



Zero Emission Platform and Carbon Capture and Storage Association response to:

AMENDMENTS

***on the proposal for a directive of the European Parliament and of the Council
amending Directive 2003/87/EC to enhance cost-effective emission reductions and
low-carbon investments***

Background

This briefing paper outlines the response of the Carbon Capture and Storage Association (CCSA) and the Zero Emission Platform (ZEP) to the amendments tabled by MEPs in the European Parliament ENVI Committee.

The CCSA brings together a wide range of specialist companies across the spectrum of CCS technology, as well as a variety of support services to the energy sector. The CCSA exists to represent the interests of its members in promoting the business of CCS and to assist policy developments in the UK, EU and internationally towards a long-term regulatory framework for CCS as a means of abating carbon dioxide (CO₂) emissions.

Founded in 2005, the European Technology Platform for Zero Emission Plant (ZEP) is a unique coalition of stakeholders united in their support for CO₂ Capture and Storage (CCUS) as a key technology for combating climate change. ZEP serves as advisor to the European Commission on the research, demonstration and deployment of CCUS.

Despite slow progress on CCS in Europe in recent years, many other regions around the world have made significant progress on CCS, applied to a variety of energy and industrial sectors such as power generation, steel, cement and biofuels. There are now 22 large-scale projects operational or under construction and CCS technology has been proven on many of the world's most emitting sectors¹. The Intergovernmental Panel on Climate Change (IPCC) continues to highlight the importance of CCS to achieving global climate objectives at lowest cost to citizens²; a role expected to increase in importance with the Paris Agreement and a step-change in international ambition on climate change.

Progress on CCS in Europe has been hampered by economic and political factors, which need to be addressed if CCS technology is to be deployed at commercial scale within the EU. In particular, there is now widespread recognition that commercially separating CO₂ capture from CO₂ transport, utilisation and geological storage can help to unlock investment in different parts of the chain³.

¹ CCS Global Status Report (GCCSI, 2015)

² The 5th Assessment Report of the IPCC estimated that without CCS the cost of meeting 2 degree objectives could increase by an average of 138%.

³ Lessons Learned: Lessons and evidence derived from UK CCS programmes, 2008 – 2015 (CCSA, 2016)

Response to ENVI Draft Report

The CCSA and ZEP previously welcomed the Draft Report from the ENVI Rapporteur, in particular its recognition of the importance of CCS to meeting the EU's energy and climate objectives and the suggested amendments to the Innovation Fund (Amendments 36 and 37) that could improve upon the existing NER300 scheme.

Within the context of the proposed Innovation and Modernisation Funds, the CCSA and ZEP have previously highlighted the importance of the funds being able to support investments in part-chain projects (i.e the CO₂ capture or transport and/or storage parts of the chain individually). This can help to unlock investments in low carbon energy and industrial decarbonisation, support the deployment of CCS and CCU projects, and help to leverage other sources of EU funding. Allowing part-chain projects could also open up new opportunities for regional collaboration on CCS infrastructure and help to reduce costs to consumers.

We also previously suggested that part-chain projects could be made eligible for the Innovation Fund through an amendment to the Rapporteur's Amendment 37:

Amendment 37

Proposal for a directive

Recital 10

Present text proposed by the Rapporteur

The allowances shall be made available for innovation in low-carbon industrial technologies and processes and support for demonstration projects for the development of a wide range of CCS and CCU and innovative renewable energy technologies that are not yet commercially viable. Projects shall be selected on the basis of their impact on energy systems or industrial processes within a Member State, a group of Member States or the Union. In order to promote innovative projects, up to 75% of the relevant costs of projects may be supported, out of which up to 60% may not be dependent on verified avoidance of greenhouse gas emissions provided that pre-determined milestones are attained taking into account the technology deployed. The allowances shall be allocated to support the relevant costs of individual projects according to the needs of those projects in relation to reaching pre-determined milestones.

Amendment

The allowances shall be made available for innovation in low-carbon industrial technologies and processes and support for demonstration projects for the development of a wide range of CCS and CCU and innovative renewable energy technologies that are not yet commercially viable. Projects shall be selected on the basis of their impact on energy systems or industrial processes within a Member State, a group of Member States or the Union. In order to promote innovative projects, up to 75% of the relevant costs of projects may be supported, out of which up to 60% may not be dependent on verified avoidance of greenhouse gas emissions provided that pre-determined milestones are attained taking into account the technology deployed. The allowances shall be allocated to support the relevant costs of individual projects, ***including infrastructure that can enable more cost-effective implementation of CO₂ abatement projects***, according to the needs of those projects in relation to reaching pre-determined milestones.

CCSA / ZEP Joint Recommendations

CCSA and ZEP support efforts to increase EU ambition on emissions reductions in line with the Paris Agreement and therefore welcome the proposed amendments that seek to increase the effectiveness of the ETS. More specifically on CCS, we recommend;

1. **Retaining the eligibility of CCS projects under the EU ETS funds.** Amendments 150 and 410 propose removing CCS projects from the Innovation Fund - this could continue to undermine progress within the EU and ultimately make meeting the EU's longer-term energy and climate change objectives much more difficult and much more expensive. We recommend rejecting the following amendments: 150, 410, 421 and 428.
2. **Supporting the inclusion of part chain CO₂ capture, transport and storage projects under the Innovation Fund to enable more cost-effective deployment of projects.** We recommend that this can be achieved through a revision to amendment 37 (as above).
3. **Supporting amendments to increase the amount of funding available for the Innovation Fund both in terms of the number of allowances available and the higher proportion of funds being available to support pre-financing.** We believe that a longer-term framework for innovation, beginning with an initial endowment of 400 million allowances and with additional allowances being made available over time, will be more conducive to supporting ongoing investments in low carbon technologies and innovation.

Furthermore, increasing the proportion of funding available independent of verified avoided CO₂ emissions can help support project development, pre-financing and the deployment of right-sized CCS infrastructure. Amendments 426, 429, 431, 433 and 434 propose a higher percentage of supported costs than the 60% proposed by the commission and ZEP and the CCSA support these efforts to do so.

We recommend that MEPs reject amendment 420 on the basis that it limits funding for CCS to 50 million allowances.

4. **Rejecting amendments 425 and 427, which seek to make Innovation Funding conditional on achieving a 20% reduction in the Levelised Cost of Electricity.**

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.