

OVERVIEW OF SOLAR POWER IN IRAN

OVERVIEW OF THE SOLAR SECTOR IN IRAN AND CURRENT FRAMEWORK

Overview of the renewable energy sector in Iran

- On the whole, the Middle East energy sector is dominated by low priced fossil fuels that present both economic and environmental issues
- Iran is currently only producing 0.2% of its energy from renewable sources. The sector is currently made up of mainly wind with c54 MW, Solar with c15 MW, biomass with c14 MW and hydropower at less than 1 MW
- Coupled with the above, Iran has an extremely high level of energy consumption per capita which led to the Country reaching the peak of its production capacity in the summer of 2016
- The Iranian government is actively pursuing a policy of moving away from hydrocarbons as a source of production to more renewable sources in order to create diversity within its energy mix as well allowing to focus more of its natural resources on exports vs domestic consumption
- In 2016, the Government set a new plan that looked to install 5,000 MW of renewed capacity by 2020 vs the current capacity of c85 MWs
- This will help address the future energy shortage as Iran's consumption will grow at c6% a year but growth in its generating capacity is only limited to a third of this

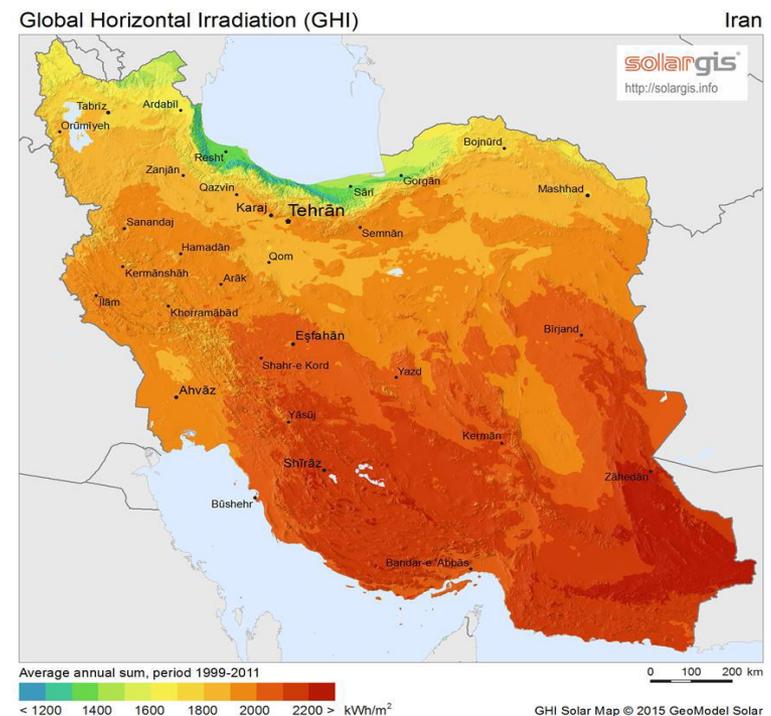
Renewables Framework in Iran

- Through the Iranian Power Generation, Transmission, Distribution and Management Company ("TAVANIR"), the Iranian government operates their Renewable Energy Organisation ("SUNA")
- SUNA was established in 1996 with the original goal to have responsibility for evaluating Iran's potential renewable energy sector and trying to attract private sector investors with a guarantee to purchase any renewable power produced
- But today SUNA's responsibilities have increased to include acting as the regulatory authority for developing policies, issuing licenses for renewable projects and entering into power purchase agreements ('PPAs') with developers.

