

❖ Green Evaluation

# Eólica Mesa La Paz S. de R.L. de C.V.'s Proposed US\$303 Million Bond

## Transaction Overview

Eólica Mesa La Paz (Mesa La Paz or the project) is a 306 megawatt (MW) onshore wind farm located in the state of Tamaulipas, Mexico. The project is currently under construction and we expect the commencement of operations by September 2019. Mesa La Paz expects to issue in the short term new senior secured bonds for a total amount of \$303 million with final maturity in December 2044 under a project-finance structure. All proceeds will partially fund the construction of the facility.

**Entity:** Eólica Mesa La Paz S. de R.L. de C.V.  
**Subsector:** Renewable Energy  
**Location (HQ):** Mexico  
**Financing value:** US\$ 303 million  
**Amount evaluated:** Full  
**Evaluation date:** April 2, 2018  
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## Green Evaluation Overview

### Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

**80**

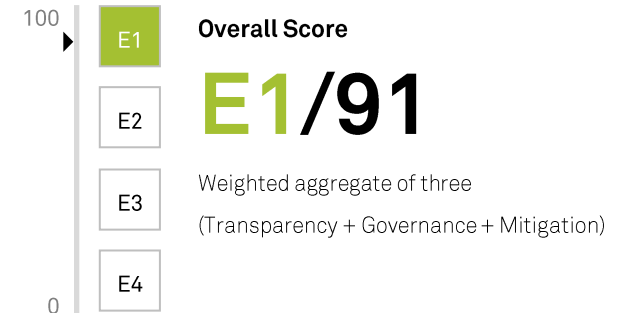
### Transaction's Governance

- Management of proceeds
- Impact assessment structure

**95**

## Mitigation

<b>Sector</b>	→	<b>Net Benefit Ranking</b>	→	<b>Hierarchy Adjustments</b>	
Green Energy		Wind Power Generation		Carbon	<b>92</b>



## Project Description

Mesa La Paz is a 306 MW greenfield onshore wind project located in the state of Tamaulipas, Mexico that consists of 85 Vestas V136-3.6 MW turbines. The project also includes an operation and maintenance building, two substations, a project-owned transmission line, and associated infrastructure.

Mesa La Paz expects to issue a new senior secured bond for \$303 million with final maturity in December 2044 under a project-finance structure to partially fund the construction of the mentioned wind park. The bond will be labeled as green. The remaining funds for the construction of the project (estimated on an aggregate basis at about \$420 million) will come from the project's sponsors.

The project will benefit from a 25-year power purchase agreement (PPA) with Fuentes de Energía Peñoles S.A. de C.V. that will be ultimately guaranteed by its parent, the metals producer Industrias Peñoles S.A. de C.V. The PPA starts on April 1, 2020. Consequently, during the first seven years after commencement of operations, the PPA will cover only a portion (around 80%) of the energy generated, while the remainder will be dispatched in the spot market.

Moreover, we believe this project fits properly within the government's energy plans, considering Mexico's intention to increase electricity generated from clean energy sources to 35% by 2024 and 50% by 2050 and to reduce greenhouse gas emissions by 30% by the end of the decade.

## Scoring Summary

This transaction achieved an overall Green Evaluation score of E1/91. E1 is the strongest Green Evaluation score on our scale of E1 (highest) to E4 (lowest). We have evaluated 100% of the proceeds of proposed US\$303 million bond allocated to the Mesa La Paz project. This score is determined by taking a weighted average of the excellent Transparency (80), solid Governance (95), and robust Mitigation (92) scores. In our view, renewable energy generation's contribution toward systemic decarbonization, the strong governance framework, and transparent reporting mechanisms position this financing at the top end of our scale.

## Rationale

- All the proceeds from the debt issuance will be allocated to the construction of a wind farm, which ranks high in our carbon hierarchy, contributing to a strong mitigation score.
- The Transparency and Governance scores are supported by a robust project finance legal structure that governs the use of cash as well as higher-level commitments to reporting on carbon-reduction efforts.

## Key Strengths And Weaknesses

The key driver behind the E1 evaluation is the allocation of funds to a renewable wind power project. Renewable energy sits at the top of our carbon hierarchy, as we believe it contributes to overall systemic decarbonization of the global economy. The environmental impact of wind projects typically ranks higher than solar on our scale given the better capacity factors over the life of wind projects. In the case of Mesa La Paz, the net benefit ranking of 70 reflects the high carbon intensity of Mexico's grid, which relies primarily on thermal sources.

