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Renewable Energy on the Rise in Iran: Recent Trends in Policy, Regulations, and Green Electricity Trading

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Background

Renewable energy (**RE**) in Iran has witnessed a significant surge over the past two years mainly in response to power imbalance concerns. While the Sixth Five-Year Development Plan Law 2017 (**Sixth Development Plan**) set a 5% target (out of the whole installed electricity capacity)[1], RE installed capacity has now reached approximately 5200 MW, accounting for about 5% of total electricity generation capacity.

In the Seventh Five-Year Development Plan 2024 (**Seventh Development Plan**) which is currently in force, a 10% target (out of 124,000 MW of the total target of installed electricity generation capacity) has been determined. Although like many other countries a wide range of objectives are pursued by promoting RE in Iran, including, reducing greenhouse gases and environment pollutants, fossil fuels conservation, enhancing competitiveness in the market, etc., the main driver for promoting RE over the last few years have been the need to address power imbalance in the country, which is defined as the cumulative difference between electricity generated and electricity demand over a given period.

Electricity demand exceeding supply has been chiefly attributed to demand growth and capacity increase constraints, driven by insufficient available funding as well as feedstock supply deficiencies for conventional power plants. RE development has been considered the primary urgent solution to the power imbalance issue, given the country's substantial potential for renewable sources. Solar and wind energy are the main resources in this regard and are being prioritised.

Drawing upon the growing significance of RE deployment in Iran, the present article addresses the most recent developments in the policy landscape, regulatory environment, and electricity trading market within Iran’s RE sector.

[1] A target that was not realised by the end of the Sixth Development Plan, which was later extended for an additional two-year period until early 2024.

Policy Landscape

The necessity triggered by the power imbalance shapes the current policy landscape for RE in Iran, which largely revolves around introducing various mechanisms to boost investment in RE deployment, both through providing incentives and imposing requirements for direct investment in or indirect contribution to RE projects.

Evolution of guaranteed purchase policy

Iranian policy and regulatory landscape regarding RE was initially dominated by incentives and supporting mechanisms as with many other jurisdictions around the world. The support policy was embodied primarily in the form of guaranteed purchase of electricity generated by RE projects through Feed-in Tariff (**FIT**) schemes to encourage further investment in this area. FIT policy was authorised in certain upstream laws enacted in recent decades, for instance Article 61 of the Law on the Reform of the Energy Consumption Pattern 2011. Ministry of Power annually announces a new FIT table to reflect the inflation rate and incorporate degression details, etc.

While long term contracts for guaranteed purchased under FIT scheme are still in place, the policy has extended towards tender-based investment models incurring less financial burden on the government while providing support schemes such as guaranteed purchase to recover investment principal and returns during 4-6 years. Afterwards, the guaranteed purchase stops and the investor may sell the electricity generated in the market. While this policy was being incorporated in annual budget laws, it was eventually anchored in Article 12 of the Law on the Removal of the Barriers to Competitive Production and Enhancing the Financial System of the Country 2015 (**Law on Removal of Barriers to Production**), which has been known as Article 12 mechanism.

Towards Renewable Portfolio Standard

The power imbalance issue has prompted the introduction of policies to mandate RE deployment at various levels, besides maintaining inventive policies. This is comparable to the Renewable Portfolio Standard (**RPS**) policy which requires electricity suppliers to source a specific percentage of their power from renewable sources. The mandatory RPS policy introduced in the last couple of years has gained more traction. Furthermore, the thresholds introduced under RPS are steadily getting stricter. Mandatory RE policies apply to certain major industrial units as well as government organs.

While the Iranian government attaches prime importance to RE promotion, RPS is addressed as an integral part of RE promotion policies. Accordingly, the mandate to procure electricity from RE sources has been extended to executive bodies and government organs.

Originally, pursuant to a regulation adopted by the Supreme Council of Energy (which is in charge of policy making in the energy sector) in November 2023, executive bodies have been mandated to annually supply at least 5% of their electricity consumption from RE sources, progressively reaching a 20% share of annual consumption. The government has since gone further by amending this requirement and introducing more stringent obligations for executive bodies with respect to RE procurement.