Source: CBI, SAMA, World Bank, 2014

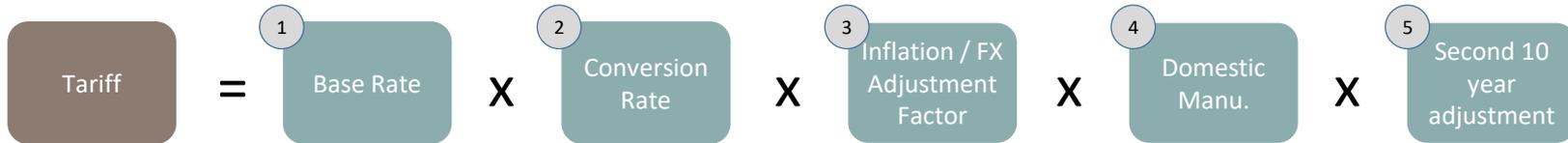
Geographically well suited for solar

- Iran has been described as a region with great potential for solar energy utilization
- The average solar radiation in Iran is 4.5 – 5.5 kw h/m2 with c300 sunny days per year on two thirds of its land area
- The higher irradiation rates belongs to central-south areas of Iran with the average irradiation of 5.2 to 5.4 kWh/m2/day in Kerman, Yazd, Fars, Kohkiluyeh va Buyer Ahmad, Hormozgan and Chaharmahal va Bakhtiari provinces
- However, most of these regions are dry and dusty land with higher operation cost of PV systems due to lack of self-cleaning mechanisms in the majority of solar panel systems



UNDERSTANDING THE PRICING FORMULA & PROCESSES TO SOLAR FARMS IN THE COUNTRY...

Pricing Formula & Tariff Rate



1 The base rate is the tariff rate agreed at the time of signing of the PPA. It varies depending on the size of the project. Please see the table for the split in tariffs across each farm size

Solar Farm Size	Base Tariff in Rials	Base Tariff in Dollars
Above 30 MW	3,200	0.10
30 MW and Less	4,000	0.13
10 MW and Less	4,900	0.16
100 KW and Less	7,000	0.22
20 KW and Less	8,000	0.26

2 The conversion rate is the rate that the farm is producing energy per its capacity. For instance if a 10 MW farm produces 2MW/h it is producing at 20%. One of the world's most productive solar regions, Arizona operates at c29% whilst England/Northern Europe are closer to 11-12%

3 The adjustment rate is a yearly mechanism that can be weighted more towards the change in the central banks EUR fx rate, or the change in the CPI rate's for inflation. **This will affect the total tariff on a yearly basis**

4 The government provides an additional 30% to the rate of the tariff if the developer purchases all of the required machinery from Iranian producers. This scales, for instance if one purchases 50% than they will receive a 15% increase in tariff

5 For the second 10 years on the PPA, there will be a 30% reduction in the rate of the tariff

Process



1. In order to start construction a renewable power plant in Iran, an application must first be sent to SUNA containing the key details of a project
2. It must be an Iranian entity, therefore foreign investors are required to form a company in Iran. However it is okay for a foreign investor to hold 100% of an Iranian company
3. Upon issuance of the construction permit, other permits such as grid connection, land permits and environmental preservation need to be obtained
4. Once these are received, the investor can commence construction. They will however, be required to periodically submit progress reports to SUNA

5. The plant must be commissioned within 18 months of the conclusion of the PPA otherwise the tariff at the time of commissioning will be applied rather than the previous agreed tariff rate at time of signing

POWER PURCHASE AGREEMENT OVERVIEW

Term	20 years after which the developer can sell to the electricity to private parties subject to the Ministry of Energies (MoE) approval
Land Cost	The developers responsibility
Design & Finance Cost	The developers responsibility
Payment Currency	Iranian Rials
Payment Guarantees	SUNA to open a letter of credit in Rials in favour of the developer in an Iranian bank for an amount equal to 6 months of payments under the agreement. The subsequent renewals of this letter will be the developers responsibility. We have heard that by early 1396 that SUNA will be providing payment guarantees backed by the state
Delay Payments	SUNA to compensate the developer based on a minimum interest rate offered in Iran
Construction Cost	The developer is responsibility for all construction and maintenance costs
Feed in Tariff Rates	The tariff rates announced at the time of signing of the PPA or the applicable tariff rates at the commercial operation date
Taxation	The developer will be subject to Iranian corporate taxes but will receive tax credits for investing in less developed regions of Iran
Grid Connection Cost	The developers responsibility to bear the cost of connection to the national grid
Governing Law	Iranian Law
Dispute Resolution Mechanism	If negotiations fail between the two parties, than both parties agree to form a committee with an independent third party that will help settle the dispute

POTENTIAL CHALLENGES THAT LIE AHEAD FOR THE SOLAR SECTOR IN IRAN...

