

Speech CCSA meeting in the EU Parliament

Title: How to implement the EU CCS demo program?

Ladies and Gentlemen,

I would like to take the opportunity today to discuss how the New Entrants Reserve can best be deployed and present ideas on how the EU CCS Demonstration projects might be funded and implemented.

But before I do so, I would like to highlight last week's UK budget decision, which revealed significant increased financial support for CCS demonstration projects and the decision of the Dutch government to give financial support for two demonstration projects in the Netherlands. It shows that Member States respond to the challenge of funding demonstration projects.

While I was invited in my capacity as chairman of the Zero Emissions Platform, I believe it is more appropriate to share my personal views on the matter with you, given ZEP will be discussing these issues in the coming weeks. However, my views did benefit from preparations for these discussions. Chris and the CCSA have asked that we have a stimulating debate so I trust the issues I raise will encourage just that.

Following ZEP's proposal for an EU CCS Demonstration Programme in November 2008, the subsequent Council decision to use allowances from the New Entrants Reserve to fund the programme lead the CCS community to take a step back in order to think through how NER funding should be taken forward. In the next weeks, I expect a various groups to air their views.

During discussions with various stakeholders, a number of important questions were defined that the comitology process needed to answer:

- 1. What should the demonstration plant implementation process look like going forward and what planning should be in place?**
- 2. How should the NER Pool be monetised?**
- 3. How should the NER be split between CCS and Eligible Renewables?**
- 4. What role should Member States play in terms of funding and their relationship to the projects?**
- 5. How should projects be funded?**
- 6. How should project selection take place?**

Let me start with sharing my thoughts on the first question.

1. What should the process look like going forward and what planning should be in place?

- A flexible process perhaps of three stages should be implemented to ensure that as many projects as possible are funded in time credibly to target completion by 2015; This process is biased in favour of those who have done the most work.
- The staging should start with a call for proposal submissions as soon as comitology finishes in Q4 2009, leading to selection of a short-list of a few Early Projects that are already well-prepared during 2010; negotiated funding awards could take Early Projects through to Final Investment decision, or FID, in Q1 2011.
- A short-list of candidates for a second stage to be Core Projects in the portfolio should be selected from this same prequalification and taken through FEED studies, partly at public expense; it might be appropriate in the case of CCS to short-list some additional projects for Core Project slots in the portfolio; not all would necessarily pass preliminary negotiation to the point of undertaking FEED.
- Towards Q4 2011, the likely fulfilment of the desired portfolio and the total value of the NER Pool will be more certain to determine if there is both the capacity and the need if a third stage with Supplementary projects may be solicited and funded, provided that they can target completion by the end of 2017.

2. How should the NER Pool be monetised?

- There is currently no market for Phase 3 Allowances but pointers from the current Phase 2 indicate how it is likely to operate from 2011 when auctioning will start.
- The current low value of Allowances is a concern for the CCS project portfolio as it suggests that it can only be realised with a very large additional contribution besides the NER
- Certainty as to the value of the NER Pool is needed by about the end of 2011 to allow the CCS Programme to be implemented in time.
- Since all Phase 3 Allowances are fungible no rational economic market player will give value above the spot price for expectations of future rises in value.
- This argues for monetising the entire NER Pool in a small number of auctions over 2011 and 2012.

- Some parties – commercial sponsors and Member States – may be stimulated by competition to make an effective value contribution to projects by underwriting future Allowance values at above market rates; this should be encouraged.
- We might want to look into a procedure that facilitates such contributions while allowing certainty of value to those not prepared to contribute in this way; the procedure caps value against the risk of windfall profits and ensures that project performance risk remains with commercial sponsors.
- This could be achieved by putting the allowances for each project on a Member State allowance account, but with the project having a say when it should be monetized with broadly two options:
 - Monetisation at the end of each year upon demonstration of clean MWh electricity produced or tons of CO₂ stored
 - Monetisation of all the allowances at the start of the construction with a claw back mechanism in the case of non performance . Compared to the previous case, this might fund up to 4 additional projects

3. How should the NER be split between CCS and Eligible Renewables?

- The NER Pool should not be split ex-ante between CCS and RES; nor should the Commission rely on some kind of project-by-project competition for allocating funds.
- The CCS Programme is mandated and crafted with a clear scope and objectives to demonstrate certain essential technologies at a particular stage in their development life cycle; a similar targeted programme should be prepared urgently for RES.
- With two portfolios that have parallel demonstration aims it will be possible to select projects for inclusion in each on the basis of their potential contribution to the objective.
- There will be competition among projects for inclusion within each portfolio, on the basis among other matters of cost; but direct competition between a CCS and a RES project would not be meaningful.
- A common set of eligibility criteria for CCS and RES should be formulated with respect to demonstration size, development status and other matters;

4. What role should Member States play in terms of funding and their relationship to the projects?

- Member State funding will be vital to the success of the CCS and RES Programmes; the NER Pool is not large enough to fill the need for public

sector support and Member States will need to be encouraged to play a major role.

- Member States should be encouraged to contribute in the form of cash contributions or by other means such as the underwriting the future value of Allowances.
- Member State contributions should be considered as separate from Community Funding, defined to include funds from EERP and the NER; minimising Community Funding alone should be the basis for financial competition among contending projects.
- The primary relationship in the competition, negotiation and allocation of NER funding should be between Commission and commercial sponsor, with the Member State in a supporting role only.
- To ensure a geographical spread across the EU the Commission should consider a limit on the proportion of the NER that can be allocated to any single Member State; 25% has been suggested as a starting point for discussion, a proposal we would welcome the Commission's comments on.

5. How should projects be funded?

- Commercial sponsors should be invited to offer project proposals, which fix their own contributions and estimate a likely contribution of their Member States; the shortfall between these contributions and project costs will constitute their bid for Community Funding.
- Commercial sponsors will be required to take the risk of delivering an operating project, and to fund the base cost of the plant; they will be expected also to contribute some to the economic gap of the CCS project
- The precise contribution of commercial sponsors will be determined through a competitive process; it is likely that taking into account their contribution in risk-bearing, commercial sponsors of CCS projects may be prepared to contribute of up to half of the CCS costs of the project.
- EERP funding will be welcome where it can be delivered for a project selected for NER funding, but for the purpose of price competition it should be considered bundled with NER funding as Community Funding.
- Projects should only receive NER funding (subject to force majeure) if they perform in the operating period; we recommend a period of ten years and an appropriate performance metric (e.g. clean MWh, tonnes of CO₂ stored) which will vary by category and technology of project.

6. How should projects be selected?

- The complex task of competition is to compile projects that meet threshold criteria into a portfolio that as a whole meet the requirements for each of CCS and RES of timing, geography and technology.
- There will be choices among eligible projects; the objective will be to compile the portfolios that have the lowest overall costs.
- Proposals will therefore compete on net price (i.e. lowest Community Funding cost) for a role in the portfolio, and in some cases head to head with other proposals that can provide the same or similar demonstration value; projects that are too expensive may be excluded for lack of funds even where they could make a significant contribution to the Programme.
- Negotiation can be expected among the Commission, commercial sponsors and their Member State supporters to reconfigure projects or provide improved offers so as to produce the most cost-effective possible Programmes.

I would like to thank Chris Davies and the CCSA for providing this opportunity to present these personal views to this gathering of CCS stakeholders, and I welcome any comments, additions or changes in order to get the implementation right. Why? Because we must ensure that we are on the right path to make CCS commercially viable by 2020, providing us with another vital tool with which we can combat climate change.