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) offshore 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 US$303 million with final maturity in December 2044 under a project-finance structure. All proceeds will partially fund the construction of the facility.

Green Evaluation Overview

Transaction's Transparency
- Use of proceeds reporting 80
- Reporting comprehensiveness

Transaction's Governance
- Management of proceeds 95
- Impact assessment structure

Mitigation
- Sector: Green Energy
  - Net Benefit Ranking: Wind Power Generation
  - Hierarchy Adjustments: Carbon
    - Overall Score: E1/91

This product is not a credit rating.
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 V136-3.8 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.

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.

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.
## Sector level scores

<table>
<thead>
<tr>
<th>Sector</th>
<th>Location</th>
<th>Technology</th>
<th>Use of Proceeds ($ mil.)</th>
<th>Use of Proceeds treatment</th>
<th>Net Benefit Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Energy</td>
<td>Mexico</td>
<td>Onshore Wind Power Generation</td>
<td>303.00</td>
<td>Actual</td>
<td>70</td>
</tr>
</tbody>
</table>

| 303.00            |
# Carbon

## Green Evaluation Process

<table>
<thead>
<tr>
<th>Technology</th>
<th>Baseline Carbon Intensity</th>
<th>Net Benefit Ranking</th>
<th>Carbon Hierarchy Adjustment</th>
<th>Environmental Impact Score</th>
<th>Proceeds (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind power (onshore)</td>
<td></td>
<td>70</td>
<td>Systemic decarbonization</td>
<td>92</td>
<td>303</td>
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<tr>
<td>Solar power</td>
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<td>Small hydro</td>
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<td>Large hydro (excluding tropical areas)</td>
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<td>Energy management and control</td>
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<td>Unspecified</td>
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<td>Green transport without fossil fuel combustion</td>
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<td>Green buildings – new build</td>
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<td>Energy efficient projects (industrial and appliance efficiencies)</td>
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<td>Green transport with fossil fuel combustion</td>
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<td>Green buildings refurbishment</td>
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<tr>
<td>Nuclear</td>
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<td>Large hydro in tropical areas</td>
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<td>Coal to natural gas</td>
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<td>Cleaner fuel production</td>
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<td>Cleaner use of coal</td>
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## Our Green Evaluation Approach

- Systemic decarbonization
- Significant decarbonization in sectors already aligned with a green economy
- Alleviating emissions of existing carbon-intensive industries
- Decarbonization technologies with significant environmental hazards
- Improvement of fossil-fueled activities' environmental efficiency

<table>
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<th>80</th>
<th>Governance</th>
<th>95</th>
<th>Mitigation</th>
<th>92</th>
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</table>

Weighted aggregate of three (Transparency + Governance + Mitigation)

Overall Score: E1/91
Weighted aggregate of three:

- **Transparency** + **Governance** + **Mitigation** or **Adaptation** = **Green Evaluation**

Common approach used amongst opinion providers:

- **Transparency**
  - Use of proceeds reporting
  - Reporting comprehensiveness

- **Governance**
  - Management of proceeds
  - Impact Assessment Structure

Unique to S&P Global Ratings:

- **Mitigation**
  - Buildings, industrial efficiencies, energy infrastructure, transport, and water

- **Adaptation**
  - Resilience capex such as flood defenses, asset protection etc.

- **Net Benefit Ranking**
  - eKPIs: Carbon, Waste, Water Use

- **Cost Benefit Ranking**
  - Resilience benefit ratio: Estimate of reduction in damages if event occurs

- **Hierarchy Applied**

- **Environmental Impact**

- **Resilience Level**

- **Mitigation Score**

- **Adaptation Score**

**Final Green Evaluation (E1–E4 or R1–R4)**

eKPI – Environmental Key Performance Indicator
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