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Q3 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

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**Susan Bradham** *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR*  
**Tania Ortíz Mena López Negrete** *Infraestructura Energética Nova, S.A.B. de C.V. - CEO*

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the IEnova Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Sue Bradham, Head of Investor Relations. You may begin.

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### Susan Bradham *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR*

Good morning and thank you for joining us. Today we will be discussing IEnova's third quarter 2018 financial results. A live webcast of this teleconference and slide presentation is available on our website in the Investor Relations section. In the presentation, we will find our disclosure statement. The forward-looking statements contained in this presentation speak only as of today, October 25, 2018, and the company does not assume any obligations to update or revise any of these forward-looking statements in the future. With us today on the call are several members of our management team: Carlos Ruiz Sacristán, Chairman; Tania Ortíz, Chief Executive Officer; Nelly Molina, Chief Financial Officer; Juancho Eekhout, Chief Development Officer and Roberto Rubio, Vice President and Controller. Please turn to Page 3 of the presentation provided on our website, and I'll turn the call over to Carlos.

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### Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman*

Good morning, everyone. Thank you for joining today's call. This is the first time Tania is participating in the earnings call as IEnova's new Chief Executive Officer. With her knowledge and experience, I'm very confident that she will lead this very talented team to continue successfully developing the critical and essential infrastructure required to meet Mexico's growing energy needs. Congratulations Tania.

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### Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO*

Thank you, Carlos, and thank you for your leadership which has taken IEnova from \$3.2 billion company at the IPO in 2013 to an \$8.7 billion company in 2018. I am sure that I speak for the entire team when I say that we could not have done it without you, and we are glad that we will continue to have your support as both the Executive Chairman of our Board and as the CEO of Sempra's North American infrastructure business.

Please turn to Page 4 and I'll begin to discuss some of our achievements during the third quarter.

In September, we announced the Manzanillo marine terminal project, which is our 6th refined project storage terminal. We acquired 51% of this project from Trafigura, who will be our joint venture partner and the customer for 50% of the capacity. The initial storage capacity is 1.5 million barrels and the total investment is approximately \$200 million dollars. We expect to reach commercial operations in the fourth quarter of 2020. This new project increases the total investment associated with a refined products projects from \$600 million to \$800 million. It also increases our total storage capacity from 5.4 million barrels to 6.9 million barrels.



Please turn to page 5.

During this quarter, we have also made substantial progress diversifying our customer base with very high-quality private counterparties, while continuing to advance the development initiatives.

In the Power segment, we executed a contract to sell renewable energy to Scotiabank from our portfolio of solar projects. This bilateral contract is just one example of the many high-quality commercial and industrial customers with whom we are negotiating contracts to fully utilize Don Diego's capacity and anchor additional renewable projects.

In our liquids business, we announced that Chevron and Marathon fully contracted the Topolobampo marine storage terminal and that BP and Chevron fully contracted the Baja Refinados marine terminal. We are very pleased to have these companies as long-term customers. Further, we continue making progress on the development of additional terminals through both private land acquisitions and port bidding processes in strategic locations across the country. We are preparing to bid for land at the Port of La Paz, in Baja California and bids are due in December.

In our natural gas segment, we continue to advance commercial discussions, permitting and engineering works for the ECA liquefaction project. We are targeting a final investment decision in the second half of next year.

We continue to be focused on executing our strategic plan and we are well positioned to capture new opportunities. I will now turn the call to Nelly to discuss this quarter's financial results and construction progress.

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**Manuela Molina Peralta *Infraestructura Energética Nova, S.A.B. de C.V.* - CFO**

Thank you, Tania, good morning, all. Please go to Slide 6.

In the third quarter of 2018, adjusted EBITDA increased 14% to \$238 million dollars compared with \$209 million dollars in the same period of 2017. This increase was mainly due to the 25% acquisition of Los Ramones Norte pipeline in November 2017, higher operational results at TDM and higher margin in the gas segment.

We are pleased with our solid quarter performance and at this moment, we are very confident we can achieve the upper end of our 2018 adjusted EBITDA guidance.

Profit in the third quarter was \$112 million dollars compared with \$127 million dollars in the same period of 2017. This decrease was mainly due to the exchange rate effects and higher financing costs, partially offset by the EBITDA drivers that I just mentioned.

On the Slide 7, we present the pretax profit results of the Gas and Power segments, which are also mainly driven by the same factors I indicated before.

