofinancing amount to approximately USD2,538 million.



balance in both energy and water, and therefore demanded prompt negotiations for the loan agreement. As this is a long-term and large-scale project, we analyzed in detail risk factors which may be faced during the construction period, as well as the operation period. We structured the project step by step through persistent negotiations with UHP, each of its shareholders, and the Qatari government in order to achieve the optimal risk allocation. When the negotiation for the loan agreement went into full swing, we held a teleconference with parties concerned in Tokyo, London, Doha, and Frankfurt almost every week, with discussions once continued for ten hours. For important issues, Mr. Kitamura and I flew to London several times to negotiate with counterparties, and sometimes even flew at short notice to Doha to negotiate directly with the Qatari government," Toyoda looks back.

These efforts finally lead to the signing of the loan agreement in January 2016.

Kitamura says, "Qatar is one of a few dominant natural gas-producers in the world and is one of Japan's vital suppliers. It has been 22 years since the "Agony in Doha" (a football match in 1993 that disqualified the Japanese football team from the FIFA World Cup 1994), and all the while Japan has supported Qatar's economic development. JBIC has also been building a close relation with the country through providing project finance to an LNG project in Qatar and a solar power generation project in Jordan which was invested in by the Qatari government and MC. It has been a very meaningful experience supporting, through this project, the enhancement of power and water supplies that are indispensable for Qatar's economic growth. I believe this project will significantly contribute to strengthening the multilayered relations between Qatar and JBIC, as well as the Japanese government, and to maintaining and increasing the international competitiveness of Japanese industries."

We at JBIC hope to deepen our relationship with Qatar, as well as with other Middle Eastern countries in the future, and actively support the financial aspect of projects which are meaningful to both sides of the parties," says Kitamura.

The construction of the Facility D gas-fired power generation and desalination plants has been fully launched at the site, targeting to initiate the supply by 2017.

\*Note: BOOT (Build, Own, Operate, and Transfer) is a form of financing program in which a private company builds, owns, and operates the project facility during the contract term, and then transfers ownership to the public sector after the project completion.