

# **DECC Guidance on EU Funding Mechanism “NER300” for Carbon Capture and Storage (CCS) Demonstration Projects.**

9 December 2010

## NER300

### UK Guidance to UK Applicants for NER funding for CCS demonstration projects

#### 1. Introduction

- 1.1. On 9 Nov 2010, the European Commission published its Call for Proposals for the first round of NER funding. This note is intended to provide some top level guidance for potential UK applicants and replaces the previous guidance on CCS published in July 2010.
- 1.2. Applicants should also refer to the European Commission's FAQ, which can be found at the same address as the Call for Proposals: [http://ec.europa.eu/clima/funding/ner300/index\\_en.htm](http://ec.europa.eu/clima/funding/ner300/index_en.htm)
- 1.3. We will be publishing separate guidance for UK applicants for NER funding for renewable demonstration projects.

#### 2. Timetable

Activity	Deadline
Call for Proposals published	9 November 2010
UK publishes guidance on NER for UK applicants	9 December 2010
CCSA Incentives Group meeting to clarify issues on NER	16 December 2010
Project Sponsors submit application forms to Member States	9 February 2011
Project Sponsors submit updated application forms to Member States*	2 April 2011*
Member State discussion with Project Sponsors on calculation of relevant costs	9 February – 2 May 2011
Member States submit proposals to European Investment Bank (EIB)	9 May 2011
Evaluation, ranking and list of recommended projects provided by EIB to the European Commission	9 February 2012
European Commission Award Decisions	Second half of 2012

2.1. \*DECC will accept updates to the below application forms after 9 Feb and up to 2 April and is open to discussion regarding updates that Project Sponsors wish to make to other application forms. Project Sponsors should have regard to the European Commission's response to FAQ 27 which states that interaction between Member States and Project Sponsors can take place between February and May "provided the relevant information could and should not already have been provided by 9 February 2011".

A1: General information on the project

A2: General Information on the Project Sponsor

A6: Knowledge Sharing and Intellectual Property

A15: Project Sponsor Declaration

### 3. Costs and Funding

#### Relevant Costs

- 3.1. Member States are responsible for the calculation of relevant costs. As set out in the Member State Submission Forms, this is expected to be determined in association with the Project Sponsor. DECC expects to undertake this calculation during the period 2 April – 2 May 2011. The process for completing this calculation will involve a meeting with each Project Sponsor.
- 3.2. The relevant costs of an IGCC will be calculated according to the process set out in the Call for Proposals. The counterfactual – the costs of a supercritical coal-fired power plant without CO<sub>2</sub> capture transport and storage – is to be determined by Member States. DECC are in the process of determining how this should be set for the UK and further details on this will be published in the new year.

#### Combining with other Funding Mechanisms

- 3.3. We are expecting that UK CCS applications to the NER will also be seeking funding from the UK demonstration programme (whether under the forthcoming competition for UK demonstration programme Projects 2 to 4 or the procurement for the first project launched in 2007), as well as considering other sources of public and private finance.
- 3.4. DECC will consider applications that will not need UK Government funding but in the final selection process will prioritise those projects successful in securing funding from the Government as this will maximise benefits for UK tax payers.
- 3.5. Project Sponsors should note that the Award Decision for the NER is scheduled to take place in the second half of 2012. Whilst DECC is aiming to be in a position to select UK CCS demonstration programme Projects 2-4 within a timetable commensurate with this, there is no guarantee that we will be able to do so. We therefore cannot provide assurances that CCS winners through the NER process will be in a position to confirm whether or not they will receive funding from the UK Government within the NER timetable. However, we do expect all projects seeking or intending to seek UK demonstration programme funding that meet the NER CCS project requirements to apply for NER funding. Projects that qualify for funding under the NER and meet the objectives of the UK demonstration programme are likely to present the best value for money to the UK.

#### Upfront Funding

- 3.6. The Call for Proposals states that part or all of the funding for a project, not exceeding 50% of the relevant costs of that project, may be awarded prior to the entry into operation of the project – i.e. for up front capital costs. However, where projects receive up front capital, their Government must guarantee to cover these costs if the project does not proceed or is unsuccessful in achieving CCS.