Accordingly, pursuant to the amendment introduced by the Supreme Council of Energy, the applicable quota for government organs will increase as of 2028 to at least 40% of the electricity consumed in the preceding year (2027). This requirement represents a significant leap in the country's RPS and aims to make government bodies active participants in this national energy mission, besides encouraging private sector players to contribute to the nationwide RE campaign.

The same policy had previously derived the legislation requiring industrial units with demand exceeding 1 MW. RPS policy has informed Article 16 of the Knowledge-Based Production Leap Law 2022, requiring industries with an electricity connection capacity exceeding 1 MW to annually supply a portion of their electricity consumption by constructing renewable power plants. This share must reach 5% by the end of the fifth year of the law's implementation. Failing to comply with this mandate will result in imposing green electricity tariffs equal to the amount of the obligation.

While RE incentives target a broad range of stakeholders, including household electricity consumers (aka prosumers) and private investors, the RPS addresses certain major industrial units as well as government bodies that are mandated to meet certain thresholds of contribution to RE development.

Enhancement of distributed generation

Distributed generation has become a growing feature of many modern electricity systems around the world. Iranian policy surrounding electricity generation seems also to be moving in the same direction. Numerous pieces of measures and regulations adopted by Iranian government point to the emerging policy of distributed generation promotion.

In an ambitious initiative recently announced by the Organisation for Renewable Energy and Energy Efficiency (**SATBA**), 12,000 public schools will be equipped with 5 kW solar panel systems. The 60 MW project will, besides providing electricity, generate revenue that will be allocated to supporting educational development goals within public schools. Compared with the total electricity capacity of Iran, this project may seem too small. However, it could represent a significant policy step forward in developing distributed generation in the country. This initiative will also help raise awareness about RE, which has proved to be a challenge in most countries around the world. From an economic perspective, the significance of such initiatives is underscored by the fact that the health and environmental costs of fossil fuels are rarely reflected in electricity prices, a market failure that RE policies seek to correct.

Enhancement of the distributed generation policy is accompanied by certain support measures. One of the measures reflecting a focus on the role of citizens as electricity consumers and electricity producers (prosumers) is the recent loan scheme for household solar panels.

Regulatory Update

There has been a fragmentation of legislation and regulations concerning RE in recent years, which demonstrates the dynamic nature of the regulatory environment of RE in Iran. This section will briefly explore the most recent updates to the regulatory environment in light of the policy landscape explored in the previous section.

A new regulation removing barriers to RE projects

In line with the RE distributed generation policy and to provide for further incentives for investors, a new regulation was adopted by the Council of Ministers on 13 June 2026. The Regulation on Removing Barriers to the Construction of Renewable Power Plants (**2026 Regulation**) addresses certain issues that have been hindering investment in RE projects. Accordingly, by addressing various burdensome aspects of construction of RE projects, the 2026 Regulation aims to further streamline and facilitate investment in these projects. Below is an overview of the key provisions of the 2026 Regulation.

(a) Allocation of land for renewable projects

Allocation of land has proved to be a challenging aspect of RE projects. The 2026 Regulation provides that, subject to certain conditions, each natural or legal person may be allocated land for constructing RE power plants, in principle only once, in accordance with the amended Regulation on the Allocation of National and State Lands 2024 (**Allocation of Lands Regulation**).

The conditions for land allocation include the following:

(i) A qualification assessment of the applicant will be carried out and appropriate guarantees deposited for the completion of the project in accordance with the timetable set by SATBA.

(ii) If the applicant fails to commence the project within one year of the delivery of the land, the land will be returned to the government. SATBA will monitor the project on a regular basis for this purpose.

Ownership of the land remains with the government, and it may only be used by the investor for the duration of the project. However, the rent payable during the construction period and prior to the commissioning of the power plant is set at 20% of the transactional value or the district price, which is a considerably reduced rate.

