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OLJE- OG ENERGIDEPARTEMENT

The Royal Ministry of Petroleum and Energy

EFTA Surveillance Authority
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BELGIUM

Your ref
Case No: 62608
Event No: 448890

Our ref
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Subject: Test Centre Mongstad

**STATE AID – TEST CENTRE MONGSTAD – REPLY TO THE SECOND
INFORMATION REQUEST**

1 INTRODUCTION

1.1 Procedure

On *5 July 2007* the Norwegian Government (hereinafter the “Government”) submitted a state aid notification (hereinafter the “Notification”) to the EFTA Surveillance Authority (hereinafter the “Authority”) regarding the investment by the State in Test Centre Mongstad (hereinafter “TCM”). By letter dated *21 August 2007*, the Authority requested additional information (hereinafter the “First Information Request”), to which the Government replied by letter dated *18 September 2007* (hereinafter the “Reply to the First Information Request”). By letter dated *31 October 2007*, the Authority requested additional information regarding the planned investment by the State in TCM (hereinafter the “Second Information Request”). The current letter is a reply to the questions put forward by the Authority in its Second Information Request.

In addition to the above-mentioned correspondence, the Authority and the Government have met on several occasions to discuss the application of the state aid provisions to

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the investment in TCM, last in Oslo 26 November 2007.

In the following the Government will respond to the questions as set out by the Authority in the Second Information Request. By this response, the Government considers its notification on the application of Article 61 (1) EEA to be complete.

In the last meeting between representatives of the Authority and the Government on 26 November 2007, several issues were discussed regarding the application of Article 61 EEA to the investment in TCM. As expressed in the meeting, the Government will revert to the Authority shortly to provide the Authority with supplementary information related to the discussions in the meeting.

1.2 TCM in a policy context

The present Government entered office in October 2005. In its policy platform for the 4-year election period, the Government stated that *“the Government will, through economic measures and technology development, ensure that new concessions to gas-fired power plants shall be based on carbon capture management”*. Another important point of departure for the Government has been to contribute to carbon capture and storage (hereinafter “CCS”) as a means to mitigate climate change through the reduction of future CO₂ emissions.

On 4 July 2006, Statoil ASA applied for and received a licence according to the Energy Act for the building and operation of a combined heat and power plant (hereinafter the “CHP plant”) at Mongstad. The company had also applied to the environmental authorities for an emission permit, including emissions of CO₂ to air from the CHP plant. The Norwegian Pollution Control Authority (SFT) recommended to the Ministry of Environment that an emission permit should not be issued without a requirement for capturing of CO₂. Following the said policy signal from the new Government and the recommendation from the SFT, Statoil ASA stated that the planned CHP plant would not be built if a CO₂ capture plant were to be required. The cost and risks of CCS technologies were considered to be exorbitant and the technologies available were presently too immature to be considered for inclusion in such plant.

As it was recognized by the Government that the CHP plant would not be built if CO₂ capture were to be required by regulative measures. As the electricity to be produced by the plant was needed in Norway, the State entered into a negotiation with Statoil ASA in October 2006. The objective was to find a solution where Statoil ASA would accept to build the planned CHP plant at Mongstad with a capture plant tied in. As the time limit to order steel and other necessary equipment from relevant contractors would expire

medio October 2006, Statoil ASA was at this stage ready to shelf its plan to build the CHP plant.

Following a negotiation between Statoil ASA and the State, an Agreement was signed on 12 October 2006 between the State c/o the Ministry of Petroleum and Energy and Statoil ASA. This Agreement implies that the capture plant at Mongstad shall be built in two stages – the first a test centre where various CCS technologies shall be tested for the capture of 100.000 tons of CO₂ for a 5 year period (hereinafter “Test Centre Mongstad” or “TCM”), and subsequently the building of a full scale capture plant. The State agreed to invest up to 80 per cent of TCM, which is the subject matter of the present Notification. According to the said Agreement, the State has the right to invite other companies to participate in the TCM.

