

INTERVIEW

Natural Gas-fired Combined Cycle Power Plant Project in the Emirate of Sharjah

Supporting Sharjah's first IPP project, which is being undertaken by Japanese Companies

Interview with **Chihiro Karakawa**
then Unit 2, New Energy and Power Finance Department I,
Infrastructure and Environment Finance Group

Ms. Karakawa

In March 2019, the Japan Bank for International Cooperation (JBIC) signed a loan agreement for project finance with Sharjah Hamriyah Independent Power Company PJSC (SHIPCO) in the United Arab Emirates (UAE). The company is invested in by Sumitomo Corporation, Shikoku Electric Power Company, and others. The project is categorized under JBIC's Global Facility to Promote Quality Infrastructure Investment for Environmental Preservation and Sustainable Growth (QI-ESG).

The loan is co-financed with Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, The Norinchukin Bank, Société Générale S.A., Standard Chartered Bank and others. The private-sector loan is partly covered by Nippon Export and Investment Insurance (NEXI).

In this project, SHIPCO will build, own and operate a gas-fired combined cycle power plant located in Hamriyah, Sharjah. The electricity produced by the plant will be sold to the Sharjah Electricity and Water Authority (SEWA) for 23.5 years.

Launching an IPP Project as a Major Source of Electricity Supply

Sharjah is one of the seven emirates that comprise the UAE. Located to the northeast of Dubai, Sharjah is a fast-developing emirate which is closely tied to Dubai in terms of economy and geography. It serves as a residential area for those who commute to Dubai. Accordingly, its demand for electricity is increasing. However, the emirate currently imports about 50% of its electricity from Abu Dhabi. The remainder is currently being generated by low-efficiency older power stations in Sharjah.

Therefore, the government of Sharjah launched an independent power project (IPP) to develop a gas-fired combined cycle power plant to serve as the main source of electricity. SHIPCO, which was established to implement the project, will build, own and operate a 1,800MW (three 600MW units) gas-fired combined cycle power plant located in Hamriyah, Sharjah. Completion of construction is scheduled for 2023, and after that, the electricity will be sold to SEWA for 23.5 years.

Chihiro Karakawa, a loan officer in charge of the project, explained, "All of the existing power plants in Sharjah are managed by SEWA. This is the first IPP project for the emirate, which is when an independent power producer builds and operates a power facility. For JBIC, it is our first project financing in Sharjah, and our second project in the Middle East under QI-ESG, which was established in July 2018."

Evaluating Creditworthiness of Sharjah as a UAE member

In February 2018, JBIC received a formal request from Sumitomo Corporation to start due diligence of the project, and negotiations started in April.

According to Karakawa, "Having joined JBIC only a year prior, this was my first time to work on due diligence, so I felt quite nervous at first. It was going to be JBIC's first project in Sharjah, so I visited the UAE with the Country Credit Department in order to thoroughly investigate the position of Sharjah in the UAE and its relations with Abu Dhabi—which has a strong influence within the UAE—as well as Dubai. We found that Sharjah had good relationships with its bordering emirates as well as the federal government. We also noted that the government of



Sharjah appreciated the significance of this project, and was willing to provide support.

"Japanese sponsors involved in this project have experience in IPP projects in the

Middle East. Sumitomo Corporation has experience with power projects in Abu Dhabi, Kuwait, and Bahrain, and actually it was JBIC that financed these projects. Meanwhile, Shikoku Electric Power Company has also worked on power projects in Qatar and Oman. We analyzed each and every risk associated with the project. For example, we evaluated the turbines supplied by General Electric Company (GE) for the project with help from our technical advisor."

In relation to the significance of the project, she notes the following. "The Second Public-Private Sector Roundtable Discussion on U.S.-Japan Cooperation on Third Country Infrastructure was held between Japan and the United States to discuss how to collaborate in the area of infrastructure projects in third countries. In addition to the supply of gas turbines, GE will also participate in the project as a sponsor and an EPC contractor. Thus, the project was specifically listed as one of the U.S.-Japan infrastructure cooperative activities. The project is also in line with the 'Export Strategy for Infrastructure Systems' and 'Strategic Energy Plan' being promoted by the Japanese government."

Playing a Role in an International Co-financed Project

The power purchase agreement was signed between SHIPCO and SEWA within 2018, and in 2019, a loan agreement was signed.

Karakawa says, "We were aiming to sign the agreement by the end of the Japanese fiscal year. Everyone involved in the project worked hard everyday to negotiate and close out all the remaining issues. We finally succeeded in signing the agreement on March 31, the very final day of the fiscal year."

Regarding the future, she says, "It was challenging to reach an agreement among different parties with different interests, but it was a valuable experience. As this was a fairly standard project financing, I hope to work on more projects based on this experience. Recently, JBIC has been making more efforts to protect the environment through innovation and low carbonization, as well as to support the business development of Japanese companies at economic frontiers. Therefore, our team is working to develop relationships with international finance institutions in Europe, which have a great deal of know-how in seeking investments and taking risks in such fields. I hope to apply my knowledge and the ideas I gained through this experience when I work on more project financing in the future, and to continue supporting the overseas development of Japanese companies."

