ZEP response to the ETS proposal

September 2015

Introduction

The Zero Emission Fossil Fuels Platform (ZEP) welcomes the publication of the Commission's Summer Package, in particular the proposals for revising the EU ETS Directive and the introduction of dedicated funds to support innovation in low carbon technologies and modernisation in the energy sector. The ZEP exists as the European Technology Platform for Carbon Capture and Storage (CCS) and therefore sees the Commission proposals as an important step towards securing further EU support for CCS under the 2030 framework for climate and energy policies and as an integral part of the Energy Union Strategy.

This paper represents a preliminary reaction from the Platform to the 15 July publications.

The proposals to strengthen the ETS are welcomed by the ZEP as they could begin to increase investor and developer confidence in CCS projects as an economic and cost-effective alternative to business as usual. A more robust carbon price signal will be conducive to a more supportive economic environment for investments in the full suite of low carbon technologies and this will be no different for CCS. ZEP welcomes the proposal to set an overarching economy-wide, binding EU GHG target for 2030 and beyond. The proposed EU-wide target of reducing GHG emissions by "at least 40%" by 2030 is in line with the lower-end of the EU's ambition. We would welcome, however, a clarification concerning the process in case there is support for raising the level of ambition after Paris, in light of other Parties' emission reduction objectives. Moreover, we would suggest linking it to the EU's long term target for 2050, where the EU wants to achieve a reduction in GHG emissions of 80 – 95% compared to 1990.

In particular, the proposals to establish dedicated Innovation and Modernisation Funds are welcomed, not only for the potential direct contribution these funds could make to future commercial-scale CCS projects, but also in terms of re-confirming the EU's ambition on, and commitment to, CCS as a vital climate technology.

To date EU funds have been central to the development of the most advanced CCS projects, including the ROAD project in the Netherlands and Don Valley project in the UK (both of which received EEPR funding), and the White Rose project, also in the UK (which received NER300 funding). The explicit eligibility of CCS projects to the Innovation Fund is therefore, in particular, welcomed by the ZEP as this will provide an important source of funding for early large-scale CCS projects across the EU.

Support for the introduction of the Innovation Fund

Increased flexibility

ZEP welcomes the proposal to use an initial 400 million allowances from the ETS to support innovation in low carbon technologies. In particular, ZEP welcomes the proposal to broaden its scope and to increase the flexibility of the Innovation Fund compared with the previous NER300, particularly in terms of the percentage funding available that isn't directly linked to verified avoided emissions.

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To date, CCS projects have typically been viewed as large-scale, integrated and full-chain projects. Furthermore, in order to receive funding, projects have had to demonstrate the full capture, transport and storage of CO2 emissions. Recent work done by the ZEP has, however, demonstrated the significant benefits associated with taking a clustered approach to development. Given the scale of investments and the breadth of application for capture technologies, CCS lends itself to being developed across clusters of emitters and utilising clusters of stores. This approach can deliver economies of scale and risk reductions throughout the full chain, both technically and economically.

The increased flexibility afforded by a reduction in the required proportion of verified emissions will mean that a broader range of projects can be funded, which could then support a clustered approach to deployment.

Broadened scope

Further flexibility has also been proposed through the increased scope of the Innovation Fund to support the application of CCS to both power and industrial sectors across a range of scales, and this approach is also welcomed by the ZEP.

Targeting transport and storage infrastructure

Access to infrastructure (CO_2 transport and storage solutions) is widely considered to be a key barrier to commercial-scale CCS projects across the EU. The ZEP Business Models for CO_2 Storage[1] report (2014) and subsequent work towards developing an Executable Plan for CCS in the EU[2] (2015) highlights a number of the commercial challenges the private sector faces to entering the CO_2 storage market and concludes that a form of 'market maker' model could help to overcome some of these challenges.

ZEP strongly recommends that the Innovation Fund is able to support development of CCS transport and storage infrastructure. One interesting way to facilitate such developments, could be the creation of market makers across the EU in order to facilitate private investment in CCS infrastructure and create the necessary conditions for a long-term market for CO2 storage.

Bridge funding

The legislative proposal includes a reference to a 50 million unallocated EUAs from the MSR to support the transition to the Innovation Fund, which ZEP expects to be supplemented by additional funds made available in the event that projects awarded NER300 funding fail to meet delivery milestones.

The ZEP considers that this so-called bridge funding will be essential to maintaining momentum on CCS between now and the start of Phase IV of the ETS. ZEP recommends that the bridge funding is implemented as soon as possible –to enable a call in 2017/18 – and based on the same principles as the design of the Innovation Fund, i.e. affording increased flexibility and supporting a broader range of projects.

Funding should be made available to a wide range of CCS projects, for example from innovative technology development through to innovative business case development and support for engineering and design studies. In the latter case, funding could support the development of innovative business models, which could demonstrate – through real case studies – the economic, social and technical

[1] link
[2] forthcoming

benefits of clustering. Although this would not be linked to an immediate and verified avoidance of CO2 emissions, such support could provide an important step towards funding market makers and clustered projects beyond 2020.

Support for the introduction of a new Modernisation Fund

Alongside the Innovation Fund, ZEP welcomes the proposal to establish a Modernisation Fund to support investments in energy infrastructure across a limited number of Member States. Many of the Member States able to access the proposed Modernisation Fund not only require significant upgrading of electricity infrastructure but also depend heavily on fossil fuels across the whole energy system, including power and industrial sectors.

Targeting transport and storage infrastructure

Given this significant dependence and the pressing need to reduce carbon emissions, the ZEP considers that the Modernisation Fund should also be able to support investments in CCS infrastructure, in a similar manner to the Innovation Fund.

Member States should be able to access modernisation funds to support the development of CO2 pipelines and stores. For Member States without the necessary pre-conditions for storage (e.g. geology, political will, public acceptance), the Modernisation Fund should be available to support regional cooperation and investment in CO2 pipelines to transport CO2 from the source of emissions to an appropriate storage location.

Compatibility across funds

Such large investments could be supplemented by funding under either the Innovation Fund or Connecting Europe Facility if and when appropriate. For this purpose of facilitating accumulation of funding, ZEP recommends that the terms and conditions as well as the timelines for awards of all relevant funding, but in particular the Innovation and Modernisation Funds, are matched. Moreover, funding should be able to be combinable with other European and national funding programmes.

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