

Dominican Republic Solar EPC

Linuo Solar Power develops and implements solar projects worldwide. First established as EPC company in 2002, Linuo Solar Power can offer all levels of project business today. Over the past 10 years Linuo has contributed upwards of 1 GW of solar power across worldwide markets including China, Germany, Italy, Spain, Greece, USA, Brazil and Chile amongst others. Linuo is listed in the Top 20 EPC ranking and has built 235 MW turnkey solar power plant in 2014, in total Linuo successfully completed PV EPC turnkey track record > 600MW. The project business comprises the planning and implementation of solar parks and a comprehensive advisory services, financing advice and monitoring of investments includes. Our Clients have the choice between single modules or a complete solution that includes all these services.

This document gives to our partners and clients an overview about

Government Policy in the Energy Sector Dominican Republic:

Brief introduction

The Dominican Republic is moving towards a favorable climate for private investment in renewable energy projects. Investors may benefit from the incentives of Law 57---07. The government has continuing in making efforts to draw an energy policy that contributes to economic development. Currently, 40% of electricity production from fossil fuels, energy dependence has a high economic and environmental cost. The move towards a new energy model includes an input of renewable energy in the matrix. Renewable energy comes from clean sources, in addition, in a country like the Dominican Republic, the use of technologies such as solar photovoltaic, are increasing accessibility to electricity in remote areas where electricity infrastructure to deliver a high cost.

The legal framework for renewable energy is reflected in Law 57---07 and its implementing Regulation No. 202---08, Incentive ---related to the Development of Renewable Energies and Meals Specials---. The National Energy Commission (CNE) is the state institution created to draw the policy of the Dominican State for Energy, and is responsible for administering the Act No.57---07. This Act provides an exemption from all taxes import equipment, machinery and accessories imported by companies or individuals, necessary for the production of energy from renewable sources referred to in Paragraph II of this article, which according to the regulations of this law apply to the incentives it creates. The exemption is 100% of the taxes for projects based on renewable sources that comply with this law, are also exempt from Transfer Tax for Industrialized Goods and Services (ITBIS) and all sales taxes end. For the application of these exemptions the National Energy Commission must evaluate and verify applications for incentives to proceed authorize the exemption by certifications and / or resolutions those that fall within the law. List of Equipment, parts and systems to receive custom tax exemption are as follows:

- a) Individual Photovoltaic panels and solar cells to assemble the panels in the country (custom subheads 85.41, 8541.40.10 and 8541.90.00);
- b) Long duration stationary accumulators;
- c) Inverters and or converters indispensable for the functioning of the renewable sources of energy;
- d) Fuel batteries and equipment and devices destined to generating hydrogen

The current government continues to encourage the private sector, national and international, to participate directly in the generation of energy at different levels of the energy matrix. A close coordination between the public sector and the private sector will explore long-term financing interventions and syndication of power generation and efficiency projects. In particular, the private sector windows will look for opportunities to invest in PV, Coal and LNG industries as well as is encouraging energy efficiency, recycling, clean-fuel alternatives, etc.

Three main Sections compose the present document:

1. Macroeconomic overview of the Dominica Republic;
2. Energy sector briefing, and;
3. PV project characteristics.



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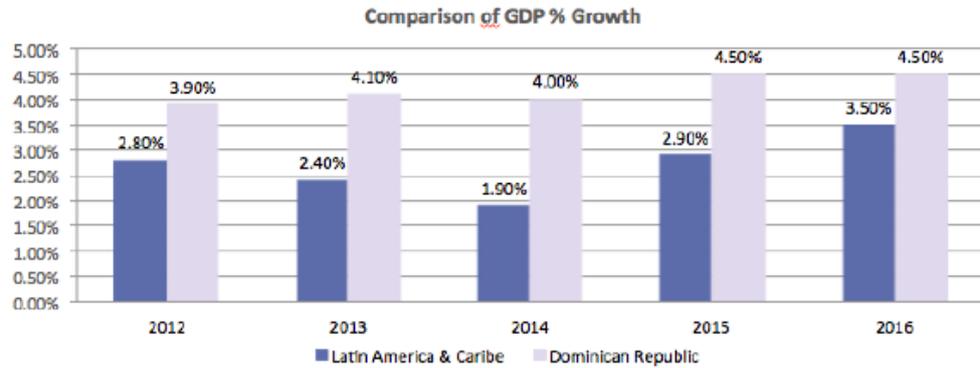




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Favorable Macroeconomics

The Dominican Republic has experienced robust economic growth over the past several years. In 2013, real GDP increased by 4.1 percent driven by the mining, construction, agriculture, and tourism sectors. Inflation remained unchanged from 2012 at 3.9 percent (year-on-year) and was below the central bank's target range (5 percent +/- 1 percent). Compared to the GDP growth to Latin America as a group; the Dominican Republic has maintained an extraordinary record of GDP growth as indicated in the Chart below.



