

By Adam Critchley – Monday, October 24, 2016

With electric power auctions having been held recently in Mexico, Chile and Argentina, lawyer Kevin S. Levey gives *BNamericas* his verdict on the three markets and evaluates the challenges and opportunities ahead.

BNamericas: Argentina, Chile and Mexico have recently held electric power auctions. What are the challenges these markets face?

Levey: Mexico is one of the places where I have the least amount of concern. Solar irradiation is great there, there hasn't been a great amount of solar development compared to wind, and Mexicans are still paying a significant amount for energy compared with the US. The pricing is incredibly low, but the question will be whether you are going to be able to procure financing for projects, even though Mexico is a fairly mature project financing market.

BNamericas: But the companies awarded contracts in the March and September auctions are global players, and that offers some certainty that these projects will come to fruition.

Levey: Yes, they are big-time players, and are diversified, with good balance sheets, and some have manufacturing facilities in Mexico, such as SunPower. I think we will see most projects moving forward; it's not as if they are fly-by-night mom-and-pop shops. I am most optimistic about Mexico, and there is a lot of room for projects to be built.

BNamericas: We saw record-low prices for solar in the recent auctions in all three countries. Are we approaching a price floor beyond which projects will cease to be profitable?

Levey: I keep thinking we've hit a price floor and the price keeps coming down. I think we are pretty close to the bottom. I don't know if it's sustainable. But prices will continue to be driven down, due to the dramatic decrease in the costs of solar in China, and solar will continue to compete with conventional energy.

BNamericas: Chile has passed a transmission law, which should give a boost to projects there.

Levey: The law will provide funding to improve the infrastructure, connect the three regions and create an independent operator, and that was Chile's largest obstacle. But it will all come down to whether the government has the funding to build that infrastructure. On paper it looks fantastic. Getting the solar power from the north all the way down to Santiago and other cities is still the challenge. In the meantime, Chile is still seeing spot-price fluctuations, depending on project location, and as there was so much development so quickly, the spot pricing has been kept low by the high number of projects coming online.

BNamericas: With RenovAr it looks like Argentina is finally betting big on renewables. What are the challenges there?

Levey: People need to be patient with Argentina. Developers can bring in export development financing, but at the end of the day it will remain more expensive than Chile and Mexico. It has lagged behind politically, not just in the renewable sector, and they need to rebuild confidence in the financial markets. Macri has done a good job in renegotiating sovereign debt after the default, and there are signs things are turning around, but people need to be patient. No other country has that World Bank guarantee in place, and that has seen a very solid response to the auction down there.

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