2. NOTIFICATION OF STEP I OF THE PROJECT AND NPV

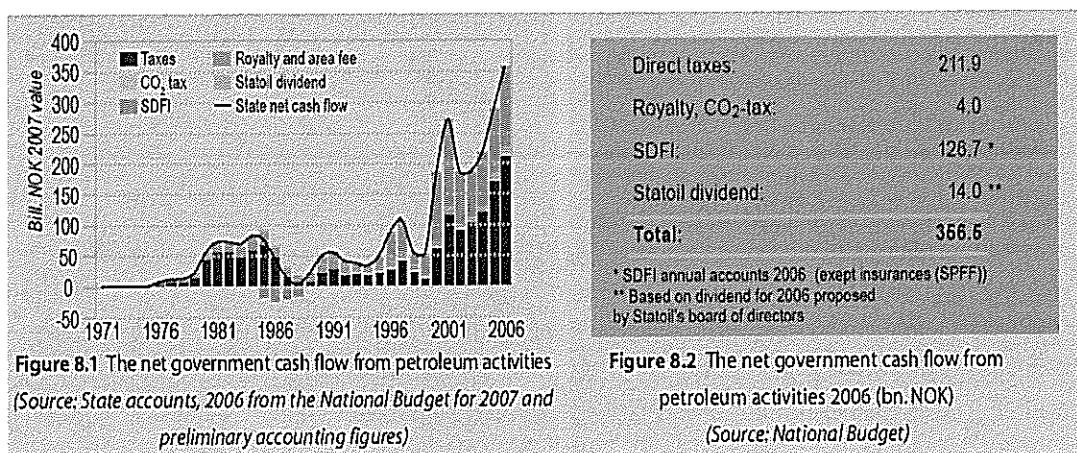
2.1 The business model¹

In this section the Government will elaborate on the business model applied for the State’s investment in Test Centre Mongstad, to substantiate the argument in the Notification with regard to the applicability of Article 61(1) EEA in this respect. The Government’s point of departure has been that future carbon regimes could impact the market availability and demand for oil and gas. It will be necessary for the Norwegian State to take measures that could secure its long term commercial interests as a producer of oil and gas, and this has prompted the State to embark upon the development and testing of CCS technologies.

The Norwegian State earns high revenues from the petroleum sector. In 2006, 36 per cent of State revenues originated from this sector. These revenues consist of the following elements: (1) Taxation of oil and gas activities, (2) Charges/fees, (3) Direct ownership in fields on the Norwegian Continental Shelf (hereinafter the “NCS”) (through the State Direct Financial Interest, (hereinafter the “SDFI”)) and (4) Dividends from ownership in StatoilHydro ASA.

The value of the remaining petroleum reserves on the NCS was estimated at NOK 3520 billion in the 2008 National Budget. The petroleum policies of the Government as public authority imply that the State as investor on the NCS may continue to retain substantial parts of future exploration and production, and thus continue to exploit the petroleum reserves on the NCS.

¹ By explaining the business model relating to TCM, the Government indirectly answers the question 1.2 as set out by the Authority. Thus, question 1.2 and 1.3 are answered together.



As the figure above illustrates, the SDFI constitutes an important source of revenue for the State. In 2006, the net cash flow from the producing fields in the SDFI portfolio amounted to NOK 126.7 billion. SDFI is an arrangement by which the State owns interests in a number of oil and gas fields, pipelines and onshore facilities. Through the SDFI, the State is one of the world's largest producers of fossil fuels. The State currently holds interests in 112 production licenses and 41 fields on the NCS and is by far the largest investor on the NCS.

When awarding petroleum production licenses in accordance with the EC Hydrocarbon Licensing Directive, the Government, after having considered all applications submitted, offers a limited number of private undertakings to form a joint venture under each production license, to carry out any possible field development and production of hydrocarbon resources. If the State decides to retain ownership in the license, the State becomes a party to the joint venture co-operation agreements.² The size of the direct participation by the State through the SDFI in each licence is decided at the time of award of the production licence. The size of the SDFI varies from field to field. As one of several owners, the State pays its share of investments and costs, and receives a corresponding share of the income derived from the production licence. Thus, the State participates and has a participating interest like the other participants in all activities carried out under and as a result of the joint venture, including any RD&I projects carried out through the joint venture.

The above clearly illustrates that the State as owner is heavily engaged in the oil and gas business in Norway and thus heavily exposed to all the current and future risk factors that are associated with the exploitation, production and marketing of oil and gas.

² The State ownership rights and obligations are handled by the state owned company Petoro AS.

According to Article 125 EEA, a neutral position is taken with regard to national property laws. Thus, in order to ensure the principle of neutrality, Article 61(1) EEA shall be interpreted such that undertakings are treated equally regardless of ownership, whether public or private.

