Eurogas feedback to European Commission review of CCS Directive

16 July 2014

Introduction

Whilst we would highlight some important points for consideration in this review, it may be difficult to assess some of the measures in the Directive, until several projects are in operation and further knowledge and experience is gained. Eurogas has not answered the questionnaire on the implementation of the CCS Directive itself, as many of the questions appear directed towards those parties with specific project development experience.

Long-term framework

The primary focus in the development of CCS should continue to be in the areas of research, development and deployment, as this reflects the current status of the technology. However, in order to encourage investors to take the considerable effort needed to bring this technology through these early stages, having a stable long-term framework in place is very important. From a private investor's point of view, it is essential to assess what the CCS business model beyond 2020 might look like.

To that end, the planned decisions of the European Council in October 2014 on the 2030 framework for climate and energy are critical towards the development of CCS. A greenhouse gas reduction target of at least 40% will send a strong signal to investors that Europe maintains a long-term commitment to decarbonising the energy system. This, coupled with a well working Emissions Trading System (ETS), would provide an appropriate incentive but not an obligation to apply CCS, thereby leaving the choices to the market on how to decarbonise the electricity system in a cost effective manner.

Lessons learnt in CCS development

In terms of the issues that the development of CCS has faced, any future initiatives should be directed towards the following two main challenges:

(i) Public acceptance

Strong public resistance to carbon dioxide storage onshore is making it difficult for some Member States to implement the Directive on the geological storage of carbon dioxide in such a way that CCS is actually enabled to take place. An equally strong obstacle is the uncertainty about whether CCS will become commercial in the future. As public opposition is largely based on lack of correct information regarding risks and benefits, an EU effort to inform EU citizens would be beneficial. This would be in addition to the efforts that are already made at the local level.

Industry can help to overcome the public acceptance issue by providing full information on envisaged and ongoing CCS activities and on the monitoring of carbon dioxide stored. Member States have a role through the implementation of the CCS Directive, in such a

fashion that any local or regional bans are lifted and legal security is created. The opposite has happened in some Member States to date. Governments should communicate to the public the importance of CCS as part of a decarbonisation strategy.

The European Commission (EC) can also take steps that are supportive towards CCS development. For example, the EC has recently launched a communications toolkit for the development of electricity grid infrastructure[1]. Such a product would be welcomed for CCS.

The EC could also enter a dialogue with countries such as the US and Australia to understand the approach they are taking towards public acceptance issues.

(ii) Economic incentives

If CCS is to be developed successfully, having the right economic incentives in place to support this development is essential. The following points apply:

- While the Emissions Trading System in principle provides a technology-neutral market signal for low-carbon investment, any measures that are taken to make the ETS fully effective in reducing greenhouse emissions via the price of emissions allowances will not be sufficient to trigger and support investment in CCS in the timeframe that is required for the first generation of demonstration projects to become operational by 2020. An effective ETS should nevertheless be the goal, and, in the longer term, reform of the ETS should be able to provide clearer, market-based incentives.
- In the meantime, support should be provided in a manner that minimises distortions to the market, until the practice has demonstrated the viability of CCS alongside other low-carbon options. CCS is likely to need temporary and targeted measures, such as feed-in premiums or contracts for differences (CFDs), assuring an agreed price, to ensure a level playing field with low-carbon alternatives. They are likely to be needed until the price of carbon dioxide emission allowances has risen to a level that incentivises industry to deploy CCS.
- Carbon dioxide utilisation techniques that are considered immature technology should also be able to access research and development support, in order to assist the technology's development. Again, this should be done in a manner that minimises any distortions to the market. Once mature, CDU, CCS and all other competing technologies should be treated equally, in order to allow the market find the most cost effective means to utilise captured carbon.
- Consideration should be given to promoting a support instrument based on the experience of the NER 300 facility and to other support measures that are well targeted and limited in time and expenditure, to help the development of demonstration projects.

[1] http://www.grid-communications-toolkit.eu/

Alternative measures

The slow progress of CCS demonstration in Europe does not warrant the establishment of mandatory emission performance standards (EPS) or any form of minimum certificate obligations. This would be an incorrect diagnosis of the challenges that CCS has faced over the last number of years, to which we have referred to above.

Such schemes would also directly conflict with the proper running of the ETS, which reduces emissions in the most economic way possible.

Furthermore, such measures may lead to life extensions for inefficient power stations instead of their replacement with highly efficient gas-fired power stations, which can significantly reduce emissions even when they are not equipped with CCS. They may also endanger the role of gas-fired power plants as back up for renewable energy and may therefore diminish security of supply in the electricity sector.

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