



Argentina's Renewable Energy Initiative

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Pampa

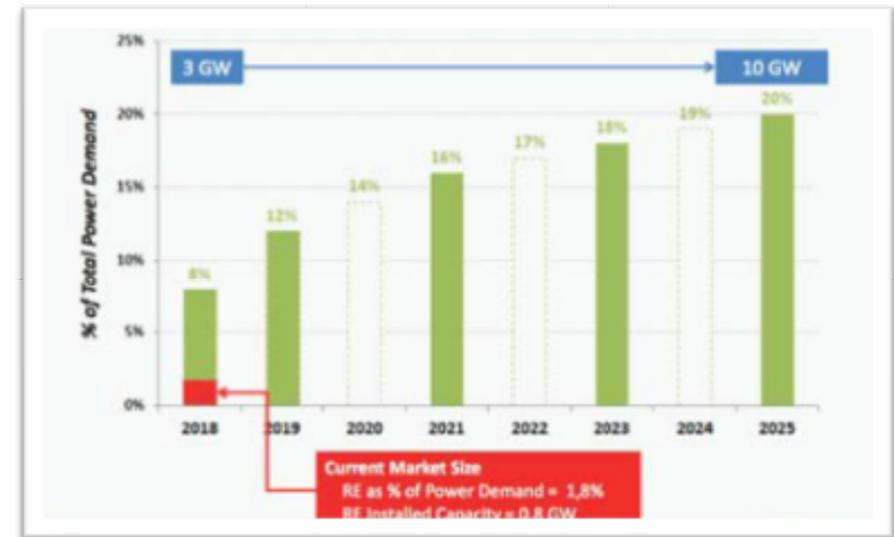
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Energy Predicament

- Following financial crisis in 2001, the government implemented myopic programs to shield Argentine consumers from substantial increases in electricity and gas prices caused by devalued of the Peso. These measures had the effect of discouraging energy investment as frozen tariffs for public utilities in turn froze the prices of oil and electricity paid to producers.
- From 2012 to 2013, energy subsidies increased by 48%, soaring to a total of \$14.9 billion in 2013, In 2013, subsidies represented some 20% of total government expenses and 4% of GDP.
- Prior to the election of President Macri, energy represented 17% of import and just 6% of its export revenue, and energy subsidies were 12% of total government spending.
- Energy subsidies encouraged demand for oil and gas while deterring investment, further contributing to Argentina's heavy dependence on imported fossil fuels. But fears of public backlash prevented the government from taking action.
- President Macri rejected the policies of the prior administration, and made growth in energy production and energy independence a high priority with the goals of diversifying the country's energy matrix and boosting the use of renewable energy and rolling back the unsustainable subsidy of energy, the Government launched several initiatives to encourage investment, rationalize regulatory bureaucracies, the legal framework, and improve the operation of energy markets.
- After becoming his election in 2015, President Macri has promulgated strong pro-growth, pro-investor legislation and programs, and made tremendous headway towards restoring the confidence of businesses and foreign investors in Argentine public policy.
- Growth of sustainable energy to alleviate the country's severe deficit is a key priority item for the administration. In addition to promoting capital investment and financing, new legislation requires energy consumers such as municipalities and corporations to become more self reliant and increase their use of renewable-sourced energy.
Under the Administration's plan, the share of electricity supplied by renewables will grow from the current level of 1.8% (1.8 MW) of national demand to 20% (10 GW) by 2025.

