

Overhaul of Renewable Energy Supply System: Transition from RPS to Government-Led Contract Market

I. Overview

Since Korea abolished the feed-in tariff scheme (“FIT”) and introduced a renewable portfolio standard (“RPS”) in 2012, it has secured renewable energy supply by imposing an obligation on power producers with large generation capacities (so-called obligated suppliers) to supply a certain percentage of their total power generation from renewable energy sources either by construction of their own facilities or by purchase of renewable energy certificates (“REC”). As a result, the installed renewable energy capacity increased more than tenfold from approximately 3GW in 2012 to approximately 37GW in 2025, and the portion of renewable energy in the total energy supply also went up from 1.3% to 9.8% during the same period.

However, the RPS scheme revealed structural limitations: (i) as the obligated renewable supply volume was linked to the total power output, it did not expand beyond a certain level; (ii) obligated suppliers preferred purchasing RECs through the spot market to installing their own renewable energy facilities; (iii) with the private sector consisting mostly of small-scale solar power projects, balanced supply from all renewable energy sources and cost reduction were limited; and (iv) due to the increased purchases of RECs through the spot market, the settlement amount for RPS compliance surged.

Accordingly, the government has pursued an amendment to the Act on the Promotion of the Development, Use and Diffusion of New and Renewable Energy (“Amendment”) to transition to the contract market system (based upon competitive tenders), as adopted by major countries such as the United Kingdom, Germany, and Japan, in order to achieve its target of 100GW of renewable energy capacity by 2030. The Amendment was passed at the Plenary Session of the National Assembly on August 20, 2026 and is scheduled to take effect on January 1, 2027. The following sections will examine the key aspects and implications of the Amendment.

II. Key Aspects of Proposed Reform of Renewable Energy Supply System

A. Introduction of Government-Led Contract Market

The key to the Amendment is the establishment of a contract market for renewable energy facilities. Under the scheme, the government will operate a contract market system based on stable contracts, such as long-term fixed-price contracts. It will determine and announce the total capacity and source-specific capacity of renewable energy facilities to be introduced through bidding. The factors to be considered in determining the capacity are: renewable energy deployment targets, as contained in the Basic Plan for Electricity Supply and Demand, the status of power generators, energy supply security, and offshore wind designated-site volumes. As a rule, the capacities to be announced will be calculated on a mid-to-long-term basis in projected figures with the tendered capacity to increase each year. However, this may be adjusted based on recent tender results and competition rates. Following the passage of the Amendment, new entrants will, in principle, be able to enter the market only through the government-led contract market system (competitive bidding).

The Amendment lays grounds for obligated purchasers, such as an electricity retailer (KEPCO), to enter into power

purchase agreements (“PPA”) with, and purchase electricity from, the winning bidders and recoup the purchase costs through electricity price that reflects the costs. Also, the bankability in securing project financing is expected to improve in that the winning bidders will be able to secure stable profits through a long-term contract for difference and an electricity retailer such as KEPCO will purchase all of the electricity generated.

Additionally, in order to protect small-scale projects, the contract market will introduce a separate tender channel for facilities below a certain size. An integrated tender where a number of small-scale facilities participate in a tender together as a single bidder will be permitted. Also, a system will be introduced to designate and support renewable energy service companies (“ReSCO”), which provide comprehensive services ranging from project planning to design, construction, operation and management, and removal of facilities.

B. Supply Obligation and Supply Target Management

The Amendment will replace the existing RPS scheme, which focused on renewable energy output, with a new system of supply obligations and target monitoring based on installed capacity. In other words, state-owned power generation companies with installed capacity above a certain threshold will be designated as “obligated suppliers” and will be subject to an obligation to supply renewable energy, while private power producers and public institutions with installed capacity above a certain threshold will be designated as “entities subject to target monitoring,” and their progress toward meeting the target will be monitored. Notably, under the new system, only the supply of renewable energy through the installation of an entity’s own facilities or equity investment in a renewable energy project (“Direct Investment”) will be recognized as fulfillment of the obligation or achievement of the target. This is intended to address the shortcomings of the existing RPS scheme, which showed heavy reliance on external REC purchases, and to encourage Direct Investment by large power producers.

If an obligated supplier fails to fulfill the obligation, a penalty may be imposed for the shortfall. If an entity subject to target monitoring fails to comply with an improvement order issued after failing to meet the target, the fact may be publicly disclosed. While participation in the contract market through Direct Investment shall be the primary means of fulfilling the obligation or meeting the target, an alternative compliance mechanism will also be introduced, allowing excess capacities to be carried over, shortfalls to be deferred, and, where Direct Investment is not feasible, deficiencies to be made up by paying a prescribed amount in lieu thereof.

C. Abolition of RPS Scheme with Transitional Measures: the End of RECs and Spot Market

The Amendment will phase out the existing RPS-related regulations, and RECs will no longer be issued to new market entrants after the Amendment takes effect in 2027. However, transitional measures will be introduced to prevent the rapid transition to the new system from causing harm to existing businesses. First, existing owners of renewable energy facilities and holders of electricity business licenses who meet certain requirements will be granted a grace period until 2029 for REC issuance and trading. Second, the supply obligation level of current obligated suppliers under the RPS scheme will be fixed at the 2026 level, and REC contracts with existing renewable facilities will remain in force and continue to be performed. Third, a grace period of two to three years will be provided before the REC spot market is closed, during which a separate transition market will be operated and the REC sellers will be encouraged to transition to PPAs with RE100 participants or fixed-price contracts at appropriate unit prices.

Following the phase-out of RECs, Power Generation Information Certificates will be introduced. They are certificates that verify renewable energy sources, electricity volume, generation period and other related information. Unlike RECs, they are not tradable and may be used only for limited purposes such as RE100 compliance. The operation and management of the contract market system shall be carried out by a separately designated institution, and the Korea Energy Agency's Renewable Energy Center is expected to be designated as such.

III. Implications

Starting in 2027, when the Amendment is scheduled to take effect, the way market participants enter the Korean renewable energy market and generate returns will change fundamentally. From the perspective of market participants, including foreign investors, there are several points to note.

First, for new renewable energy projects commencing in 2027 or later, winning a government-led competitive tender will effectively be a prerequisite for market entry. Accordingly, business strategies will need to be realigned in line with the tender schedule and the announced capacity by energy source. It should also be noted that tender evaluations are expected to include assessments of business plans—such as contributions to the domestic industry and supply chains—in addition to price. Second, winning bidders will be able to secure stable cash flows through long-term fixed-price contracts, which is favorable from a financing perspective. However, under a competitive tender structure with a price ceiling, managing returns and formulating bidding strategies will become increasingly important. Third, investors who hold, or are considering acquiring, renewable energy projects based on the existing REC and spot market will need to closely review the scope of transitional measures, the grace period, and the conditions for conversion into fixed-price contracts or PPAs. Fourth, because RE100 compliance volumes are expected to be taken into account in determining tender capacity, the relationship between the government-led contract market system and the corporate PPA market, as well as the allocation of volumes between them, is expected to become an important variable in structuring future business portfolios.

As the Amendment has been passed by the National Assembly, the government plans to revise the subordinate regulations and notifications and prepare a detailed implementation plan in the second half of 2026, and to begin operating the contract market system on January 1, 2027. However, because specific matters such as the timing of the tender announcement and the tender volume, the standards for small-scale facilities, and the detailed requirements for transitional measures applicable to existing businesses are delegated to subordinate regulations and notifications, it will be necessary to continue monitoring developments in the enactment and amendment of such subordinate regulations and notifications.

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* The opinions expressed in this article are the author's own and do not reflect the views of KOTRA.