ZEP input to the European Commission public consultation on the establishment of the Innovation Fund

ZEP welcomes the opportunity to provide input to the European Commission on the design of the EU ETS Innovation Fund Delegated Regulation. ZEP is represented on the Expert Group for the Innovation Fund by its Chairman Dr. Graeme Sweeney.

The Innovation Fund will be a key source of European funding for the development of Carbon Capture and Storage projects. Crucially, it is important that building on the lessons learned from the NER 300 programme, the Innovation Fund is able to support part-chain CCS projects and especially development of CO_2 transport and storage (T&S) infrastructure.

ZEP believes the draft Delegated Regulation addresses many of the issues with the previous NER 300 programme, and is supportive of many elements of the draft text as it stands. In particular, ZEP believes that the following elements will be helpful to financing CCS projects:

- Support for both CAPEX and OPEX as relevant costs
- Grants as the main form of support and the ability to blend support with other sources of EU funding
- Determination of milestones on a project-by-project basis
- Single maximum funding rate
- The inclusion of project development assistance
- The two-stage application process
- The prioritisation of CO_2 abatement potential and scalability under the selection criteria
- Recognition of the Innovation Fund as a way to support the aims of the Strategic Energy Technology (SET) Plan

Commercial innovation and business models

The Innovation Fund should support not just innovation in technology, but in business models and commercial innovation. ZEP recommends that this is made explicit in the Regulation.

As an example, ZEP has put forward an approach to the development of T&S infrastructure based on "Market Makers", as part of large-scale regional deployment of CCS. Market Makers will compensate for a current lack of market for CO_2 storage, by developing CCS infrastructure as a public good (potentially through a joint public-private partnership) and then contracting with industrial emitters for the delivery of CO_2. Emitters will be required to pay a T&S fee that covers the costs of CO_2 T&S and a small element of capital repayment, which is then used to refinance the Market Maker. Over time the Market Maker can be privatised or disbanded as a commercial

market for CO_2 storage develops. It is feasible that a Market Maker could be eligible for funding as an example of a “cross-cutting” project under the proposal.
Other examples of commercial innovation could include integration of multiple technologies, such as CCS and CCU, “blue” and “green” hydrogen, into new low-carbon industrial ecosystems.

Achieving maximum impact

There are two further areas which ZEP wishes to highlight which may impact the ability of the fund to deliver the highest impact:

1) **Geographical Balance** There is a danger that geographical balance is achieved at the cost of real innovation and climate impact. Measures should be taken to ensure that the Fund does not end up supporting a large number of small and similar projects in order to achieve this balance. Rather, scalability, replicability and overall CO_2 reduction potential must be the priority.

2) **Timing/frequency of calls** similarly, if calls are too frequent it risks larger projects being excluded. Currently the timing of calls is left open; however as an illustrative example, breaking down funding into calls every two years would mean around 2bn per call, risking many small projects being supported rather than larger, high-impact ones.

   This being said, ZEP supports the flexibility for the timing of calls to be decided based on the existing project pipeline for eligible projects.