The excellent governance and above average transparency scores reflect the issuer's decision to label the bond as green and to structure the transaction as project finance, which contemplates the creation of a cash flow waterfall and specific accounts to isolate the proceeds. In addition, the independent engineer will track, on a quarterly basis during the construction and annual basis during operations, environmental and social objectives such as visual impact, noise, biodiversity, shadow flicker, water quality, and workplace and community safety and hygiene.

Mesa La Paz does not intend to report the avoided carbon emissions during the operational phase of the project however they do intend to report on other environmental indicators including noise, biodiversity, shadow flicker and water quality during the full life cycle of the asset.

## Sector level scores

<b>Sector</b>	<b>Location</b>	<b>Technology</b>	<b>Use of Proceeds (\$ mil.)</b>	<b>Use of Proceeds treatment</b>	<b>Net Benefit Ranking</b>
Green Energy	Mexico	Onshore Wind Power Generation	303.00	Actual	70
			<b>303.00</b>		

# Carbon

## Green Evaluation Process

**80**  
Transparency

**95**  
Governance

**92**  
Mitigation

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

**E1/91**  
Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (US\$ mil.)
Wind power (onshore)		<b>70</b>	Systemic decarbonization	<b>92</b>	<b>303</b>
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build			Significant decarbonization in sectors already aligned with a green economy		
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment			Alleviating emissions of existing carbon-intense industries		
Unspecified					
Nuclear					
Large hydro in tropical areas			Decarbonization technologies with significant environmental hazards		
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal			Improvement of fossil-fueled activities' environmental efficiency		
Unspecified					

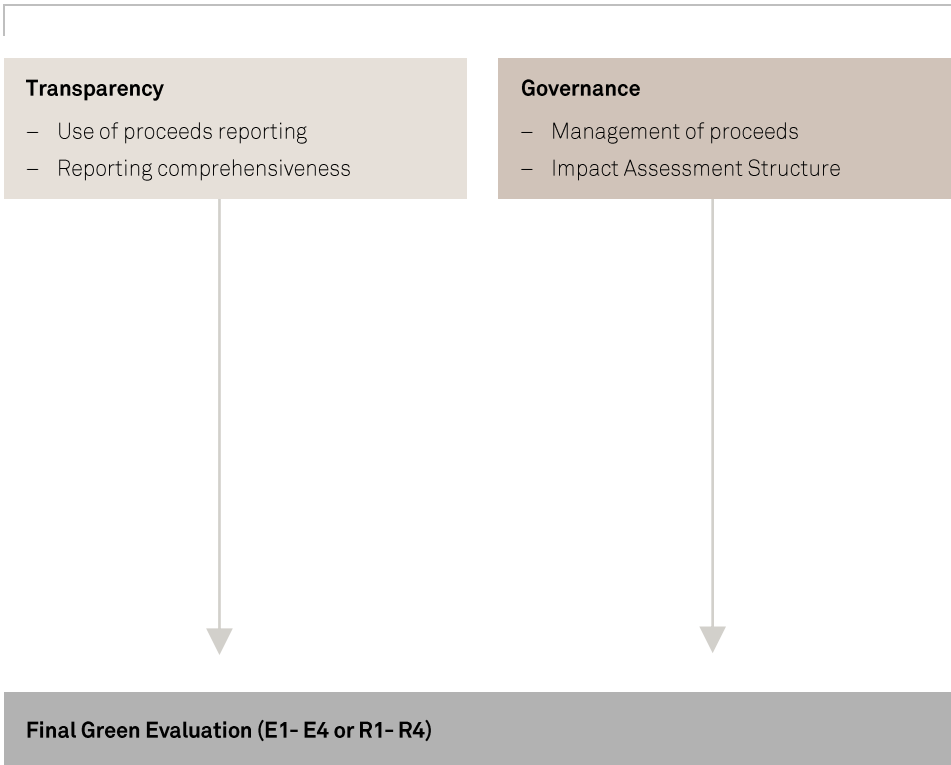
Increasing Decarbonization Impact

## Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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