Innovation Fund technical workshop – feedback from the Zero Emissions Platform

Zero Emissions Platform (ZEP) would like to thank the European Commission for the opportunity to be part of the technical workshops on 5 and 6 February.

ZEP is delighted to see that the Innovation Fund has benefitted from the in-depth NER300 post-investment review. Among the many lessons learned, the most important one was that the difficulty arising from the counterparty risk due to the full value chain applications, hindered many CCS projects from successfully seeking funding from the NER300.

Counterparty risk would be avoided with separate or co-dependent projects

Bearing in mind the lessons learned from the NER300, the Innovation Fund has opened up for the possibility of a capture project promoter applying for a project where transport and storage of CO2 is included as a service provided by a third party, based on an agreement (or vice versa regarding a storage project). Nonetheless, because of the inter-dependence of capture and storage, the counterparty risk has not been resolved.

To avoid the counterparty risk and still achieve the emissions avoidance, it will be necessary to recognise that capture and storage projects are co-dependent. An approach would therefore be that either kind of project could apply separately but with a reference to each other. This way, if the projects are funded, each can achieve emissions avoidance.

The proposed methodology – other consequences and challenges

ZEP would also like to highlight some other consequences of the proposed methodology and address some challenges for CCS applications: As we have understood, an applicant will need to make a commitment to the claimed GHG emission reduction of a project when applying to the Innovation Fund and the performance part of the funding is subject to meeting 75% of such claim. On that basis we see generally two possible scenarios for a project with carbon capture and storage applying for Innovation Fund support:

1. The project applies as an integrated project with possibly more than one project promoter, including the development of the capture installation, the transport and storage infrastructure, or;
2. The project promoter is applying for a project where transport and storage of CO2 is included as a service provided by a third party.

Storage development exclusion

The proposed methodology excludes the use of the Innovation Fund to develop storage capacity independently from capture projects. A storage developer cannot commit that CO2 will be provided for storage. An alternative would be to have a storage capacity availability requirement for a storage developer/operator. Such Innovation Fund support would reduce the cost of transport and storage for capture projects. Storage development is prioritised for Europe and one of the key targets in the SET-plan CCUS implementation plan.

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Service provider contracts for transport and storage

If a CCS project application is depending on service supplied for (transport and) storage (i.e. scenario 2), what kind of agreement between the applicant and the service provider is sufficient for the application? It is highly unlikely that firm contracts will have been negotiated at the time of application. At best, price indications may have been given. Regarding the firmness of the agreement in an application, we propose that it should be enough for an applicant to be able to indicate where the CO2 should be stored and that it is in discussions with the provider/developer of these services. This would apply both to the first call (indication of interest) and the final call for funding.

Project independent

For CCS, the Innovation Fund will have real value if it can be the basis for transport and storage infrastructure development. Such infrastructure will benefit several sources of CO2 for abatement. It is not clear from the discussion paper nor the workshop, how clustered projects or interdependent projects will be evaluated. The outcome of the individual projects in a combined application will depend on the success/failure of the other project(s). Whatever methodology is chosen, a project that is part of a cluster of projects, should not be penalised for the failure (or unsuccessful application) of other projects in that cluster.

Spare transport and storage capacity

Regardless if transport is developed as an integrated part of the application or as a service provider, the infrastructure should be developed around an optimal design. Hence overcapacity of pipelines should be allowed in the application. Such overcapacity will have a negative effect on the cost/ton evaluation criteria. ZEP proposes that the project should be able to include the total design in the determination of the relevant cost but that for the calculation for the cost/ton selection criteria, a prorate element of the oversized elements, are considered.

GHG emissions from non-stationary sources should be in the methodology

ZEP recommends to include CO2 emissions from non-stationary sources in the methodology for determination of the GHG abatement. Many of the CO2 transport projects (ref. the five projects on the PCI list) rely on non-stationary transport and in order for a large implementation of CCS this is expected to increase. Emissions from such transport should therefore as a principle be taken into consideration. There should be advice on accounting for CO2 emissions from these non-stationary sources. In addition, the inclusion of these emission will be a driver for innovation for GHG reduction.

For CCU, ZEP would like to seek clarification on the following:

“Emissions savings from CO2 capture and use; interaction with ETS”

Based on both the discussion paper on draft methodology on emissions avoidance and the workshop there is a need for further clarifications. On page 6 the paper highlights that “To avoid double counting where a fuel is made incorporating that carbon, no adjustment is made to its emissions when combusted in use”. How carbon utilisation beyond fuel production will be treated is not clear and examples should also be added in order to clarify.

At the same time, this point appears to be contradicted further down on the same page, in this paragraph: “However, to avoid double counting under different legislations, if the GHG benefit for capturing the CO_2 is already claimed under another legal provision (such as ETS or revised Renewable Energy Directive5 (REDII)), the CO2 credit cannot be claimed for the Innovation Fund project unless the benefit under the other legal provision is surrendered. This is to ensure that the user of the CO2 gets the credit for its capture, not the installation that captures it.” The intention of the draft document in this respect is to avoid double counting and double benefit e.g. via the RED II. With the 2017 ECJ ruling[1] on accounting for CO2 used for PCC production in mind, it is important that the Commission provides clarity to the matter of CCU emission allocation.

Moreover, at the start of page 6 there is a reference to “additional CO2, that was either in the atmosphere or about to enter the atmosphere”. Treating atmospheric CO2 that is already in the atmosphere in the same way as (fossil-origin) CO2 that is produced/emitted at a point source, could undermine or remove incentives for both emission reductions and for atmospheric CO2 removal.

The same sentence suggests that captured CO2 should be accounted as a “negative emission”. This term is normally understood to refer to removal of CO2 from the atmosphere, e.g. direct air capture with the CO2 permanently prohibited from re-entering the atmosphere. ZEP proposes to use the term “emission reduction” in the context of the CO2 calculation within a project. This also applies to the other mentionings of “negative emission”, e.g. referring to avoiding waste incineration or flaring of industrial off-gases. In order to allocate CO2 emission reduction in such cases, the end-of-life of the products must be taken into account, as well as any emissions related to the processes used in their production. Any CO2 reduction allocation needs accurate carbon accounting covering all processes involved, including e.g. energy inputs and embedded emissions.

General comment:

Reference to the NER300 Knowledge Sharing requirements

In the discussion paper on draft methodology on emissions avoidance, under Potential approaches for quantification, it’s unclear why the text refers to the NER300 Knowledge Sharing requirements. These were not designed to have anything to do with GHG accounting.

ZEP would be very happy to meet to present this feedback in more detail.

[1] https://www.emissions-euets.com/judgments-of-the-european-court-of-justice-relating-to-eu-ets/3-judgments-of-the-european-court-of-justice-relating-to-eu-ets/2041-preliminary-ruling-of-the-court-of-justice-of-the-european-union-in-case-c-46015