Next as always, I will provide update for the projects that we have under construction. The full list of those project is in Page 8.

This year, we have 2 projects to be placed in operations, one is our first solar facility Pima Solar. This project has been completed mechanically and commissioning activities have initiated to start commercial operations in November. The other project is in Marine Pipeline that we are developing in a joint venture with TransCanada. For this pipeline, we now anticipate an in-service rate between the end of this year and the first weeks of 2019. All major construction and pipeline installation is complete. The remaining work is primarily related to marine tie-ins, pipeline insertion into a micro tunnel and testing. Regarding the total investment of the project, it has been updated from \$2.13 billion to \$2.35 billion dollars given some cost pressures that are related mainly to unfavorable weather condition and some changes to enhance environmental protection.

After these changes, we will still achieve the mid-to high end of our target rate of return range.

The rest of our projects remain on a schedule for 2019 and 2020.

With that, I will turn the call back to Tania and please turn to Page 9.

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**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Thank you, Nelly. I am very pleased with the all of the progress we have made this quarter. Safe, efficient and sustainable operations, as well as disciplined management, have led to another quarter of strong financial results.

Continued progress on our construction projects will add to our adjusted EBITDA in 2019 and beyond. And new projects and customers will continue to drive our company's future growth.

My entire team is dedicated to the success of this company and I'm convinced that IEnova has a bright future.

I would now like to open the call for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is from Pablo Ordoñez from ITAU. The line is now open.

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**Pablo Ordoñez *Itaú Corretora de Valores S.A., Research Division - Research Analyst***

Yes. Hi, good morning, thank you for taking my questions and congratulations on the results. Tania, on the growth outlook, the new projects you were very active in the -- through the quarter. Can you give us an idea of how much activity you expect to be on the liquid segment in the coming quarters? Are you seeing the same pace of activity ahead? And a second question is for Nelly on the balance sheet, leverage is peaking as expected. Given all this growth, is there any updates regarding the alternatives to optimize the balance sheet?

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**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Good morning, Pablo thank you for your questions. Regarding the liquid storage terminal, this is of course an area in which we have been very successful. We've been able to position IEnova as a very clear leader in this segment. And as you know, the driver of this opportunity is the new participants in the market that are setting up a retail gasoline stations. So they are moving very, very quickly to contract on the new marine terminals. We do expect to continue very quick growth in this segment in the upcoming year, but I would say, looking forward, 2, 3, 4 years, it will probably accelerate and will probably see maybe smaller projects. But I do continue to see very strong growth in the next year or so.

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**Manuela Molina Peralta *Infraestructura Energética Nova, S.A.B. de C.V. - CFO***

Good morning, Pablo. Regarding the balance sheet question, yes, we've all the alternatives in front of us but right now, and throughout 2018, we will continue to fund our growth with a combination of our operational cash flows and our revolver line of credit. In the midterm, I would say, we are evaluating many options like funding growth, including the refinancing of short-term debt, expanding our financing nonconsolidated very large projects that we currently have in our portfolio. And other restructuring financing that can be off balance sheet, that will help a lot. We feel -- well enjoy all of those alternatives of funding.

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### Operator

Our next question is from Christian Audi from Santander. Your line is now open.

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**Christian Audi *Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals***

Thank you, hello Carlos, Tania and Nelly. A few questions. First on the opportunity set, Tania, can you give us an update in addition on the port tenders and in addition to La Paz. Are there any other tenders that you see forthcoming that have already become public either before the year-end or into the beginning of next year?



Could you also provide us an update on the electricity transmission auctions, whether there are still going forward this year or they have become a 2019 event? And also any updates on the natural gas storage potential auction? On the projects front, Nelly, I was just curious, if you could provide a bit more color on the marine pipeline. I see that the startup has moved up a little bit and could be at the beginning of January. Any -- are you concerned that this could be delayed further? Or you have high conviction that will start? And lastly, on the operational front, I was just wondering if you could provide us with a bit more color on Mexicali? what are the trends that you see forthcoming? Do you expect operational results that have been very good to continue on this positive trend? Maybe just like talk a little bit about market conditions there? And lastly, what drove the pickup in margins on the Gas segment, please?

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**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Good morning Christian, this is Tania. Regarding the liquid terminals, right now and the only open -- the only ongoing process for land at a public port is the La Paz bid. However, please keep in mind that, for example, out of the 6 terminals that we have under development, only 2 have resulted from a port bidding processes. So we are looking at Greenfield opportunities in which we simply directly purchase the land, not necessarily through a bidding process. And we are also very, very active in that area, but it's, I mean, we cannot disclose the details of those initiatives. But we are evaluating several alternatives in addition to the La Paz project.

