

Baseload

Argentina Launches Innovative Renewables Program

Talbert I. Navia

6.30.2016

Share





Argentina will hold a public auction on August 22 to buy 1,000 MW of renewable energy under an innovative program called “RenovAR” that includes a “green trust fund” to provide security and confidence to investors.

The government wants 600 MW from [wind energy](#), 300 MW from [solar energy](#), 65 MW from [biomass](#), 20 MW from [small hydroelectric plants](#) and 15 MW from [biogas](#).

The bid documents are expected to be published on July 1 and be available for purchase from the government on July 2. Winning bids will be announced on September 28.

[Argentina has set an aggressive program](#) to reach 20 percent renewable energy by the end of 2025. Currently, 1.8 percent of power demand in Argentina is supplied through renewable energy.

The FODER Advantage

One of the key features of the new framework is a sector-specific trust fund, the “Trust Fund for Renewable Energy” or “FODER,” that has been set up to provide payment guarantees for all tendered power purchase agreements as well as project financing assistance.

Argentina allocated ARS 12 billion (US\$860 million at current exchange rates) to FODER. FODER is divided into

multilaterals, and will be used to offer long-term project loans as well as to provide interest rate subsidies and equity contributions to renewable energy generation project companies.

A separate payment guarantee account will be used to guarantee payments for electricity under all power purchase agreements (PPA) tendered through the RenovAR program. This account must always have on deposit at least 12 months' worth of payments due by the offtaker under the PPAs. Although this account is primarily funded by a specific charge to consumers, if at any point FODER does not have enough funds, then Argentina's Ministry of Finance has an obligation to replenish the account. This mitigates the risk that the Administrator of the Wholesale Electricity Market (CAMMESA), which depends on the Argentine state, will lack sufficient funds to purchase the power contracted under the PPAs. Winning bidders take advantage of FODER's protections by signing an accession agreement with the FODER trustee at the time the PPA is signed.

FODER also provides the winning bidder with an option to "put" the power project back to the government that can be exercised in any of six situations. The put can be exercised if the offtaker fails to make payments over a certain period, it breaches an Argentine court judgment under the dispute resolution clause in the PPA, the Argentine currency becomes inconvertible or non-transferable, there is a change in certain Argentine laws, the project is expropriated, or there is an early termination of the PPA, the World Bank guarantee (described below) or the FODER accession agreement.

The occurrence of any of these events will, after the exhaustion of a specified cure period, allow the winning bidder to sell the project to FODER in exchange for payment in US dollars of a pre-determined amount. The amount is the book value, without depreciation, of the project assets based on the winning bidder's most recent audited financial statements. This FODER purchase payment will be guaranteed by the World Bank up to

default (including failure to achieve a critical milestone) by the winning bidder. FODER has the right to acquire the project, as is, in exchange for a payment in US dollars to the winning bidder for 70 percent of the book value, determined the same way as for the put described in the previous paragraph.

The August tender follows enactment of an Argentine law last September, called Law No. 27,191, that laid out the framework for the push to increase the share of renewable energy as a percentage of the total Argentine electricity supply.

Below are answers to the most common questions being asked by potential bidders.

What is Law No. 27,191?

Law 27,191 sets mandatory renewable energy targets through the year 2025 for all consumers. The law sets targets of 8 percent renewable energy by December 31, 2017 and 20 percent renewable energy by December 31, 2025. The Ministry of Energy and Mining will tender renewable energy PPAs for 100 percent of the mandated target, with the costs of these PPAs being passed on to consumers. Power users with an average power demand greater than 300 kilowatts (labeled “large users”) will have the option to opt out of the tendered PPAs and instead to source renewable energy directly or through self-consumption projects. However, large users who opt out will have to meet annual renewable energy goals and will be subject to penalties if they do not reach them.

Does Law No. 27,191 provide any incentives for renewable energy projects?

Yes. Law No. 27,191 provides for various fiscal and local supply chain incentives for renewable energy projects.

The fiscal incentives are greatest for projects starting construction before 2018 and decrease gradually over time until 2025. Fiscal incentives include exemption from

expenses and a tax credit on locally supplied capital expenditures.

There are also local supply chain incentives. For local suppliers and manufacturers, there will be a FODER sector-specific development credit line and an import duty exemption for equipment parts and supplies. If independent power projects purchase locally, then they will receive priority access to FODER project financing and a 20 percent tax credit on locally supplied capital expenditures (subject to certain terms).

What are the terms of the PPAs?

