

**Green Evaluation**

# Province of La Rioja's US\$200 Million Notes Due 2025

**Transaction Overview**

In February 2017, the Province of La Rioja in Argentina issued \$200 million in green-labeled bonds due 2025. Of the proceeds, \$170 million will be used to partially finance the development of Parque Arauco, a wind farm located 90 km north of the City of La Rioja, in which the province has 83.4% stake. The province is expected to direct the remaining \$30 million toward as-yet-unspecified projects that it has identified as having a positive environmental outcome. The bond has an amortizing structure bearing a semi-annual coupon of 9.75%. This Green Evaluation applies only to the US\$170 million (85%) used to finance the wind farm.

**Green Evaluation Overview**

**Transaction's Transparency**

- Use of proceeds reporting
- Reporting comprehensiveness

**93**

**Transaction's Governance**

- Management of proceeds
- Impact Assessment Structure

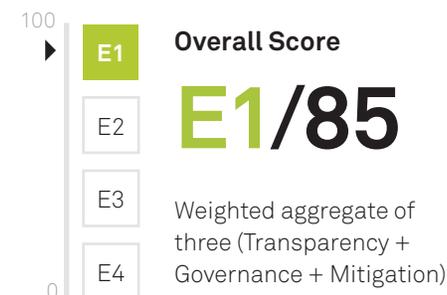
**83**

**Mitigation**

<b>Sector</b>	→ <b>Net Benefit Ranking</b>	→ <b>Hierarchy adjustment</b>	
Green Energy	Supplying the grid with low-carbon electricity	Carbon	<b>88</b>

**Adaptation** **NA**

**Entity:** Province of La Rioja  
**ICB subsector:** N.A.  
**Location (HQ):** Argentina  
**Financing value:** \$200 million  
**Amount evaluated:** 85%  
**Evaluation date:** Sept. 21, 2017  
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## Project Description

The Province of La Rioja will use US\$170 million of the US\$200 million green bonds issuance to fund the expansion of Parque Arauco wind farm. This Green Evaluation applies only to the US\$170 million. The Parque Arauco wind farm commenced operations in 2012 with a capacity of 25.2 MW and expanded to 50.4 MW in 2014.

Parque Arauco is 83.4%-owned by the Province of La Rioja government, and the remaining 16.6% is owned by Energía Argentina S.A. This is a private stock corporation controlled and managed by the Argentine federal government for the exploration, exploitation, and commercialization of petroleum and natural gas as well as the generation, transmission, and commercialization of electricity.

The wind farm has 50.4 MW of installed power generation capacity and plans to expand to about 300 MW by 2019. This would be enough to provide electricity from renewable sources to the whole province. The US\$170 million for Parque Arauco is already allocated to a trust that will disburse the funds as the work progresses.

Power generation shortfalls in Argentina in recent years have resulted in power shutdowns and the need to import energy. To address this issue, the government that took office in December 2015 called for two national and international bids (RenovAr 1.0 and 1.5) in connection with the potential award of power purchase agreements for electricity generated from wind and solar resources. These were largely oversubscribed, and for wind-farm projects, Parque Arauco was awarded 99.75 MW in RenovAr 1.0 and 95 MW in RenovAr 2.0.

To finance the expansions, the Province of La Rioja issued US\$200 million in February 2017, of which US\$170 million is designated to finance the development of Parque Arauco SAPEM's renewable energy projects (including an 80-km transmission line to connect the new generated power to the grid). The remainder is expected to be used for other public works that have a positive environmental impact, though no specifics have yet been announced. The bond was self-labeled as green following the Green Bond Principles 2016, a set of voluntary guidelines for the issuance of green bonds developed by a committee consisting of issuers, investors, and intermediaries in the green bond market.