Macroeconomic Outlook					
%	2013	2014f	2015f	2016f	2017f
Real GDP growth	2.50	3.50	4.40	4.70	4.50
Unemployment rate	14.90	14.30	14.00	13.90	14.00
Inflation (CPI)	4.50	3.20	4.10	4.50	4.30

Source: World Bank (2012)

According to the latest information reported from the Central Government, Minister Jose Peralta from the office of the President, economic growth as of today have reached 7% annually 2.5% beyond the IMF and World Bank estimate as shown in the Chart above. FDI has increase 20% compared to 2013.

Management the Fiscal Account

The large increase in the fiscal deficit in 2012 was partially reversed in 2013 and 2014. The deficit of the consolidated public sector declined by almost 3 percentage points of GDP, to 5 percent, owing to:

- Lower investment expenditure,
- The yield of the 2012 tax reform, and
- The negotiation of new repayment terms with a private gold company.

In general, the consolidation of the fiscal account was encouraged by the support of the Multilateral Development Financing Institutions management programs.

Declining External Current Account Deficit

The external current account deficit declined from 6.8 percent of GDP in 2012 to 4.2 percent of GDP in 2013, owing to:

- The coming on stream of gold exports,
- Higher tourism receipts, and
- Lower public investment.

Net capital inflows remained large, reflecting both government borrowing, mainly from Multilateral Financial Institutions (MFIs), and foreign direct investment (FDI).





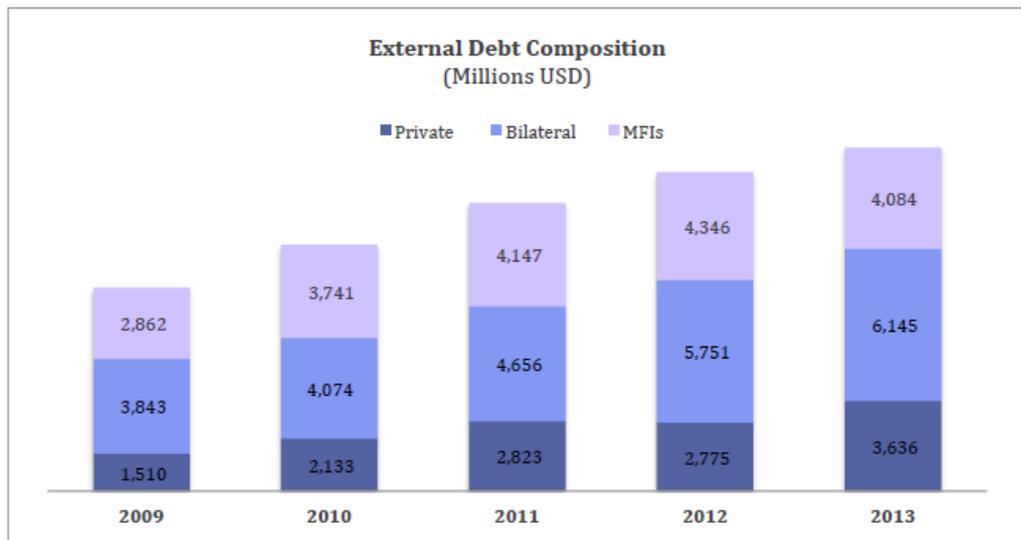
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Gross National Income & Sector Contribution

Gross National Income & Sector Contribution of GDP	
Gross National Income was estimated at US\$ 101 billion, equivalent to US\$ 10,790 per capita	
Agriculture (hunting, forestry & fishing)	5.80 %
Industry (mining, manufacturing & construction)	32.00 %
Service (tourism excl. transport)	62.20 %
Total	100.00 %

Source: OPEC Fund for International Development (OFID, 2012)

According to the figures from the Direction of Public Debt, the components of external debt, is as shown in the Chart below:



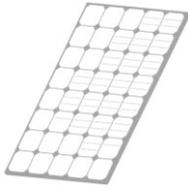
Multilateral Debt has grown 43%, 60% and 141% respectively from December 2009 until September of 2013. Bilateral debt with Petro Caribe led by with Venezuela has grown from US \$ 1,480.3 million in 2005 to US \$ 3,584.5 million by 2013, or 142%. This debt was bought at 52% discount to the Venezuelan Government early 2015. While multilateral debt the Inter-American Development Bank (IDB) is the main creditor of the Dominican Republic with US \$ 2.087 million, which represents 51% of the Dominican multilateral debt. Finally, the Dominican Republic maintains a rising debt to \$ 3.636 million with private creditors, made by banks, suppliers and bondholders.

