

Jordan Launches Round 2 of Direct Proposals Process for Renewable Energy

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Jordan has launched the second round of its unsolicited proposals, or direct proposals, scheme that permits developers to submit renewable energy project proposals directly to the government.

The Kingdom's Ministry of Energy and Mineral Resources, or MEMR, is seeking expressions of interest from qualified investors interested in developing renewable energy projects on a build, own and operate basis. The deadline to submit an electronic and hard copy response is 31 October 2013.

The first round of direct proposals extended an array of renewable energy sources such as wind, solar, waste and geothermal, but this round is restricted to wind and solar. Another departure from the first round is the fact that interested parties are proscribed from bidding for different renewable source types and technologies. This would prohibit, for instance, a solar power developer from bidding for both a photovoltaic project and a concentrated solar power project.

The expression of interest submission deadline was recently extended from the initial deadline of 30 September 2013. MEMR had arguably not provided enough time for interested parties to devise and submit an expression of interest. MEMR requires interested parties to map a project location and contact the relevant transmission or distribution company in order to assess the suitability of the envisaged grid connection. In the first round, MEMR chose to focus on the southern region of Ma'an, but in this round, it is prioritising submissions for projects in the northern and eastern parts of the country.

Applicants that qualify to bid will be required to enter into a memorandum of understanding with MEMR in order to prepare studies and develop a proposal in compliance with applicable law.

Jordanian law requires transmission and distribution companies to purchase all electricity produced from a renewable energy facility. The Kingdom has set an electricity tariff cap for renewable energy facilities, including a cap of JD 0.085/kWh (approx. US\$ 0.12/kWh) for wind power facilities, JD 0.120/kWh (approx. US\$ 0.17/kWh) for solar photovoltaic facilities and JD 0.135/kWh (approx. US\$ 0.19/kWh) for non-photovoltaic solar power facilities.

MEMR launched the first round of direct proposals in May 2011. 34 applications including 12 wind projects, 15 solar photovoltaic projects, two concentrating solar photovoltaic projects and five

concentrated solar power projects initially qualified, however, only two wind projects and 12 solar photovoltaic projects were eventually approved. The aggregate capacity of the two wind projects is approximately 200 megawatts whereas the aggregate capacity of the 12 solar photovoltaic projects is around 170 megawatts. In May 2013, MEMR received proposals for each of the approved projects. Project awards are still pending, and MEMR is currently hosting clarification meetings with a number of bidders.

The launch of the second round prior to the completion of the first round has surprised the market, although this is consistent with Jordan's aim to reduce its dependence on imported energy (97 per cent of the energy it used in 2011 was imported) and increase the share of renewable energy contributions from one per cent in 2011 to 10 per cent by 2020.

Request for Expression of Interest

MEMR prescribes that an applicant's expression of interest must include a description of both the applicant and the project, evidence of the applicant's technical capability and experience and a demonstration of the applicant's ability to raise debt and equity.

Applicant Description

The applicant must state whether it is a single company, a consortium or a joint venture. The applicant (including, if applicable, each member) must identify its legal structure supported by legalised articles of association and a company registration certificate from its country of incorporation, its ownership structure and, if applicable, its relationship with any parent company.

Consortiums or joint ventures must provide a memorandum of understanding or draft joint venture agreement defining the lead developer and the share and role of each member. The memorandum of understanding must be signed by each member representative pursuant to a legalised power of attorney. Each applicant must provide a legalised statement from each consortium member acknowledging that the lead developer is authorised to act on its behalf.

The applicant (including, if applicable, each member) is prohibited from changing its legal structure without MEMR's prior approval.

Project Description

The applicant is required to provide a project description, including its location with coordinates on a map, capacity and estimated generation per year and envisaged wind or solar power technology.

In the first round, MEMR chose to focus efforts on the southern region of Ma'an, and in particular a 8.75 square kilometre zone dubbed the Ma'an Development Area, or MDA. The MDA is attractive because the applicable regulatory and administrative regime is more streamlined and flexible than would otherwise be in Jordan; the fiscal regime is also more advantageous. The MDA is also attractive from a resource standpoint. The area had been earmarked as the best location in Jordan

for concentrated solar power projects by Lahmeyer International, a Germany-based technical advisor. MEMR's initial focus in the first round was on concentrated solar power.

