

PROJECT ABSTRACT

Project number	ME-0229
Project name	Monterrey III Power Project
Country	Mexico
Sponsors	Iberdrola Energía, S.A.
Total project cost	US\$609.9 million
IDB participation	IDB A-Loan: US\$75 million IDB B-Loan: US\$382.4 million
Department	Private Sector Department
Status	Approved by the Board of Executive Directors
Date	August 9, 2000

I. PROJECT DESCRIPTION

The project consists on designing, engineering, financing, construction, testing, commissioning, operation and maintenance of a 750 MW gas fired combined-cycle power plant and ancillary facilities, in *Monterrey*, State of *Nuevo León*, Mexico (the AProject≡). The technology selected for the plant consists on three ABB single shaft sets combined-cycle units, each comprising one GT24 gas turbine, one steam turbine, one heat recovery, one generator and complementary equipment.

To develop the project, *Iberdrola Energía, S.A.* (Aberdrola≡) has established a special purpose company (the ASPC≡ or AProject Company≡) whose only purpose is to implement the Project. As a result of an international bidding process, the Project is committed to deliver 488.9 MW of its capacity to *Comisión Federal de Electricidad* (ACFE≡), the Mexican public electricity utility, according to the terms of a 25-year Power Purchase Agreement (APPA≡) signed on September 23, 1999. The remaining capacity (approximately 250 MW), representing 35 percent of the project=s total capacity, is expected to be sold to private offtakers.

Pursuant to the PPA with CFE, the SPC will make available and CFE commits to purchase guaranteed net capacity and net power output associated with such guaranteed net capacity (488.9 MW). The PPA comprises capacity and energy payments, the former being US dollar-denominated and intended to cover operating costs and debt service. Commercial operation is scheduled for April 1, 2002. To achieve such a milestone, construction is expected to start on March 16, 2000.

The Project is part of CFE=s least-cost expansion plan, which calls for additional investments in the country=s total installed capacity for power generation from 1997 to the year 2006 of an additional 9,928 MW.

The Project is closely associated to the recent regulatory reforms in the natural gas and in the electricity sectors. The GOM=s stated policy is to increase the use of this resource. Power generation is the largest market for natural gas. Gas consumption is expected to account for 2,414 million cubic feet per day in 2005, four times the 1996 level, which will represent almost half of the total projected gas consumption. The GOM considers natural gas-fired power plants as the most appropriate for the country, especially in environmentally critical zones. Moreover, as natural gas commands a price discount over alternative fossil fuels (coal or oil-based fuels), gas-based projects are more cost-effective generators.

On behalf of CFE, the *Instituto de Ingeniería de la Universidad Autónoma de México* (AUNAM≡) has prepared a comprehensive Environmental Impact Assessment (AEIA≡) for the Project. Such study has already been made available to the local population.

II. PROJECT PARTICIPANTS

Iberdrola Energía, S.A

The Sponsor belongs to the Iberdrola Group, one of Europe's leading electricity companies. In Spain alone, the Iberdrola Group has a total installed capacity of more than 16,000 MW and more than eight million customers. Besides electricity, the group is involved in a number of other industries such as telecommunications, real state, engineering, information systems, consultancy and value-added services. The Group's 1998 most relevant data are: net income of US\$750 million; total assets of US\$18 billion and net worth of US\$7.8 billion.

Iberdrola Energía, S.A. is the Group's 100 percent-owned subsidiary responsible for implementing its international strategy in the electricity, water and gas sectors. The Sponsor has equity in excess of US\$660 million and manages investments in 30 Latin American companies with total net worth of approximately US\$11 billion, total assets in excess of US\$23 billion and more than 15 million customers (*i.e.* double the Group's customer base in Spain).