The oil debt with Venezuela is a long-term debt, payable in 25 years at soft conditions and including barter trading agreement between the two countries. In other words, the exchange of crude oil supply for agricultural products. The government aims to reduce its dependence on oil imports used for energy generation by increasing the participation of PV, coal and natural gas in the energy matrix. Because of this government's strategy stable economic and legal framework may be provided - even in periods of declining oil prices. The multilateral debts are concessional loans that support the energy sector reform and the central government management of the fiscal accounts.



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Challenges of the Current Administration

The main challenge the Dominican economy faces are:

- Sustaining growth rates;
- Enabling substantive improvements in the population's living conditions;
- Improve transportation infrastructure;
- Increasing Electricity supply services so as to improve the technology development; business competitiveness and standards of living.

Background

The national electric system in the Dominican Republic dated to 1928, when the formation of the *Electric Company* of Santo Domingo was authorized. The responsibility of the company covered generating, building of infrastructure, transmission and distribution networks.

In 1954, the *Dominican National Congress* approved a law where the government was obliged to acquire all the private companies of the sector that were involved in the generation, transmission and distribution. One year later in 1955, Dominican Electricity Corporation (CDE) was established. The CDE was responsible for maintaining, expanding and generating all the electric energy in the country.

Further consolidation of the Public Sector was achieved through:

- a) The creation of the Department of Industry and Commerce in the mid-1960s;
- b) The National Energy Commission which was established during late 1970s;
- c) The CDE was restructured in early 1990s and capitalized in 1993 as recommended by the Multilateral Financial Institutions (MFIs). A reform of the Dominican electric system was promoted by the country's President through the *General Electricity Bill*;
- d) Five companies were created under this law and were capitalized with assistance from the CDE. Two generation and three distribution companies:
 - Generation:
 - I. Empresa Generadora de Electricidad ITABO; and
 - II. Empresa Generadora de Electricidad Haina;
 - Distribution:
 - I. Empresa Distribuidora de Electricidad del Norte (north);
 - II. Empresa Distribuidora de Electricidad del Este (east); and
 - III. Empresa Distribuidora de Electricidad del Sur (south).

Current Sector Organization

The current organization of the Energy Sector and the Electricity sub-sector was defined by the General Electricity Law 125-01 in 2001, which was later modified to some extent by 186-07 in 2007.

“The main policy principal established by law is that the government's entities essential functions are of a regulatory, promotional, and monitoring character, to be exercised by the government through the specialized institutions created by the law”



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The Law mentioned above established the following:



National Energy Commission
Comisión Nacional de la Energía
(CNE)

In charge of defining the national energy policies, regulations and plans. The CNE aims to promote a sustainable energy sector, investments and necessary incentives to develop renewable energy sources.



The Electricity Superintendence
Superintendencia de Electricidad
(SIE)

The regulatory agency, and is headed by a council of three members (one of whom is the Superintendent) appointed by the President and ratified by Congress.



The Coordination Agency
Organismo Coordinador (OC)

Responsible for the dispatch of electricity.



The Dominican Corporation of
State Electricity Companies
Corporación Dominicana de
Empresas Eléctricas Estatales
(CDEEE)

The governmental holding company for the electricity sector.

The Dominican Republic's electricity law has taken effect within this context:

- To promote and guarantee the electricity supply required by the country under adequate conditions of quality, safety and continuity, with optimum use of resources and due consideration to environmental concerns.
- To promote private participation in the development of the electricity industry.
- To promote competition in the generating area, stimulating investment and prices to be determined by the market.
- To regulate transmission and distribution prices based on economic criteria of efficiency and equity.
- To ensure that electricity supply is carried out with neutrality and without discrimination.
- To ensure protection of consumers' rights and compliance with their duties.