With regards to transmission, as you may recall, there are 2 bids underway, 1 that interconnects Baja and Sonora, and the other one Oaxaca to central Mexico. The Baja to Sonora bid has been postponed to February. And with regards to the Oaxaca to Central Mexico, bids are still due in November. So we continue to see how those progress and we also still continue to evaluate very closely the contract terms to ensure that they are appropriate for our risk profile.

With regards to natural gas, underground storage, there has been interesting progress. As you're aware a public policy was issued that requires a minimum natural gas storage to be developed in Mexico. There's been a preliminary selection of the first location for the first bid that will be held by CENAGAS. CENAGAS has issued a preliminary bid documents for public comments, and we believe that bid should be launched next year. So that continues to make progress and is, of course, strategic to the country.

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**Christian Audi *Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals***

And Tania a quick follow up on the Baja, Sonora electricity bid. Have there been any updates to changes to the contract vis-à-vis the force majeure aspect of the contract or not yet?

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**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Not yet, but we do continue to work with all of the relevant participants: Ministry of Energy, CRE, CENACE, CFE, to try to improve the risk profile of the contract.

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**Manuela Molina Peralta *Infraestructura Energética Nova, S.A.B. de C.V. - CFO***

Regarding the question on the Marine start-up date, we are confident that it can be achieved by the end of this year and beginning of 2019. Because its well advance that the natural gas packing, for instance, into the pipeline system is scheduled to start the first week of November. That will give us some comfort that it can achieve the commercial operation site for the period as mentioned. Also, of course, the testing is an important part of that. And that is dependent upon the gas availability at the port, but it is scheduled at the very end of 2018. So with that concern and the project is going well. Regarding the Mexicali Power plant, yes, the California market is showing some opportunities for TDM. The gas prices for instance in the market have caused TDM to be such at the very competitive power prices, and our sales have increased this quarter. Now, remember Mexicali doesn't have a long-term contract, so it doesn't have fixed revenues. And it's very difficult to predict the results going forward. It's going to continue to be very volatile. Regarding the gas margin, it's essentially a true-up on the parties of the distribution system but Roberto to expand that explanation.

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**Roberto Rubio Macías *Infraestructura Energética Nova, S.A.B. de C.V. - Former VP & Controller***

Thank you, Nelly. Cristian, good morning. This amount represents a nonrecurring to our adjustment in ECOGAS Mexicali. And this is mainly related to the 2014 and 2015 distribution rates based on the risk case adjustment procedures. Those procedures are included in the corresponding regulatory framework.

**Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals**

Okay. And 1 last follow-up, Nelly, going back to the point of financing, can you just remind us how much do you have left in the revolving credit facility that allows you to get financing your business, please?

**Manuela Molina Peralta Infraestructura Energética Nova, S.A.B. de C.V. - CFO**

Yes, our availability on that revolver is about \$500 million at this -- end of this quarter, Christian. And we will continue using that through the year-end and currently our total debt is about \$3 billion. Our net to debt -- net debt to EBITDA is about \$3.9 billion, as expected. I have advised you since the beginning of the end of the year that 2018 would represent a peak in total debt. We don't plan to continue -- or have a more than 4x on a sustainable basis, so we plan to delever the company starting in 2019.

**Operator**

Our next question is from Jeremy Tonet from JPMorgan. Your line is now open.

**Jeremy Bryan Tonet JP Morgan Chase & Co, Research Division - Senior Analyst**

Good morning. Just wanted to follow up on the questions with Marine Pipe and see if the delay here in any way will impact your contract with the CFE given there is a delay or any other thoughts around that, that you could share with us?

**Manuela Molina Peralta Infraestructura Energética Nova, S.A.B. de C.V. - CFO**

No. At this time, these schedule commencing of commercial operations to date is on track and our contract is okay, with CFE and any potential delays wouldn't affect our returns or our ability to collect revenues for the pipe.

**Jeremy Bryan Tonet JP Morgan Chase & Co, Research Division - Senior Analyst**

That's helpful. Thanks. And then, with the ECA and FID next year, I was just wondering if you could kind of refresh us the thoughts of how Sempra looked at these projects as a whole, given that there is other energy LNG export projects that Sempra is looking to put forward there. And when talking to different customers there, how does Sempra decide which project would get these contracts? Or any thoughts about that you could share would be helpful.

