ZEP response to the ITRE Draft Opinion on 'Cost effective emissions reductions and low carbon investments'

May 2016

Summary of key points

- ZEP is supportive of the European Commission's proposals regarding the introduction of dedicated Innovation and Modernisation Funds.
- ZEP welcomes the Draft Opinion from the ITRE Committee and is particularly supportive of amendments 3, 5, 21, 22, 23 and 40.
- ETS Funds should be designed to support the development of so-called 'part chain' CCS projects alongside full-chain projects and innovative renewables. Allowing part chain projects would enable the funds to support deployment of CCS infrastructure necessary for energy intensive industries to achieve cost-effective decarbonisation.
- ZEP strongly encourages MEPs to seek alternatives to amendment 20, which could act as a disincentive to investment in innovative low-carbon investments.

Full response

Following the publication of the European Parliament's Committee on Industry, Transport and Energy (ITRE) Draft Opinion on 'Cost effective emissions reductions and low carbon investments', the Zero Emission Platform (ZEP) would like to draw MEPs attention to the following;

ZEP warmly welcomed the proposals put forward by the Commission in its 2015 Summer Package to reform the EU Emissions Trading System.

In particular, ZEP welcomed the restatement of commitment to support the development of Carbon Capture and Storage (CCS) in power and industrial sectors via the Innovation and Modernisation Funds. The Commission proposals suggested a number of changes to the previous NER300 scheme, which, if implemented, could increase the number of CCS projects in Europe and support the sustainable and cost-effective decarbonisation of EU industries.

ZEP welcomed the increase in funding rate from 50% to 60% and the proposal to allow up to 40% of funding awarded to be made available independent of verified avoidance of emissions. These changes in particular could help to support the deployment of CCS infrastructure and stimulate the market for CO_2 transport and storage, which is so vital to reducing the costs of the technology.

Supporting the deployment of CO_2 transport and storage infrastructure alongside full-chain CCS projects will ensure the highest value outcome for EU consumers and help create a route-to-market for energy intensive industries unable to invest large amounts of capital in full-chain CCS projects.

European Technology Platform for Zero Emission Fossil Fuel Power Plants (ZEP)

ZEP Secretariat, Mauritskade 33
2514 HD The Hague,
Netherlands

info@zero-emissionplatform.eu
www.zeroemissionsplatform.eu

The largest reduction in the costs of CCS projects - more than 50% - are realised by the development of large scale projects that can share CO_2 transport and storage infrastructure[1]. For industrial emitters, access to existing infrastructure could represent cost savings in the region of €65 - €80 per tonne of CO_2[2], which may be the difference between an industry investing in CCS and choosing to remain in Europe or choosing to relocate elsewhere.

For the reasons outlined above, and because EU Member States do not all share the same access to high quality CO_2 storage sites, ZEP believes that EU funding should be focused on delivering essential CCS infrastructure and kick-starting the deployment of regional CCS clusters[3].

The Draft Opinion developed by the ITRE Committee provides a series of important clarifications and thoughtful improvements to the legislative proposal developed by the Commission. ZEP would, particularly, like to place on record its support for amendments 3, 5, 21, 22, 23 and 40. ***Despite widespread support for the Draft Opinion, ZEP is concerned about the proposal put forward in amendment 20 to require projects in the power sector to demonstrate a 20% reduction in the Levelised Cost of Electricity (LCOE) compared to a baseline.***

Amendment 20, in its current form, could present major challenges to the development of CCS projects and make it more difficult to reward the most innovative, highest value-add projects. In particular we note;

- The proposals could encourage bidders to overestimate a project's potential to reduce LCOE, creating major challenges for the EIB in terms of project selection, disbursement of funds and enforcement.
- Using LCOE as a metric for determining project eligibility would discriminate against CCS infrastructure projects and other projects that do not generate electricity.
- CCS projects designed to operate flexibly in the power sector would also be penalised. With increasing deployment of intermittent renewables the role of CCS in the power sector is expected to change over time from baseload operations for early projects to more flexible operations that dispatch electricity in response to fluctuations in supply and demand. As LCOE is calculated on the basis of assumed electricity output, a reduction in operating hours increases the LCOE of a project and could create barriers to the delivery of CCS despite the technology having high value to the electricity system.
- Innovative technologies by their very nature are often higher cost than existing technologies, even though they have clear potential to reduce future costs. This forms part of the rationale for establishing additional funding under the Innovation and Modernisation Funds and they should not discriminate against technologies – while currently expensive – have clear potential to deliver EU climate and energy goals at least cost.

---

[1] Letter from Dr. David Clarke, Chief Executive of the ETI, to Angus MacNeil MP, Chair of the Energy and Climate Change Select Committee. Accessible at: https://www.parliament.uk/documents/commons-committees/energy-and-climate-change/ETI-letter-to-Chair-on-Future-of-CCS.pdf

[2] Estimate made by National Grid Carbon (NGC), developers of the CO_2 pipeline and store associated with the White Rose CCS project (awarded NER300 funding) and the Don Valley CCS project (in receipt of EU EEPR funding), for the CCSA publication, *Lessons Learned*: *Lessons and evidence derived from the UK CCS Commercialisation Programme 2012-2015* (CCSA, 2016, *forthcoming*).

[3] An Executable Plan for CCS in Europe (ZEP, 2015). Accessible at: http://www.zeroemissionsplatform.eu/downloads/1545.html

ZEP Secretariat, Mauritskade 33
2514 HD The Hague,
Netherlands
info@zero-emissionplatform.eu
www.zeroemissionsplatform.eu

Given the concerns with Amendment 20 and the use of LCOE as a metric for project selection, ZEP strongly recommends rejecting the amendment.

While there is a need to focus on reducing the costs of low carbon technologies, it believes that this could best be achieved through a multi-stage project selection process that allows scoring against a number of different criteria and therefore could ensure that the most innovative and important projects are awarded funding. ZEP has begun to consider in greater detail how the project selection process could work for the Innovation and Modernisation Funds but believes it would be inappropriate at this stage to attempt to fully define what this process might consist of. Instead, ZEP recommends that MEPs submit and support amendments in favour of an alternative approach to project eligibility and selection based on multiple evaluation criteria to be developed by the Commission in consultation with all relevant stakeholders.

ZEP Secretariat, Mauritskade 33
2514 HD The Hague,
Netherlands

info@zero-emissionplatform.eu
www.zeroemissionsplatform.eu