Caribbean Renewable Power Market More Profitable Than Chile's: MPC Capital

By Bryony Collins, Bloomberg New Energy Finance

Investing in Jamaica's ripening market for renewables provides a sunnier prospect to equity investor MPC Capital than Chile's intensely competitive auctions, Collins Roth, managing director of industrial projects at the Hamburg-based firm said. MPC has 5.1 billion euros ($5.5 billion) of assets under management worldwide, and is actively looking to scale up its renewable energy investment in the Caribbean and Latin America.

"The Chilean market is perhaps the most advanced in the region, in terms of deregulation and efficiency, but it's very difficult to find investments that have the right return profile for us," Roth told BNEF in an interview.

Chile's auctions are great at reducing the cost of power for consumers, but do less for meeting the returns profile of equity investors, he said. The nation's power market is fully liberalized from generation to retail through a mix of private companies, and its solar industry has expanded so quickly that wholesale power prices have dropped to unprofitable levels.

In contrast, in the more regulated market of Jamaica, the government has a 20% stake in the Jamaican Public Service Company, which is the off-taker and counterparty for power purchase agreements, or PPAs. This provides MPC Capital with more reassurance on pricing.

The price for the 50MW solar project in Jamaica was negotiated through a competitive tender and is "significantly below the current wholesale price" – meaning that it rivals fossil fuel plants on cost and is attractive in reducing the cost of power to consumers, said Roth.

Investing in renewable energy in Europe and some other developed markets is like "chasing a tide that's going out", said Roth, who has more than 20 years of experience in infrastructure and private equity investment. "The yields are consistently coming down and you're in a position where your margin for error is quite small." Whereas in the Caribbean, MPC Capital sees "opportunity to produce a better risk-reward balance", due to the region's heavy reliance on expensive diesel fuel for power and willingness to transition to a cleaner form of energy.

Q: MPC has about one tenth of its $5.1 billion assets under management invested in renewables. Do you intend to scale up this proportion?

A: It's a major piece of MPC strategy. We see the need for renewables growing globally. In the Caribbean alone, countries want to get close to 50% renewable by 2027 and they're nowhere near that right now. We also see investor demand to make investments of this kind, as they are long-term and yield-orientated. We plan to put capital from MPC Capital's balance sheet toward this and also to be a catalyst for third-party investment.

We see opportunity in the Caribbean for this kind of investing. Much of the baseload power is burning diesel and at a very high cost even at today's oil prices. So there's lots of room for financeable concepts reliant on cleaner forms of power.

Q: How did your recent investments in Portuguese and Mongolian wind parks and a solar PV project in Jamaica arise?

A: The first two projects in Portugal and Mongolia were developed by our sister company Ferrostaal. Both are markets where MPC Group had long operating experience.

Jamaica is the beginning of a more focused strategy on our part. We are building a regional investment

platform in the Caribbean.
With renewables investment in Europe and other markets, you're chasing a tide that's going out. The yields are consistently coming down and you're in a position where your margin for error is quite small. So rather than take that risk, we've decided to focus in the Caribbean, where we see slightly different dynamics driving things and perhaps opportunity to produce a better risk-reward balance.
What's drawn us to the Caribbean is the prospect of a mid-teens [rate of] return, with a reasonable risk attached.

Q: Your investment in the 50MW Jamaican solar park is under the terms of a PPA with the Jamaica Public Service Company (JPS) for 20 years. Was this an important element in reducing risk?
A: Absolutely. We'd love to have a PPA or equivalent on any investment we make. It gives you the ability to judge the off-taker's credit, and it makes the project financeable. When you start moving into merchant power, you're taking a much bigger risk. [Although] we wouldn't rule out merchant power, it's all a question of risk and reward for us.

Q: Was the PPA for the Jamaican project at or below the wholesale power price?
A: The price was bid through a competitive tender. Our understanding is that the price is significantly below the current wholesale price, making it a very attractive price to JPS.
The price is very competitive compared to fossil fuel alternatives available to JPS today, even without factoring in environmental benefits. There were no direct subsidies. The project does benefit from certain Jamaican tax incentives, but these are not related to its renewable status.

Q: Are there any emerging markets where you would consider merchant power?
Q: You already struggle to get banks interested in things in emerging markets. To add to that merchant pricing makes raising the debt difficult. As an equity investor, we would have an interest in a balanced risk reward, but the constraining factor for us is that the banks often draw a line.

Q: In Jamaica, the JPS has a monopoly over generation, transmission and distribution on the island. The only place where private companies operate is in selling power to JPS. Do you like this style of market where you get more government oversight on the PPAs?
A: Yes, we like government oversight on the PPAs. The Chilean market is perhaps the most advanced in the region, in terms of deregulation and efficiency, but it's very difficult to find investments that have the right return profile for us at this stage. So while there's no question that the efficiency of that market leads to strong prices for consumers, it does make it difficult for a foreign investor to come in and find projects that meet their requirements.
We're comfortable with the PPA structure – those are generally available in markets where the government supports the industry. But we're also looking at other models, like distributed power, where you're skipping the power grid completely and selling directly to the final consumer.

Q: Has the situation in Chile primarily resulted from the auction system that has driven pricing down so low?
A: Yes. It's an efficiently run market with multiple sources of power. They're really driving the way they're bidding for power – almost not differentiating between renewable and conventional power, they're just calling for power bids during time slots of the day. That's driven down the cost of power to the point where we've not found suitable projects.

Q: What other markets are of interest to you in the Caribbean?
A: We like the fact that most of the projects in the Caribbean are smaller and fall under the radar of some of the big, international competition that drives prices down. The larger markets of the region jump out first – Dominican Republic, Jamaica and Trinidad, but there's opportunity in lots of the smaller islands as well, like Bermuda.
As a region with 40 million people, it is very focused on climate change, given islands are so directly exposed to changes in the sea level. So there's buy-in from politicians and the general population for renewables.

Q: How does MPC intend to expand throughout the Caribbean?
A: We see ourselves as a mid-to-late stage developer of projects. We're looking to have someone else who's done the groundwork of sourcing land permits and beginning the process, and then we join at a slightly later stage.
We've got established relationships with many developers in the region. Some of those are putting together a bidding party to enter into a tender, others might have a path to some other form of PPA or financeable structure.

Q: So your clients are willing to assume construction risk, after the early-stage work has been done?
A: Investor appetite is clearly the strongest for yielding assets, but they have moved into construction – some are seeing it as a way to boost return. As more of these projects have been completed around the world, and the construction process and number of reliable equipment suppliers has grown, the risk has fallen in construction. So investors have moved more heavily into that area. But there are still very few investors who are interested in the development risk, so MPC Capital takes that development risk, and we'll put our balance sheet to work.