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UAE plans to construct water, power projects worth $55bn

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THE UAE's spending on power and water projects has not been affected by the economic crisis. Data from ProLeads shows that the country has projects worth $55 billion (Dh200 billion) under construction or at the planning and design stages.

There are 48 projects worth Dh160 billion in the power sector and 37 projects worth Dh40 billion in the water sector.

Despite a sharp decline in oil revenues the UAE has continued its counter-cyclical fiscal spending on infrastructure. The International Monetary Fund (IMF), along with other international agencies, has praised the move. "From the IMF point of view it was a very sensible thing to do," says Dr Masood Ahmed, director of the fund's Middle East and Central Asia Department. "They saved for a rainy day and it is a rainy day today."

Khalid Al Awadi, a Dubai-based independent energy expert, says: "The crisis has had very little impact on electricity demand. Yes there has been a little reduction, but demand is still growing. The region needs to continue investing in energy infrastructure."

Water consumption is also on the rise because of increased urbanisation, industrial development and population increase. "To meet this challenge we had no choice but to resort to the desalination of seawater," says UAE Ministry of Energy Mohammed bin Dhaen Al Hamli. "Our production capacity in 2008 was more than a billion gallons of water per day, which is equivalent to 13 per cent of the capacity of desalination plants globally."

Dr Rashid Ahmed bin Fahad, Minister of Environment and Water says there were more than 30 desalination plants operating in the country with a capacity of 1.3 billion cubic metres a year, which meet 98 per cent of the UAE's household and industrial water demand.

"Nevertheless, the demand for water remains high. Future projections indicate that demand will rise from five billion cubic metres now to seven billion cubic metres in 2020. In light of these forecasts, the Ministry of Environment and Water, in co-operation with its strategic partners, is working to develop strategies to maintain water resources and manage the demand to ensure sustainability," he says. To further address the growing demand, the region should start preparing for energy market unbundling and restructuring as well as on maximising return on assets.

According to Dr Maher Chebbo, vice-President for energy and head of utilities and services industries, SAP Emea, the GCC countries' current demand for electrical power is about 70 GW and this is expected to triple over the next 25 years.

"GCC countries are reforming their power sector to allow competition at the generation level through the introduction of independent power providers (IPPs). The stages in each country is different and each has its own stage of unbundling," says Chebbo.

In Saudi Arabia, for instance, the government has permitted the private sector to invest in power generation. It also has developed a reform plan for a three-stage electricity market evolution over the period 2008'??2016.

Unbundling and generation competition has started last year, wholesale competition is set to run in 2010 to 2013, and thereafter retail competition will run in 2013 to 2016.

Bahrain, on the other hand, is shifting from a vertically integrated model to a single-buyer model thereby allowing private sector participation in generation.

In the case of the UAE, which is recording 10 per cent increase in demand per year, more than four-fifths of the production of electricity and water has been sold to independent water and power providers (IWPPs). However, with the privatisation of some of the six IWPPs the government still retains full ownership of the monopoly businesses of procurement, transmission and distribution.

In Oman, he says, a law that took effect in 2005, drove the privatisation of the power sector and lead to the opening of more opportunities for private investors and the establishment of an independent regulator. Plans are underway to privatise the transmission and distribution side of the sector. The non-Opec country has privatised one of the three government-owned production facilities.

Qatar has initiated a programme for the reform and privatisation of the electricity sector by granting licences to private sector entities to build generation plants. The largest LNG exporter and producer is also currently studying the possibility of privatising Kahramaa and forming a transmission and distribution company. Chebbo says although Kuwait's annual electricity demands are among the highest in the GCC, the Kuwaiti government has, so far, no plans to reform the electric power sector. "Kuwait is likely to remain vertically integrated," he adds.

Recently, Sewa has increased its tariff by 50 per cent. Despite this, the emirate would still have to bear nearly half of the cost of generating, transmitting and distributing the electricity. This setup akin to many other GCC states, is creating unsustainable demand, and will continue to pressure utility firms.

"If the price could be similar to the market price, we can say the electricity curve will not be the same," says Dr Ahmed Nasreddine, advisor to the secretary-general of the League of Arab States. "So the GCC has to make an effort to make the prices more acceptable and be closer to markets standards to be able to address this kind of demand," he adds.

According to Dr Adnan Shihab Eldin, former secretary-general of Opec, the government subsidies have resulted to massive and sometimes excessive usage of the expensive energy. "Subsidies in the GCC vary. On an average you are talking about 60-70 per cent varying from almost a 100 per cent to

50 per cent," Eldin says.

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