

Conduit Capital's Mexhidro Energized by \$34M Loan

After more than a year of applications and negotiations, Compañía Mexicana de Hidroelectricidad, or MexHidro, recently closed on \$35 million of debt financing. The funds will be used to finance the firm's three small-scale hydropower projects.

MexHidro is minority owned by Conduit Capital Partner's Latin Power II fund, which invested \$24 million in equity into the company in 2003. Other investors include a family group in Mexico which bought the licenses to several irrigation dams that had not received power generation investment, and an array of companies that will receive power from the firm.

The lenders include Mexico's development bank Banobras, FMO, the Dutch development bank, and ScotiaBank-Inverlat. The loan will help the firm reach its goal of developing 52 megawatts of capacity at the three dams currently in its possession.

"This was a very strong project on paper because of the substantial equity investments of the partners and the guaranteed income from its part-owners, companies that will use MexHidro's power," said Marc Frishman, a director at Conduit Capital.

The problem was that most lenders only wanted to participate in government-backed projects in Mexico, such as independent power producer deals

with the state-owned electric utility, the Comisión Federal de Electricidad, explained Frishman. "Eventually, we found lenders who really believe in Mexico, and who want to show that private investment under the current self-supply regime really can work."

As a bonus, Conduit discovered in the last several months that MexHidro's projects will qualify under Mexico's renewable energy interconnection program to trade power with the CFE. The program, implemented through CFE's interconnection agreements with self-supply power producers, allows qualifying alternative energy sources to contribute excess power at peak production times in exchange for power draws from the CFE at low production periods.

Moreover, the company has been tentatively approved for the World Bank's carbon credit program, which may enable the firm to sell carbon credits to less-clean power producers. The carbon credit program is still in its early stages, but was established in 2000 to allow industrialized nations to buy carbon credits from developing nations under the regime created by the Kyoto Protocols.

"The renewable program and the carbon credit program are both welcome surprises," said Frishman. "They should both enhance the company's returns."

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