RENEWABLE ENERGY IN ARGENTINA

New Regulatory Framework and Outlook 2016+
Executive Summary

• Complete Overhaul of the RE Regulatory Framework
• National RE targets to achieved by 2018 (8%) and 2025 (20%) are mandatory to all types of consumers
• Improvements to the Regulatory Framework:
  – Competitive and transparent market rules and contract mechanisms
  – Mandatory pass-through of PPA costs to consumers
  – Sector specific trust fund to provide PPA payment guarantees and debt financing to projects
  – Significant fiscal incentives to IPPs and local supply chain
• Argentine RE Market Outlook
  – Outstanding RE resources and project pipeline
  – First tender to be held in 2Q’16
  – 2-3 GW of RE capacity additions expected in 2017-18 time frame
New RE Federal Act Sets A New Stage

• Federal Act N° 27 191 was passed in **September 2015**

  Despite the fact that the voting was held in the middle of a fierce presidential campaign and just 3 weeks prior to the elections date, the Act obtained *extraordinary multi-party support, that sets* a strong base for long term sector stability

• Legal mandates allow for a planned **long-term market development** and *provide visibility for investment*

• **Complementary regulation** and contracting rules under elaboration. **First tender planned for 2Q’16**

• **Project technical requirements** and preliminary tender rules to be released shortly

• **Argentina macro and sector specific improvements expected to boost investor interest in RE**
RE Mandates to be observed by 2025

Current Market Size
RE as % of Power Demand = 1.8%
RE Installed Capacity = 0.8 GW

- RE Installed Capacity = 0.8 GW
- Current Market Size: 1.8% of Total Power Demand
Act N° 27 191 – Main Issues

- Improves and extends RE legal framework
- **Sets mandatory RE targets to be achieved by 2025 by all consumers** and instructs the Ministry of Energy and Mining (MINEM) to set the necessary mechanisms to achieve the mandates
- **Allows large consumers to source RE directly** from IPPs, traders, utilities or self-consumption projects
- Introduces **strong fiscal incentives to IPPs** to reduce PPA prices
- Introduces important **market and financial incentives for local supply chain** building; however, it does not set minimum inclusion of domestic goods rules
- Creates a **sector specific trust fund** (called “FODER”) funded by public funds, specific consumer charges, and public offerings and which is designed to provide **payment guarantees** and **project financing**
Act N° 27 191 – Fiscal Incentives

- **Exemption of Import Duties** for all projects starting construction prior to 12/31/2017
- **Accelerated Fiscal Depreciation** of applicable assets
- Advance VAT Return paid on pre-COD purchases
- **Exemption of Minimum Presumed Income Tax**
- **Exemption of Dividend Tax** (subject to re-investment in infrastructure)
- **Extension of Income Tax Loss and Credits to 10 years** (standard is 5)
- Tax deduction of all financial expenses
- Tax Credit on locally supplied CAPEX

Tax benefits are stronger for projects starting prior to YE 2017 and decrease gradually over time to 2025
• **MINEM will tender RE PPAs for 100% of mandatory target**
  – PPA costs will be rolled out to all consumers
  – Pre-qualified projects awarded at tender will have automatic access to tax benefits and FODER project financing and guarantees
  – Award rules will be set based on price and non-price criteria, including the inclusion of domestic goods, time to COD and amount of FODER financing requested
  – PPA terms to be determined (15+ years)
• **Large unbundled power users** (those with an average power demand greater than 300 kW) *may opt-out* of the roll out of tendered PPAs *and source RE directly* from IPPs, utilities, traders or self-consumption projects
Act N° 27 191 – PPA Mechanisms

100% of mandated power of users <300 kW plus Large Users who do not opt-out. Price set at tender.

Mandated power of Large Users >300 kW who opt-out. Enforced annually and subject to penalty. Price set freely among parties.

* from IPPs, traders and utilities
Act N° 27 191 - RE Sector Specific Trust Fund

FODER

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**Project Finance Account**

- Treasury Funds
- Public Offerings
- ANSES (Pension Fund)
- Multilaterals / Climate Funds

**Payment Guarantee Account**

- Specific Charge to Consumers

**Long Term Project Loans**
- Interest Rate Subsidies
- Equity Contributions

**Payment Guarantee**
- for all tendered PPAs
• Incentive to Local Suppliers/Manufacturers
  – FODER sector specific development credit line
  – Import duties exemption for equipment, parts and supplies

• Incentives to IPPs who purchase locally
  Larger inclusion of domestic goods
  – Priority Access to FODER project financing
  – 20% Tax Credit on locally supplied CAPEX (subject to a minimum integration of 30% of project costs excluding civil works and others)
Tendered PPAs - Cash Flows Diagram

- **Sponsors**
  - Debt Financing (Lenders)
  - Equity
  - Loan
  - Loan Repayment

- **Renewable Energy Project Company**
  - Dividends
  - Payments
  - Funding
  - Guarantees

- **Collection Account**
  - Monthly Payment of Electricity Bills
  - Monthly Billing to End Users through DistCos

- **Off-taker (CAMMESA)**
  - PPA
  - Physical Flow

- **Funding**
  - National Treasury Public Offerings
  - Pension Funds
  - Multilateral Banks Climate Funds
  - Solvency Guarantee (under negotiation)

- **Electricity End Consumers**
  - Renewable Electricity through National Grid

- **Renewable Energy Trust Fund (FODER)**
  - Loans
  - Payment & Termination Guarantee to PPA

- **Guarantee Charge**
Thank you