מדינת ישראל
המשרד לאיכות הסביבה

STATE OF ISRAEL

MINISTRY OF ENVIRONMENTAL PROTECTION

Senior Deputy Director General, Industries & Licensing

Jerusalem, 9 January 2011

Mr Clifford Mahlung
Chairman of the CDM Executive Board
UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D 53153 Bonn
Germany

Dear Mr. Mahlung,

Re: Call for public inputs on the draft revised "Guidelines on the assessment of investment analysis"

We appreciate the publication of default values for the required internal rate of return on equity (EIRR), included in Appendix A of the draft revised guidelines, as a means to standardize and enhance the transparency of the registration process. Following the CDM Executive Board's call for inputs, it was brought to the attention of the Designated National Authority that companies specializing in CDM services have concerns that the applied values do not accurately reflect the EIRR required by private investors in many sectors and project types in Israel.

The draft revised guidelines assume a required EIRR of 10.5% in the Israeli energy and waste industries. However, according to the Public Utilities Authority - Electricity, which regulates the Israeli electricity market, investors in the riskier independent power production markets such as renewable electricity require an EIRR of 15%. This is due to the fact that the power production segment has been recently privatized in Israel and has not yet progressed into a mature market, with very limited success so far. In 2009, only 1.9% of the grid electricity was supplied by independent power producers (IPPs).

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שלום עם הסביבה
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Ministry of the Environment

Enclosed please find a letter from the PUA that was addressed to one of the carbon finance companies in Israel explaining the regulation. Therefore, the values underestimate the EIRR required by many project investors, and in particular those investing in riskier project types for which the CDM constitutes an important incentive.

It appears that the guidelines in their current form assume an identical benchmark EIRR for all categories (i.e. for all energy and waste sector projects, for all manufacturing and production industry projects, and for all forestry and agricultural projects). If the applied project categories are too general they may not fully account for the variations in risk that exist within the categories as well as within the individual sectors. For example, both an industrial fuel switch project and a PV power plant are energy industry projects and would be considered under Group 1. An industrial fuel switch is fairly common and thus relatively low-risk and the assumed 10.5% EIRR may therefore be sufficient, however, this return would not be sufficient for investors in the riskier renewable electricity market.

It is our concern that the draft guidelines in their current form will prevent the submission of applications for projects that could potentially make an important contribution to both greenhouse gas reductions and sustainable development in Israel.

Thanking you in advance for your consideration.

Sincerely,

Shuli Nezer
Deputy Director General, Industries and Licensing

c: Dr Yossi Inbar, Director General

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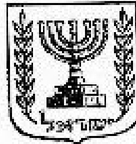

מדינת ישראל
רשות לשירותים ציבוריים
חשמל

31 ינואר 2010
ט"ז שבט תש"ע
IS.10.001

To whom it may concern

RE: Information Concerning Regulation for Independent Power Producers (IPP)

At Mr. Roni Komar, representing Ecotraders Ltd as chairman request, you'll find hereunder, a quick summarize of the relevant regulation as published by the Israeli Public Utility Authority-Electricity (PUA), which is the independent government agency responsible for regulation and supervision of Israel's electricity market acting under Israeli Electricity Market Law, 5766- 1996, concerning the requested issues.

It is hereby emphasized that this letter should in no case prevail upon the existing regulation, that it is given for general information only, and that the undersigned shall bear no legal responsibility upon the issuance of this letter. It is hereby clarified that this letter cannot replace a direct consideration of the existing and prevailing regulation as published by the PUA on its Web Site (www.pua.gov.il).

1. Tariff Regulation for Conventional IPP

A conventional IPP is faced with two primary options:

a. The IPP can sell the to system administrator a fixed available capacity in the level of 70 to 90 percent of the plant's capacity and the system administrator will be obliged to purchase this fixed capacity. The remaining capacity can either used for private consumers or offered on a day ahead basis to the system administrator for ad-hoc usage. The system administrator will purchase electricity from the fixed available capacity according to market needs.

b. The IPP can choose not to sell the system administrator fixed available capacity at all and rather use all his capacity to sell electricity to private

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consumers. The remaining available capacity can be offered on a day ahead basis to the system administrator.

Both the fixed and variable available capacity tariffs are based on standard construction, financing, and fixed operating costs (best new entrant costs). Tariffs for electricity generation are based on normative costs associated with natural gas (purchase, transmission and taxes) as well as normative variable operating costs.

According to the current regulation, combined cycle natural gas-fired power plants that choose option (a) above will receive a fixed capacity tariff of NIS 0.0769 per KWh and a tariff of NIS 0.1 per KWh for the energy component.

2. **Equity IRR for Conventional Independent Power Producers**

The PUA has defined a normative return on equity value of 15% in it's calculations for normative capacity prices for gas based IPP's.

3. **Equity IRR for Independent Power Producers using Renewable Sources**

The PUA views equity IRR of 15% as necessary for the construction and operation of independent renewable energy power plants, given the risks inherent in this nascent market which was only privatized in recent years.

4. **Equity IRR for Independent Power Producers using solar Sources**

The PUA has defined a normative return on equity value of 15% in it's calculations for the normative prices for solar power producers. For other renewable sources the tariff based on "production price" + premium.

Dr. Ilan Suliman

Vice Chairman, PUA