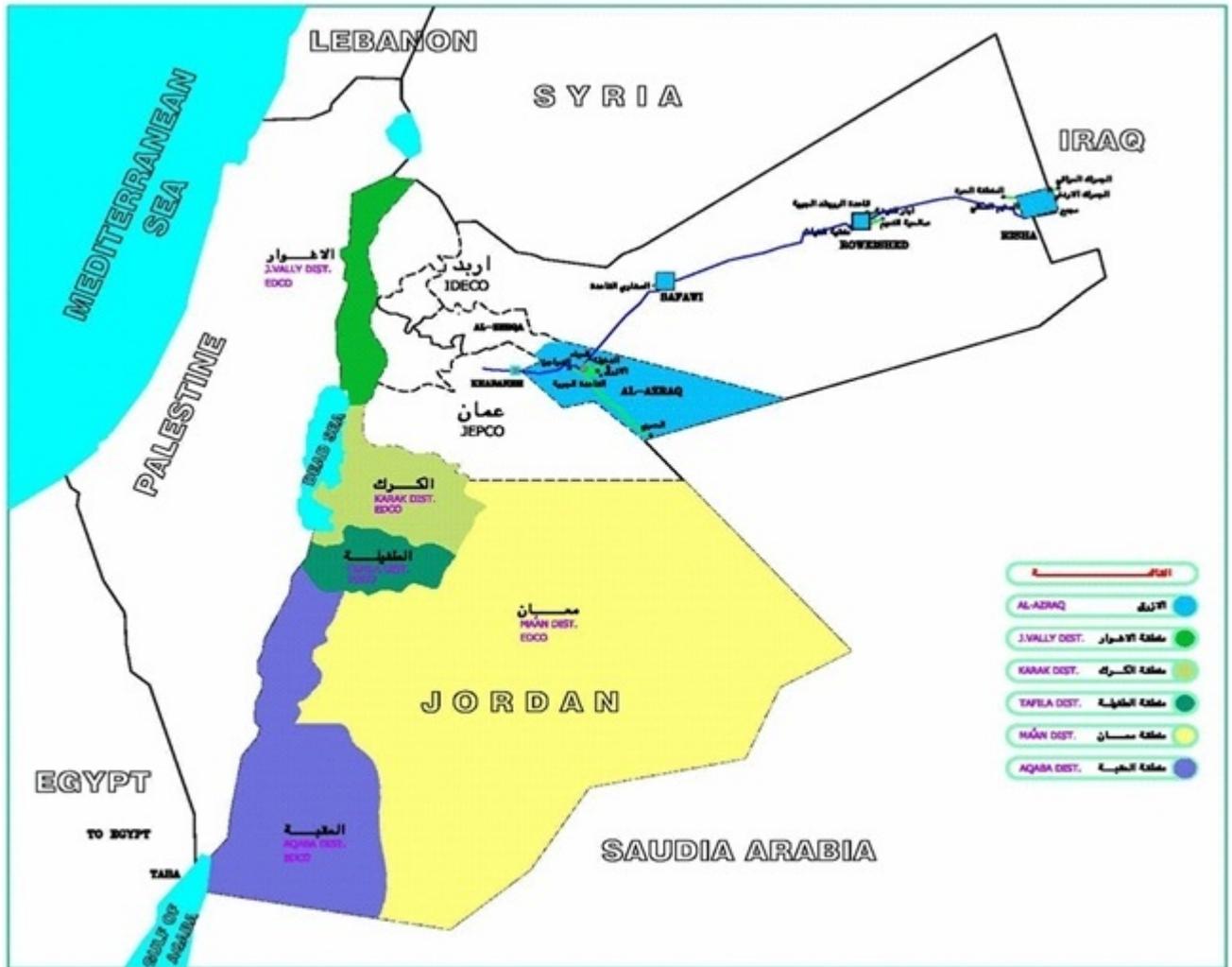
In the second round, Jordan wants to shift the focus away from the Ma'an region towards the northern and eastern parts of Jordan. MEMR explicitly states in its expression of interest request that submissions for projects in those parts of the country will be prioritised. The key driver behind this geographic shift is to ease the pressure on the already fragile grid in the southern part of the country. The grid in the northern and eastern parts of Jordan is currently less saturated.