- 3.7. DECC does not anticipate providing this guarantee, so UK projects should only request annual performance payments. However, we are considering whether it would be appropriate to make an exception for the project subject to the existing procurement, and will confirm our approach on this point in due course.

#### Knowledge Sharing Requirements

- 3.8. The Call for Proposals and accompanying Specification for Legally Binding Instrument sets out the NER knowledge sharing requirements. Projects receiving UK funding will also be required to meet information and knowledge sharing requirements as part of the UK demonstration programme. The meeting of these requirements is likely to affect the level of payment under the UK funding mechanism. Given the level of support likely from the UK demonstration programme, these requirements are likely to exceed the requirements from the European Commission.

## 4. Eligibility assessment and criteria

### Eligibility Assessment by Member States

- 4.1. Any project applying to the NER process must meet the criteria set out in the European Commission's Call for Proposals.
- 4.2. In addition, Member States may apply their own eligibility criteria. DECC will prioritise applications from CCS projects in the NER process which are consistent with the domestic policy priorities for CCS, as reflected in the objectives for the UK CCS demonstration programme. The first CCS demonstration programme has two overarching objectives: to deliver a successful demonstration of the full chain of CCS technologies at commercial scale; and to undertake this with a CCS technology (post-combustion) that is relevant and transferable to key global markets including the major developing economies. The principal objective for the UK demonstration programme Projects 2-4 is demonstrate CCS technologies relevant to the UK both technically and economically so that they are ready for commercial deployment by 2020. Therefore DECC intends to apply the following additional criteria to the prioritisation of projects that it puts forward to the EIB:
  - Projects based on electricity generation from coal or gas; and
  - Projects of around size 300 – 400MW.
- 4.3. Fossil fuel-fired power stations play a vital role in providing the UK with reliable and secure electricity supplies – they can be operated flexibly in response to variations in demand from consumers and supply from other generators and they add diversity to our energy mix. In order to allow fossil fuels to continue to be part of the UK energy mix in a carbon constrained future, it is imperative that we focus on the early demonstration of CCS technology at commercial-scale on fossil fuel power stations. The CCC has stated that any path to an 80% reduction in UK emissions by 2050 requires that electricity generation is almost entirely decarbonised by 2030.
- 4.4. In the UK, the Government's policy (currently under consultation in the National Policy Statements) is for new coal-fired power stations to demonstrate CCS on at least 300MW net. In terms of maximum size of demonstration we have said that to limit costs to the UK, projects should be large enough to achieve commercial scale demonstration, but not oversized unless they deliver additional demonstration related benefits. Our preference, therefore, is for CCS demonstration projects to be around 300 – 400 MW net in size, depending to some extent on the particular technology being demonstrated.
- 4.5. Applications which do not meet these additional criteria will not be prioritised for submission to the EIB.

- 4.6. Applications will be assessed by DECC staff and, where appropriate, external experts.
- 4.7. The devolved administrations may be consulted in respect of any applications coming forward from their areas.

### Location

- 4.8. To be eligible for the UK demonstration programme, projects must store their CO<sub>2</sub> offshore, and it is likely that these storage sites will be required to be within the UK territorial sea and Gas Importation and Storage Zone (GISZ).
- 4.9. Project Sponsors who are considering submitting a transboundary project should consider the following:
  - The Call for Proposals requires projects to ensure start up of commercial operation within four years of the adoption of the respective Award Decision. The amendment of Article 6 of the London Protocol (to remove the prohibition of the export of carbon dioxide for disposal) requires two thirds of London Protocol Contracting Parties to ratify the amendment to enter force. DECC cannot guarantee that transboundary movement of carbon dioxide for disposal will be legal under the London Protocol within the NER timeframe.
  - Transboundary projects will also raise questions on ownership of liabilities associated with the transport and storage of carbon dioxide. Agreeing ownership may require bilateral agreements between Governments and DECC cannot guarantee that these will be in place within NER timeframes.
- 4.10. Project Sponsors considering submitting a transboundary project (understanding the issues above) should contact DECC to discuss the feasibility of their project in light of the concerns outlined.