Concessions

The *new electricity law* requires a "concession" for companies interested in electricity distribution and generation except in interconnected systems or when maximum power demand is less than that established in the regulations.

Under the *new electricity law*, *electric concessions* may be granted to national or foreign companies. The law establishes two types of Concessions: "Provisional" and "Definitive" Concessions

1. "Provisional" Concession

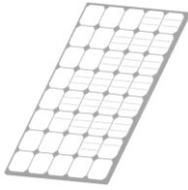
This type of concession occurs when the owner of the land or the electric company, reaches a consensual agreement that allows the "concessionaire" access to the land, whether personal, state or belonging to the municipality, to carry out studies, analysis or surveys that contribute to the improvement of electric service.

- The term cannot exceed 18 months in case that the land belongs to the state or the municipality.
- Once a provisional concession is granted, it will be published in a newspaper with nationwide distribution within 15 days, two consecutive times, and at the world wide web.



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2. "Definitive" Concession

Definitive concession is granted by the Government responsible entity. It must comply with the provisions of the new *environmental law*:

- The new *electricity law* states that the Department of Environment and Natural Resources must issue a certificate of non-objection prior to its approval, where no toxic waste that degrades the environment and the national ecological system would be granted;
- "Definitive" concessions will be granted for a term not to exceed 40 years. It must be requested before the current concession is valid.
- It establishes that public distribution and generation services cannot be transferred in whole or in part without the prior authorization of the Department of Electricity.

Responsibility of the CNE

- Have installed the importing facilities for the PV
- Have installed the transmission line (ETED)
- Manage on a best effort basis the negotiate import duties and taxes exemptions
- Arrange the land for the development of the project
- Support the Generator in obtaining permits
- Make available a Standby Letter of Credit to guarantee the payment of the energy sold to the Superintendent of Energy
- Ensure timely payment of the invoice in USD
- Commit to purchase the available capacity of this power generation plant (under a signed PPA)
- Secure a concession for 25 years

Law 57-07 on Renewable Sources of Energy Incentives and its Special Regimes

The Dominican Republic is moving towards a favorable climate for private investment in renewable energy projects. Investors may benefit from the incentives of Law 57-07. The government has continuing in making efforts to draw an energy policy that contributes to economic development. Currently, 40% of electricity production from fossil fuels, energy dependence has a high economic and environmental cost. The move towards a new energy model includes an input of renewable energy in the matrix. Renewable energy comes from clean sources, in addition, in a country like the Dominican Republic, the use of technologies such as solar photovoltaic, are increasing accessibility to electricity in remote areas where electricity infrastructure to deliver a high cost.

The legal framework for renewable energy is reflected in Law 57-07 and its implementing Regulation No. 202---08, Incentive ---related to the Development of Renewable Energies and Meals Specials---. The National Energy Commission (CNE) is the state institution created to draw the policy of the Dominican State for Energy, and is responsible for administering the Act No.57-07. This Act provides an exemption from all taxes import equipment, machinery and accessories imported by companies or individuals, necessary for the production of energy from renewable sources. The exemption is 100% of the taxes for projects based on renewable sources that comply with this law, are also exempt from Transfer Tax for Industrialized Goods and Services (ITBIS) and all sales taxes end. For the application of these exemptions the National Energy Commission must evaluate and verify applications for incentives to proceed authorize the exemption by certifications and / or resolutions those that fall within the law.

Objectives of the Law

Strategic and public interest objectives of this regulation are the following:

- a) To increase the country's power diversity, in connection with the self-supply capacity of the strategic components, which are the fuel, and non-conventional sources of energy, provided they result more viable.
- b) To reduce the dependency of imported fossil fuels;
- c) To promote the private investment projects, developed through renewable sources of energy;
- d) To ensure that participation of private investment in power generation supplied to SENI is subject to the compliance with the rules and regulations of the competent bodies, according to public interest;
- e) To mitigate the negative environmental impacts of the energetic operations with fossil fuels;
- f) To promote social community investment in renewable energy projects;
- g) To contribute to decentralization of power and bio-fuel production in order to increase the market competition amongst the different power offers; and
- h) To contribute to the achievement of proposed goals of the National Energetic Plan specifically to that related to the renewable sources of energy, including bio-fuels;



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Chapter III general incentives for production and use of renewable energy

Ninth Article

- Tax exemption. The National Commission of Energy (CNE) shall recommend the exemption of any import tax levying equipment's, machinery and accessories imported by the enterprises or individuals, necessary for the production of renewable sources of energy as contemplated in Paragraph II herein, which, according to the regulations related to this law, apply to the incentives herein created.
- The exemption shall be of 100% of such taxes. This incentive also includes the import of equipment devoted to transforming, transmission or interconnection of electric energy to SENI (*Sistema Electrico Nacional Interconectado*). For those projects based in renewable sources which comply with this law. The equipment and materials within this chapter shall also be exempted from payment of the VAT (ITEBIS) and from all taxes levying the final sale.

