

New debt and equity products for Uruguayan wind

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The Inter-American Development Bank (IADB) has just approved loans to two Uruguayan wind farms that state power company UTE is developing. Initial public offerings of shares in both Colonia Arias and Valentines are due to launch imminently, and capital markets - both debt and equity - will have a greater role in financing renewables in Uruguay.

Uruguay is on track to generate more than 90% of its power from renewable sources and wind accounts for one of the largest shares of total generation anywhere in the world (28%), according to Uruguay's National directorate of energy (DNE).

In 2010 and 2011 UTE held two tenders under which it awarded 20-year power purchase agreements (PPAs) for 300MW of wind capacity to the private sector. Then, in 2013, the state-owned firm said it would develop another 533MW as seven projects in which it would retain total or partial ownership. These seven projects include Colonia Arias and Valentines.

UTE is experimenting with using new equity funding sources for its wind projects that could make local institutional investors more familiar with these assets and stimulate capital markets financing in the sector. Rafael Matas Trillo, an investment officer at the IADB, says: "Uruguay wants to raise institutional or retail investor liquidity in the market through some interesting structures".

IPOs gain momentum

Earlier in May, the IADB approved a total of \$216 million in debt financings for two wind farms of 70MW each.

The bank has agreed to provide a loan of up to \$72 million from its ordinary capital and up to \$36 million from the China Cofinancing Fund for Latin America to Colonia Arias, located in the department of Flores. IADB approved loans of the same sizes to Valentine, located in the departments of Florida and Treinta y Tres.

The IADB has indicated that it expects to bring in a commercial bank to provide some of the projects' senior debt. Both wind farms will sell all of their output to UTE under long-term PPAs.

Colonia Arias and Valentines are not the first wind projects in Uruguay to be the subject of an IPO. In March 2015 UTE's 141.6MW Pampa project became the project to raise this sort of financing.

[Pampa issued \\$100 million in shares in the Montevideo stock exchange](#) to fund its remaining construction costs, after closing a \$224 million Euler Hermes-guaranteed debt financing with KfW and BayernLB. UTE will retain a 20% stake in and operate Pampa. It will also buy all of Pampa's output under a 20-year offtake agreement priced at \$0.0635 per kWh (indexed to inflation from 2010).

Colonia Arias will issue shares through a trust, Fideicomiso Financiero Arias, while Valentines uses a sociedad anónima (SA), Areafin. Trusts are understood to be more suited to attracting institutional capital, while an SA is more suited to retail investors. The Arias trust structure is almost identical to that used for Pampa.

"Given UTE's track record of creditworthiness and experience, the fact that it will retain a stake in the projects is expected to be well-received and creates a nice wrap for the structure" comments Matas: "This innovative structure can be replicated in other Latin American countries, with the right public utility and offtaker".

Project bond appetite

Next to the use of retail equity for project funding, closing a debut project bond in Uruguayan might look also vanilla. But increasing the participation of institutional investors - particularly domestic ones - in wind financing will be key to reducing the sector's dependence on

multilaterals.

The IADB is working on a private placement for [Abengoa's 70MW Campo Palomas wind project in the department of Salto](#). Abengoa will lease Campo Palomas to UTE, which will make operations and maintenance payments to the project company upon completion. The financing for the \$175 million project is expected to be funded through a 20-year IADB A/B loan package comprising:

- A \$35 million A loan on the IADB's own account
- A \$105 million B loan that would be privately placed to institutional investors

The IADB and Norwegian lenders DNB are expected to also provide partial credit guarantees, for \$35 million and \$70 million respectively, for the benefit of the B lenders during construction.

While the above projects would benefit from the presence of UTE as owner or lessor, a project bond may be feasible with UTE acting purely as offtaker. German sponsor Sowitec recently closed a \$90 million construction loan for the 50MW Vientos de Pastore wind farm in Uruguay with Deutsche Bank.

Deutsche sold down the loan to Banca Intesa and ICBC, making the Vientos de Pastore construction financing the first to close with commercial banks. The lenders are comfortable with the exposure, because the loan is designed to be taken out with a bond financing within its 18-month term.

One source familiar with the financing says that there could be considerable appetite from both international and domestic investors for Uruguayan wind project bonds. Vientos de Pastore has a UTE PPA with full dollar indexation, and would feature little, if any, construction risk by the time any bond financing launches.

But whether international investors respond to this risk profile depends on the premium they assign to Uruguay country risk. Uruguay is investment grade, with Standard & Poor's rating it BBB-, and Moody's rating it Baa2, though any project bond would achieve lower ratings.

The source adds, however, that while any bond financing could be structured to appeal to both onshore and offshore investors, the local market may now be liquid enough that the bond could be placed domestically only.

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