National Investment Scheme for Climate Projects Industry (NIKI)

Respond to consultation

Question 1 of 7

1. Do you intend to apply for this scheme? Can you give a brief description of your project and the size of the company?

A: We are exploring projects that could fit the scope of this scheme, targeting both projects on decarbonization, electrification as well as circularity.

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2. Do you see any obstacles in the scheme that prevent you from submitting a grant application?
   For example, in your explanatory notes, you can discuss:
   - Does your project fit in with the NIKI themes?
   - Does the NIKI scheme meet your subsidy needs?
   - Do you see bottlenecks for the financing of your project?
   - Are the mentioned deadlines for the final investment decision, start of the investment phase and start of operation feasible for your project?
   - Do you think you are able to apply the NIKI calculation method for your project?
   - why do you think that the method of calculating the discount rate (WACC) for your company leads to a value that is acceptable in the calculation of the subsidy requirement for your project?
   - Do you see problems in the collaboration with other parties that you need for the implementation of your project?

A:

The constraint of a first-time commercial implementation within the Netherlands will rule out a lot of projects with big impact applying known technologies. Electrification of equipment as such is not novel, but for good reasons existing processes may typically not have applied it. Now, in the light of future full decarbonization, this may be a first step in the decarbonization journey, realizing already big CO2 emission reductions. But due to this requirement, it will not fall in the scope of NIKI. The calculation method only awards CO2 reductions that go below ETS benchmark values. Thus, this NIKI program targets breakthrough technologies that go beyond todays most efficient processes and will not help improving/retrofitting existing processing units (innovation requirement). Starting the exploitation phase maximum 4 years after investment phase, might be a stretch in a cracker with long turn around cycles (6-8 years). Many project implementations need to take place during a turn around. It isn't very clear

difference between what a NIKI project and a NIKI product exactly is: is that an entire production unit or can this be applied to a processing step in a processing unit: e.g. a cracker versus a compressing unit. The first one will create final product that can be benchmarked, the second one only an intermediate. Availability of reference product values will be crucial. Otherwise, it will be a lot of work. It would be beneficial to have more clarity and potentially also flexibility around the timelines. First, the restriction of having RTO after 4 years of subsidy grant can be challenging to achieve for large scale, x00MM euro CAPEX projects, which this call is targeting. Secondly, it would be good to clarify explicitly how quickly a project needs to move to FID after grant approval. Between PID and FID there is an engineering phase which also includes ordering of long lead items (i.e. first capital commitment). So does the 6-month period apply to for instance ordering long lead items or FID? Having returns discounted at WACC per company is challenging for 2 reasons, a) it can create different discount rates for the same project at two different companies and b) typical investments require an IRR which contains a hurdle rate above WACC. Although we should acknowledge that it is not the intent of the NIKI to over-subsidize, it might be worth considering a fixed discount rate/IRR for all NIKI projects (for instance 10%), to also enable easier attraction of external capital for the project. It is unclear how partnerships can happen in the framework of NIKI. If certain technology parts of the NIKI projects are licensed in through a 3rd Party Build-Own-Operate, how would this work?

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3. Is it clear to you what requirements you need to meet in order to submit a grant application?

In your explanatory notes, you can discuss, for example:

- the conditions of the scheme

- the NIKI CO2 emission reduction calculation method

- the calculation method for the NIKI subsidy calculation

A:

The split between rigid inputs and elastic inputs is not clear. For circularity projects, it is not always clear or uniform what the current end-of-life treatment and application is (Landfill/ incineration with or without energy recovery etc.). Therefore, it is not clear how to treat end-of-life emissions with circularity projects or the upstream scope 3 emissions for circularity projects. Proposal

would be that circularity projects would have 0 scope 3 upstream and 0 end-of-life emissions, with emissions during waste-upgrading for quality purposes to be counted as scope 1 and 2 of the NIKI project. The way the CO2 emission reduction calculation is set up, this will artificially favour CCU projects on industrial CO2 that is now emitted to the air, as it gets a negative footprint at the input. This should not be the case, but just a 0 scope 3 upstream footprint. The CO2 saving vs the reference project will be clear from the emission factor of the reference projects. We should avoid negative footprints of reactants in the calculation methods. CCS should not be taken as an emission to atmosphere in the calculation method. To fully limit scope 1 and 2 emissions of for instance circularity projects, CCS on the residual emissions could be a very effective way to obtain high CO2 reduction across the value chain, counting CCS as an emission therefore makes it uncompetitive for advanced recycling methods (such as gasification-based methodologies) to apply. It is stated that products pricing needs to be substantiated, including anticipated premium for products sold through for instance offtake agreements. This is a chicken-egg problem, as it is challenging to have offtake agreements signed prior to taking FID. Also, there is a competitive concern that this might provide room to tweak the needed subsidy. It might be beneficial to not consider any premium to the product to put all subsidy requests on the same basis (Step 5). The difference between the required subsidy and requested subsidy is not entirely clear to us.

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4. The Netherlands Enterprise Agency (RVO) compiles a list of emission factors for specific reference products to make the CO2 calculation easier. Are there any reference products you would like to see on this list?

A: Yes, typical products in the chemical industry should be included, based on the average of NL or EU fleet. So, think of typical steam cracker products (Ethylene, propylene, Crude C4, BTX, etc.) as well as primary polyolefins and polymers such as polyethylene, polypropylene, PU, PET, PVC etc. Having references based on best-available technology (which is not necessarily used in EU/NL due to historic reasons) limits the real attainable CO2 reduction compared to the reference project, so an average number from EU/NL should be used.

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5. To what extent do you find the proposed scheme attractive and are you considering submitting a project under this scheme in 2024, or possibly at a later period?

   A: Given the amount of work for preparing the subsidy as well as the engineering and project work to get the project proposal to meet the NIKI specification, it is more likely that we would apply for the second round of NIKI (2026?)

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6. What do you consider to be a realistic period for announcing the subsidy scheme, and for the actual period between the publication/opening of the scheme and its closure?

A: Similar to European Innovation Fund, but maybe 6 months spread to allow for parties to spread the efforts across IF and NIKI. It would be beneficial to understand the multiyear plan and frequency of call occurrence to help with the planning (i.e. open every year from April – September for next 5 years).

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7. Do you see the regulatory burden within NIKI as an obstacle to submitting an application? If so, what do you think are the biggest obstacles within NIKI and can you indicate whether this is related to the size of your company?

   In your explanatory notes, you can discuss, for example:
   - The applicant's obligations at the time of application
   - The applicant's obligations during the grant period
   - The manual calculation method
   - The CO2 emission reduction method
   - The climate plan, including the underlying justification for determining the number of dispensation rights.

A: See main comments in other questions, however the pre-work for required for application such as the calculation of the CO2 reduction, calculation of the subsidy amount, the climate plan etc. does seem immense. One suggestion would be to have a two-stage application process so projects could be reviewed before full application needs to be submitted.