Paragraph I.

- CNE subject to consulting with the Advisory Board, shall recommend in its annual report to the National Congress the enlargement of the list of equipment, parts and systems that due to their usefulness and the use of renewable sources of energy may be considered to benefit in the future of the exemption regime herein described.

Paragraph II.

List of Equipment, parts and systems to receive custom tax exemption are as follows:

- Individual Photovoltaic panels and solar cells to assemble the panels in the country (custom subheads 85.41, 8541.40.10 and 8541.90.00);
- Long duration stationary accumulators;
- Invertors and or converters indispensable for the functioning of the renewable sources of energy;
- Fuel batteries and equipment and devices destined to generating hydrogen.

Tenth Article - Income Tax Exemption

- A 10 years income tax exemption commencing at the inauguration of the operations, until 2020, is granted to those incomes deriving of the generation and sale of power, hot water, steam, motor power, bio fuels, or synthetic fuel above described, generated from renewable sources of energy, as well as from income originated from the sale and installation of equipment, parts and systems as described in Article 8, paragraph II herein, produced in the national territory with a minimum added value of 35% to the enterprises which installations have been approved

Eleventh Article - Tax Reduction to External Financing

- It is reduced to 5% the tax applied to interest of external financing set forth by article 306 of the Tax Code, modified by the Amendment of the Tax Bill 557-05 dated 13 December 2005, for those projects covered by the provisions herein.

Fourteenth Article - Certificates and or Bonds for Reduction of Polluting Emissions

- The certificates or bonds for reduction of emissions (Carbon) executable according to the Kyoto Protocol, and that may originate from the renewable energy project shall belong to the owners of such projects for their commercial benefits. Such certificates shall be issued by the competent body in charge of assessing the reduced emission of these projects, according to the official protocols of the clean development mechanisms, set forth or to be implemented by the Ministry of Environment and other institutions

Energy Generation Matrix

With a gross domestic product (measured at PPP) of approx. USD 100 billion and a population of 10.3 million people, the Dominican Republic is the largest economy in the Caribbean and has the largest population after Cuba and Haiti. Its energy matrix is dominated by the import of fossil fuels as primary sources (crude oil, natural gas and coal) and as secondary sources (products derived from crude oil). Domestic sources of energy include bio-combustibles - mostly firewood and some bagasse - and hydro.

According to the Latin American Energy Organization (OLADE), the Dominican Republic has around 3,000 MW of installed capacity for electricity generation. This generation capacity is mainly thermoelectric with 2,469.23 MW (82.5% of the installed total). It is important to note that there has been significant growth in



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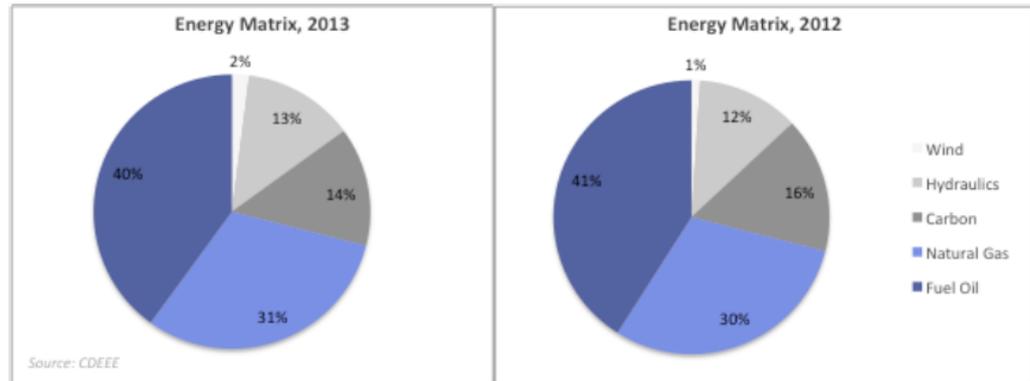




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installed capacity of plants using coal and natural gas in recent years. The rest is mostly made up of hydroelectric generation at about 525 MW. This capacity is used to generate about 14,000 GWh per year.

