

June 2017

ZEP comment on the Commission's proposal for a regulation of the European Parliament and of the Council on the internal market for electricity – the “winter package” (2016/0379)

ZEP welcomes the Commission's proposal to introduce design principles for capacity mechanisms as described in the winter package in article 23. ZEP particularly welcomes point no 4 which states that “Generation capacity emitting 550 gr CO₂/kWh or more shall not be committed in capacity mechanisms 5 years after the entry into force of this Regulation”, and similar for “generation capacity for which a final investment decision has been made after [OP: entry into force]”. Our view is that by setting a 5 year trajectory for an emissions performance standard, this proposal will assist asset planning and reduce the risk of future stranded assets. The proposal may also give a valuable (long-term) signal of the requirement for CCS in the power sector. However it is important to highlight that such an emissions performance standard alone will not drive sufficient carbon reduction to meet Europe's targets and will not drive CCS without complementary instruments and policies.

As outlined by the European Environment Agency in its recent report “Transforming the EU power sector: avoiding a carbon lock-in”¹, it is expected that there will be overcapacity of both gas and coal power plants in Europe in the coming decade, and that the degree of overcapacity will vary between different regions. Therefore, the impact of design principles will also differ from region to region according to the composition of a country's power mix over time.

We believe that the limit of 550 g/kWh proposed by the Commission would primarily drive fuel switching from coal to gas, and is unlikely to drive CCS in the coming decade. This conclusion is supported by ZEP's modelling on various support mechanisms for CCS in 2013².

To be a driver for CCS, a lower limit of grams CO₂ per kWh combined with a comprehensive framework of measures to support investments in CCS would be needed. Such measures include a strategic CCS plan as outlined in the ZEP note “An Executable Plan for enabling CCS in Europe”³, specifically;

- Decouple the capture of CO₂ from transport and storage
- Develop CCS in phases through (expanding) infrastructure hubs
- Make sufficient funding available and create robust mechanisms to commercialise CCS , and
- Engage MS on their 2030 emissions reduction plans, in particular on the need for CCS to achieve these targets, and whether said plans are compatible with the long-term emission reduction trajectory toward 2050

We would finally like to comment that any emissions performance standard for practical reasons should be based on the average emissions during operating hours. To allow for safe and effective operations there might be instances when CO₂ emissions temporarily exceed the proposed gr CO₂/kWh limit through no fault of the operator and with no intention of financial gain.

Based the above we therefore recommend that the Commission;

a) Evaluate the impact of lowering the limit of CO₂ per kWh in the article and

b) Incorporate a comprehensive set of financial and regulatory measures to underpin the emissions performance standard, to enable CCS to deliver carbon reduction at the level required to meet Europe's climate change commitments.

¹ Transforming the EU power sector: avoiding a carbon lock-in (EEA, 2016)

² ZEP Modelling: Recommendations for transitional measures to drive deployment in Europe:
<http://www.zeroemissionsplatform.eu/downloads/1413.html>

³ ZEP Executable Plan: <http://www.zeroemissionsplatform.eu/library/publication/255-executableplan.html>