### Shared Infrastructure

- 4.11. The NER approach to shared infrastructure is set out in paragraphs 77 and 78 of the Call for Proposals. Project Sponsors should be aware that the UK policy on support for oversized pipelines in the competition for UK demonstration programme Projects 2-4 may be different to the NER policy. For the purposes of the UK demonstration programme, DECC recognises the potential cost savings from shared infrastructure (pipelines and/or storage). However the UK demonstration programme will not require sharing of infrastructure, but will encourage applicants to come forward with innovative solutions that reduce costs or enhance delivery. Any such sharing will not be taken into account in the assessment of projects in the UK competition when weighting overall delivery of non-monetary objectives against price and value for money.

### Criteria for Selection of Projects for Submission to the EIB

4.12. As stated in paragraphs above, DECC will prioritise those projects that meet the criteria for the UK demonstration programme for submission to the EIB.

### Role of Member States

4.13. The European Commission has indicated that Member States will have the final say over which projects receive NER funding in the event that they have more than three projects on the European Commission short list, following the EIB's due diligence and confirmation of the availability of any required public funding. If this is the case for the UK it is our intention to prioritise those CCS projects that have successfully secured funding from DECC as this will provide the most value for money for the UK.

## 5. Instructions for Submission of the Proposal

- 5.1. Project Sponsors should send their completed application forms by recorded courier delivery in hard copy and also in soft copy on discs or a memory stick to: Liz Kitchen, Area 4B, DECC, 3 Whitehall Place, London SW1A 2AW by 5pm on 9 Feb 2011.
- 5.2. DECC will accept revised versions of application forms 1, 2, 6, and 15 up to 2 April 2011.
- 5.3. Project Sponsors should name their files according to the convention set out in paragraph 130 of the Call for Proposals.

### Confirmation and Clarification Process

- 5.4. If Project Sponsors have questions of clarification about this guidance note or point of interpretation relating to MS role, then they should contact DECC via Liz Kitchen at [occs@decc.gsi.gov.uk](mailto:occs@decc.gsi.gov.uk)
- 5.5. DECC will answer questions via regular FAQ on the OCCS web page ([www.decc.gov.uk/occs](http://www.decc.gov.uk/occs)) to ensure that all Project Sponsors have access to the same level of advice.
- 5.6. However, DECC will not provide feedback or enter into dialogue with individual Project Sponsors except where this is necessary for the purposes of the UK carrying out its role in accordance with the Call for Proposals' requirements, notably in relation to the determination of relevant costs.
- 5.7. Where Project Sponsors have questions of clarification for the European Commission, then they should also contact DECC who will forward the questions to the European Commission on their behalf.

## 6. Application Forms

### Application Form 1

A1.1.e: Insert the following: Department of Energy and Climate Change, Kathryn Newell.

A1.1.i: IGCC proposals should leave this blank subject to discussion with DECC.

### Application Form 4

A4.1.1.b: If Project Sponsors are expecting to supplement NER funding with funding from the UK demonstration programme they should set this out here.

A4.1.1.i: If Project Sponsors are expecting to supplement NER funding with funding from the UK demonstration programme they should explain here that the Award Decision for the NER is scheduled to take place in the second half of 2012. Whilst DECC is aiming to be in a position to select UK CCS demonstration programme Projects 2-4 within a timetable commensurate with this, there is no guarantee that we will be able to do so. We therefore cannot provide assurances that CCS winners through the NER process will be in a position to confirm whether or not they will receive funding from the UK Government within the NER timetable.

### Application Form 10

A10.9 Over sizing – Project Sponsors should be aware that the UK policy on support for oversized pipelines may be different to the NER policy.

### Application form 12

If Project Sponsors are expecting to supplement NER funding with funding from the UK demonstration programme they should set this out in this application form.

A12.2.i: In response to the information requested, Project Sponsors should set out the amount they will be requesting from the UK CCS demonstration programme if they are successful in securing 50% funding from the NER. Where sponsors are planning to apply for funding in the competition for Projects 2-4, the response should make clear that Project Sponsors intend to apply for UK funding when the UK call is open and that decisions to provide the additional project funding are dependent on the UK completing its selection process on a timeline compatible with NER.

A12.3.i: In response to the information requested, Project Sponsors will be able to complete this more fully when further information on the UK demonstration programme has been published at the end of the year.