The applicable procedure for land use change and allocation will apply to RE projects. SATBA and the Land Affairs Organisation of Iran are required to submit a report to the working group established under Article 16 of the 2026 Regulation, so that remaining barriers may be identified and addressed.

(b) Facilitation of importation of equipment

A remarkable aspect of the 2026 Regulation amid the challenging times for foreign trade concerns the facilitation of importing equipment for RE projects. To this end, the 2026 Regulation sets out facilitating arrangements to procure equipment required for RE projects falling within its scope, including the following:

- The Ministry of Power shall determine the criteria and standards for the equipment required for these projects, with priority given to procurement from the domestic market.
- The Ministry of Industry, Mine, and Trade (**MIMT**) shall establish the procedure for order registration for equipment for RE projects, ensuring that orders are placed on a priority basis and within the shortest possible period.
- The Chamber of Commerce, Industries, Mines and Agriculture of Iran shall streamline the procedure for the issuance and renewal of commercial cards for importers of RE project equipment, so as to avoid any disruption to the importation process.
- In order to benefit from economies of scale, MIMT shall create the conditions for aggregating demand and enabling the participation of both local and foreign suppliers.
- The Central Bank of Iran (**CBI**) shall take the steps necessary to provide applicants with the foreign exchange they require. In this regard, the CBI shall prepare a financing package covering the provision of guarantees and foreign currency for the repayment of debts owed by importers of RE power plant equipment.
- The Ministry of Economy shall prepare guidance on expediting customs clearance for the relevant equipment, so that clearance may be obtained as quickly as possible.
- The Ministry of Economy shall, through the Organisation for Investment, Economic and Technical Assistance of Iran (**OIETAI**), activate the capacity of foreign credit lines to finance projects within the scope of the 2026 Regulation up to the amount of USD 5 billion.

(c) Further regulatory incentives and advantages

Several provisions of the 2026 Regulation provide regulatory incentives for the investors, including the following:

- The electricity generated by the power plants will belong to the investors.
- No government-imposed tariffs shall apply to the sale and purchase of electricity generated by renewable projects under the 2026 Regulation.

- Licences for the export of electricity by the projects will be issued for non-peak periods. Licences will also be available for the sale of electricity by these renewable projects on the Green Board of the Energy Exchange or through bilateral contracts with industrial units.

- The Ministry of Power will facilitate the use of transmission lines for the sale or export of electricity generated by these RE projects.

  As the various incentives for investing in RE take effect, the Ministry of Power is obliged to deliver green electricity purchased by consumers, the majority of whom are industrial units, without interruption. Where grid constraints make such delivery impossible, the Ministry shall credit consumers' electricity bills with compensation equivalent to 1.4 times the average price on the Green Board of the Energy Exchange for the relevant period.

  Finally, as is common in RE regulatory frameworks around the world, SATBA and the operators of transmission and distribution networks are required to provide grid access for private sector RE power plants on a non-discriminatory basis, subject only to the verification of quality and the achievement of the planned generation capacity.

A regulation on construction of RE power plants by industrial and agricultural units at the distribution level

To ensure stable electricity supply for industrial, mining, and agricultural units, the Ministry of Power adopted a regulation on 2 December 2025 concerning the requirements and conditions for construction of RE power plants at the distribution level (**2025 Regulation**).

The 2025 Regulation does not apply to certain major energy-intensive industrial units (such as refineries, steel, aluminum, and petrochemical plants) which have been mandated, pursuant to Article 4 of the Law on Removing Barriers to the Development of Electricity Industry 2022, to install certain capacity of RE power plants during a defined period.

Under the 2025 Regulation, industrial, mining, and agricultural units may apply for a construction permit for RE power plants at the distribution level. Such projects will benefit from facilitating arrangements for connection to the distribution network. These power plants may also apply for connection to the sub-transmission and transmission network, subject to the Ministry of Power regulations.

Applicants may supply their generated electricity on the Green Board of the Energy Exchange throughout the year, except for the hot period (late May to late September). During that period, these power plants may only offer their surplus electricity on the Green Board.

