MEMO/10/549

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Questions and Answers on the NER300 programme and the first call for proposals

1. What is NER300?

NER300 is the world's largest funding programme to support demonstration projects for Carbon Capture and Storage (CCS) and innovative technologies to tap renewable energy sources (RES). NER300 is so named because it will be funded from the sale of 300 million emission allowances held in the New Entrants Reserve (NER) of the EU Emissions Trading System (ETS).

2. What is NER300's purpose?

NER300 aims to encourage private sector investors and EU Member States to invest in commercial demonstration projects of environmentally safe capture and geological storage of CO_2 and innovative renewable energy technologies. NER300 will establish an EU-wide demonstration programme comprising the best possible projects using a wide range of technologies and involving all Member States.

3. How much money will be available to support projects?

Since NER300 will be funded by the sale (or 'monetisation') of 300 million emission allowances, the amount of money available for the demonstration projects will depend on the price at which the allowances are sold. At the current market price, the 300 million allowances would raise around € 4.5 billion.

4. How many calls for proposals will there be?

The selection of projects to be co-funded will take place through two calls for proposals. The first call, launched today, covers the equivalent of 200 million allowances. The second call will cover the equivalent of 100 million allowances together with any unused allowances from the first round. Having two rounds will allow the geographical and technical balance of the projects selected to be adjusted if necessary.

5. How many projects will be co-funded in each Member State?

Subject to suitable project proposals being put forward, at least one but no more than three projects will be funded in each Member State. This limit applies to CCS and renewables projects combined. Trans-boundary projects (see point 11 below) will not be included in the limit.

All EU Member States can participate in the first call for proposals. Projects must be located in the territories of the Member States, in their exclusive economic zones or on their continental shelves.

6. How many projects will be co-funded?

The intention is to co-fund at least eight CCS projects and at least 34 innovative renewable energy technology projects. The actual number to be co-funded will depend on the amount of money raised by the sale of the emission allowances. Should there be insufficient funds to cover all 42 projects, projects will be deleted from both groups while preserving the balance between them.

7. What types of projects will be eligible for co-funding?

At least three of the CCS projects to be selected for co-funding must involve carbon storage in hydrocarbon reservoirs, and at least three must store carbon in saline aquifers. There must also be a minimum of one project, and a maximum of three, in each of the following categories:

- Pre-combustion;
- Post combustion;
- Oxy-fuel;
- Industrial applications

Regarding renewable energy projects, the numbers of projects eligible for co-funding in each category (which are further divided into sub-categories representing the main technology fields within each category) are as follows:

- Bio-energy 9
- Concentrated solar power 5
- Solar photovoltaic 3
- Wind 6
- Geothermal 4
- Ocean (wave and tidal power, ocean thermal energy conversion) 3
- Hydro-electric 1
- Distributed renewables management (Smart Grids) 3

One project will be selected per sub-category.

8. Can funding from NER300 be combined with other funding mechanisms?

Yes. NER300 will fund up to 50% of the relevant costs (see questions 12 and 13) of projects. This funding can be combined with financing from other mechanisms such as the Structural and Cohesion Funds and the European Energy Programme for Recovery (EEPR). Member States can also co-finance projects, but this is not a requirement.

9. Will the funds available for project support vary between the first and second calls for proposals?

In each round, the funds available for project support will depend on how much is raised by the sale of the emission allowances.

10. Must each project be located in a single Member State?

No, a project can straddle national boundaries. Potential examples of trans-boundary projects would include the following:

An array of generation units, such as solar photovoltaic cells or wind turbines, located across a national boundary;

Transportation of CO_2 from generation plant to storage site which crosses boundaries either via pipelines, shipping or road/rail;

Storage reservoirs extending across a national boundary.

11. Which Member State will be responsible for trans-boundary projects?

The Member State receiving the funding application will contact the other Member State concerned to reach a common decision on whether to submit the project. Any award decision will be addressed to the Member State submitting the project, which will then also become responsible for implementation of the project.

