

Date : 05 May 2008

To : TÜV SÜD Head of Certification Body

Cc : UNFCCC CDM Executive Board

Subject : Response to registration review:

Use of FINEX Off Gas for power generation in Pohang Steel Works
(Project 1447)

Dear CDM Executive Board,

We, POSCO, would like to respond to comments and enclose our clarifications on issues raised in the "registration review: Use of FINEX Off Gas for power generation in Pohang Steel Works (Project 1447)".

POSCO invested more than 1.3 billion dollars in R&D to change the existing steel making process into the innovative environment friendly one, called Finex. "Use of Finex off gas for power generation" is a part of the project above. If POSCO had wanted short term profit, the investment would have never been realized. CO2 reduction & climate change was one of the purposes of the investment. Since the core construct of CDM is the GHG reduction to mitigate climate change through investment, the clear evidences are as follows.

Query 1:

As the start date of the project activity is prior to the commencement of validation the PDD should contain a full description of the evidence of the prior serious consideration of the CDM and the validation report must provide greater details regarding how compliance with this requirement has been validated.

Answer:

As CDM Executive Board requested, we will provide evidence that CDM was seriously considered in the decision to proceed with the project activity. We attached 2 evidences as follows:

(135-777) POSCO Center 892, Daechi 4-dong, Gangnam-gu, Seoul, Korea, Gangnam P.O. Box 777

- Evidence 1: Energy Use Planning Report in May, 2005
- Evidence 2: POSCO Energy Management Status document in December, 2004

The evidences to clarify consideration for the implementation of this project as CDM and CO2 emission reduction before the start of construction can be seen on the report “Energy Use Planning Report in 2005 (Evidence 1).

Also, in POSCO Energy Management Status document in 2004, POSCO did seriously consider this project activity with the background of convention on climate change for reduction of greenhouse gas (Evidence 2).

This project has been designed to reduce anthropogenic greenhouse gas emission and CDM implementation. We are fully aware of the positive effect of the project activity on the issue for climate change and it is clear that the project activity was seriously considered as CDM prior to the starting date of the project, June 29 of 2005. As CDM Executive Board requested, all explanation will be included in the revised PDD in the section of B.5

Query 2:

The DOE is requested to describe how the appropriateness of the discount rate/benchmark of 10% has been validated.

Answer:

POSCO have used investment decision benchmark for financial analysis. POSCO’s investment decision benchmark since 2005 was 10% and this can be confirmed on the internal document “Investment Management Standard” (Evidence 3).

Query 3

The DOE is requested to provided details regarding how the input values used in the investment comparison, in particular the electricity tariff and operation costs, have been validated.

Answer:

We would like to provide details for three input values used in the determination of baseline scenario and financial analysis of FINEX power plant project as below.

We used average electricity tariff in 2000-2004 in the determination of baseline scenario and financial analysis of FINEX power plant project in “Scenario 2: Receiving power from KEPCO”

Due to the time constraint, evidence 4 ‘Operation costs of FINEX power plant project’ and evidence 5 ‘Cost of 150MW LNG power plant’ were not certified.


Operation costs of FINEX power plant project was estimated by POSCO Power Generation Sec. All value is assumption based on the operation record of 150MW LNG power plant in Pohang Steel Works. Operation cost is consisted of four categories – Maintenance cost, Labor cost, General cost, Common cost. All cost can be clarified in the above evidence.

All cost of 150MW LNG power plant is assumption based on the estimation by POSCO engineering co.

Please note that the contact person for the review process would be Mr. Sungwoo Kim and his address is +82-(0)2-3457-1616, ssungwoo@posco.com.

All relevant evidences will be submitted to DOE. For further information and explanation, please contact to Mr. Sungwoo Kim. We hope that this clarification will be helpful. Thank you.

Best regards



Sungwoo Kim

Manager



(135-777) POSCO Center 892, Daechi 4-dong, Gangnam-gu, Seoul, Korea, Gangnam P.O. Box 777
Energy Business Planning Group
Energy Business Department
POSCO