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# The EU ETS structural reform for Phase 4: Alstom views on the European Commission proposal

Alstom welcomes the publication of the Commission's legislative proposal to amend the ETS Directive in order to enhance cost-effective emission reductions and low-carbon investments. Alstom welcomes in particular the introduction of dedicated funds to support innovation in low carbon technology and modernization in the energy sector.

This paper represents a preliminary assessment of the 15 July publications.

***Overview***

We believe that EU ETS should remain at the corner stone of the EU energy and climate policies and we believe that this proposal can contribute to provide the necessary clarity for on the trajectory post-2020 for the EU ETS. A more robust carbon price signal will be conducive to a more supportive economic environment for investments in low carbon technologies and boost their deployment. Alstom 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. The legislative proposal to revise the ETS Directive represents an important step that confirms the EU's ambition to reduce its GHG emissions ahead of the Paris international climate agreement. 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 the proposal 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.

***Support for the introduction of the new funds***

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 innovative low carbon technology projects, but also in terms of re-confirming the EU's ambition to be a leader in this sector.

To date EU funds have been key to the development of the most advanced projects, including the CCS project White Rose (which received NER300 funding).

1. *Support for the introduction of the Innovation Fund*

a) Increased flexibility

Alstom welcomes the proposal to use an initial 400 million allowances from the ETS to support innovation in low carbon technologies. In particular, we support an increase in 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, but to the fulfillment of other

criteria. We think these additional criteria should include replicability of projects, return in their investment and on the cost per volume of clean input produced.
We also welcome the proposal to increase the maximum funding rate, which we believe should be up to 75%, as suggested in the impact assessment accompanying the legislative proposal. Finally, we would recommend as much flexibility as possible in the number of allocation rounds and allowance auctions, in order to maximise the revenues from the monetization.

b) Broaden scope

We particularly welcome the innovation fund, and its extension to the industry sector. We hope it will help stimulate the construction and operation of commercial demonstration CCS projects, as well as demonstration projects of innovative renewable energy technologies and grid integration technologies in the territory of the Union.

c) Bridge funding

The legislative proposals include reference to a 50 million allowances to be made available from the MSR that will form a sort of bridge funding up to 2021. We consider that this bridge funding to be essential to maintaining momentum on technology development, especially on CCS, between now and the start of Phase IV of the ETS. We recommend 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.

*2. Support for the introduction of a new Modernisation Fund*

Alongside the Innovation Fund, we welcome 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 still depend heavily on fossil fuels across the whole energy system, including power and industrial sectors. A bigger effort to modernized energy infrastructure in these countries is therefore needed. We would suggest prioritizing support for large scale projects in power generation, grid and distribution grids, so to ensure a broader impact and a more effective use of public money.

*3. Compatibility across funds*

Large investments shall be allowed to be supplemented by funding under either the Innovation Fund, the Connecting Europe Facility or other funds, if and when appropriate. For this purpose of facilitating accumulation of funding, we recommend 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, financing as part of the fund should be connected with other means of national support such as green certificates or guaranteed tariffs. We also believe that more clarity is needed as to align support of Member States with state aid rules.