The Chart below shows the changes of the energy generation by type of fuel. While the coal and oil generation declined from 2012 to 2013, the Natural GAS, Hydraulic, Eolic increased.



The economy consumes around 115 thousand barrels of oil equivalent per day broken down by oil products (54%) for transportation purposes, firewood (23%) mostly in residential consumption.

Energy Management

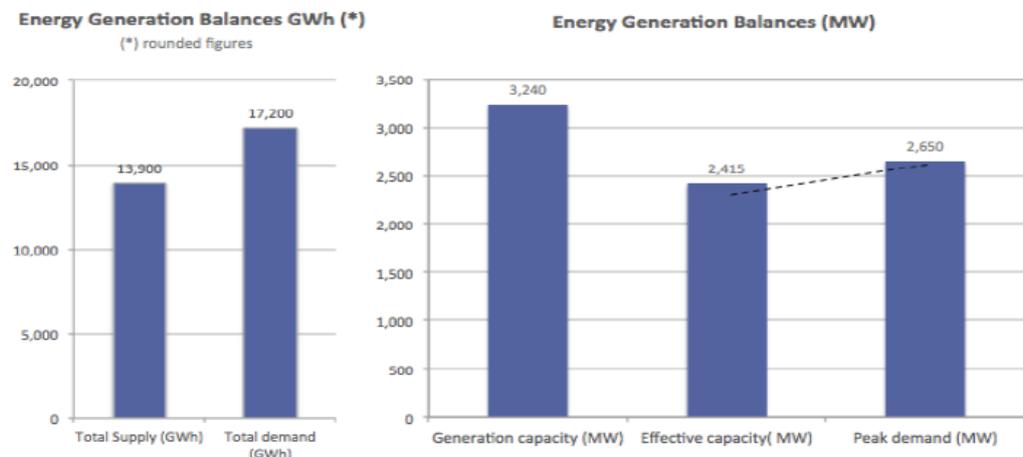
The Dominican Republic's energy sector has, for a long time, been characterized by unreliable supply and recurrent financial problems. The factors explaining this performance are:

- Highly inefficient distribution utilities;
- Inadequate & costly generation mix, vulnerable to oil price volatility; and
- Inefficient rate structure. To meet these challenges, the current administration has outlined with the support of Multilateral Financial Institutions (MFIs,) an action plan based on "Three Pillars":

1st Pillar	2nd Pillar	3rd Pillar
Change the energy generation matrix by adding at least 1,500 MW of new generating capacity over the next four years.	Improve the management efficiency (in both financial and commercial terms) of the sector's public enterprises.	Establish a loss reduction strategy using remote metering, customer standardization, and rehabilitation of distribution networks.

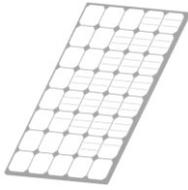
The strategy calls only for investment loans aimed at implementing the operational, commercial, and financial recovery of the government-owned distribution utilities appropriately.

The Chart below Shows the Electricity Balance / Supply Shortage



The generation capacity of the Dominican Republic is currently insufficient to satisfy consumer demand





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Current Composition of the Dominican Power Generation Matrix

The Dominican Republic's delays in consolidating the energy matrix has been worsened by:

- The sustained increase in the price of oil, which is the base fuel for its power generation matrix;
- Interludes of investments in power generation resulting from reform allowed the construction of new coal, natural gas and crude oil-fired fuel using D6 and D2 fuel; However:
- The government has encouraged the reconversion and refurbishing of old plants which result in increases in full capacity and improving their efficiency.
- During recent years, power generation has shifted from an industry based primarily on liquid petroleum, weighted at almost 90 percent of the country's power generation matrix, to a greater diversification of said matrix, today composed of approximately 40 percent liquid petroleum, 14 percent coal, 31 percent natural gas, 14 percent hydroelectric and 1 percent wind

Relation with Multilateral Financial Institutions (MFIs)

To enforce the policy principle under the existing energy law, the Government of the Dominican Republic has formally requested financing and technical assistance from MFIs. The referred assistance includes:

- Continuing network rehabilitation;
- Improving the commercial performance of the electricity distribution utilities;
- Mitigating operational & management risks by providing technical support and providing ongoing monitoring of the commercial and financial indicators of the Dominican Corporation of State-owned Electricity Companies (CDEEE) and the government-owned electricity utilities by the MFIs.