## Scoring Summary

This transaction achieved an overall Green Evaluation score of E1/85. E1 is the strongest Green Evaluation score on our scale of E1 (highest) to E4 (lowest). We have evaluated 85% of the proceeds of this transaction, which is the component already allocated to Parque Arauco project. This score is determined by taking a weighted average of the excellent Transparency (93) and Governance (83) assessments and the robust Mitigation score of 88. In our view, renewable energy generation's contribution toward systemic decarbonization, the strong governance framework, and transparent reporting mechanisms position this financing at the top end of our scale.

## Rationale

- The funds disbursed to the Parque Arauco wind farm project will contribute to systemic decarbonization, at the top end of our carbon hierarchy in a relatively carbon-intensive region.
- The Transparency and Governance scores are supported by a robust project structure that governs the use of cash by the trust as well as higher-level commitments to reporting on carbon-reduction efforts.

## Key Strengths And Weaknesses

The key driver behind the E1 evaluation is the allocation of funds to a renewable wind power project. Green energy sits at the top of our carbon hierarchy, as we believe it contributes to overall systemic decarbonization of the global economy. The environmental impact of wind projects typically ranks higher than solar on our scale given the better capacity factors over the life of wind projects. In the case of Parque Arauco, the net benefit ranking of 51 reflects the medium carbon intensity of Argentina's grid, which relies primarily on gas-fired technologies (about 60%).

Our transparency and governance scores reflect the issuer's decision to label the bond as green and the related framework and processes followed by the region. The US\$170 million dedicated to finance the development of Parque Arauco was deposited in a special account in which funds will be exclusively disbursed for the expansion of the wind farm. Through its public annual reports that will be published on its website, Parque Arauco has committed to:

- Describe the ongoing application of the net proceeds.
- Detail the current funded amounts, initial funding dates, and contractual maturity dates.
- If reasonably feasible, provide information on the environmental outcome of such projects.

In terms of weaknesses, we find that there is no independent verification of the allocation of proceeds given that all parties involved—including the bank trust in which the funds are allocated; the Province of La Rioja, which authorizes the disbursements; and Parque Arauco itself—are government-related entities. Moreover, the formula or methodology to calculate the expected environmental outcome is not public, though management has committed to disclosing it.

## Project level scores

Sector	Location	Technology	Use of Proceeds (US\$ Mil.)	Use of Proceeds treatment	Net Benefit Ranking
Green Energy	Argentina	Onshore Wind Power Generation	170.00	Actual	51
			<b>170.00</b>		

## Green Evaluation Process

93

Transparency

83

Governance

88

Mitigation

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

E1/85

Overall score

Technology	Baseline carbon intensity	Net Benefit Ranking	Carbon hierarchy adjustment	Environmental Impact Score	Proceeds (US\$ Mil.)
	Argentina Extremely High <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Low				
<b>Wind power</b>		<b>51</b>	<b>Systemic decarbonization</b>	<b>85</b>	<b>170.00</b>
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion			Significant decarbonization in sectors already aligned with a green economy		
Green buildings – new build					
Unspecified					
Energy efficiency (industrial and appliance efficiencies)			Alleviating emissions of existing carbon-intense industries		
Green transport with fossil fuel combustion					
Green buildings refurbishment					
Unspecified					
Nuclear			Decarbonization technologies with significant environmental hazards		
Large hydro in tropical areas					
Unspecified					
Coal to natural gas			Improvement of fossil-fueled activities' environmental efficiency		
Cleaner fuel production					
Cleaner use of coal					
Unspecified					
Technology	Baseline water stress	Net Benefit Ranking	Water hierarchy adjustment	Environmental Impact Score	Proceeds (US\$ Mil.)
Water					

Increasing Decarbonization Impact

Scores may vary slightly from the actual due to rounding.

# Our Green Evaluation Approach

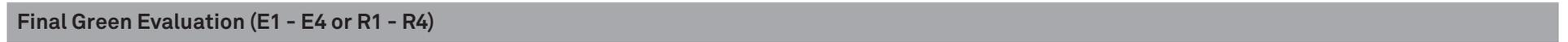
Weighted aggregate of three:



Common approach used amongst second opinion providers



Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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