12. What level of NER300 funding is available per project?

NER300 will cover 50% of the 'relevant costs' of the project (see next question) except where the project sponsor provides more than 50%, in which case the NER300 contribution will be reduced accordingly.

The amount of funding available to an individual project is limited to 15% of total NER300 funding to ensure that the programme as a whole covers all Member States and achieves the balance of technologies required.

13. What is meant by relevant costs?

Relevant costs are the extra investment costs borne by the project (such as investment in land, plant and equipment) to allow the application of the technology to be demonstrated, plus the net extra operating costs from applying the technology (i.e. the extra operating costs minus any operating benefits).

14. What is the impact of any national support schemes that are available?

Any additional benefits resulting from support schemes, such as feed-in tariffs for renewable energy, must be taken into account when calculating the relevant costs of the project even if they are not considered as State Aid. These benefits will be considered in the calculation of the net operating costs and benefits. The same is true of avoided costs, such as the avoided costs of surrendering EU ETS allowances, and existing tax incentive measures.

15. How and when will the projects be selected?

Based on the ranking described in the next question, the highest-ranked project in each RES sub-category will be selected. For CCS projects, the eight highest-ranked projects will be selected provided that the criteria mentioned at the start of point 7 above are met.

Should there be insufficient funds to cover all 42 projects (eight CCS and 34 RES), projects will be deleted from both groups while preserving the balance between them.

Where appropriate, Member States will be asked to confirm the value and structure of the total financing of the projects concerned, and any project for which confirmation is not forthcoming will be replaced by the next highest-ranked project.

The EU Climate Change Committee, made up of representatives from all 27 Member States, will be consulted on the final project list before the European Commission makes award decisions. The Commission aims to make these decisions in the second half of 2012. However, any change in the timetable of other actions on which

the award decisions depend, such as the sale of the allowances, may lead to the decisions being advanced or postponed.

16. How will projects be ranked?

Projects will be ranked in order of increasing cost-per-unit performance, i.e. the project with the lowest cost-per-unit performance will be ranked highest. CCS demonstration projects will be ranked as a single group. RES demonstration projects will be ranked within each of the sub-categories.

Cost-per-unit performance is a measure of how much public funding is requested per unit of CO_2 stored (for CCS), or of clean energy produced (in the case of RES).

Cost is calculated as the part of the project cost that is covered by public funding. This is not only co-funding from NER300, which is limited to 50% of the relevant costs, but also includes funding from any other public source, such as the EEPR or any Member State contribution.

Performance is the total projected amount of CO_2 stored in the first 10 years of operation for CCS demonstration projects, or the total projected amount of energy produced in the first five years of operation for RES projects. Cost-per-unit performance is the cost divided by the performance.[1]

17. How will funding be provided to projects?

Funding will be disbursed annually via the Member States based on the project performance, ie the amount of clean energy produced (for RES projects) and the amount of CO_2 stored (for CCS projects).

In recognition of the risks associated with such first-of-a-kind projects, only 75% of the projected performance need be achieved in order for the project to receive all the funding under the award decision. If less than 75% performance is achieved, the funding will be proportionally reduced.

Where the Member State guarantees that any funding not justified by performance will be returned, part or all of the funding can be disbursed 'up-front' – i.e. before the project enters into operation.

The Commission will determine disbursement schedules in the award decisions consistent with the availability of funds.

