



Amendment of REC Weighting Guidelines (Focus on Offshore Wind Development)

2021.08.13

[1] Introduction and key contents

The partial amendment of the “**Guidelines on the Management and Operation of Systems to Mandate Renewable Energy Supply and Blended Renewable Fuels Usage**” (the “**Guidelines**”) came into force on July 28, 2021. The Guidelines were introduced to revise the weighting scheme for renewable energy certificates (“**RECs**”) in Korea.

The Guidelines reflect the review of REC weighting conducted by the Ministry of Trade, Industry and Energy (“**MOTIE**”) every three years. Key amendments contained in the Guidelines include (i) raising the base weighting of offshore wind power and introducing a guideline for forecasting the weighting of offshore wind power projects; (ii) reducing the weighting given to forests and fields and land-based photovoltaic projects; and (iii) introducing new weighting for feed-in-tariff conversion installations. Please refer to the appendix for the key amendments to the weighting of RECs implemented by the Guidelines.

Particularly with regard to the high investment requirements for offshore wind power, the Guidelines include a new provision which adds weighting to individual offshore wind power projects proportional to the distance from the coast from, and the depth of water at, the location the generator is installed. This will greatly improve business feasibility of offshore wind power projects. Further, the introduction of a preliminary weighting guidance system will resolve uncertainties in project implementation which will increase the financeability of offshore wind power projects. This will in turn promote early adoption of such projects.

The key amendments concerning offshore wind power projects are as discussed below.

[2] Weighting of offshore wind power generation

The existing Guidelines provided that weighting of offshore wind power projects was based solely on the connection length when measured. However, under the amended Guidelines, weightings are calculated by applying distance* and

depth** factors to a base weight of 2.5.

*Distance means "a straight-line distance between the coastline and the central position of the nearest generator to the coastline under the Ocean Survey and Marine Information Utilization Act".

**Depth means "the depth measured from the datum level under the Ocean Survey and Marine Information Utilization Act".

The formula for offshore wind power development weighting is as follows.

Basic Calculation Formula for Offshore Wind Power Development Weighting
$(\text{Distance Composite Weight} + \text{Depth Composite Weight}) - \text{Base Weight}$

To give an example of the effect of this new formula, the weighting that would apply to an offshore wind power plant with a distance of 15 km and a depth of 30 m would be 3.3, calculated by adding a composite weight factor of 2.9 for distance and a composite weight factor of 2.9 for depth, less a base weight of 2.5. The weighting that would have applied under the former Guidelines would have been 2.5, so the amended Guidelines are expected to substantially improve business feasibility for such projects.

[3] Guidelines for forecast weight in offshore wind power generation

Under the existing weighting scheme, weighting was confirmed only after the construction of the offshore wind power plant was complete and when the REC issuance was confirmed. Accordingly, it was difficult to determine the feasibility of offshore wind power plants at an earlier date, making project financing difficult at the commencement phase of a construction project. The offshore wind power generation industry continuously raised these issues with MOTIE, which led to the adoption of the offshore wind power forecast weighting in the Guidelines.

The Guidelines provide that offshore wind power operators can apply for forecast weighting guidelines to the New and Renewable Energy Center ("NREC"), after completing an environmental impact assessment (or small-scale environmental impact assessment) and a marine environmental impact assessment (or sea area utilization consultation). Upon request, the NREC reviews the forecasted weighting and provides the result to the offshore wind power operator.

However, since the above system is merely a guideline, the final weighting is still determined only when the REC issuance is confirmed. Accordingly, the final weighting may not match the weighting previously provided by the NREC. In this regard, MOTIE has stated in a press release that "the final weighting will be determined at the time of facility verification, with no change in the final weighting if the installation is in full compliance with the business plan." This can be interpreted as meaning that there will be no change to the weighting if installation of a project is undertaken consistent with the offshore wind power project plan submitted to the competent administrative agency when applying for electricity permit. Continued monitoring of developments to this system will be necessary going forward.

[4] Implications

The main factors in calculating REC weightings are economic feasibility (i.e., power generation cost) and policy factors (e.g., environment, technology development and industrial acceleration). This amendment of the Guidelines has substantially increased the weighting for offshore wind power by taking into account the high generation costs of offshore wind power generation and the connections offshore wind power generation has with industries on both sides of the value chain.

As the Minister of MOTIE must review the REC weightings every three years (Article 7(1) of the Guidelines), the Guidelines are expected to have a significant impact on business feasibility of each new and renewable energy power generation source for the next three years.

If you have any questions on the above, please feel free to contact us using the contact information below and we can discuss the Guidelines and their ramifications in more detail. Shin & Kim's Energy Group has unrivaled experience related to new and renewable energy power generation projects, and offers a broad spectrum of advice on relevant laws and regulations, schemes, construction and operation of new and renewable energy power plants, and other matters.

Appendix

Item	Subclass	Pre-Amendment	Post-Amendment
Solar PV	General site	Less than 100kW: 1.2 No less than 100kW: 1.0 More than 3.000kW: 0.7	Less than 100kW: 1.2 More than 100kW: 1.0 <u>More than 3.000kW: 0.8</u>
	Building, etc.	1.5	1.5
	Forest	0.7	<u>0.5</u>
	Floating PV	1.5	<u>Less than 100kW: 1.6</u> <u>More than 100kW: 1.4</u> <u>More than 3.000kW: 1.2</u>
	ESS and Solar PV	4.0	<u>Deleted</u>
Wind Power	Onshore	1.0	<u>1.2</u>
	Offshore	2.0	<u>2.5 (Base Weight)</u>
	- Depth, Distance		<u>+0.4 (Composite)</u>
	Coastal	-	<u>2.0 (Base Weight)</u>
Fuel Cell	Base	2.0	<u>1.9</u>
	- By-Product Hydrogen used		<u>+0.1</u>
	- Energy Efficiency 65% or higher		<u>+0.2</u>
Bio Energy	Wood pellets/Wood chips dedicated fuel	0.5	0.5

	Wood pellets/Wood chips mixed fuel	-	-
	Unused forest biomass dedicated fuel	2.0	2.0
	Unused forest biomass mixed fuel	1.5	1.5
	Bio-SRF dedicated fuel	0.25	0.25
	FIT Conversion Facility	-	<u>-0.2</u>
	Hydrothermal (Thermal Effluent)	1.5	<u>0</u>
	Coal IGCC	0.25	<u>0</u>

[\[Korean version\]](#) REC 가중치 지침 개정 (해상풍력발전을 중심으로)

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