Section 1

Summary of Recommendations

Summary of Recommendations

Funding Principles

Modified post-Funding Workshop

- The Flagship Programme believes that the scale of funding required means this must be substantially achieved through an EU-level intervention;
- Member state support and risk sharing is to be encouraged and should be complementary to EU level support, but is unlikely, on its own, to deliver the Flagship Programme;
- The allocation of subsidy, in whatever form, should be established through competition; a competition should be run separately for each mandated capture and sequestration technology group;
- The EU ETS is the only available source of sufficient financial scale on the timeframe of the Flagship Programme (support might be in the form of direct cash payments or the award of EUAs directly); Participants do not favour structural interventions in EU ETS pricing itself, and it must be recognised that this is a complement to, not a substitute for, economic support;
- A strong statement of support for CCS, recognising the above issues, and committing to agree a funding arrangement in 2008, and implement that arrangement in 2009 is required from the Spring Council meeting in early 2008, if this momentum is not to be lost.

Summary of Recommendations

Funding Principles (2)

Modified post-Funding Workshop

- Industry is committed to make the investments and take the risks required to deliver the Flagship Programme and large-scale deployment of CCS in the EU; Industry is already spending substantial risk capital in the development of CCS (a summary of the commitments already made will be prepared and attached).
- CCS investments are not economic in the current market and will not be economic on a politically acceptable timeframe without an intervention in the market;
- All CCS technologies should be given the opportunity to participate in the funding arrangements to deliver the Flagship Programme;
- The Flagship Programme favours payment by results, which (subject to appropriate technical standards) means an ongoing payment for carbon stored or clean energy produced only when each plant is actually operating;
- The financial support needed can be divided conceptually into two parts, together making up the necessary value of the support package:
  - a subsidy to overcome first mover costs;
  - an underwriting of long term risks of a carbon market whose shape is not yet known

Section 2

Funding Options

Funding Options

First Mover Subsidy – Forms of Support

- **Capital or operating grants**
  - Straightforward and easy to explain;
  - Should be deferred until completion;
  - Capital grant could be staged or paid in a lump sum.
- **Decarbonisation certificates and feed-in tariffs**
  - Paid per tonne of CO2 actually sequestered or per clean MWh delivered at a pre-agreed value;
  - More complex allocation formulas could share completion or other risks;
  - Effectively equivalent to conditional cash grants.
- **EUA's**
  - Allocated per CO2 tonne sequestered or per clean MWh delivered;
  - Value varies with market value (subject to any support mechanism implemented);
  - Could be allocated as a simple multiple (US precedent and CCC discussion);
  - Subsidy is in effect a direct tax on the whole market;
  - Seen by some as more market-distorting than the alternatives and thus controversial.

Funding Options

First Mover Subsidy – EU Sources of Cash

- **Cash from EU budgets**
  - –Transparent and easy to understand;
  - –Even if deferred or conditional will need full budgeting in advance;
  - –Voted ultimately by Member States, so subject to their support;
  - –Can such a budget be authorised and if so when?

- **EUA Phase III Auction Revenues**
  - –Proportion of revenues allocated from EC directly or by agreement by Member States;
  - –No new sources of finance needed and revenues from ETS stay within the "ring-fence";
  - –No distorting interference with workings of ETS;
  - –Time to implement this before the Spring Council;

But

- –Auctioning policy and resulting revenues are uncertain;
- –Some Member States may have already "banked" revenues – may be hard to extract

Market Underwriting – Support Mechanisms

- **Simple EUA fixed price guarantee**
  - –Underwriter pays or receives difference in market price of EUA's from an agreed "strike price";
  - –Strike price to be set by agreement - fixed, variable over time or more complex;
  - –One option is for the purchase "currency" to be additional EUA's.

- **More complex market risk mitigation**
  - –Could take account of power price in setting strike price;
  - –Strike price varied to generate a fixed (low) agreed minimum return to fixed nominal investment (prevents windfall to sponsors);

- **Other mechanisms**
  - –Guarantee can be written as a contract for difference, option, tracking account, forward contract etc;
  - –Cost to the underwriter only when the EUA market price is "in the money".

Funding Options

Market Underwriting – Who provides?

- **EU directly**
  - –Legal constraints - what structure would be used?
  - –How would support be valued for budgeting purposes - equivalent to cash value requiring budget allocation exactly as for First Mover Subsidy?
  - –What budget mechanism would be used?

- **EIB**
  - –May be the natural provider?
  - –EIB views such support as a market instrument; this may be far "out of the money" and require a major balance sheet allocation;
  - –Early consultation needed.

- **EUA's used as "currency"**
  - –Concept similar to final option for providing First Mover Subsidy, with the same objections.