

## **ZEP Position Paper ,Comitology Process‘ - version 10, 30th March 2009**

### **INTRODUCTION**

The ZEP has advocated a programme of 10 - 12 large-scale CCS demonstration projects – the “EU Flagship Programme” – to be operational by 2015. This will ensure the implementation of a complete CO<sub>2</sub> value chain – from the capture of CO<sub>2</sub> at large emission sources, its transportation to storage sites, to its storage in geological formations, deep underground. Such a programme is vital to achieve the cost reductions and economies of scale necessary to kick-start the wider deployment of CCS in Europe. The European Council has on several occasions endorsed and recognised the need to establish such a programme and asked the Commission to ‘stimulate construction and operation by 2015 of up to 12 demonstration plants’ for CCS. The recently adopted revised and enlarged Emission Trading Scheme and the proposed Economic Recovery Package include funding sources for CCS projects and represent a tremendous opportunity to accelerate European industry’s capacity to start building the demonstration programme and are therefore welcomed by ZEP. The Commission must now find a funding mechanism that is timely, practical and meets the technical and geographical aims of the programme in a financially efficient and transparent way.

The comitology process between member states and commission has to clarify the allocation rules and modalities of disbursement of the 300 Million allowances, from the New Entrant Reserve. The process will consider CCS demonstration projects as well as demonstration projects of innovative renewable energy technologies. A proposal to be made by DG ENV will be decided by the Climate Change Committee in April 2009. The ZEP has, and may continue to be, asked to give views to help formulate the process.

### **WELCOME**

The ZEP welcomes the funding proposed by the commission and is fully ready to assist in defining the way in which the different funding mechanisms can be used to fund the CCS demonstration projects proposed and recommended by the ZEP.

### **PROJECT SELECTION**

ZEP delivered its proposal for eligibility, portfolio and project criteria. These were accepted and should be a basis of our recommendation for the final set of criteria. We should not encourage a new set to be defined to select between CCS projects. However, there remains the criteria for the non CCS projects and the rules that will ensure a common baseline.

1. Funding should be for the incremental costs of CCS (CO<sub>2</sub> reduction) only.
2. Each bid must include a credible plan for the whole chain including capture, transport and storage, a credible financial plan outline and a clear idea of which partners will be involved in the project.

On the question of selection between CCS and other projects, there are two choices: a set division of the 300 Million or selection of the projects based on merit of each project. The former sounds good but there is the strong risk that a set division will take a long time to achieve. On the other hand, there is huge difficulty in setting common selection criteria as between a specific and focused programme of CCS projects and an open invitation to unspecific and disparate renewables projects. We think this issue needs further urgent study. However we favour a common selection process across all projects to the extent practical.

1. The technologies concerned should not yet have been demonstrated at large scale before 1 Jan 2009 anywhere in the world.
2. No existing support scheme or incentivising regulation in the EU should be already covering any major share of the additional costs associated with large scale demonstration of the technology.
3. Projects should be allowed to obtain additional funds from Industrial/MS/structural funds/recovery package.
4. Projects should have a plan to operate by 2015.
5. Disbursement of allowances should be conditional on actual power generation, fuel generation and/or CO2 capture and storage as agreed in the proposal prior to the appropriation.
6. Each project must meet agreed information disclosure and knowledge sharing requirements. Knowledge transfer should focus on exchanging information about the operating parameters and results of the different demonstrations but should respect suppliers' and operators' intellectual property rights.
7. Each project must have a good stakeholder management process defined to achieve maximum public acceptance.

Member states and commission should agree on the selection process. To ensure a coordinated programme the commission should be in the lead. Member states should earmark the projects that will have national support. Co-funding by the member states should boost the project selection priority if everything else is equal.

## **FUNDING NEEDS**

We understand that DG ENV is asking for the costing data from our studies of last year to validate the 7-12bn of funding needs for the 10-12 demonstrators. ZEP should volunteer to provide assistance to DG ENV for obtaining these costing data.

## **ALLOCATION OF EUAs**

We propose that EUAs be awarded to the different demonstration projects submitted and their associated concrete incremental costs of CO<sub>2</sub> reduction. The process by which the EUAs are disbursed is not yet clear. We assume that the projects will be selected and a number of EUAs allocated to each. The EUAs of the New Entrant Reserve will then be sold in part or as a whole in the market via the auctioning process by an intermediary to make cash or a series of cash amounts over time. The cash would then be offered to the winning projects. If that money was sufficient for the project to proceed then the investment decision would be made by the organisation leading the project and it would go ahead.

## **TIME SCHEDULE**

To facilitate the start of operation of the CCS demonstration plants in 2015 the investment decisions have to be taken sufficiently in advance, for instance by end of 2011. This means that all aspects necessary for the decision will need to be in place at that time. The total funding, the permitting for plant construction, capture operation, CO<sub>2</sub> transport and CO<sub>2</sub> storage must be established or at least be sufficiently progressed to be acceptable to the company board. The projects must have the right to withdraw at end 2011 if any aspect required for the decision is not in place, even after EUAs have been allocated.

If we assume 3 months for a decision and 9 months of planning time then this takes us back to end 2010 for a project selection process to be complete. This means that a 12 month selection competition needs to be started early 2010. We need to test this timescale against a number of projects.

## **ALIGNMENT WITH THE EUROPEAN RECOVERY PACKAGE**

Funding from the European recovery package will be offered to 5 (now 7) selected projects, taken from the list of 11 (plus 2), at the end of 2009. These projects should become part of the CCS project network. The projects should not be excluded from subsequently applying to the project selection process within the 300 Million EUAs funding.

The funds are allocated for Capital Expenditure which would be defined and assigned in 2009 & 2010 for those projects able to make an investment decision in those years. Actual spending would be undertaken following an investment decision by the project and would be possible prior to the 300 Million EUA project decisions. Therefore it could form a first phase of a multi phase CCS project, but only if the first project phase would stand-alone for decision.

## **CONCLUSION**

This paper was discussed at the Coordination Group of 3 March 2009 and endorsed at the Advisory Council 10 March 2009. It is agreed for placement on the ZEP website and use for communication outside the ZEP.

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