When assessing the commercial rationale of the State as an investor in TCM, a wide discretion remains with the State when pursuing its commercial interests. The Government recalls Section 5(1) of the State Aid Guidelines on application of state aid provisions to public enterprises in the manufacturing sector, in which the Authority states that it is not the aim of the Authority to replace the investor's judgement and that the Authority realises that this analysis of risk requires public enterprises, like private enterprises, to exercise entrepreneurial skills, which by the very nature of the problem implies a wide margin of judgement on the part of the investor.

Further, in Section 5(2) of the State Aid Guidelines on application of state aid provisions to public enterprises in the manufacturing sector, the Authority holds that only where there are no objective grounds to reasonably expect that an investment gives an adequate rate of return that would be acceptable to a private investor in a comparable private enterprise operating under normal market conditions, is state aid involved.

Due to the SDFI, the State as investor on the NCS has similar commercial incentives and interests as other oil and gas producing private undertakings, to reduce its exposure and mitigate future risk factors in order to safeguard the long term value of its oil and gas resources. It is of vital importance for the commercial interests of the State as investor on the NCS that all measures relevant to securing the long-term value creation from its oil and gas portfolio and meeting future regulatory regimes, are commercially investigated and pursued. CCS is identified by the Government as a key measure in this respect.

In a future scenario where the competitiveness of fossil fuels on the world market were to be weakened by high and increased carbon costs, it is important for any commercial producer of fossil fuels to mitigate the negative effects on the value of the petroleum resources, by contributing to the development of technologies that will in turn contribute to reducing future carbon costs of his products.

The oil and gas business is an extremely technology driven business and requires both huge financial resources and technological skills. The Government focusses on the State's role as resource owner and its commercial interests through the SDFI, and not on expanding its interests into the technology supply market. Thus, it is not a commercial objective of the State to develop and own specific technologies for CCS, or to become the owner of intellectual property rights to such technologies. Accordingly,

the objective of the State's investments in TCM is to contribute to the development of a functioning CCS technology supply market, with the purpose of obtaining commercially and technically available CCS solutions for the State as petroleum owner and producer in the future. This investment is intended to safeguard the State's role as supplier of "green" fossil fuels in a long term perspective, and thereby also safeguard the continued competitiveness of oil and gas as energy bearers in the future.

The State's investment in TCM is a commercial approach for the producer to position himself to meet a future potentially high carbon cost regime in order to secure his continued ability to produce and market his products at competitive prices. However, producers may apply different strategies to achieve this objective. One common factor is nevertheless that most producers apply a portfolio approach for this positioning, implying that a producer will engage in various projects with different technology bases, maturity and variable chances of success of becoming commercially and technologically viable solutions. Some projects might be on the verge of becoming suitable for commercial deployment, implying that the project investments might be recollected in the near future, while the value of other projects might only lie in the learning effects for future projects or even in the goodwill effect for the products in the relevant markets.

Commercial operators regularly take on projects of both kinds, and the economic reasoning behind this portfolio approach is that all such development projects have an option value which, given the "right" evolution of factors such as, among others, regulatory regimes, product demand and investment costs, could materialise huge values in a future market.

Thus, like many private producers of fossil fuels, the State has engaged in CCS on the basis of the above objectives; securing long term value creation in a future likely high carbon cost regime. Within Europe, which is the most important export market for the State's oil and gas, the aim – as stated by the Commission in its energy policy communication of 10 January 2007 – is that all new coal-fired power plants should be fitted with CO₂ capture and storage by 2020. From 2030 this applies to all existing power generation as well. Such a policy approach from the European Union could clearly influence the relative competitiveness of fossil fuels, both in the medium and long term.

The availability of commercially viable carbon capture and storage solutions in such a regime could significantly influence the future demand for fossil fuels. Due to the fact that the development of full scale commercially viable CCS solutions is both time and resource intensive, and given its exposure towards the future competitiveness of its oil

and gas production, the State as owner considers it necessary to engage in CCS technology development in this early stage.

It is, i.e., with the purpose of mitigating this potential risk of reduced market availability and demand for oil and gas, and to secure its long term commercial interests that the State has decided to embark upon the development and testing of CCS technologies at TCM.

2.2 The Net Present Value of the investment in TCM

As stated on page 8 of the Reply to the First Information Request, the Government has engaged ECON Pöyry (hereinafter "ECON") as an independent expert to analyse the Net Present Value (hereinafter "NPV") of the investment by the State in TCM. Due to the high complexity of the case, the work has been time consuming. On 28 November 2007, ECON presented its report (hereinafter the "ECON Report") to the Government. Please find the ECON Report enclosed.