**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

Hello Jeremy, this is Carlos. As you know, sorry, now I'm in-charge also of the LNG -business in Mexico. And we have 3 main projects, Cameron, which we are working to finish that, for expanded our new purpose in project which we are working and ECA. On ECA, let me say that lately we have made substantial advances with clients in Asia as well as growth clients in Europe. And this is a very important project scale which we are convinced. Then we are driving this focus on contracting for our group. These are decent projects and not necessarily different clients. So we are working also on those three projects in order to try to have results in the short-term.

**Operator**

Our next question is from all of Álvaro García from BTG.

**Álvaro García Banco BTG Pactual S.A., Research Division - Research Analyst**

Hi IEnova team, good morning. My question is on the liquid segment. I was just wondering maybe perhaps Tania, if you could expand on why other players sort of haven't competed against you in the liquid storage space? And why all these new participants in the fuel business are choosing IEnova in this storage base particularly?

**Tania Ortiz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO**

Good morning, Álvaro. That's a very good question. As you can see from the customers that -- with whom we've been able to execute long-term contracts, they are very large either U.S. or global players. And they like to work with IEnova because of the track record that we have in Mexico, which I believe no other company really has, in developing infrastructure project and knowledge we have of the local environment, the fact that we are committed very long term to Mexico. And the fact that we're also bringing them on board to participate in many cases with equity options. And that means that they can incorporate their expertise and their best practices in our design. So I would say -- and obviously, we have the financial capabilities to develop this project. So for them, I would say, it's a very natural fit. We do

have competitors. There are other companies trying to develop projects, but I think, our track record and our long-term view and our experience, which is in a very unique position.

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**Operator**

Our next question is from Ezequiel Fernández from Scotiabank.

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**Ezequiel Fernández López Scotiabank Global Banking and Markets, Research Division - Analyst**

Good morning, thank you for the call and the slides. I would like to focus on 2 topics, the LNG export project ECA, and Mexicali. I would go -- I would like to go 1 by 1 if you don't mind. First on ECA, well would you say that compared may be with 3 months ago, the chances of tackling the ECA expansion are now higher, the same or lower? And whether you're more inclined to if you actually tackle this is do it through JV rather on your own?

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**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

Thank you, Ezequiel. This is -- I will tell you that this the chances to develop a contract for ECA are much higher as we have before, as I mentioned we have a new strategy, who have been working it up for the results, which are the target clients that we want to have in the midscale ECA. And all is the team is working to contract it as soon as possible. Second, yes the idea will be to form a JV between SEMPRA and IEnova a 50/50% when ECA close with a JV the other part place something on the table in this case, SEMPRA has the expertise naturally for contracting and for development this facility so we are working to form a JV that will be a very clear and transparent JV to develop the project.

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**Ezequiel Fernández López Scotiabank Global Banking and Markets, Research Division - Analyst**

That's very clear. Following up on ECA still. Will any upgrades on pipe transport capacity here in the U.S. or Mexico be needed for the export terminal? And which will be the level of the contracted capacity that you would need to have at ECA before making the decision to invest. Do you need to be 100% contracted, 80%, 50%?

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**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

On the first question, yes, we're working on the transportation side. There is another pipelines that can be used but we are probably going to build a part of a pipeline in Mexico but this at the end is a transportation project and we are working to solve it and we are totally confident that we're going to solve that part of the project. On the second question what percentage we should have before mention the FID. This is not a very much large project, 2 half million tons I really believe that we can contract the full project before the ECA project.

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**Ezequiel Fernández López Scotiabank Global Banking and Markets, Research Division - Analyst**

Okay, that's great. Now moving on to Mexicali. In the press release it was mentioned that it was both higher physical sales, more quantities and higher prices. I wanted to focus on the physical sales side. I wanted to know if this higher sales in this quarter were related to healthier Power demand in California? Or maybe higher thermal output perhaps lower hydrology or lower renewable resource? Or simply because Mexicali was not on maintenance on this year?

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**Roberto Rubio Macías Infraestructura Energética Nova, S.A.B. de C.V. - Former VP & Controller**

Good morning Ezequiel, this is Roberto Rubio. I will have to say that result, high operational result in TDM, had to do only with the fact that TDM is well positioned on the market to get a good access on the price on the natural gas. And that's why TDM has to be able to provide a better -- more Power to the California market.

