

IBERDROLA RESPONSE TO THE EC PUBLIC CONSULTATION THE FUTURE ROLE OF CCS IN EUROPE

June 29, 2013

0. Introduction

Iberdrola welcomes this opportunity to express its opinion on the consultation on the future role of CCS in Europe.

1. General comments

We believe that CCS can play a potentially significant role in the decarbonisation of the energy sector, whilst recognising that there remain numerous technological, economic and policy hurdles to overcome to deliver the technology commercially at industrial scale.

Demonstration of prototype CCS projects using available technologies on coal and gas fired generation will therefore be necessary to establish the extent to which CCS can play a role in the transformation of the energy sector over the period to 2050.

Currently, market mechanisms at Member State or European level do not exist to adequately incentivise CCS developments, suggesting that funding arrangements such as in the NER300 framework should be used to provide adequate funding for demonstration projects.

A greater sense of urgency in agreeing and communicating the policy frameworks for CCS is likely to be required. Allowing time for the approval and commencement of pilot projects across Europe, and thus understanding whether the technology can be economically deployed during the 2020's, could have profound implications for the energy choices required to deliver Member State and EU policy objectives. Successful demonstration will increase the potential that the energy sector can be placed on a trajectory of decarbonisation by around 2030, whereas failure in deploying CCS commercially may require that other low carbon generation sources and energy efficiency need to play a greater role.

Despite a lack of concrete progress on CCS over the past 5 or 6 years, there has undoubtedly been a great deal of learning on the technology, the policy and financing requirements and legislative frameworks during that period. It will be important that the current suite of CCS projects maximise the significant learning from earlier attempts in several Member States to get demonstration projects off the ground, for example from the Longannet Front End Engineering Design work undertaken by the ScottishPower consortium for the UK Government.

2. Questions

- 1) **Should Member States that currently have a high share of coal and gas in their energy mix as well as in industrial processes, and that have not yet done so, be required to:**
 - a. **develop a clear roadmap on how to restructure their electricity generation sector towards non-carbon emitting fuels (nuclear or renewables) by 2050,**
 - b. **develop a national strategy to prepare for the deployment of CCS technology.**

Agreement on the 2030 EU Energy and Climate Package, once secured, will provide a natural opportunity for Member States to evaluate their requirements in restructuring electricity generation sectors to contribute towards long term targets.

As the long term policy frameworks suggest a need to substantially decarbonise the electricity sector, it is likely to be challenging to achieve ambitious targets without deploying CCS commercially. As a result, demonstrating the technical and economic viability of the full CCS chain should be the immediate priority at this stage.

It is our opinion that, as an EU ETS participant, it is crucial to know as much, and as soon as possible, about any policy that will impact on EU ETS emissions. In order for the EU ETS to run efficiently it is important to have visibility and regulatory stability. In order for the EU ETS to achieve this objective, it is not only important to have a clear idea of the rules that will govern such schemes, but to know what will happen with other policies that will affect EU ETS emissions.

Within this context EU and national energy policy decisions could be considered one of the most important interactions with EU ETS. We can see merit in incentivising nuclear, renewables or CCS depending on the situation. However, what is crucial to the EU ETS and energy market participants to make decisions on their investments is to know as soon and as clear as possible if there is going to be any kind of support and the extent of such support.

Therefore we consider that it is important to know the decarbonisation strategies that are going to be applied in the EU to meet energy policy objectives. However, it is more important to know the specific ways in which this EU energy strategy is going to be applied and supported so we are able to make our investment decisions efficiently.

- 2) **How should the ETS be re-structured, so that it could also provide meaningful incentives for CCS deployment? Should this be complemented by using instruments based on auctioning revenues, similar to NER300?**

We think that CCS activities are correctly introduced in the EU ETS and that there is no benefit in changing the way they participate in it.

We also think that CCS could play an important role in the decarbonisation of the EU. Therefore we understand that it could be necessary to support this technology in the demonstration phase in order to make this technology available in the future and maximise the potential for reaching commercial status.

However, once this commercial status is considered to be reached, there will no longer be a justification in specifically supporting this technology at the EU level.

In order to secure funding for the demonstration phase, as such support comes from a direct political decision, it could be more transparent and predictable to raise such funds from the EU Budget and avoid interfering with the EU ETS functioning.

- 3) Should the Commission propose other means of support or consider other policy measures to pave the road towards early deployment, by:**
- a. support through auctioning recycling or other funding approaches**
 - b. an Emission Performance Standard**
 - c. a CCS certificate system**
 - d. another type of policy measure**

As mentioned before, we think that CCS should be only supported at demonstration level and there is no benefit in establishing any kind of support mechanism to any further deployment. Therefore, we think that it could be considered excessive to implement any of these alternatives in order to promote the limited projects that are likely to be needed at demonstration level.

Moreover, we want to note the risks of inefficiencies arising from the implementation of an Emission Performance Standard. This could prevent some decarbonisation solutions from being implemented although they could be the most efficient way to proceed (e.g. some back-up thermal plants without CCS and very low load factors are likely to be required on the energy system for some time yet). Emissions Performance Standards do not provide an incentive to develop CCS and are largely irrelevant until the technology is commercially available.

- 4) Should energy utilities henceforth be required to install CCS-ready equipment for all new investments (coal and potentially also gas) in order to facilitate the necessary CCS retrofit?**

We consider that decarbonisation policies should be agreed, communicated and implemented with enough time in advance so the right investment solutions could be taken. This is the right way to proceed, rather than imposing obligations that are unlikely to be the most efficient way to proceed to achieve the same objective.

It is our opinion that proposals of this type, whilst considered helpful in the decarbonisation effort, are political in nature and could place security of supply at risk whilst unnecessarily increasing costs to achieve the same objective.

The existing CCS Directive outlines the requirements for new fossil plant to be captured ready, including land availability for capture plant, consideration of pipeline routes and storage options. This ensures the potential for CCS retrofit exists if the technology can be proven. We think further action in this area would be premature.

5) Should fossil fuel providers contribute to CCS demonstration and deployment through specific measures that ensure additional financing?

Support to CCS demonstration is an EU strategic political option for fighting climate change. Therefore it is our opinion that this should be financed by the EU budget, augmented by Member State Government financing support where available.

As mentioned before, we think that any further deployment should be based on cost efficiency and no extra support should be given to CCS once commercial status is achieved.

6) What are the main obstacles to ensuring sufficient demonstration of CCS in the EU?

Firstly, we think that there is not enough financial support for these projects and where funding exists, it is not sufficiently well coordinated between EU institutions and Member States. Secondly, as a demonstration project, there are some risks (like technological risks and investment costs risk) that neither private promoters nor the Public Administration are willing to assume.

7) How can public acceptance for CCS be increased?

Demonstration of CCS projects operating safely across several Member States, supported by a strong education as well as active public engagement and awareness programmes may help improve public perceptions of CCS.