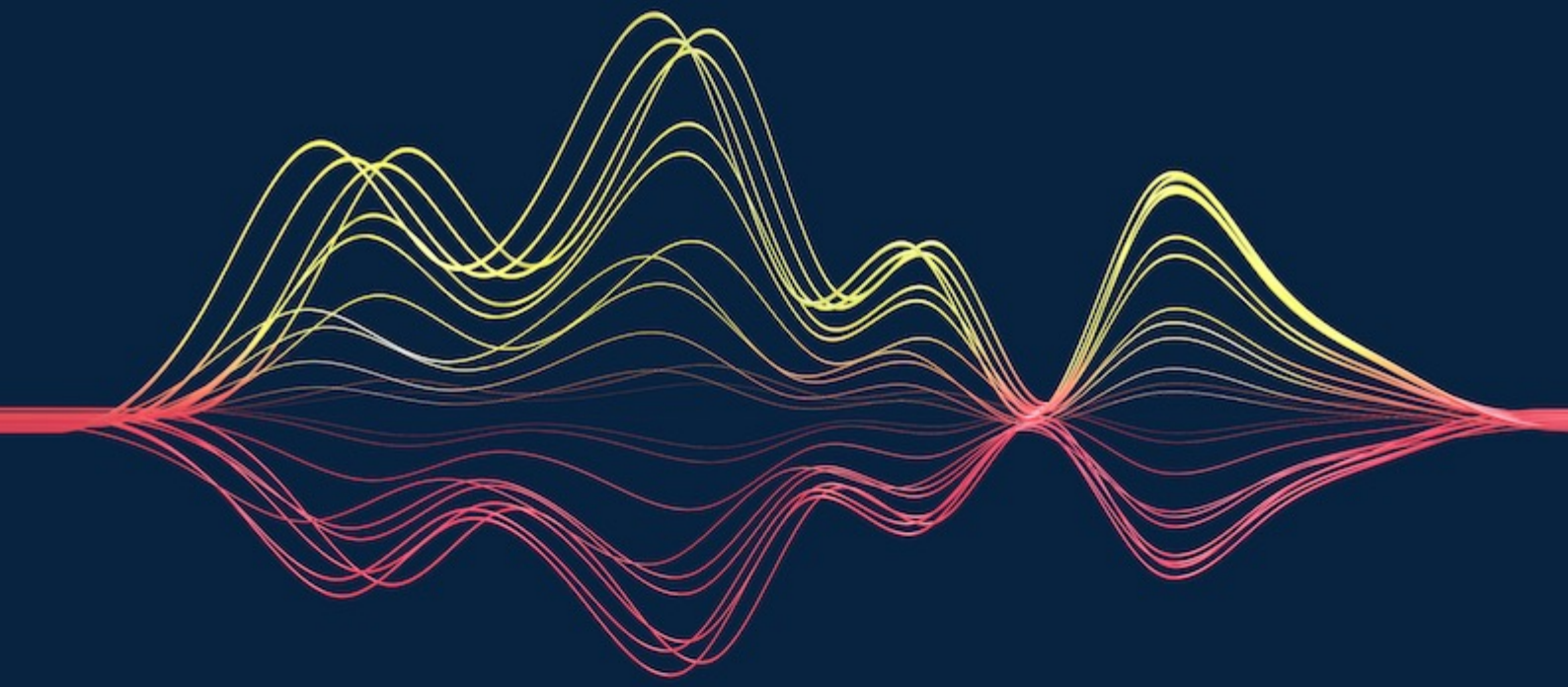
BAHRAIN

Corporate Power Purchase Agreements



DLA PIPER

Bahrain

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PPA structures and parties involved

To what extent are corporate PPAs presently deployed and what sort of structure do they take?

Independent electricity plants owned and controlled by private sector companies produce approximately two-thirds of electricity in Bahrain, and their overall output is connected to the national grid under PPAs between the Electricity and Water Authority (EWA) and the independent provider.

Long-term power purchase agreements are seen as an incentive by a competitive procurement mechanism to attract private investors to develop renewable energy projects in Bahrain.

Do the country's regulators allow corporate owners to purchase (1) directly from a facility, or (2) from a choice of suppliers?

Pursuant to article 2 of the Electricity and Water Law No. 1 of 1996 (Electricity Law) in the Kingdom of Bahrain (Bahrain), with the exception of personal use, no natural or legal person or any entity not affiliated with the Ministry of Water and Electricity can produce or distribute electricity except with a written license issued by the Minister of Water and Electricity, in such cases and under the conditions issued by a decision of the Council of Ministers. [1]

[1] Electricity and Water Law No. 1 of 1996

Other than the generator and the off-taker, are any third parties commonly party to the PPA structure (e.g. a utility or other market agent)?

Information not publicly available.

Is a generator permitted to sell electricity directly to an end user? If so, do they require a licence or other form of authorization?

The Electricity and Water Authority (EWA) is the sole body responsible for electricity transmission, distribution and grid operations. Please see Third parties.

Challenges

What are some of the technical, political, financial or regulatory challenges to corporations adopting green energy in the short/medium term in your country and how have these challenges been overcome (or how can they be overcome)?

Private production of electricity in Bahrain requires authorization from the relevant government authorities in Bahrain (either through legislation or concessions).

The current Electricity Law allows for the private generation of power. But each IPP scheme requires written authorization from the relevant minister and approval from the Cabinet. As the law was drafted at a time when renewable energy wasn't considered a viable alternative source of energy, this scheme isn't suitable to stimulate private investment in renewable energy as it's geared towards large-scale conventional power plants, where fuel input is an important consideration.

Renewable energy technologies have matured significantly, the costs have declined, and the options have improved.