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**Ezequiel Fernández López Scotiabank Global Banking and Markets, Research Division - Analyst**

Okay, so if got it right, it's a better competitive positioning in terms of marginal cost than other plants located in the U.S., is that why?

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**Roberto Rubio Macías Infraestructura Energética Nova, S.A.B. de C.V. - Former VP & Controller**

Yes, that's correct.

**Ezequiel Fernández López Scotiabank Global Banking and Markets, Research Division - Analyst**

Okay, and the second question related to Mexicali is, yes, we understand that the gas prices are higher so that translate into the higher prices of USD per megawatt hour. But I wanted to understand if at the same time, the cost of the gas that Mexicali burns that purchases in part from your own subsidiary at least did not rise in the same proportion and also gave way to higher profit per megawatt hour?

**Manuela Molina Peralta Infraestructura Energética Nova, S.A.B. de C.V. - CFO**

Ezequiel, if you'll allow us, let me -- let us get back to you with that detailed question. We don't have here in front of us, but our IR teams will contact you.

**Operator**

Our next question is from Jean Bruny from BBVA.

**Jean Baptiste Bruny BBVA Corporate and Investment Bank, Research Division - Chief Analyst**

Hi there, thank you for hearing my question. Just a couple of doubts. First one just to confirm with you that the slight overcast in the Texas-Tuxpan pipeline is not impacting the returns. And maybe to another reason behind this overcast is the same behind the delay? And last question is on the guidance. You are maintaining your guidance -- EBITDA guidance for the full year. Obviously (inaudible) guidance. Just to know why you had decided not to upgrade and maybe to give us an idea of what could be the target for this year. Thanks.

**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

Could you repeat the question? Because we couldn't hear you very well.

**Jean Baptiste Bruny BBVA Corporate and Investment Bank, Research Division - Chief Analyst**

Yes -- sorry, Carlos. Just to know maybe the reason behind the overcast in the Texas-Tuxpan pipeline from \$2.1 billion to \$2.34 billion dollars. And if there is an impact on the returns. I don't think so, but just to confirm with you.

**Manuela Molina Peralta Infraestructura Energética Nova, S.A.B. de C.V. - CFO**

Hi Jean, good morning. Regarding these increasing in CapEx in the Marine Pipeline, as we have stated, we do not expect any impact on our returns. These pipeline had initially a very healthy returns on the way we bid to win the project. So we don't expect any impact on the returns. We will stay in the same range and as it is our target. Regarding the guidance, we expect and we are confident at this moment that we will achieve the upper end of the guidance, which is \$845 million. We cannot give you any exact amount, but we will target that.

**Operator**

Thank you. (Operator Instructions).

And our next question is from Joao Lorenzi from Bank of America.

**Joao Victor Lorenzi BofA Merrill Lynch, Research Division - Research Analyst**

Thank for the opportunity for questioning. Actually, I would like to have some more clarification on your price expectations going forward. On the electricity side, what exactly has been driving prices higher in your view? And what is your expectation going forward? And for gas prices, basically, do you think that the level of gas prices is sustainable in the next quarters? Thank you.

**Manuela Molina Peralta Infraestructura Energética Nova, S.A.B. de C.V. - CFO**

Can you please repeat the first question, Joao?

**Joao Victor Lorenzi BofA Merrill Lynch, Research Division - Research Analyst**

Yes, of course. Regarding the electricity prices, what do you expect to be in the next quarters and what exactly in terms of demand has been driving the electricity prices higher?



**Manuela Molina Peralta *Infraestructura Energética Nova, S.A.B. de C.V. - CFO***

Well, certainly, now we cannot predict the prices going forward and you've seen they're evolving every quarter. We can have different behaviors on they not only the electricity prices but also on the gas prices. We cannot provide you any certainty on those.

**Operator**

Our next question is from Vanessa Quiroga from Crédit Suisse.

**Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil***

Hi, thank you, thanks for taking my question. The first one is on TDM. Just a follow up. Are you working on getting a long-term contract for that land? And when do you expect to be able to sign it? And -- and also in the meantime, how can we have a better idea of how this plant, how TDM, is going to perform during the next few quarters? And the second one would be on M&A, if you can provide your view or whether you think that an M&A transaction could happen within the next 12 months in your different divisions? Thank you.