Revival of Energy Investment and Production

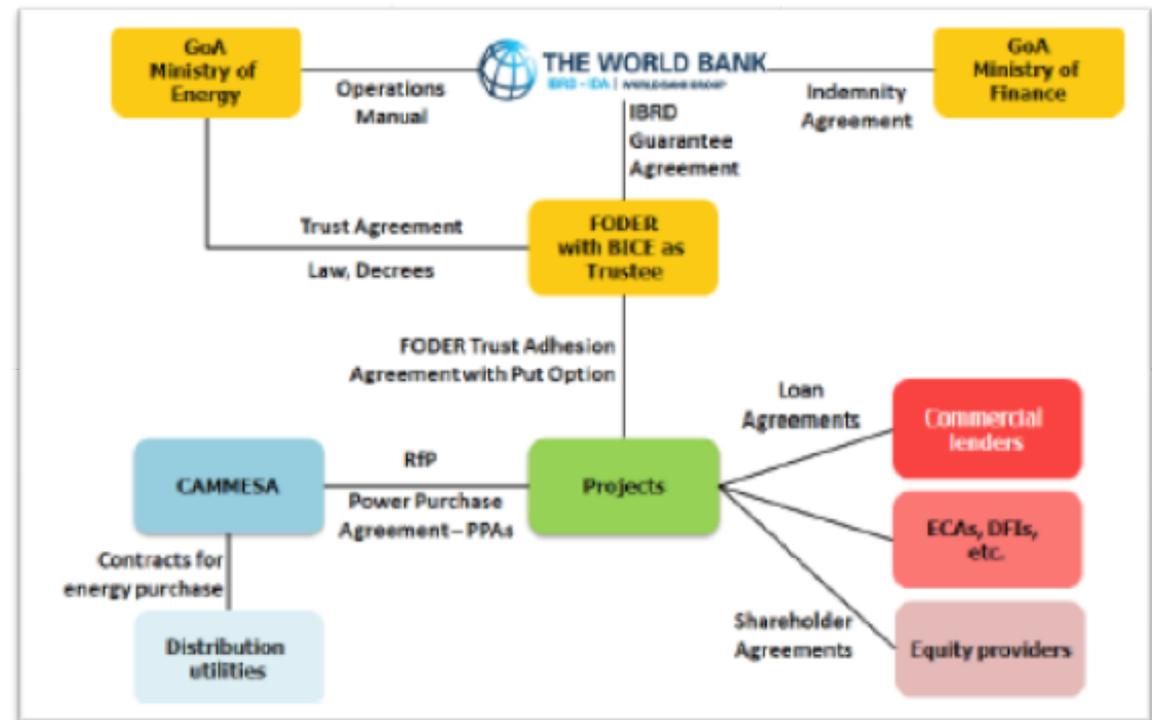
- Law 27191, passed in late 2015 was the first concerted effort to advance Argentina’s renewable energy potential.
- Based upon the law, starting in 2018, electric consumption will derive at least 8% of their total energy demand from renewable energy sources. This strategy aims for the country to increase 3% on average annually to reach the 20% target of demand from renewable energy by 2025.
- Law 27191 offers investors clearer insights as to administration’s long term plans for renewables. The plans include, but are not limited to, the opening of the Fund for Renewable Energy Development, or FODER, which will offer debt guarantees, financing options and fiscal incentives. FODER will be managed by Argentina’s Investment and International Business bank, BICE, for its Spanish acronym.
- The trust will include objectives mainly focusing on import tariffs, accelerated depreciation, early reimbursement and credit lines for 5-10 years. FODER will be divided in two main accounts: 1) long term financing of projects and 2) payment guarantees.



Source: Energias Renovables en Argentina, Ministerio de Energia y Mineria

RenovAr

- The Government established a public tendering program (RenovAr) that contemplates a series of fiscal incentives and financial support mechanisms, along with regulatory and contractual enhancements aimed at overcoming some of the investment barriers that resulted in the failure of previous government attempts.
- During 2016, 2.4 GW of new-build renewable generation projects were awarded under Rounds 1 and 1.5 of the RenovAr Program.
- RenovAR 2 are expected to be held in September, 2017, with about 1,000 MW of solar PPAs expected to be awarded.



Source: World Bank

Contractual Framework

- RenovAr contractual framework is based on two agreements that work in tandem to provide all the elements that are customary in a typical renewable energy PPA, both are subject to Argentine law with the possibility of international arbitration.
- Awarded project companies enter into a 20-year PPA with CAMMESA (Compañía Administradora del Mercado Eléctrico Mayorista S.A.), the company that manages the operations of national grid and transactions in the wholesale market.
 - Each of the Government of Argentina, generators, distribution and transmission utilities, and large users own 20% CAMMESA.
 - CAMMESA acts as off-take aggregator on behalf of distribution utilities and wholesale market users.
 - Under a PPA, project companies assume the obligation to construct and reach COD within the timeframe set by each bidder in its bid.
 - 100% of the electricity generated by the power plant is paid for at the awarded price that is denominated in USD and adjusted annually.
 - Project companies have the obligation to provide a minimum amount of electricity on an annual basis and deficiencies are subject to make-up periods and/or penalty.
 - Typical provisions necessary for non-recourse project finance have been built into the model contract from its inception.
- Along with the PPA, project companies will enter into a FODER Trust Adhesion Agreement under which they will become a “beneficiary” of the FODER Trust Fund.