The World Bank (IBRD), Inter-American Development Bank (IADB) and The OPEC Fund for International Development (OFID) as MFIs will continue to support strengthening of the country's fiscal management to make tax administration more efficient and improve the quality and transparency of public expenditure. The MFIs will also supports Dominican Republic efforts to ensure energy efficiency and financial sustainability.

"The challenges in the fiscal area are closely linked to the performance of the electricity sector, which also represents one of the main obstacles to competitiveness"

Financial Assurances by MFIs

During the period 2010-2014, sovereign guaranteed loans from MFIs close to US\$990 billion were approved of which US\$840 million was disbursed.

Since 2013, the Dominican Republic has signed various energy rehabilitation development projects of approximately US\$ 350 Million in cooperation with The World Bank (IBRD), The Inter-American Development Bank (IADB) and The OPEC Fund for International Development (OFID). The current loan programs are underway:

- Electricity Distribution Rehabilitation and Power Loss Reduction Program: This project will supply underserved communities with a reliable supply of energy through the rehabilitation of over 60 electricity distribution networks.
- Electricity Distribution Rehabilitation Project: This project includes the rehabilitation and upgrading of distribution networks, the installation of meters, and the replacement of obsolete equipment. A community outreach component is also planned to define clear rules between communities and the electricity distribution companies.

The World Bank, The Inter-American Development Bank and The OPEC Fund for International Development will continue with seminars and meetings with local leaders, communities and institutions on a wide range of issues ranging from fraud reduction (relating to illegal electrical connections) and safety, to legal rights and energy conservation.



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Protection of Foreign Investment

Dominican Republic is one of the signatory States that has joined the *Multilateral Investment Guarantee Agency (MIGA)*. The purpose is to facilitate the flow of foreign investment to the country by alleviating concerns related to non-commercial risks and against loss resulting from:

1. Currency Transfer;
2. Expropriation and similar Measures;
3. Breach of Contracts;
4. War and Civil Disturbance.

The objective of the Agency is to encourage the flow of investments for productive purposes among member countries, and in particular to developing member countries, thus supplementing the activities of the World Bank, the International Finance Corporation and other international development finance institutions. The Agency shall:

- Issue guarantees, including coinsurance and reinsurance, against non-commercial risks in respect of investments in a member country which flow from other member countries;
- Carry out appropriate complementary activities to promote the flow of investments to and among developing member countries; and
- Exercise such other incidental powers as shall be necessary or desirable in the furtherance of its objective.

Bilateral and Free Trade Agreements

The Dominican Republic is inserted into the world economy by signing 13 reciprocal protections of investments in addition to those signed with MFIs such as the World Bank and the Inter-American Development as mentioned above.

The Dominican Republic has signed the following Free Trade Agreements:

- DR-CAFTA;
- EPA, ALC-RD;
- CARICOM;
- ALC RD -Central America;
- AAP RD - Panama and;
- Mexico and Canada and various European countries

Conclusion

The current government continues to encourage the private sector, national and international, to participate directly in the generation of energy at different levels of the energy matrix. A close coordination between the public sector and the private sector will explore long-term financing interventions and syndication of power generation and efficiency projects. In particular, the private sector windows will look for opportunities to invest in generation of energy such as PV as well as is encouraging energy efficiency, recycling, clean-fuel alternatives, etc.

Government Support

The Government of the Dominican Republic identifies the Energy Sector as a cornerstone of its National Development Strategy targeting the reduction of energy poverty as well as the reduction of its fiscal deficit. The proposed project has been declared a priority undertaking under the Government's strategy to increase the Dominican Republic's competitiveness and national development energy generation plans. The Program is justified on technical, economic, and environmental grounds, and the successful implementation of the financing is expected to produce positive social and poverty reduction impacts.

Project cost

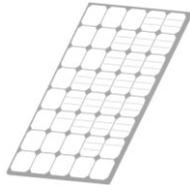
In order to secure the loan for the development of projects in Dominican Republic Linuo has been authorized on a non-exclusive basis to organize a financial instrument. The cost to finance the project is based upon a 100% financing or a combination of 30% equity and 70% financing. It includes the equipment and the required working capital to operate the plant equivalent to 3 months. The cost estimates are based on studies carried out by independent consult and verified by the Government. Given the nature of the Program, only minor physical and price contingencies have been considered, representing 2.5% and 5% of the total program cost respectively. The limited amount of funds assigned to contingencies takes into consideration that any cost overrun can be addressed in future phases.



