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J-POWER

## **J-Power confident about CDM qualification of its Thailand biomass power project**

In the light of the confusion caused by the way some observers have interpreted a Bangkok Post report, it is important to clarify J-Power's position.

On June 14, 2003, the newspaper ran an article on the Clean Developing Mechanism of the Kyoto Protocol, which accords credits called Certified Emission Reductions (CERs) to projects that accomplish additional reduction in CO<sub>2</sub> emissions. Sub-titled "No legal framework to support protocol", the article described how the lack of relevant governmental organization and legal structure is delaying the CDM approval of a renewable energy project in Yala, Thailand, which J-Power is involved with Gulf Electric and EGCO. Gulf is jointly owned by EGCO, our Thai partner and an affiliate of EGAT (Electricity Generation Authority of Thailand), and J-Power.

We should first point out that CDM is a new activity, and this project represents one of the first CDM projects to be presented worldwide. Few countries, industrialized or not, have formally defined CDM procedures so far.

Moreover, we wish to confirm that Gulf, EGCO and J-Power all remain confident that the project will be granted Thai government approval in due course. The CDM application for the Yala project was duly submitted to the Ministry of Natural Resources and Environment (NRE) in April, 2003. On June 26, the Bangkok Post reported the decision by the Thai cabinet to form a new board to evaluate CDM proposals. This marks significant progress towards the establishment of CDM procedures.

To produce electricity, the Yala project does not combust fossil fuels such as oil, natural gas, or coal. The fuel it uses is rubber wood residues burned uselessly at present in the open air, causing a substantial environmental problem to the neighborhood. By not burning fossil fuel, the project avoids CO<sub>2</sub> emissions in power generation. It also contributes to Thailand's sustainable development by making use of an abundantly available and currently wasted indigenous energy source and by introducing a controlled and environmentally friendly means of dealing with a major waste hazard. The Yala plant represents the first attempt in Thailand, and most probably in the world, to use only

rubber wood residues for grid connected power generation. As such, the plan is too risky to implement without the involvement of a strong foreign partner such as J-Power with its technological and financial resources. Due to all these factors, the Yala project is very consistent with the CDM criteria stipulated in the Kyoto Protocol and in Thailand's national CDM strategy.

We cannot overemphasize the fact that the project is not feasible without the CDM. As the first effort of its kind, the project entails an immense amount of preparation in technological study, fuel supply arrangements, economic analysis, environmental assessment and community relations. Doing so much work for a project of a relatively small size (20 MW net) is unattractive as a commercial venture. Furthermore, the project's plan not to seek assistance from official development aid (ODA) or other public funding sources increases its risk. Against these problems, the excellent CDM qualification of the Yala Project gives it a redeeming feature. The CDM benefits lie not only in the value of expected CERs, but also in an opportunity to gain early experiences in this new vital field. But for the prospects for the CDM, J-Power would not have become interested in the Yala project.

In view of the importance of the CDM status for the Yala project, J-Power, working with Gulf and EGCO, has taken every conceivable step to develop the plant as a CDM activity under the Kyoto Protocol and Marrakech Accords. To summarize:

-May 2002: A Project Design Document was developed and submitted to an independent third party, Det Norske Veritas (DNV). The review by DNV included a visit to Thailand and interviews with relevant government officials as well as Gulf, EGCO and J-Power executives.

-November 2002: After inviting and receiving public comments, DNV confirmed that the Yala project met all CDM qualifications except for the approvals by host and investor countries. -April 2003: An application for Thai government approval was submitted to NRE. -May 2003: The Japanese government approved the project as a CDM activity. We believe that the Yala project is eligible for the CDM status as a result of these actions.

It seems now likely that the official process for the CDM will be in place before the end of the year. Although the CDM steps have turned out to be more protracted than initially expected, Gulf, EGCO and J-Power are convinced that the Yala project's CDM status will be formally established before long and plan to proceed accordingly.

End of announcement