Sealing the deal in Jordan

Having blazed a trail in building PV power plants in Africa, Norway's Scatec Solar recently secured financing for its first 43MW of projects in Jordan. Its chief executive, Raymond Carlsen, tells Ben Willis how the company is making the projects work financially

PV Tech Power: What was the story behind the deal in Jordan?
Raymond Carlsen: For us it was important at least initially to have a portfolio approach. So we wanted to have the same banks involved on all three projects – that will reduce costs and ease administration and so forth. So we approached EBRD [the European Bank for Reconstruction and Development] and PROPARCO [the investment arm of France AFD development agency], and they said we like you guys, we're ready. So we connected with them quite early and developed partially some of the projects together with them to make sure that when we moved forward we would satisfy then all the conditions that the banks would want to be satisfied on if they are going to provide most of the debt.

PV Tech Power: In terms of pricing, how much were you at the mercy of NEPCO, Jordan's national power company, or was it relatively straight forward to agree a price?
You probably know these projects were a bit delayed, and I think there were some different opinions in the government on what the right price would be. But on the other hand, we have a programme now, we need to be predictable, if we're not predictable people are going to lose faith in us. So there were a lot of discussions, and what came out I think was a tariff that was pretty close to what it was expected to be in the first place – US$0.16.

PV Tech Power: We've seen solar projects win bids on very low pricing – India, Brazil last year and now Dubai. What danger is there of projects becoming unfeasible because of the very low prices being bid?
RC: You saw the same thing in the US – a bunch of projects were awarded, and no one could deliver. I think it's always troublesome for a company like ours when you're meeting people who have no clue about what it takes to finance [a solar project]. So I think it's sad for the countries who do not understand it. We know what the costs are – nobody is going to throw money after projects at a loss or for free; that doesn't make sense. So if you go in at 5, 10% IRR and you have the normal interest rates, we know what it's going to be. Some people may have a different perception of what the risks are. So I don't think a lot of these low bid projects are going to be built.

PV Tech Power: Development banks have played a key role in financing your projects to date, both in Africa and now Jordan. Will that change as solar becomes more accepted and understood and commercial banks start to come in?
RC: Yes I think so, but I think what you will see before that is that once these projects have been proven with development banks, the IRR expectations to the investors will be coming down. And then slightly in parallel with that you will see more commercial banks coming in.

If you haven't done this before as a bank, you're thinking what is this, I don't know what a panel is, I don't know what consultants these guys are working with, don't know who's going to execute, don't know what the local issues are. Remember we had 91% unskilled workers when we started in South Africa. So there is risk and uncertainty everywhere. But then you see, ok, these guys delivered ok, no problems and you see the first payments coming in from the utility – that's good sign. And slowly the risk is taken out. And of course you don't have any fuel risk: the sun is there, mean deviation every year plus or minus 4%, but that's it. And the fuel is free.

PV Tech Power: The speed with which South Africa has taken off suggests that once projects start happening, that process happens quickly.
RC: Yes, but one element on top of this is the predictability of the programme, if you have a programme. The government of South Africa has a predictable programme – there have been deviations here or there, but they have in their evaluation criteria been open and they've stuck to that. And of course for international investors, that's a boon.

PV Tech Power: How much has that been the case in Jordan?
RC: Overall it's a well run programme. There are a few things that are a little bit different, and those are very local, linked to land issues, who has the rights; some of that took a bit longer, because they had some cumbersome processes, but it seems to work – the documents are coming out of the end of the tunnel, but perhaps not exactly in a process you can follow on a day-to-day basis. But it happens.

PV Tech Power: Are you looking at other countries in the Middle East?
RC: Yes, we are part of the bidding in Egypt now. And we have a strategic relationship with a very important conglomerate in Saudi, but when is that going to happen!

PV Tech Power: Your IPO last year went off fairly well. What difference has that made to your ability to finance your international expansion drive?
RC: What we presented to the market was that we were going to grow from an installed capacity on October 1 2014 of 220MW to 750MW by end of 2016. And then we designed the capital requirements to do that. We got the money in and we are on the road to meeting those targets. That's a pretty steep increase.