To sum up, the 2025 Regulation can be considered another recent regulatory initiative to enable small-scale industrial and agricultural units to contribute to the electricity generation capacity and the expansion of Iran's electricity market.

Electricity Market Expansion: Relevance of the Green Board of the Energy Exchange

Although nearly two decades have passed since the introduction of competition into Iran's electricity market, which began with the entry of private parties into the generation segment of the electricity supply chain, mechanisms for electricity trading beyond the wholesale electricity market did not see significant expansion until recent years. Developments regarding electricity trading beyond the wholesale market mark an unprecedented broadening of the electricity market over the past few years, particularly through the Energy Exchange. Trade in physical green electricity and RE certificates has now become possible through the Green Board of the Energy Exchange, which contributes to the further expansion of the electricity market in Iran.

There have been regulations over the past years aiming to expand the green electricity trading arrangements on the Energy Exchange. The Regulation on the Development of Energy Exchange Transactions 2023 (**Regulation 2023**), incorporates provisions aiming to expand electricity trading on the Energy Exchange. In addition to the primary trading board under Regulation 2023, it also enables RE power plants to offer their electricity on the Green Board.

Under this framework, industrial electricity consumers who are obliged to procure a portion of their required electricity from RE sources may fulfil their RPS obligations through the Green Board, either by purchasing physical electricity or by acquiring RE certificates.

Should such consumers fail to comply with their obligations, their electricity price shall be calculated based on either the maximum price recorded on the Green Board or the average purchase price of electricity from RE power plants, whichever is higher. Crypto mining entities may also purchase their electricity through the Green Board.

Notably, a compensation mechanism, payable by Iran Power Generation, Transmission, and Distribution Company (**TAVANIR**), has been established for situations where grid limitations prevent the delivery of electricity purchased from the Green Board. Another key advantage for RE power plants is that if their RE certificates remain unsold on the Green Board, they may redeem them. In such cases, SATBA is obliged to pay them an amount equivalent to 70% of the average price of the Green Board during the relevant production period.

The Directive on the Trading of Renewable Electricity on the Energy Exchange 2023 (**Directive**) provides a list of RE power plants eligible to offer electricity on the Energy Exchange subject to the provisions of this Directive, which is as follows:

(a) power plants with Green Board contracts;

(b) power plants with guaranteed purchase contracts under FIT scheme, subject to the execution of a contract amendment with SATBA;

(c) power plants with contracts signed with SATBA under Article 12 of the Law on Removal of Barriers to Production, following the expiry of the investment recovery period and subject to the execution of a contract amendment with SATBA;

(d) export-oriented power plants, subject to the execution of an amendment with SATBA; and

(e) power plants dedicated to crypto mining.

In parallel with the policy of supporting residential solar systems, the Green Board has been further extended. In this regard, mention should be made of a regulation issued in 2025 by SATBA concerning the supply and exchange of RE electricity generated by small-scale power plants through virtual power plants (or aggregator companies) via the Green Board of the Energy Exchange.

The growing attention to the Green Board mechanism, amid the diversification of electricity trading arrangements in Iran's electricity market, represents a complementary step alongside the evolving policy and regulatory landscape for RE in the country.

Final Remarks

Amid the power imbalance that has coincided with the ongoing armed conflict against Iran, investment in RE has been gaining considerable momentum. Over recent years, the deployment of RE has been driven by a range of legislative and regulatory objectives, including diversifying the electricity generation mix, promoting competition in the electricity market, reducing fossil fuel consumption, and advancing environmental goals. More recently, however, pursuant to Article 46 of the Seventh Development Plan, RE deployment has taken on a further strategic role: remedying the power imbalance by compensating for capacity shortfalls and ensuring the stability of the national electricity system.

Policy direction and the electricity trading arrangements have correspondingly shifted toward encouraging and incentivising private sector participation in RE power plant projects and the expansion of distributed generation. The prioritisation of RE deployment has shaped a series of regulatory updates in recent months, which simultaneously present substantial business opportunities for investors and developers active in the RE sector.

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