

# Bankers worried about low Mexican electricity prices

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**Juliana Ennes**

04/12/2017

Mexico's third round of long-term power purchase agreement (PPA) procurement will drive investments of \$2.4 billion into 15 new power plants. The auction attracted international attention for the low average price of \$20.57 per MWh. The Mexican government is happy, the winning developers are happy, but international commercial banks are worried. The low prices are at the same time seen as a measure of the success of the Mexican energy reform and a cause for concern over how the projects will be financed.

The bidding process awarded PPAs to nine solar projects, five wind farms, and one gas-fired power development. Together, they will generate 2.5GW of capacity. As in the first two rounds, the auction offered three different products: energy (MWh), firm capacity (MW) and clean energy certificates (CELS).

The electricity will be sold to the off-taker Comisión Federal de Electricidad (CFE) under 15-year PPAs for energy and 20-year contracts for CELs.

## Neoen

The independent French energy supplier Neoen received permission to build the largest installed capacity of the third Mexican power auction: its 377MW solar PV project is due to be connected to the grid in June 2020.

Neoen also competed in the two first auctions, which allowed the company to leave the third auction with conversations for financing already in place. Using Astris Finance as adviser, the French company will use exclusive use project rather than corporate finance to fund development.

Someone close to the negotiations said the company had issued a high-level project finance memo prior to the auction and now is in the process of including more information to a proposal to send to financial institutions before the end of 2017. The intention is to work with both development and commercial banks, locally and internationally.

The local legal counsel on the development of the project and on the tender process was Rich Mueller. The selection of international legal counsel for structuring and financing the project should be finalized in the next few weeks.

## Enel

Enel won the [largest share](#) of power, with four wind projects in contracts to supply energy for 15 years and CEL for 20 years for a total capacity of 593MW. The group will invest \$700 million in the construction of the plants.

Enel will build Amistad II (100MW), Amistad III (100MW) and Amistad IV (149MW) in Acuña, in the Northern state of Coahuila. The first two will generate 350GWh per year each, while the last one is expected to generate 510GWh annually.

The fourth plant, called Dolores, will be located in Nuevo Leon state. It will have a capacity of 244MW and is expected to generate 850GWh each year.

### **Invenergy**

Another winner of the third bidding process was Invenergy. The company has been awarded a 500MW capacity contract in Mexican power system operator CENACE's third long-term auction for its proposed natural gas peaking power plant, the Los Ramones Energy Center.

The project will be developed in association with Capital Energético Mexicano and Holding Los Ramones. The simple-cycle facility will have the capacity to generate up to 555MW of power from two GE H-Class gas turbines. Commercial operation is expected to commence in the second quarter of 2020. The awarded contract will be signed in Q1 2018, and it will be for a 15-year term of 499.95MW of capacity from the plant.

### **Acciona**

Acciona Energia has been awarded 52.04MW of capacity in the third long-term auction held in Mexico. This capacity will be provided by a wind farm already in construction and expected to come online in Q3 2018, in the state of Tamaulipas.

The project is named El Cotijo and is the result of the first bidding process, in which Acciona was awarded 585.7EWh of energy and the associated CELs. With the latest award, the company says it will receive revenues under the three remuneration parameters envisaged in the legislation.

El Cotijo will use 61 wind turbines of 3MW each, with Nordex Acciona Windpower technology.

### **Canadian Solar**

One of the largest solar power companies, Canadian Solar was awarded three projects in Aguascalientes, Hermosillo and Obregón, for a total of 367MW. The projects will increase Canadian Solar's pipeline of projects in the country to a total of 435MW.

### **Prices**

The average price of \$20.57 per MWh is one of the lowest prices in the world for electricity generation. The fact was celebrated both by Mexican government officials and developers as a demonstration of the strength of the energy reform that opened the country to international investors.

Developers believe that the projects are not unrealistic from the financial standpoint due to technological advancements, massive scale and a better professionalization of the renewables sector.

Some observers think the projects may be reliant on development banks, with commercial banks put off by the thin margins. Many commercial bankers are skeptical whether all of the projects awarded will become a reality, given the low bid prices.

There is a long history of project financing IPPs in Mexico, although some utilities such as Iberdrola fund projects corporately. The Norte III , which was awarded in January 2015 for a tariff of Ps0.7446 per kWh, [reached financial close in September](#) with a group of international commercial banks providing a five-year mini-perm. Whether such bank appetite exists for this latest round of tenders seems doubtful.

Lawyers spoken to by *IJGlobal* are far more positive about the auction however. They see the energy tenders as extremely successful, particularly as the number of projects offered in each tender has been modest and matched to the amount of developer appetite in the market.

The official results released on 22 November confirmed the [preliminary winners](#) in the auction as:

- X-Elio
- Neoen
- Compañía de Electricidad Los Ramones (with Invenergy)
- Canadian Solar Energy Mexico
- Engie Eolica
- Engie Solar
- Enel
- Mitsui & Co/Trina Solar
- Energia Renovable del Istmo II (Acciona)

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