

EU Commission Draft Decision (“Draft”) dated 15 September 2009

Application of the NER 300

Preliminary Response of ZEP (18 September 2009)

ZEP looks forward to helping the Commission and Member States develop specific provisions that will achieve an efficient allocation of the NER 300 to both CCS and RES projects

Several features of the Draft are welcome

- Compared to the Commission’s Non-Paper of 2 July 2009, there are firmer commitments to early timing and a stronger role for Member States in project selection; we also welcome the involvement of EIB.
- We endorse the importance given to knowledge-sharing, reflecting our own work on this subject.
- There are some matters that should be clarified; these are summarised in the attachment to this note.

However, the selection process described will not attract investment into the most ambitious and innovative technologies needed to de-risk CCS and demonstrate commercial viability

- Some ZEP companies say that a process that they consider flawed will make them less likely to participate, and in particular to take risk on ambitious new technologies.
- The proposed selection procedure will favour small, simple and low-risk projects; it will not build a full portfolio of essential demonstration technologies as mandated by the Council and articulated by ZEP in its paper of November 2008.
- The procedure mandates only a mix of capture technologies, without reference to transport or, vitally, storage.
- Restriction to six power projects will not allow demonstration of the full range of CCS technologies, departs from the spirit of the Council’s mandate and could restrict geographical spread.
- An emphasis on low-cost projects in particular risks excluding a full demonstration of aquifer storage. If saline aquifer storage cannot be convincingly demonstrated, it will not be possible, given the limited availability of depleted gas-field storage, to declare CCS a viable technology for the future.
- A possible modification that would allow the Commission to build a better portfolio would be a more discretionary award procedure for projects under the second call.

The role of Member States is stronger than previously proposed, but they should be still more closely involved

- A stronger role is needed for Member States to bring them fully on board with the process, and to head off demands that they be simply allocated the NER 300 to spend at their discretion (which would further undermine the portfolio objectives of the CCS programme).
- We recommend a role (subject to competition law) for EIB as information clearing house during prequalification, to assist Member States in making decisions on where to direct their support.
- A provision that allows unused NER300 funding to revert to Member States would not be helpful.

The Draft rejects the proposal to allow upfront payment against clawback for non-performance

- This is a serious error; upfront payment has little cost or risk to the public sector, but its denial would rob the NER 300 of very material value, which would result in fewer demonstration projects being built.

The Draft mandates awards to Member States in cash, not Allowances

- This may be a lost opportunity; Member States and companies may value Allowances more highly than the spot market, and while neither should be compelled to accept Allowances in kind, the option to do so may be valuable.

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Attachment: Matters to be clarified

Article 2d: Definitions – “relevant costs”

- Investment costs are defined to include “investment in technology transfer”. Please clarify the meaning of this term in this context; does it mean “technology acquisition”?
- It appears that relevant costs are defined to be net of the expected savings from the avoided need to surrender Allowances. Our understanding has been that this amount, which is anyway extremely difficult to assess at this stage of the development of the market, should not be included in the calculation. We urge that it be excluded.
- The definition of “additional support schemes” from Member States could capture funding mechanisms and tax reliefs designed specifically to support demonstration projects, which we do not believe is the intention. We request that this be clarified.

Article 3.1: Principles

- Allowances not awarded by 31 December 2015 “fall back in the new entrants reserve.” Given that the last date for award will have passed by then, what will then happen to these Allowances?

Article 5.2: Selection Procedure

- Given the objective that the second round of calls includes adjustment “for any technical and/or geographical underrepresentation resulting from the first round of calls”. Is the second round of calls exempt from the specific project selection process of Article 10, which makes no provision for such considerations?

Article 9a: Number of Projects to be Funded

- Is this provision to be interpreted as implying up to 6 power projects and up to 2 other industrial projects, or up to 6 power projects and up to 6 other industrial projects?

Article 11: Award Decisions

- In 1(b), the operational date should be 31 December 2015 for first call projects, and presumably 31 December 2017 for second call. In 2, we take “10(8)” to be a typo for “10(7)”. Please confirm.

Article 12.6: Disbursement of Revenues

- Please confirm that the reference to Article 11a(7) of Directive 2003/87/EC is correct. It is also not clear (a) what happens to Allowances or cash not allocated in time for the 2015 deadline, (b) what happens to cash allocated to projects but not earned, particularly after 2020. Please clarify.