

November 2016

ZEP Policy Brief: Reuse of unspent NER300 funds

Executive Summary

- An important opportunity has arisen to utilise unspent NER300 funds and deliver tangible progress on CCS in Europe. Used intelligently, these funds could make a major contribution towards achieving the targets recently agreed for CCS by the SET Plan Steering Group.
- Redistributing funds to existing NER300 projects or launching a third NER300 call would not deliver progress on CCS as these options would fail to address the underlying commercial barriers to CCS deployment identified by ZEP. Instead the Platform recommends that the unspent funds are allocated to alternative, existing financial instruments, which are able to disburse funds in a timely manner to a wide range of CCS initiatives.
- Within the framework of an alternative financial instrument, ZEP recommends establishing a dedicated CCS Development Fund made up of at least the €300 million of which should be derived from the unspent NER300 funding awarded to the White Rose CCS project.
- In order to achieve a balance in the use of unspent funds between CCS and innovative renewables, ZEP recommends that the CCS Development Fund should have a minimum endowment of €500 million and should seek to leverage private sector co-funding through initiatives like the £1 billion fund recently announced by the Oil and Gas Climate Initiative (OGCI).

Context

The NER300 programme was established under the EU ETS Directive to provide funding for innovative low carbon technologies needed to support the EU's transition to a low-carbon economy. The Directive sought to achieve a balance in funding to CCS projects and innovative renewables projects and aimed to fund at least 8 CCS projects to ensure technological diversity.

A total of 39 projects were awarded funding through two calls in 2012 and 2014 (38 renewable projects and 1 CCS project), only three of which are now operating. Of an estimated €2.1 billion awarded to projects, ZEP understands that only €65.7 million of that is allocated to the three operational projects and that €553 million from the first call could potentially become available by early 2017 as a result of projects either being cancelled or failing to take a final investment decision. In addition to this, it is expected that a significant amount of funding will become available in 2018 as a result of projects from the second call failing to progress, including up to €300 million awarded to the White Rose (UK) CCS project – the only CCS project to be awarded any funding under the scheme.

Unlike other EU funding schemes such as the EEPR, funding under NER300 is derived from the sale of emissions allowances under the EU ETS and, as a result, funding that has been disbursed but not spent could be made available for other similar initiatives.

Options for the reuse of funds

ZEP understands that EU institutions and Member States are currently considering options for the redistribution of unspent NER300 funds:

- (1) Topping up the future Innovation Fund as proposed in the Commission's ETS revision proposal;
- (2) Allocation of the funds to existing financial instruments, e.g. European Fund for Strategic Investment (EFSI), InnovFin Energy Demo Projects (InnovFin EDP) or Connecting Europe Facility (CEF);
- (3) Increasing the support available to existing projects; and/or,
- (4) Launching a third NER 300 call for proposals.

Of these four options, **ZEP recommends that funding should be allocated to alternative financial instruments, and that a significant proportion should be dedicated to supporting the development of CCS projects.**

Following on from its 2014 report on Business Models for Commercial Scale CO₂ Transport and Storage¹, in September 2015, ZEP published an Executable Plan for CCS in Europe², which highlighted the commercial challenges associated with deployment of CCS and recommended 'breaking the CCS chain' into its constituent parts – capture, transport, utilisation and storage. By separating the chain from a commercial and risk perspective and putting in place a framework for CCS infrastructure "Market Makers", ZEP demonstrated that the major barriers to investment could be overcome and that CCS could be delivered at a lower cost to society.

Building on this analysis, and the lessons derived from the UK CCS Commercialisation Programme³, it is clear that options (3) and (4) being considered for the unspent funds are unlikely to deliver progress on CCS as they do not fundamentally address the barriers to private sector investment in CCS. Whilst option (1) offers a potential solution – assuming the modalities for the Innovation Fund are designed to meet the needs of potential CCS projects⁴ - an interim fund is necessary to support the development of projects between now and 2020 in line with the adopted targets for CCS and CCU under the SET Plan⁵.