The northern and eastern parts of Jordan may pose a number of challenges to wind and solar developers. First, there is no MDA equivalent; although, there are rumours that the granting of development area status for a specific parcel of land is being considered. Second, the northern and eastern parts of Jordan are more industrialised than the Ma'an region, which could lead to complications, particularly in terms of land rights and permits. Third, proximity to the border with war-torn Syria cannot be ignored; certain plots being targeted by developers are only around 25 kilometres from the Syrian border, and even closer to the growing refugee camps inside Jordan.

In its expression of interest request, MEMR states that the applicant must contact the relevant transmission or distribution company to establish the suitability of the envisaged grid connection at the proposed location.

On the basis of round 1 precedent, interested parties are not expected to furnish documentation to substantiate any exchange with the transmission or distribution company. A mere mention in the expression of interest that exchanges between the developer and the transmission or distribution company have taken place and that the envisaged grid connection at the proposed location is deemed suitable by the transmission or distribution company should suffice.

If the developer connects at a high voltage level, the relevant interlocutor, and ultimately the power purchase agreement counterparty, will be Jordan's sole transmission company, NEPCO. Otherwise, the counterparty will be one of Jordan's three distribution companies: Jordanian Electric Power Company, or JEPSCO, Electricity Distribution Company, or EDCO, and Irbid District Electricity Company, or IDECO. As illustrated in the map below, each of the distribution companies could be relevant in round two. JEPSCO operates in the north, EDCO in the north-west and in the east and IDECO operates both in the northern and eastern parts of the country.



Source: EDCO

The power purchase counterparty will be an important consideration. First, there is an asymmetry of interest for each of the transmission company and the distribution companies to adopt renewable energy-based power. Second, varying experience levels mean that power purchase agreement negotiations may be more laborious with certain parties. NEPCO, for instance, has procured and successfully banked four major conventional independent power projects in the Kingdom: the 370 megawatt Amman East IPP (the first independent power project in Jordan), the 373 megawatt Al Qatrana IPP, the 573 megawatt IPP 3 and the 241 megawatt IPP 4.

Technical and Financial Capability

The applicant must demonstrate that it has the technical capability to manage the design, engineering, construction and operation of renewable energy projects of a similar size and nature on a build, own and operate basis.

On financial capability, the applicant must submit audited financial statements for the preceding three years. It must also demonstrate its ability to obtain sufficient funds to develop the proposed project. The applicant is expected to illustrate its previous successful experience in raising sufficient debt participation and substantial equity participation (in excess of US\$ 10 million) to build, own and operate power projects

To substantiate technical and financial capability, the applicant must provide references on projects of a similar nature, complexity level and investment volume. MEMR requires the project's name and location, the plant's capacity, the technology, the role of the applicant or consortium member in the project, the cost and financing structure, details of commercial arrangements and equity injection levels.

Memorandum of Understanding

Applicants that submit an expression of interest and qualify to bid will receive a memorandum of understanding from MEMR enabling it to proceed with measurement campaigns, feasibility studies and other preparatory and due diligence work such as negotiating land access and financing options. The form of memorandum of understanding in round two is likely to be substantially the same form as in round one.

Once the steps outlined in the memorandum of understanding are completed, the applicant is required to submit a full and committed direct proposal in compliance with the provisions of the applicable laws and regulations. All direct proposals must be submitted within the time period specified in the memorandum of understanding.

Proposal

Proposal Contents

The Renewable Energy and Energy Efficiency Law provides that a direct proposal to generate electrical power and connect to the grid must meet the following conditions.

