

Meza la Paz wind farm, Mexico

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At a time when financiers are questioning the wider bankability of renewables in the country, due to low electricity prices and political uncertainty, Mexico has reached financial close on its largest ever wind project with the backing of private investors.

EnerAB, a 50:50 joint venture between AES and Grupo Bal, has closed on the 306MW Mesa la Paz wind farm using a traditional project finance structure, which, for Mexico, is pretty unconventional. Financing agreements were closed at the end of May, but now the market is analyzing the specifics of the transaction, which could potentially be replicated for upcoming projects.

The key here is the long-term power-purchase agreement with a private counterparty. Located in Mexico's Tamaulipas state, the Mesa La Paz wind project has a 25-year corporate PPA with local industrial conglomerate Industria Peñoles, starting on April 2020. The PPA covers 80% of the energy that will be produced at the wind farm.

The Mexican industrial sector has historically paid nearly 50% more for electricity than American industries for a number of reasons, such as low generation capacity and regulatory restrictions to the private sector.

In 2013 the country started energy reforms that opened local oil, gas, and electricity markets up to foreign companies and investors. The government had three auctions for energy, power and clean energy certificates since the reform, and wholesale electricity costs started to decrease.

Despite a trend of continued price decreases, Mexico still has a large bottleneck in transmission. There are also questions about the capacity to attend the demand. Most new electricity production comes from gas-fired plants, and these depend on gas imports from the US – which has also reached capacity leading to new pipelines suffering delays.

With industrial power rates much higher than government-subsidized residential rate, many industries are reaching for private electricity production in order to agree long-term PPAs, as was the case with Industria Peñoles and Mesa La Paz wind project.

"The 25-year PPA in dollars, something that is not common to see in Mexico, allowed us to have the robustness required in order to come up with a unique financing structure for Mexico, which was a long-term bond in the private sector. It was funded from construction all the way down to basically the end of the PPA", AES Mexico CEO, Juan Ignacio Rubiolo, has told *IJGlobal*.

The financing

The sponsors achieved a debt/equity ratio of 76:24 – with financing comprising \$440 million in debt, and roughly \$140 million in equity.

Debt raised for the project included three facilities:

- \$304 million in notes
- \$73 million in credit facilities
- \$63 million in working capital

The 5.98% senior secured notes due 2044 were issued in the US private placement market. The notes have a 26.5-year tenor, which includes the construction period plus most of the duration of the PPA. It was the first time that AES Mexico had issued green bonds.

Placement agents and credit facility providers were:

- BNP Paribas
- JP Morgan

The \$73 million in credit facilities will be used to cover project and financing obligations.

Local development bank Bancomext provided the working capital facility, which will be used for value-added tax payments during construction.

The financing has a delayed draw feature, meaning that the sponsors will not receive 100% of the raised funds upfront. Instead, it will be received in accordance with the construction calendar, reducing the cost of carrying the debt, according to a person close to the transaction.

Mexico has very strong local banks, including development institutions. Many times PPAs are priced in local pesos, which means that many energy projects in the country are financed by local institutions for the construction period. It means that many projects have the refinancing risk once construction is completed.

In the case of Mesa La Paz, the project bonds cover both the construction period and the PPA. AES Mexico's CFO, Kristina Lund, believes that similar financing structures will be used in Mexico and in Latin America in the future.

"I do see the potential to use a similar financing for other projects that are well structured like this one. (...) Because of the strength of the customer and the quality of the contract and the structure of the financing, we were able to lock in very attractive terms and take away the refinancing risk after the construction. This is a very attractive model. I think it is a model that we would like to use to use again," she told *IJGlobal*.

Balance of plant (BOP) contract for Mesa La Paz has been signed with Acciona. DNV GL – Renewables will be the independent engineer, while Vestas is providing the wind turbines.

The project includes construction, operation, and maintenance of the wind farm – including two substations and one transmission line associated with the project.

Commence of operations are expected for September 2019.

Legal advisers on the project included:

- Latham & Watkins – to sponsors (NY)
- Galicia Abogados – to sponsors (Mexico)
- Paul Hastings – to investors and banks (NY)
- Mijares, Angoitia, Cortes & Fuentes – to investors and banks (Mexico)

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