Based on these conclusions, **ZEP recommends that a total of €500 million, including the funding allocated to White Rose, is set aside from the unspent NER300 funding and used to establish a CCS Development Fund under an existing financial instrument.**

¹ <http://www.zeroemissionsplatform.eu/downloads/1523.html>

² <http://www.zeroemissionsplatform.eu/downloads/1545.html>

³ http://www.ccsassociation.org/index.php/download_file/view/1023/503/

⁴ <http://www.zeroemissionsplatform.eu/downloads/1598.html>

⁵ https://setis.ec.europa.eu/system/files/setplan_doi_ccus-final.pdf

Candidate initiatives

The SET Plan Steering Group recently adopted 10 specific targets for CCS and CCU by 2020 and a Temporary Working Group on CCS has been established to develop an Implementation Plan. Although funding has yet to be allocated to each of the targets that were agreed, it is clear that unspent NER300 funds could play a major role in achieving the targets. As examples, the CCS Development Fund could potentially support a number of important CCS initiatives currently under development within Europe, including:

- **CCS in Norway** – The Norwegian Ministry for Petroleum and Energy has recently completed a feasibility study on a full-chain CCS project incorporating three industrial emitters (steel, energy from waste, ammonia), CO₂ via shipping and three potential storage options. The Ministry has provided further funding for FEED studies, with a view to having an operational full-chain project by 2022.
- **A Rotterdam CCS cluster** – The Port of Rotterdam is currently considering options for industrial CCU and CCS as part of a broader initiative to address sustainability in the region. Alongside this, the ROAD CCS project (NL) is hoping to begin operating in 2020 providing it takes a positive FID in the near future, which could provide the anchor load to justify investment in regional CO₂ infrastructure.
- **A CO₂ transport Project of Common Interest (PCI)** – potentially providing CO₂ transport solutions from industrial regions of Europe to offshore storage formations, e.g. in the North Sea
- **UK CCS cluster(s)** – The UK recently undertook a review on the role of CCS to UK decarbonisation via an independent Parliamentary Advisory Group on CCS, chaired by Lord Oxburgh. The final report concluded that the UK should proceed with full-chain CCS clusters combining industrial and heat emitters, and highlighted the important role of CCS in decarbonising the heating sector.
- **Storage pilots** – The CCS Declaration of Intent under the SET Plan includes a target for “at least 3 new CO₂ storage pilots in preparation or operation in different settings” by 2020.

The advantages of a dedicated CCS Development Fund would include its flexibility to support a broad range of proposals; from R&D, feasibility studies and FEED studies right through to supporting capital investments or operational costs. A CCS Development Fund could also help to unlock CCS opportunities in parts of eastern and southern Europe where commercial interest in project development is less apparent.

Next steps

Joint efforts from Member States and the EU institutions to repurpose unspent NER300 funds represent an important opportunity to secure further EU funding for CCS and achieve the agreed 2020 targets for CCS and CCU under the SET Plan Declaration of Intent.

Given certain operational constraints and inflexibility associated with the NER300 programme, and a lack of clarity on the future modalities of the Innovation Fund, ZEP recommends that allocating the funds to other financial instruments, and establishing a dedicated CCS Fund, would be the most appropriate use of the unspent funding for CCS. This Fund should focus on working towards commercial scale deployment and not fundamental R&D.

If the opportunity to establish a dedicated fund for CCS is not forthcoming, ZEP would recommend allocating remaining unspent funds to the new Innovation Fund and targeting further efforts at ensuring that the modalities for the Fund are fit-for-purpose for developers of CCS projects.

In order to further develop this concept, ZEP would welcome an ongoing dialogue between industry, Member States, the Commission and other stakeholders (particularly the SET Plan Temporary Working Group on CCS) to conceive how the CCS Development Fund could be established and made most effective.