18. What happens if there is no suitable project in a particular category or sub-category?

If there is no suitable project in a particular renewables sub-category then no award will be made for that sub-category in the first call for proposals, but additional projects can be funded in the same category. Similarly, if there is no suitable project

[1] As an example, for a CCS project with relevant costs of €200 million (M) and a proposed operator contribution towards the relevant costs of €40M, the public contribution to the relevant costs would be €160M. Of this, €100M would come from NER300 (i.e. 50% of the relevant costs), and €60M would come from another source (e.g. investment aid from the Member State). If, in addition, the project receives income from a national support scheme (for instance an existing feed-in tariff) of €30M, this should be taken into account. Then the total cost covered by public funding would be: (200-40) + 30, or €190M. If the project proposed to store 500,000 tonnes of CO2/year for the first 10 years of operation, the performance would be 5 million tonnes. The cost-per-unit performance for this project would be €190M divided by 5 Mt, or €38 per tonne of CO_2 stored. If the operator contribution was increased to €80M, the cost-per-unit performance would be reduced to €30 per tonne of CO_2 stored, and the project's chance of being ranked higher would improve accordingly.

in a particular CCS category then no award will be made for that category, but additional projects can be funded in the CCS group. It is intended that any "gaps" in coverage will be addressed in the second call for proposals.

19. What implementation issues will be covered by the European Investment Bank?

The EIB has two broad tasks under NER300 programme:

- performing financial and technical due diligence assessments of the proposed projects including their ranking and making recommendations for award decisions according to the criteria in the NER300 Decision, and
- selling the 300 million allowances, managing the revenues and disbursing them to Member States.

The EIB has also assisted the Commission in preparing the calls for proposals. The Commission will prepare guidelines on how the EIB should conduct due diligence assessments (based on the EIB's own procedures).

20. What is the procedure for applying for NER300 funding?

Project sponsors will submit their application to the Member State on whose territory the project will be located. The Member State will assess whether the project meets the eligibility criteria. Where this is the case and the Member State supports the project, the Member State will submit the proposal to the EIB and inform the Commission. On behalf of the Commission, the EIB will perform a due diligence assessment of all proposed projects.

21. What will be covered by the due diligence assessment undertaken by the EIB?

The EIB will carry out an assessment of the financial and technical viability of a proposed and eligible project. The due diligence assessment will cover aspects such as the technical scope, costs, financing, implementation, operation, environmental impact and procurement procedures. Where a positive assessment is given, the EIB will make recommendations for award decisions to the Commission.

22. When will the 300 million allowances be sold?

The sale of the 300 million allowances is expected to be completed before 2013 when the third trading period of the EU ETS starts.

The EIB has to start sales within a month of the allowances being made available in a registry account. When further decisions on the sales channel(s) to be used and other details have been taken, and before the sales start, the EIB will publish further information. This will also cover the number of allowances to be sold in 2011 and 2012, respectively.

23. How will the allowances be sold and what are the principles to be observed by the EIB?

The EIB can sell the allowances through auctions, on an exchange, or 'over the counter' (i.e. transactions with one or more counterparties). Any auctions would have to make use of an auction platform compatible with the forthcoming EU ETS Auctioning Regulation (for further details see: http://ec.europa.eu/clima/policies/ets/auctioning_en.htm).

Certain principles governing the sale of the allowances have been agreed to ensure that the process is transparent and compatible with the smooth functioning of the European carbon market. Most importantly, the volumes and timing of sales will be determined with a view to minimising any impact on the secondary market in allowances. The EIB will sell the allowances by spreading the volumes as evenly as possible over the selling period. In addition to publishing the main elements of the sales method on its website, the EIB will also report on its website on a monthly basis.

24. At what price will the allowances be sold?

The EIB will sell the allowances with the objective of minimising any impact on the European carbon market. The Bank will ensure that sale prices do not deviate significantly from the relevant secondary market prices over the selling period.

See also IP/10/1476

Contact

Maria Kokkonen – Tel. +32.2/295.42.03 – mob. +32.498/95.42.03 – maria.kokkonen@ec.europa.eu

Lena De Visscher– Tel. +32.2/296.36.94 – mob. +32.498/96.36.94 – lena.devisscher@ec.europa.eu

Annex: Timelines for NER 300 first call for proposals

Deadline for submission of proposals by Project Sponsors to Member States: **9 February 2011**

Deadline for submission of proposals by Member States to the EIB: **9 May 2011**

Estimated timing for Commission award decisions: **second half 2012**