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Special report: utilities in the UAE

June 25, 2009

The UAE has been witness to the biggest boom in industry in the Middle East over the past few years. Dubai and Abu Dhabi in particular have seen rapid growth in both population and economy. Generating the necessary power to service this boom has been a tough task for the country, although with the current slowdown, the time is right to address any shortfalls.

Power in the UAE relies mainly on natural gas. Nearly all of the natural gas produced by the country is consumed domestically, while Business Monitor International (BMI) is predicting that gas-fired power generation will climb to 83.1TWh by 2012. Approximately 9 billion m3 of gas is also imported through the Dolphin gas pipeline from Qatar.

Phil Burns, managing director, Aggreko Middle East says: "The UAE has undergone a phase of incredibly rapid growth during the past decade. Due to the increased power demands of the construction, manufacturing, oil and gas and industrial sectors, the utility companies in the region have had the exceedingly difficult task of having to increase power capacity and infrastructure in order to keep up with demand."

The major development in the UAE energy mix is the adoption of nuclear power. Talks have been underway with the International Atomic Energy Agency (IAEA) for several years now and it is predicted that a nuclear power programme will be possible in the UAE within ten years.

Aside from the nuclear option, there is belief that natural gas will play an increasingly important role in the country's energy policy.

Burns states: "I believe that natural gas will become an increasingly important fuel source in the coming years. We diversified into natural gas power in 2005 and we have seen demand for this project continue to grow in the region."

The UAE has also been a significant part of the plans to set up a power grid for the entire GCC. The total cost of this project has been estimated at over US\$3 billion. The second phase of the operation involves linking the UAE with Oman before the final phase will see all of the other grids linked up.

Research from Proleads has estimated that the value of investment in water projects in the UAE has increased from US\$11.62 billion in 2007 to US\$14 billion in 2008.

BMI has predicted that the utilities industry value in the UAE will see growth of 86% between 2008 and 2013. The company has forecasted no reversal in plans to develop IWPP projects in the Gulf due to this nominal increase. The growth also highlights the scope for the participation of private companies in the country.

Burns believes that the economic climate has affected the utilities sector, and it has also proved to be a major boost for the power rental market.

"By renting equipment, companies can ensure that they will not be left with equipment which will sit unused; if a company which has purchased large amounts of equipment decides that an exploration project must be put on hold, the financial damage incurred can be a major blow," he says.

A major oil pipeline is to be installed in the UAE, which will stretch 400km from the Habshan oil field in Abu Dhabi to the Fujairah port. It is expected to be trialed in 2010 and will have a maximum capacity of 1.5 million barrels per day. China National Petroleum Corporation has been awarded the contract to build the pipeline.

Dubai

Dubai is the Emirate which has seen the largest growth at the fastest pace. It has been the frontrunner of all of the Emirates and for that reason has faced the most challenges. Nearly US\$7 billion is currently being spent on projects. Dubai Electricity and Water Authority (DEWA) is spending US\$357 million on water projects alone, with more expected by the end of the decade.

In 2006 the installed generating capacity in Dubai was 4.6GW, which came from six power stations meeting a peak demand of 4.11GW. There are 1,180km of overhead cables in the Emirate and a total of 1,935km of underground cables.

It has been reported that the Dubai government has approved plans for DEWA to sell all of its electricity and water plants through an IPO or private sales. This would provide investors with a huge number of opportunities.

Contract awards in Dubai are still ongoing in both power and water projects. It was reported in March that Ibedrola, a Spanish firm, had been pre selected for the concession to build the largest solar thermal power plant in the world, to be based in Dubai. In the same month two transmission stations were announced by DEWA. One is to be located in the Gardens and the other at Warsan, they will have a combined capacity of 400kV.

A project agreement was also signed by DEWA and Metito, worth US\$10.4 million in February this year. The project involves design, construction and augmentation works in the Jebel Ali Power Complex. The Portland Group has also reportedly been looking to develop wind and solar energy in the Emirate.

DEWA recently announced the tender for the construction of the Hassyan power and desalination plant has been deferred. It is expected to be released for bidding again in September.

Abu Dhabi

In Abu Dhabi investors have gained the opportunity to enter the market thanks to a partial divestment of integrated water and power plants. Investment overall in the UAE is still strong in the utilities sector.

Abu Dhabi is the Emirate which has been linked with nuclear power for the longest and it is expected that any UAE nuclear programme will start there. This move, along with the divestment of the power sector, suggests there will be further opportunities for private enterprise over the coming years. Japan's Ministry of Economy and Trade revealed on January 19 that it has signed a MoU with the government of Abu Dhabi for cooperation in the nuclear power generation sector. This will include the preparation and planning for the development of a nuclear power plant, training for staff and the handling of nuclear waste.

In Abu Dhabi there are a number of energy projects underway as part of Masdar's alternative energy initiative. Masdar announced in January that construction work had begun on an on-grid 10MW solar power plant which is expected to generate 17,500MWh every year. The plant will generate power to support the construction of Masdar City, which will rely completely on renewable resources for its energy.

Two contracts were awarded to the Indian engineering conglomerate Larsen and Toubro in Abu Dhabi, worth AED848 million (US\$231 million). The first contract involved seven electrical substations for Al Ain distribution and the second was from Abu Dhabi Distribution to expand a 33kV power transmission network, in the west of the Emirate.

Abu Dhabi Water and Electricity Agency (ADWEA) is predicting that the demand for water in Abu Dhabi will rise by 43% in the next five years and it has set targets to increase production from 626 million gallons per day to 969 million gallons per day by 2013.

Sharjah and the Northern Emirates

Major utilities and infrastructure deals are also underway in the Northern Emirates. The UAE government and a unit of the Malaysian Mining Corp has signed a contract to build a US\$2 billion coal fired power station in Ajman.

In Sharjah, SEWA announced in October the commissioning of the Khor Fakkan desalination plant, which will produce 2.5 million gallons of water per day in its initial stage. The Sharjah Municipality has also revealed it has allocated AED1.24 billion to improvements and completion of sewage treatment and road projects.

Overall the UAE is a complex country to provide power for, especially in these strange economic times.

Population growth may be slowing slightly, but the need for power, water and infrastructure remains. With privatisation talks in Dubai seemingly around the corner, the number of business opportunities in the UAE could be on the rise in the near future.

UAE tenders

33/11kV substation works in Northern Emirates

Closes: June 9

Issuer: Federal Electricity and Water Authority

Details: Scope of work includes construction of 33/11kV substation works in northern emirates.

Extension of existing 33/11kV substations in the Northern Emirates

Closes: June 9

Issuer: Dubai Electricity and Water Authority

Details: Scope of work includes extension of existing 33/11kV substations in the Northern Emirates.

Supply of one complete pump motor without base frame in UAE

Closes: June 15

Issuer: Dubai Electricity and Water Authority

Details: Scope of work includes supply of one complete pump motor without base frame for Najma Pumping Station, phase 3.

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