To stimulate investment in renewable energy, the current law needs to loosen its requirements and allow private deployment of renewable energy plants without an extensive prior authorization process from the government.

The laws in Bahrain don't authorize exporting onsite generated energy to the main grid. To stimulate investments in renewable energy, especially by households and commercial users, it's important to allow renewable energy plants to export the excess power to the grid.

Under the current legal framework and market structure, EWA is the sole buyer and distributor of electricity in Bahrain. To motivate private developers to invest in renewable energy, there needs to be a mechanism whereby private investors can sell the power produced from renewable sources and generate income. The key components of this mechanism are price and guarantee of purchase of electricity from renewable sources. So it's important to create a policy that will define a purchase price for electricity from renewable sources and guarantee the purchase of electricity. This can be either a feed-in tariff policy, or auctions or public competitive tenders.

Electricity in Bahrain is mainly produced from natural gas, and, as a result, the cost of power generation depends highly on the gas price. According to estimated planned gas price increases, the cost of electricity supply will increase even more with time.

Another technical and financial challenge Bahrain faces is the inefficient electricity production system, and the reinjection of a relatively large quantity of gas to support enhanced oil recovery. As a result, Bahrain uses almost three-quarters of its primary energy for electricity production, energy industry own use and non-energy use.

Although Bahrain has attempted to subsidize electricity tariffs, that in itself is not efficient. As a way to overcome this, EWA has introduced, and is implementing, the Government Action Plan 2023-2026 (GAP 2023-2026). The plan is to move towards using less energy for the same output or service, cutting costs in the long-run. [1]

[1] Government Action Plan 2023-2026 issued by Electricity and Water Authority

Regulatory changes

Are there any anticipated regulatory changes which will alter the regulatory landscape for corporate green energy and corporate PPAs?

Bahrain's GAP 2023-2026 was finalized in December 2022. The GAP 2023-2026 identifies feasible renewable energy options for Bahrain, sets targets, and proposes policies and initiatives to achieve these targets. The target is to use less energy for the same output or service.

To achieve these targets, decree No. 9 of 2023 was issued to regulate the Ministry of Sustainable Development [1] to further enhance Bahrain's sustainable development efforts.

[1] Decree No. 9 of 2023 regulating the Ministry of Sustainable Development

Incentives and benefits

What is the corporate appetite for green energy, including any political or financial incentives available to corporates to adopt green energy?

For residential, commercial and industrial electricity customers, the GAP 2023-2026's objective of enabling its consumers to generate onsite, grid-connected, renewable energy power is incentivized by reducing the electricity bill through onsite power generation and the ability to credit the excess electricity fed back to the grid.

The Building Energy Labeling initiative was introduced to enable prospective tenants and buyers to consider energy performance in in their rental or purchase decision. By doing so, buildings can command a premium when being rented or sold. This encourages building owners to implement energy efficiency measures to improve their energy efficiency rating.

For new building and real estate developers, the GAP 2023-2026's objective of requiring integration of renewable energy technologies in the building design is also incentivized by reducing the electricity bill.

Regarding renewable energy developers and large electricity customers, GAP 2023-2026's objective to attract private investors to develop renewable energy projects through a competitive procurement process is incentivized by long-term power purchase agreements.

What are the key local advantages of the corporate PPA model which can benefit our clients?

Generally speaking, PPAs make brands more sustainable and greener, provides energy and price security, reduces the risks associated with electricity sales and purchases and creates better market opportunities.

What subsidies are applicable to the generation and sale of renewable energy?

Bahraini nationals holding an EWA single account pay electricity tariffs of 3 fils for the first 3000 kWh, 9 fils for consumption between 3001 kWh and 5000 kWh and 16 fils for consumption above 5000 kWh.

Does your country implement a national support scheme with tradable green certificates (such as guarantees of origins)?

Tamkeen, a semi-autonomous government agency in Bahrain, provides a financing plan to enable institutions wishing to obtain financing for purchasing and installing solar panels to generate energy, in addition to subsidizing the cost of auditing solar energy accounts.

Typical PPA terms and risk allocation

To the extent corporate PPAs are deployed, how are prices, terms and risks affected?

Topic	Details
Do prices tend to be floating or fixed?	Information not publicly available.
What term is typically agreed for the PPAs?	A contract shall be drawn up according to the model form of contracts approved by EWA.
Are the PPAs take-or-pay or limited volume?	Information not publicly available.
Are there any other typical risks?	Information not publicly available.

To the extent corporate PPAs are deployed, in whose favour will the risks typically be balanced?

Type of risk	Details
Volume risk	Information not publicly available

Change in law	Information not publicly available
Increase / reduction of benefits	Information not publicly available
Market liberalisation (if applicable)	Information not publicly available
Credit risk	Information not publicly available
Imbalance power risk	Information not publicly available
Production profile risk	Information not publicly available

Balancing

Does your country operate a balancing responsibility scheme?

Information not publicly available.

If your country operates a balancing responsibility scheme, who is the balancing authority and do the generator and offtaker typically undertake balancing themselves?

Information not publicly available.

Significant transactions

What significant transactions/deals have taken place in the last 12-18 months?

EWA has accepted nine qualified bids in a tender for the construction of a 44-MWp solar photovoltaic (PV) park on the campus of the University of Bahrain.

The PV project will be implemented on a turnkey basis. The selected contractor will be in charge of its engineering, design, manufacturing, supply of materials, installation, testing and commissioning. And it will take care of all civil and electromechanical works.

The solar farm will consist of ground-mounted arrays and several carport systems. Once in operation, the plant is expected to generate about 75 GWh of electricity annually.

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