Fundraising remains a challenge



Domestically, the local Iranian banks are not prepared to offer project finance and will only provide loans at very high interest rates (around 20%). Internationally, the global financial sector is still hesitant to fund projects in Iran due to the US sanctions that remain in place

Creditworthiness of SUNA



Developers might be concerned whether SUNA has the financial capability to meet its financial obligations for payment of the minimum tariff rates announced. SUNA has announced that it will provide a letter of credit for six months. Additionally there is word that the H2 2017 PPA will have a sovereign guarantee clause

Local capability



Local developers lack experience and knowledge compared with other jurisdictions where renewable energy is more developed. Furthermore, in a country where the majority of energy is generated by fossil fuels, there is a lack of knowledge about the benefits of renewable energy, particularly in rural areas.

Regulatory framework



Although a German company established a 14MW farm in Iran, The current regulations in place have not yet been fully tested. There have not yet been sufficient renewable energy projects in Iran to gain a full understanding of how the regulations will be applied

Land acquisition



For renewable energy projects the location is a key consideration. However, acquiring public or private land in Iran can be a time-consuming and expensive task for developers

LOCAL SUPPLIES AND INFORMATION

Local supplier companies

Company	Location	Products	Panel Price (for a 1MW project)	Panel Efficiency	Comments
Pak Atiyeh (manufacturer) ^(a)	Razavi Khorasan	PV panel, micro- inverter and structure	Mono (64 cent/watt) Poly (60 cent/watt)	20%	<ul style="list-style-type: none"> In 2012 Pak Atiyeh acquired production line of "Aria Solar Sanat Co." Micro-invertors are not suitable for power plants
Sazan Electronic Industries (manufacturer)	Semnan	PV panel, inverter and structure	88 cent/watt	N/A	<ul style="list-style-type: none"> SEI mutually manufactures 40w inverters with Tress, a Chinese company SEI will charge \$1.4m for EPC project of a 1MW solar plant with local equipment
Moj Gostaran Alborz (importer) ^(b)	Mazandaran	PV panel, inverter and structure	64 cent/watt	N/A	Imports South Korean products

(a) In 2012 "Aria Solar Sanat Co." sold its production line machineries to "Pak Atiyeh Co.". After significant devaluation of Rial, Aria Solar wasn't able to continue its operations and wasn't profitable since most of its raw materials was imported

(b) Similar to Moj Gostaran, most of other local companies in this field are mainly importers

Considerations on solar energy in Iran

- Mono panels are suitable for cold and cloudy places whereas poly panels are suitable for warm climate
- 30% increase in tariff due to using local equipment can be breakdown to 15% for panels, 6% for inverters and 9% for structure, cables and rest of the equipment
- Iranian panels are better than Chinese panels in Iran (e.g. Yingli) however they're not as good as European or South Korean ones

An acquisition opportunity in Iran's Solar Industry

Sazan Electronic Industries Co. has a 10MW solar plant project which needs a partner to inject cash to complete and start operation with following characteristics:

- Capacity of 10MW
- 30 ha land located in North East of Semnan Industrial Zone
- All civil operation of the land is completed
- Base tariff in PPA is 490 Toman per KWH. 22% out of 30% tariff increase is achievable due to utilizing local equipment
- Project completion needs 14 months
- \$11m investments for 70% stake
- Payment term is 40% at the beginning, 30% after 4 months and remaining 30% after another 4 months

Exchange rate of 37,500 USD/IRR is used

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