FODER

- Created by Act 27,191, FODER is a public trust structured with two main trust accounts (financing and guarantee) and a series of sub-accounts with special purposes.
- FODER was established to provide awarded project companies with a set of guarantees that enhance the legal framework under current market conditions in Argentina.
- Payment Guarantee
 - FODER guarantees that energy delivered to the grid at the point of interconnection under the PPA is paid for.
 - The cost of the electricity is passed through to all eligible end users, and payments from such users are collected by CAMMESA through distribution utilities and/or large users who operated directly in the wholesale market.
 - CAMMESA has the primary obligation to pay for the electricity on a monthly basis by using the available funds it holds from regular collections and/or other transfers from the Government.
 - Renewable energy PPAs are senior to most other payments done by CAMMESA.
 - In the event CAMMESA is unable to pay in full for the electricity on due date, FODER backstops CAMMESA by using funds that are kept in its Energy Payment Guarantee account which is funded by the Ministry of Energy and Mining using specially preapproved budget appropriations and/or by levying eligible end users with a specific guarantee charge.
- Along with the PPA, project companies will enter into a FODER Trust Adhesion Agreement under which they will become a “beneficiary” of the FODER Trust Fund.
- Solvency Guarantee:

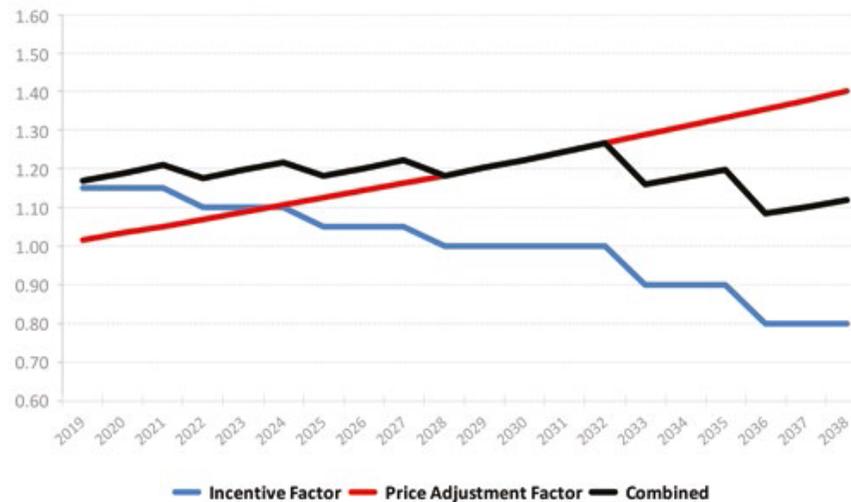
The Government assumes termination payment obligations through FODER on behalf of end users who are mandated to take and pay for the renewable electricity.

The second level guarantee gives project companies a put option wherein they may terminate the contract with CAMMESA when no payment occurs for 4 consecutive months or 6 non-consecutive months within any 12-month period.

This such an event, the project company may keep the power plant and market its electricity to any third party or transfer the project assets to FODER and receive a cash consideration equal to the unamortized value of the assets.

Terms of CAMMESA PPAs

- Projects are awarded based on bid price adjusted for grid losses and time to COD.
- PPA prices are adjustment by two different but concurrent factors
 1. The Annual Price Adjustment Factor allows for a fixed annual adjustment of 1.7%
 2. The Price Incentive Factor, introduced to encourage investor/operators to bring their projects on line quickly, is established for each year from 2018 to 2039, starting at 1.20 and decreasing in a to 0.8.
- For projects reaching COD by year-end 2018, the average nominal Price Incentive Factor for the 20-year life span of the PPA is equal to 1. Projects starting their commercial operation within 24 months shall enjoy an extra incentive which will allow them to have a higher nominal price during calendar year 2018. In all cases, the Price Incentive Factor is a positive net benefit that increases project financial returns and allows for faster payback of investment.



Source: Energías Renovables en Argentina, Ministerio de Energía y Minería

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