The main conclusions in the ECON Report are as follows;

"TCM is profitable for the Norwegian State

Given our expectation of fairly restrictive future climate policies, TCM is clearly profitable for the Norwegian State as a resource owner and investor on the Norwegian Continental Shelf (NCS).

The quantifiable costs and benefits included in this report are as follows:

Costs:

- *The cost of TCM.* Based on preliminary data, the cost figure for the Norwegian State's share of TCM used in this report (80 per cent) gives a cost estimate in terms of NPV in the range 1060–1900 million NOK.

Benefits:

- *The impact of lower CCS costs on the European gas prices.* Higher CO₂ costs could influence the market value of oil and gas. Lower carbon capture costs of gas could impact the future gas price. In a situation where CCS for gas power were to become mandatory, lowered CCS costs will reduce the cost of power based on natural gas and thus increase the value of gas. This option value of TCM could be several times the investment in TCM. The break-even cost represents significantly less than one per cent of the SDFI portfolio. This cost can be considered as a moderate "insurance premium.
- *Cost savings at the full-scale carbon capture plant at Mongstad.* A major part of the cost of investing and operating the test centre will be paid back by the expected cost savings for the full-scale carbon capture plant at Mongstad. Some of these effects would likely materialize before the test period at TCM is over. The NPV range is calculated to

NOK 900–1810 million, which constitutes more than 90 per cent of the preliminary cost figure for the test centre.

- *Cost savings at other full-scale capture plants in which the Norwegian State may invest as part of developing petroleum resources.* In a scenario where CCS is required in land-based power plants supplying electricity to oil and gas producing fields on the NCS, the technological benefits of TCM could be further deployed in other full-scale capture plants. These benefits may then in turn contribute to lowering the future cost of producing and transporting oil and gas from the NCS. The NPV effect related to cost savings at one additional full-scale CCS plant (100 percent State ownership) is estimated at NOK 725–1450 million. The NPV effect is reduced to NOK 250–500 million if the state participation reflects the SDFI's part of the total remaining reserves on the Norwegian Continental Shelf.
- *CO₂ for EOR.* Reduced costs of carbon capture technologies resulting from TCM could be a catalyst for an early development of a CO₂ infrastructure offshore in North-Western Europe. This could in turn make CO₂ injection for EOR more likely. Today there are no official plans for utilizing CO₂ for EOR, and some oil fields could reach maturity before CO₂ will be accessible. Higher oil prices and a development of CO₂ infrastructure may, however, improve the prospects for EOR investments in new field developments. The NPV of CO₂-based EOR projects in new fields may, given the right assumptions, amount to several NOK billions.

The results of the calculations underline that the distribution of benefits and costs is somewhat asymmetrical, which is typical of an innovative technology project such as TCM. In this perspective, TCM functions as an option for a private investor faced with huge uncertainties regarding policy, technology, and market conditions.

An additional positive indication of the project's economic viability is that TCM is not a unique venture. An international survey shows that other commercial actors are also engaged in similar technology projects with the purpose of developing CCS technology with a commercial motivation."

Consequently, as the ECON Report demonstrates, the investment by the State in TCM is commercially profitable for the State.

3. ASSESSMENT OF THE STATE'S PARTICIPATION IN TCM ACCORDING TO THE MARKET ECONOMY INVESTOR PRINCIPLE

The Government notes that given the particulars of the case and the Government's intention to involve other parties in TCM STEP I, the Competition and State Aid Directorate of the Authority considers it preferable to assess the notification once the participation of the other investors is known.

As set out in section 1.2 of the notification: "*Based on an agreement entered into between the Norwegian State and Statoil ASA (hereinafter "Statoil") on 12 October 2006*

(hereinafter the "Implementation Agreement"), the ownership interest of the Norwegian State in the Company will be 80 percent. It is this ownership interest which is subject to the present notification. (...)".

Thus, the Government recalls that the subject matter of the present notification and the NPV model as set out in Section 1.3 above is the 80 per cent ownership interest by the State in TCM. Further, the Government also recalls that any additional participants in TCM would result in a decreased ownership interest on the hand of the State.

Thus, for the purpose of a state aid assessment related to the subject matter of the present notification, the Government does not see the need to await the Project Sanction in TCM in order to decide on the application of, or the compatibility with the functioning of the EEA on the investment in TCM. Thus, the Government kindly requests the Authority to merely undertake a state aid assessment on the merits of the notification as such, namely the 80 per cent investment by the State.