**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Good morning, Vanessa, this is Tania. Regarding TDM, right now, we really do not see any opportunities to execute long-term contracts for a combined cycle. In this market environment, we do have -- there are some mechanisms in the California market, which allow us to capture short-term opportunities to secure some capacity payments, but they are very marginal. So we should expect TDM to be selling its Power in the spot market and therefore, it will be difficult of course, to provide guidance around that.

**Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman***

On M&A, we're working on this. As we have done in the past, I remember that more than 1/3 of our total growth have come from acquisitions. There are a few operations in the market that we're looking, a few assets that we're taking a look. As you know, this is a transaction that takes a lot of time not only to identify and study the dividend and contracts. But I cannot tell you when and what we are going to close, but anything that I can tell you that we are working very hard on a few things that we are taking a really close look.

**Operator**

Our next question is from Alejandra Obregon from Morgan Stanley.

**Alejandra Obregon Martinez *Morgan Stanley, Research Division - Research Associate***

Hi, good morning and thank you for taking my question. Just two quick follow-ups on the projects in Baja, California. First, on ECA. How should we think as the funding and financial capabilities for both the midscale and the largescale projects? And then on the transmission 1, I think, you're bidding with Manitoba. So could you please comment on how should we think of the economics of the project and profit sharing with this partner? And what will be a fair developer IRR for a project of this kind?

**Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman***

On the financing ECA midscale and largescale, let me tell you, for the midscale, the project is large project but is not that large And we're doing it that with Sempra a 50-50 and, to develop within 3 years. We don't feel we are not going to go to the market to finance it. I think as in the integration of the resources that we have we'll be able to (inaudible). On the large-scale that is a totally different project is quite large, a very substantial amount. And in that case, we are staring other alternatives, including the project financing, probably in this project we are going to have more partners as we have in Cameron but we'll have to really good markets to finance that project.

**Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO***

Thank you, Carlos. Good morning, Alejandra. Regarding the transmission line, yes, Manitoba Hydro International is a partner on that project but with a very, very, very small stake. So we wouldn't discard having other larger partners in the joint venture. Manitoba -- what Manitoba Hydro bridge is really very, very strong expertise in the type of technology that's required under this particular bid. With regards to the return, I mean, it really has to do with the risk profile of the project. It would certainly have to be under -- on the higher aspect specifically it is thus end up being on the dollar denomination of course, your return expectations should be different. But that will evolve as the bid structure and contract structure continues to evolve.

**Operator**

Our next question is from all Alvaro Garcia from BTG.

**Álvaro García Banco BTG Pactual S.A., Research Division - Research Analyst**

Hello again. Just a quick follow-up on ECA. Carlos, I was wondering if perhaps you seen anything or if there's any risk that the new administration in Mexico would potentially be able to block some of the permits you have already -- some of the permits you have already been awarded regarding ECA. So if there was anything that worries you from the new administration regarding these permits from ECA?

**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

The answer is no. This is a very good project. It will help us to reduce the debt. And as I said we'll be importing more gas than we're exporting, and we already have the permits. In the zone is something that is being permitted for this type of operation. So I don't see -- I don't see any risk of having problems with these projects.

**Operator**

Our next question is from Christian Audi, Santander.

**Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals**

Thank you. Carlos, just a follow up on ECA. In the scenario of it being a 50-50 JV with Sempra, your intention would still be for IEnova to have a dollarized long-term take-or-pay contract. Is that correct? And secondly, can you provide us an update on the permitting that may be needed, not on the Mexico side, but on the U.S. side, how that is involving, please?

**Carlos Ruiz Sacristán Infraestructura Energética Nova, S.A.B. de C.V. - Executive Chairman**

Yes, this will be a JV. It will be a dollar contract. And we will not take a commodity risk whatsoever. So it will be more like a take or pay type of operation (inaudible) The second -- on the permits we have the main permits. What we are working now is the permit, one in the United States and one in Mexico. The permit in United States is a permit to export gas to Mexico and to reexport it. And in Mexico we are working on a permit to reexport that gas. So I would say that those are the main permits that we need. We don't see any reason whatsoever in the United States and in Mexico that we should not be able to get those permits.

**Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO**

Christian, I would add that in particular we filed for the permit in the U.S. in September. And we expect to obtain it by the middle of next year.

**Operator**

(Operator Instructions).

At this time, I'm showing no further questions. I would now like to turn the call back over to Tania Ortíz, CEO for closing remarks.

**Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO**

Thank you, everyone for joining our earnings call. If you have any questions or need additional information, please reach out to our Investor Relations team. Have a good day.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.

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