



Karimi & Associates
Law Firm

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Foreign investment in renewable energies

Mechanisms and Advantages



Introduction

As far as energy sources are concerned, Iran may sound synonymous with oil and gas to many. However, the Iranian government has also increasingly given attention to promotion of renewable energies in the past two decades, a long-term strategy which began with the utilization of renewable sources in early 1990s.

Considering the country's significant resources of solar, wind and geothermal energy and its special geopolitical location, the potential for renewable energies in Iran is undeniably great. To realize this potential, the Iranian government has taken significant steps forward, making the country the most advanced in the middle east region in terms of wind and solar energy.

This claim is supported by the considerable number of post sanction solar and wind farm projects that, according to Renewable Energy Organization of Iran (the 'SUNA'), have signed PPAs, including among others a 48 MW wind farm in southwest Iran, 1,250 MW of solar power plants to be constructed at various locations across Iran (including 500 MW near Tehran), a 1 GW solar park in the Khuzestan province to be built by a consortium of Iranian, Indian and South Korean companies and a 50 MW solar plant in Qeshm Island to be built by an Italian company.

In this short article, the main body of laws governing investment in renewable energies in Iran will be discussed, with a focus on general procedure and main investment schemes together with the specific advantages offered to the investment in this sector.

Regulatory Framework: Established in 1996, SUNA is now not only responsible for evaluation of Iran's potential renewable energy sector and guaranteeing purchase of produced renewable power with the aim of promoting private sector investment in this field, but it also acts as the regulatory authority for developing policies, issuing licenses for renewable projects and entering into power purchase agreements ('PPAs') with developers.

As in any other foreign investment sector, "The Foreign Investment Promotion and Protection Act ("FIPPA) sets forth the main legal framework for foreign investment in renewable energies. Within this general framework and as a complement to FIPPA, there could be found a number of rules and provisions specifically designed to regulate the renewable energy sector. The Law of Modifying Consumption Patterns (2011), Annual Budget Laws, The Laws of Five-Year Development Plans and Government's Financial Regulations Act (2001) are some instances of these regulations.

Chief among the sets of rules regulating foreign investment in renewable energy sector is the Decree from Cabinet Ministers No. H 52375 T/153440 - Revised Feed in Tariff Rates (February 2016) and the Directive from the Minister of Energy with No. 95/14273/30/100 (May 2016), which provide the legal basis for SUNA to sign long term PPA with renewable power producers.



Investment forms (schemes):

Foreign investment in the field of renewable energies could be made either in the form of establishing a new company with 100% ownership and control of business as permitted by FIPPA, or, alternatively, acquiring shares of Iranian companies already registered.

General Procedure

Registering a new company or joining Iranian companies, whichever chosen as a scheme for foreign investment in renewable energies, the implementation process as explained below shall be performed:

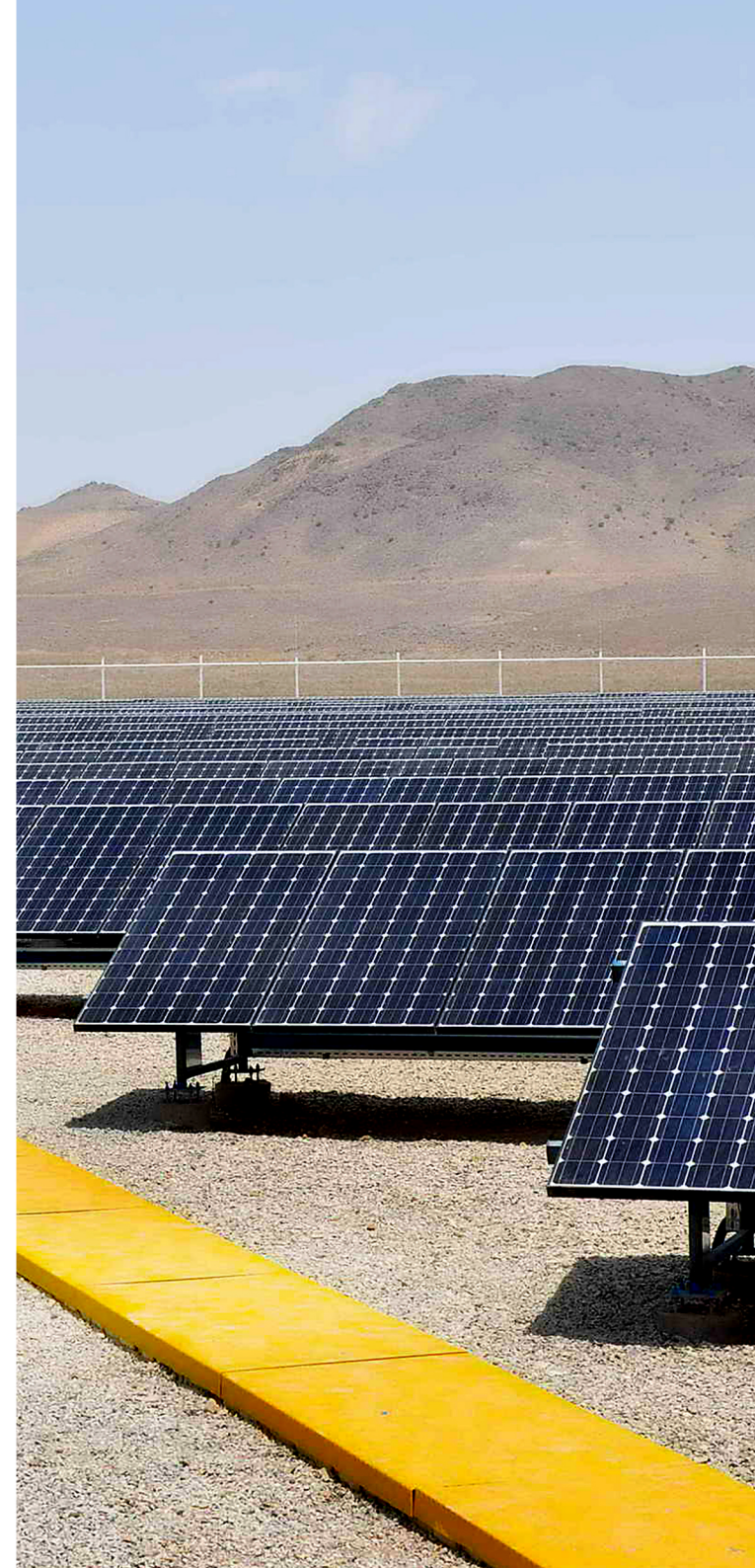
1. Project Registration: Within one week from submitting the technical and financial credential as well as the project details, and upon verification and confirmation by SUNNA of the fulfillment of all applicable requirements, a construction permit will be issued to the foreign investor.