The offtaker will be CAMMESA on behalf of distribution utilities and large users. Each PPA will have a maximum term of up to 20 years from the commercial operation date. The PPA will also specify the type of energy and energy technology to be supplied, the amount of energy committed to be delivered per year, generation capacity, the energy price to be paid by the offtaker, conditions that the electricity seller must meet to preserve the PPA performance guarantee, the contractual penalties for noncompliance, FODER's payment guarantee obligations and the PPA's position as first priority for payments by CAMMESA.

CAMMESA will make monthly payments for the electricity delivered under the PPA. Each payment will be the product of 1/12th of the awarded annual price and an incentive factor that may vary by project. The incentive factor gradually reduces over the PPA term.

How does the bidding process work?

CAMMESA already released preliminary versions of the bid documents for public comment. CAMMESA collected comments through June 12 on the draft bid terms and conditions and the PPA that will be used for the public auction in August. The final bid documents and PPA will be released after the government has had time to sift through the comments.

description of the technical characteristics of the offer, details of technology and estimated energy production and confirmation that environmental clearances have been received for the project.

The bidder must also obtain a “certificate of inclusion” to participate. To obtain this certificate, the project owner must register as an agent for participation in the wholesale power market and must file certain fiscal and tax information and submit details of the project. The bidder must also post a bond together with the application for the certificate for 10 percent of the total value of all tax benefits requested.

Each bidder should (individually or collectively) have a minimum net worth of US\$500,000 per MW of capacity offered, have experience in construction and operation of projects with similar technology that are at least a third of the size of the proposed project, and provide the required bid-stage guarantee in the form of a bond, standby letter of credit or surety for US\$50,000 per MW of capacity offered. The bond must be for a term of 180 days and be automatically renewable for an additional 90 days.

The winning bidder must also provide a performance guarantee when the PPA is signed to guarantee completion of the project. The performance guarantee should be in the form of a bond, standby letter of credit, surety or cash-collateral deposit to a controlled account for US\$250,000 per MW of capacity contracted for. It must remain in place until at least 180 days after the commercial operation date. Winning projects must reach commercial operation within 730 days after the PPA is signed (with limited exceptions) and must have a minimum capacity of one megawatt (with the exception of small hydroelectric plants, which must have a minimum capacity of 0.5 MW).

How will the successful bid be chosen?

The government will weigh five factors when deciding which bids to accept. They are the price (in US dollars per

What are the key deadlines for the bidding process?

The preliminary versions of the bid documents have been released and will be available for public non-binding consultation and comment until June 12, 2016. Any comments must be submitted in writing to CAMMESA. The final bid documents, as well as the bid terms, are expected to be available for purchase from CAMMESA on July 2. From July 2 until August 8, 2016, there will be a period of consultations with interested parties. On August 8, 2016, the trust contract setting up the FODER trust will be executed. Also on August 8, CAMMESA will publish the final version of the term sheet and World Bank guarantees. Bidders will need to submit their offers by August 22, 2016. The winning bids are expected to be announced on September 28. The PPAs and guarantee contracts between FODER and the winning bidders will be signed on October 28, 2016.

This article was originally published in Chadbourne & Parke's Project Finance Newswire and was republished with permission.

Lead image credit: [Activ Solar](#) / Flickr



DOE
announces
largest single
investment in
hydropower
facilities, at
\$71.5 million

Hydroelectric
system
allowed BC
Hydro to meet
record
electricity
demand

Geothermal
heat pumps
could reduce
U.S.
electricity
demand by as
much as 15%

Statkraft
announces
plan to invest
in Norwegian
hydro and
wind power

Latest Renewable Energy World News ›

Startup spotlight: Maplewell Energy's software for behind-...

A participating company in the DISTRIBUTECH International Initiate program, Colorado-based Maplewell Energy will soon showcase its energy demand optimization an...

New York group releases first battery fire recommendations

The creation of the working group was announced last summer after multiple battery fires occurred in the state....

Clean power advocates eye PJM's planning reforms warily

PJM, the nation's biggest grid operator, is changing how it plans transmission upgrades needed to ensure reliable service for the 65 million people who live i...

DTE: Nearly \$2B in EV charging infrastructure needed by 2028...

Hundreds of thousands of new electric vehicle (EV) chargers will need to be built over the next several years to service Southeast Michigan, DTE Energy (DTE)s...

Clarion Energy Media

Power & Energy Event Series

Resources

Contact Us

Advertise

Contribute Content

RSS Feeds



Stay informed about daily ©Renewable Energy World news, podcasts, training videos, webcasts, commentary, and exclusive articles about ©Renewable Energy World.

Subscribe