



KOREA ENERGY MANAGEMENT CORPORATION

1157, Pungdukchun 2, Yongin, Gyeonggi-do, 449-994, Republic of Korea

Tel: +82 31 260 4883

Fax: +82 31 260 4886

shhan@kemco.or.kr

Date 8 August 2007

Reference

Attention UNFCCC Secretariat

Title Initial Comments about Request for Review of Project 1000

Dear Members of the CDM Executive Board

We are hereby submitting to the CDM Executive Board our comments about the request for review of Project 1000 [Hangyeong second phase SS-wind power Project] in accordance with the clarifications to implement the review process (version 07, adopted by EB29). We sincerely hope that these comments will be fully considered by the Board.

Sincerely yours

A handwritten signature in Korean characters, reading '손창식' (Son Chang-Sik).

Son, Chang-Sik
Director
August 8, 2007

Attachment: Initial Comments about Request for Review of Project 1000
Revised PDD

[Attachment]

1) Reasons for Request: further clarifications are requested on

- a. The specific nature of the subsidies available to the project
- b. Why government subsidy for generation of electricity power difference as per the 'Renewable energy development and supply promotion law' was excluded from the calculations of the NPV analysis of the project
- c. On the consequent impact of subsidies on NPV calculations

A. Comments from KEMCO

- i. Renewable electricity generation projects in Korea have been supported by the government in two stages: In the first place the feed-in-tariff policy for renewable electricity generation was introduced pursuant to the Electric Utility Act (amended in February 1999); and then to further diffuse renewable energy use the difference between the feed-in-tariff (equating to the System Marginal Price) and the renewable electricity generation cost pre-determined by the government was compensated pursuant to the Act on the Promotion of the Development and Use of New and Renewable Resources of Energy (amended in March 2002)
 - ii. In accordance with CDM M&P, a CDM project should be additional to what would have occurred in the absence of the project. That definition means that a CDM project should be additional, in other words, faced with some barriers such as investment barriers, technological barriers and barriers due to prevailing practices under the baseline scenario. In the 22nd EB meeting, the CDM executive board approved the 'Clarifications on the consideration of national and/or sectoral policies and circumstances in baseline scenarios (version 02)' which allows not to be taken into account in developing a baseline scenario, national or sectoral policies that give comparative advantages to less emissions-intensive technologies like renewable electricity generation only if the policies have been adopted after 11 November 2001.
 - iii. In this regard, the project participants, in developing the baseline scenario for renewable electricity generation projects in Korea, may exclude the subsidy from the Korean government for renewable electricity generation which had been adopted in March 2002, i.e. the compensation of the difference between the feed-in-tariff and the renewable electricity generation cost pre-determined by the government. In conclusion, the additionality of the proposed project may be assessed in a way of demonstrating that the project is additional since it is faced with investment barriers due to lower NPV under a hypothetical baseline situation without such subsidy.
 - iv. However, KEMCO acknowledged that these aspects were not explicitly expressed in the PDD. KEMCO therefore requested the project participants to revise the PDD and confirmed that clarifications on the aspects had been properly included in the PDD. The revised PDD are attached to this letter.
-