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The general objectives of the Program are to (i) improve and increase the energy generation in the sector; (ii) reduce total electricity losses; (iii) promote energy efficiency and (iv) consolidate the energy matrix as the national plans recommend

Social and Environmental Impact

As underlined by the energy initiative of the government and supported by MFIs under government plan for poverty alleviation that is intrinsically linked to the development of the poorest segments of the population, and the Dominican Republic is no exception. Poor Dominicans are compelled to spend a significant portion of their income on alternative energy sources (candles, kerosene, oil lamps, small emergency generators, etc.) to compensate for the lack of access to reliable electricity service. In addition to the financial cost, the poor must devote significant time and physical effort to cooking and fuel collection, limiting their quality of life and income generation possibilities. The unreliability of the provision of electricity has also led to the closure of small businesses, difficulty in the provision of social services (including education and health services) and the lack of public lighting increased the risk of crime.

The Social Impact of the Program will be a direct result of its activities and are almost exclusively positive, as they will be the result of increasing the availability of electricity, improved service quality and the power saved. Some of the Program's anticipated social and economic benefits, which have been estimated to directly benefit the poorest Dominicans include:

- (a) Increased local regional energy supply and income---generating activities,
- (b) Reduction of indoor air pollution and related health illnesses,
- (c) Reduced risk of fires,
- (d) Improved the distribution of electricity in a more stable manner providing greater services and, in particular, reduced vulnerability to shortens of electricity of poor homes,
- (e) More efficient use of energy to assist the development of new business in the country.

Risks and Sustainability

The risks faced by this Program are foreseen to be relatively low, given the fact that the CDEEE, as well as the generation plant and supervision of the investments and activities included under this project. The EPC and Operator companies must be classified as a first class Corporations, which are well established in the energy sector globally. Potential risks include the continue decrease cots of the imported coal or crude oil to produce thermo energy which would relative increases the generation cost of alternative energy. Risks related to delays and cost overruns have been mitigated by the detailed design prepared by CDEEE in close coordination with the distribution companies. During the implementation period these aspects will be the subject of close monitoring by both the executing agency as well as the co-financiers. The Project's sustainability is guaranteed by the high level of commitment shown by the National Authorities, given the vital importance of energy sector in the economic future of the country. Furthermore, the expertise accumulated by the generation and distribution companies and the high level of customer satisfaction ensures that both the technical knowledge and the market demand exist to safeguard the project investments.

Conclusion:

Bearing in mind the robust economic growth over the past several years, the control of the general level of prices, strict monetary policy and tighter fiscal policy accompanied by the opening of the energy sector investment for the international community and local private sector, our team is convinced that the risk exposure is low or controllable since risk mitigation policies are in place and the central government's policy are consistence with the its essential functions (regulatory, promotional, and monitoring), to be exercised through the specialized institutions created by the law.

The assistance of the World Bank, Inter-American Development Bank and the OPEC Fund for International Development in the fiscal and energy sectors has created a protected umbrella in this sector against any political deviation in the future. The *Dominican Republic's new electricity law* provides incentives for good management in the energy sector and goes in line with the development of the country. Foreign investors would find that the Dominican Republic is ready to welcome them as partners.

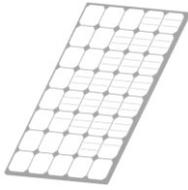
The *Dominican Republic's new electricity law* provides incentives for good management in the energy sector and goes in line with the development of the country. Foreign investors would find that the Dominican Republic is ready to welcome them as partners. The existing solid management and the involvement of the CDEEE that would supervise the development and management activities are mitigating



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the risks. The trend to the international coal prices is expected to decline while supply of this is increasing. The PPA signed with the CDEEE is flexible enough to reflect any volatility of prices in the world market. Furthermore, the CDEEE is committed to buy the energy generation and allows to sale any exceeding power to the private sector consumer of energy directly

The agreement reached with CDEEE is to reach the most efficient results of a compromise between the parties. On one hand, the interest from the Government to increase capacity at economical price to satisfy the national demand, and on the other the pressure from existing generators that are trying to protect their market share. Under the awarded PPA besides guaranteeing a minimum purchase at a price that permits the operation and maintenance of the plant as well as the service of the debt, it also provides a reasonable return on the capital employed after the servicing obligations with investor, depreciation and income tax.



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