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Communication from *CO2 Value Europe and the ART Fuels Forum* concerning the development of methodologies for the first call of the European Innovation Fund

Proposed ETS Innovation Fund selection methodology will prevent low-carbon technologies and processes in energy intensive industries and CCU projects from being funded

If the Commission follows the recommendations proposed in the EIF draft selection methodology, the majority of innovative low-carbon technology projects will not be eligible for funding, in spite of the fact that they could be one of the keys to reaching the ambitious climate targets adopted by the EU/EEA. The methodology will discourage innovation and is counterproductive with respect to the goals that have been set by the Renewable Energy Directive (RED II).

To maximise positive climate and economic impact, a strong contribution from different technologies in all five areas targeted by the ETS Innovation Fund (EIF) is needed. We urge the Commission to reconsider these criteria and, with technology neutrality as a guiding principle, enable innovative companies developing projects focusing on Renewable Fuels of Non-Biological Origin (RFNBO) and Carbon Capture and Utilization (CCU) to reach their full potential.

1. Drop the use of an average of member state and EU grid emission factors

According to the EIF paper, GHG emissions avoidance for projects utilizing electricity should be calculated based on the average between the national emission factor and the average of the EU.

After applying this rule, no low-carbon intensity project based on electrolysis, with or without CCU, in any EEA member state, can reach the RED II RFNBO threshold for GHG emission reduction of 70% (see Annex). This implies that, by the proposed criteria, no prospective RFNBO project would be funded.

We strongly object to the use of the grid averaging rule. Emission factors for the energy actually consumed should be used instead. This can be achieved by allowing project developers to rely on existing market-based instruments, such as Power Purchase Agreements (PPAs) combined with by Guarantees of Origin (GoO) for electricity¹. All new investment in generating capacity in the member states will be from RES by design. New demand for PPAs can therefore only be met by RES, although investment on the demand and supply side may not be synchronous in all cases.

2. Allow market-based instruments instead of imposing impractical additionality requirements

In the EIF white paper the authors state „Electricity inputs are only considered renewable if they are additional to the renewable electricity that would be consumed anyway.“ It is not at all clear how the baselines of generation or consumption could actually be measured, nor how additionality could be guaranteed by EIF applicants. If the Commission were to require that all EIF funded projects include parallel investment in RES power generation equal to their electricity demand, all such projects would be financially infeasible.

¹ Recital 90 of the RED II recognizes that the use of such market-based contracts and guarantees can ensure that demand from fuel producers leads to increased financing and deployment of additional RES generating capacity.

The use of PPAs is becoming a routine part of financing for new RES generating capacity. The EIF should accept the use of PPAs and GoOs by applicants and thus adapt the criteria to reflect market reality. Increased demand for RES PPAs and GoOs, in particular when users will be able to coordinate with the TSO to vary local load in response to grid imbalances, will facilitate and incentivize investment in RES generating capacity, which is in line with the mission of the EIF.

Conclusion

The EU is about to perpetuate design flaws in the implementation of the ETS NER300 program, by focusing on theoretical LCA exercises and engaging in premature optimization of what is inherently a complex and evolving energy system. In this way the Commission is unintentionally “picking technologies” rather than following the principle of technology neutrality.

Selection methodologies currently proposed by the EU would not incentivize scaling and development but will only lead to industry stasis. This methodology will make the targets of the RED II, let alone more ambitious targets proposed by the EU Green Deal, much more difficult to reach. We urge the Commission to reconsider and listen to feedback from the community of developers proposing potential EIF projects.

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Annex

Graph which shows the member state grid emission factors for EU-28 and Norway in 2017 according to the EIF paper as well as the grid emission factor which would apply for each member state based on the proposed averaging rule. ‘Efficiency’ refers to the ratio of the heating value of the fuel divided by MJ of electricity consumed in the production process. Values for the EU grid average as well as emission factors for PV solar and wind are also from the EIF paper.