First, the proposal must contain a development plan including the preliminary design, initial financing plan, and the contribution of local inputs to the facility, supplies, construction and operation. Second, the bidder must demonstrate that it has sufficient experience in the implementation or development of similar renewable energy facilities. Third, the bidder must include any documents or additional data necessary to fully appraise the proposal. Finally, the proposed electricity tariff must be a fixed tariff expressed as an amount per kilowatt hour, and within an acceptable range according to the Jordan's so-called reference pricelist.

Reference Pricelist

The Reference Pricelist Record for the Calculation of Electrical Energy Purchase Prices from Renewable Energy Sources, or reference pricelist, prescribes the pricing mechanism for the purchase

of electrical power from renewable energy sources. It is issued by Jordan's Electricity Regulatory Commission, or ERC.

The reference pricelist sets an electricity tariff cap for electricity generated by wind facilities, solar photovoltaic facilities, non-photovoltaic solar power facilities, biomass facilities and biogas facilities. The tariff cap for electricity generated by a wind power facility is JD 0.085/kWh (approx. US\$ 0.12/kWh). For a solar photovoltaic facility, the tariff cap is JD 0.12/kWh (approx. US\$ 0.17/kWh), whereas the tariff cap for a non-photovoltaic solar power facility is JD 0.19/kWh (approx. US\$ 0.183/kWh).

The reference pricelist also includes a localisation incentive. If a winning bidder installs a renewable energy facility that is of "fully Jordanian origin," the proposed tariff will be increased by 15 per cent. The ERC's council of commissioners may terminate the localisation incentive once 500 megawatts of renewable energy facilities are connected to the grid.

The council of ministers is permitted to review the reference pricelist on an annual basis or whenever deemed necessary.

Decision

MEMR or any other entrusted body has six months from bid submission to notify the given bidder of its decision. If initial approval is granted, the energy minister is required to submit its recommendations to the council of ministers for it to issue a final decision.

The Round 1 Saga

MEMR launched the first round of direct proposals in May 2011 and received 64 expressions of interest. On 23 April 2012, it shortlisted 34 projects, including 12 wind projects, 15 solar photovoltaic projects, two concentrating solar photovoltaic projects and five concentrated solar power projects. 29 memoranda of understanding were signed.

On 25 January 2013, the council of ministers issued an important resolution that effectively converted each of the reference pricelist tariff caps into a feed-in tariff, with exclusive applicability to the qualified bidders that signed a memorandum of understanding.

Out of the 34 shortlisted projects, only two wind projects and 12 solar photovoltaic projects were eventually approved. The aggregate capacity of the two wind projects is approximately 200 megawatts whereas the aggregate capacity of the 12 solar photovoltaic projects is around 170 megawatts.

In May 2013, MEMR received proposals for each of the approved projects. Since early September 2013, MEMR has been hosting clarification meetings with bidders. This is because a number of bidders proposed a tariff that deviates from the feed-in tariff and a capacity that differs from that which had initially been approved.

The submission of these so-called 'alternative' proposals has caused a stir in the market. MEMR has reportedly asked the council of ministers to resolve whether it may negotiate the proposed tariff and capacity with bidders, or whether the feed-in tariff should be honoured.

Outlook

Despite some of the challenges experienced in the first round of direct proposals, round two will undoubtedly generate considerable market interest, and likely more than in the first round.

First, the drivers for Jordan to adopt wind and solar power remain very strong. 97 per cent of the energy Jordan used in 2011 was imported. This cost the Kingdom 16 per cent of its gross domestic product. Such acute dependence on imports also has major security implications, especially in the context of on-going regional instabilities.

Second, the barriers to entry in the Jordanian renewable energy market are relatively low. For instance, bidders will not be required to provide a bid bond.

Finally, Jordan is increasingly being viewed by international renewable energy developers as a stepping stone towards other Middle Eastern markets, including Saudi Arabia and its colossal program to procure 54 megawatts of renewable energy facilities by 2032. Until Saudi Arabia and other nascent but high potential Middle Eastern renewable energy markets start tendering, Jordan will remain one of the Middle East's most active and attractive renewable energy markets.

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