2.Licenses Acquisition: After obtaining the construction permits, the developer must apply for land use permit, environmental permits and grid connection permit. These permits must be obtained within 6 months from the date of the issuance of construction permit. SUNNA may grant extensions provided that the developer proves that progress in obtaining permits has been made.

3.Contracting: Within one month upon obtaining the required permit, a standard, non-negotiable Power Purchase Agreement (PPA) is signed between SUNNA and the developer.

4.Execution, Operation and Payment: Projects should reach commercial operation within 30 months for biomass, geothermal and small hydro power plants, 24 months for wind projects and 15 months for solar projects, all starting from the date of PPA signing.

By the time the project becomes operational on generation of electricity, SUNA provides a letter of credit in favor of the developer as a guarantee of payment pursuant to the monthly invoices issued during the term of PPA.



PPA Contracts: Feed-in tariffs as an incentive

Feed-in tariffs for power purchase: the electricity generated by clean and renewable power plants will be purchased at the following feed-in tariffs (FiTs):

Power Plant Technology Type			FiTs (IRRs per kWh)
1	Biomass	landfill	2700
		the anaerobic digestion of manure, agricultural wastes and wastewater	3500
		incineration and wastes gasification	3700
2	Wind Farm	above 50 MW capacity*	3400
		with the capacity of 50 MW and less	4200
3	Solar Farm	above 30 MW capacity*	3200
		with the capacity of 30 MW and less	4000
		with the capacity of 10 MW and less	4900
4	Geothermal (including resource assessment and excavation)		4900
5	Waste Heat Recovery (WHR) from Industrial Processes		2900
6	Small Hydropower (with the capacity of 10 MW and less)	Installation on the rivers and side facilities of dams	2100
		Installation on the water pipelines	1500
7	Fuel cell systems		4948
8	Turbo expanders		1600
* SUNA determines the maximum capacity for the large wind and solar farms according to the total 2000 MW annual capacity development policy.			
Allocated to the Subscribers and Limited to their Connection Capacity			FiTs (IRRs per kWh)
1	Wind with a total capacity of 1 MW and less		5700
2	Solar	with a total capacity of 100 KW and less	7000
		with a total capacity of 20 KW and less	8000

Concluding Remarks: Iran's vast potential for renewable energies stem from the great wind and solar energies that the country possesses, making it an exciting market. Challenges do exist, for instance lack of government financing except for urgent projects, lack of high level of experience and knowledge amongst local developers and the rather lengthy process of land acquiring in Iran are some of these difficulties that should be dealt with diligently from the outset as well as during the implementation. However, taking into account the favorable investment terms offered by the government, the risk is worth the greater rewards in the long term in the form of higher tariff rates for the next 20 years.

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For more information contact:
Ms.Reyhaneh Sedighi-Associate attorney
E-MAIL : R.SEDIGHI@KARIMILAWFIRM.COM



Karimi & Associates
Law Firm

+9821 2205 2266
+9821 2205 2671

No7, 5th Floor, Mellat Tower,
Valiasr Street, Tehran-Iran.

www.smartinvestiran.com

+9821 8882 4707
+9821 8882 0999

No161, 3rd Floor, After Mofateh St.
East Taleghani St., Tehran-Iran.

www.karimilawfirm.com