Q&A

MPC Capital Eyes Solar in Jamaica's West, Colombia's Roofs

By Bryony Collins, Bloomberg New Energy Finance

MPC Capital invests in renewable energy projects in the Caribbean and Central America for the "good regulatory frameworks" and favorable weather conditions in the region for wind and solar power, said Martin Vogt, managing director at MPC Renewable Energies, in an interview with BNEF.

The company expects to reach financial close on a 55-megawatt solar PV project in Jamaica in the next few weeks, and also has its eye on investing in rooftop solar projects in Colombia at business premises. The South American country has a "market potential of at least 1,500 megawatts just for renewables", and at least 100 megawatts of this opportunity is in the commercial and industrial (C&I) sector, said Vogt. He told BNEF that onsite energy generation can typically lower a company's energy bill "by a minimum of 40-45 percent, compared to industrial tariffs", in the following interview.

Martin Vogt

Q: What are the benefits of investing in the Caribbean and Central America?

A: There's a strong case for renewables in the region, which has extremely high electricity prices for consumers, given its dependency on imported fossil fuels. Policymakers and government are extremely keen to diversify their power generation mix away from conventional power sources, and more towards renewable energy. Following the hurricanes last year, the region has a huge awareness of the environmental impact of conventional power generation, and also sees renewable energy as cost-competitive with conventional power sources.

In Jamaica, we have set a power purchase price of 8.5 U.S. cents per kWh for our solar PV project. In that country, the typical price for energy falls around 20 U.S. cents per kWh, so we are by far the cheapest source of energy.

MPC Capital generally focuses on niche markets where we can provide a value-add, and here in the Caribbean there is definitely a shortage of private equity available.

Q: How much capital do you have under management, and in renewable energy?

A: MPC Capital has 5.1 billion euros of assets under management, of which approximately 0.3 billion euros are in renewable energy.

Q: How can distributed assets help reinforce the electricity grid against blackouts in the case of natural disasters?

A: Distributed generation assets are a focus of ours because they are typically related to the commercial and industrial sector. The asset is normally plugged in directly on the side of the offtaker, which might be a manufacturer or hotel, and therefore you are circumventing the risk of transmission line failure due to weather risk in the Caribbean.

There are also measures you can implement in your investment strategy to limit your exposure to extreme weather events. [This includes being careful to choose the right project site]. In Jamaica it was key for us [to build a project] on the west coast, given that typically hurricanes are tilting away from Jamaica's west coast. So on that island we are relatively protected against that risk.

Another way for us to mitigate risk is with technology selection and engineering design. For instance, our project in Jamaica has reinforced sub-structures that have a much higher hurricane classification than solar PV projects in Spain. During the hurricanes in the Dominican Republic and Puerto Rico, most renewable energy assets were actually the least affected infrastructure assets on the island, because developers made sure that they were built in such a way to survive these events.

Q: Do you want to expand the amount of capital you invest in this area and region?

A: We want to grow our platform, and are about to enter into partnerships and cooperations with other developers and stakeholders in the market. We are absolutely in the region for the long-term, to build out our presence and activities. Core markets where we identify the most opportunities are Colombia, Costa Rica, Jamaica and the Dominican Republic. These markets have the opportunity to build out critical mass, have very good regulatory frameworks and also offer offtake structures like existing power purchase agreements [PPAs] in the Dominican Republic, the commercial and industrial sector in Colombia, or public tenders in Jamaica and Costa Rica.

Q: So it's the certainty you get from a contracted cash flow, that's either arranged through a government tender or commercial and industrial contract, that makes it attractive to you?

A: Yes. In Colombia, there are upcoming tenders for 2018, which include the possibility for renewable energy. At the moment in Colombia we are clearly focusing on distributed generation assets in the commercial and industrial sector, typically for large energy-intensive manufacturers, who look to install 1-10 megawatts either on their rooftop, or in very close proximity to their consumption. There, you have the advantage that you can bilaterally negotiate your PPA conditions, which normally also means there's less competition than in big energy tenders.

Q: Will you only invest where there is a guarantee of a contracted cash flow?

A: Yes - we don't take merchant risk in any of our projects. It's key for us to secure long-term offtake agreements with bankable partners - whether a state, utility, or corporate.

Q: What kind of manufacturers have you spoken to?

A: In Colombia, the large electronic appliance manufacturers are very present - large retailers and car manufacturers. Colombia is a large industrial base for the region, so from a manufacturing point of view it's an ideal situation for us, because all these manufacturers typically have large roofs suitable for rooftop PV.

Q: What is motivating these manufacturers to install energy onsite?

A: It's both - we can typically lower their energy bill by a minimum of 40-45 percent, compared to industrial tariffs. But on the other hand, especially in Colombia, they also need to provide a lot of backup power, because they still suffer from a lot of energy shortages, so renewable energy is a strategy to be independent from the public grid.

In certain islands, there are regulations to prohibit the sale of off-grid energy, but in this case it is possible to sell and lease the equipment, instead of arranging a PPA.

Q: What is the market potential in Colombia, in terms of megawatts of capacity, for onsite power at business premises?

A: The overall potential for renewables in Colombia is significant. There are approximately 16 gigawatts of installed capacity in Colombia itself, and the country has a renewable energy target of 10 percent by 2028, so this means a market potential of at least 1,500 megawatts of installed capacity just for renewables.

In Colombia, we are looking at a portfolio of at least 100 megawatts, just in the commercial and industrial sector - all for projects below 10 megawatts. The government has just announced a tender where utility-scale will be the preferred choice, given the economies of scale driving down generation costs. So with our partners we are looking at some projects of 50-100 megawatts in size that may participate in the upcoming tenders.

A project that we did not invest in, but that was commissioned last year in Colombia and people often look at as a case study, is the 9-megawatt solar project installed on the roof of Pepsi. We are looking at similar corporate structures.

Colombia is still in the early phase of discovering the potential of other renewable energy sources [aside from hydropower].

Q: What is the level of investment return that you expect for these projects?

A: On a returns basis in distributed generation, we are looking at least at mid-teen internal rates of return. And at utility-scale we are looking at a bit less - maybe lower double digits.