4. STATOIL'S CO₂ EMISSION PERMIT

4.1 Will the emission permit for the Combined Heat and Power plant be transferred?

Under the Norwegian Pollution Control Act, emission permits are granted to the activity which causes pollution. Thus, a new operator of the plant has to act in accordance with the emission permit given. In other words, it is not possible to avoid existing obligations by transferring a plant to a new operator. Usually, when a plant is transferred to a new operator, the Norwegian Pollution Control Authority amends names in the emission permit without a new substantive discussion.

Statoil has been granted a permit which covers emissions from all the activities on the industrial site at Mongstad, including emissions from the NGL processing plant, the oil refinery and the CHP plant. Even though DONG Energy will own, build and operate the CHP plant, Statoil is the topmost operator of all the activities on the site. Thus, the emissions permit will not be transferred to DONG Energy. DONG Energy nevertheless has to act in accordance with the emission permit.

The Pollution Control Authority sees it as beneficial to gather sources at the same site in the one emission permit. Therefore Statoil has been given the emission permit for all activities at the Mongstad site. In the opinion of the Government, a joint emission permit for all activities at Mongstad will not imply any state aid issues.

4.2 Will TCM need an emission permit?

The TCM will not only need an emission permit pursuant to the Pollution Control Act for the residual CO₂ emissions, but also for noise and emissions of cooling water, amines and other pollutants. The TCM will have to apply for such emission permit. An application for the emission permit will be submitted after the Project Sanction in TCM.

In section 5.2 below, the Government has set out its views on the possible inclusion of CCS in the Emission Trading Scheme. If CCS facilities are opted in, legal consequences for the emission permit for TCM will have to be considered. The Commission of the European Communities has informally signalled its view that the polluter and the CCS facility should be treated as an integrated unit.

5. NO ADVANTAGE IN FAVOUR OF THE OWNER OF THE COMBINED HEAT AND POWER PLANT

5.1 Alternative cost approach implies no spill-over effects to the CHP plant from the investment in TCM

In order to respond the questions from the Authority regarding whether the owner of the Combined Heat and Power plant (hereinafter the “CHP plant”) receives an advantage within the meaning of Article 61(1) EEA, the Government considers it necessary to consign the alternative cost approach into a proper context.

With the purpose of safeguarding that the owner of the CHP plant does not receive an advantage within the meaning of Article 61(1) EEA from the State investment in TCM , and further fulfils the Polluter Pays Principle (hereinafter the “PPP”), the principal submission by the Government is the alternative cost approach. The alternative cost approach implies that TCM is remunerated by the CHP plant for the provision of carbon capture services. The remuneration equals the alternative cost incurred by the CHP plant for its CO₂ emissions under the ETS.

Whereas the Project Sanction in TCM is pending, the TCM has not entered into any agreement with DONG as owner of the CHP plant with the purpose of establishing a remuneration mechanism for the provision of the carbon capture services. However, the Government asserts the Authority that the remuneration for the carbon capture services shall equal the market based alternative cost of emitting the CO₂ into the atmosphere, namely the cost of CO₂ quotas under the ETS. In order to ensure the Authority that the envisaged remuneration mechanism is functioning upon the start up of the TCM, the Government is willing to discuss an appropriate reporting mechanism with the Authority.

To the extent the Authority does not agree to the alternative cost approach as an appropriate mechanism to safeguard spill-over effects from TCM to the CHP plant and at the same time fulfilling the PPP, the Government is of the opinion that the extra cost compensation approach is applicable. The extra cost compensation approach implies that no advantage within the meaning of Article 61(1) EEA is granted to the owner of the CHP plant, in that the extra cost of carbon capture is imposed upon the owner of the CHP plant. The extra cost equals the difference between the excessive abatement cost (CAPEX + OPEX) of the carbon capture and the lower cost of emitting CO₂ in the ETS.

The Government is in the final stages of defining the detailed framework for the allocation of the new entrant reserve for 2008-2012 for gas fired power plants based on CCS and highly efficient CHPs, from which the CHP at Mongstad could apply for allowances. In the period 2008-2012, the only possibility that TCM could receive benefits from any allocation of allowances, would be if the CCS facilities were included in the trading scheme through the process of opt-in described under Article 24 of the Emissions trading directive, and provided that no adjustment of the allocation of the allowances is done in the opt-in process. Such a situation could only arise if the Norwegian State decided to send an opt-in application to the Authority without revoking the permit and the allocation, and the Authority were to approve it without changes. Without the approval of ESA, such a beneficial situation can not occur. If the CCS facility is not opted in, the CHP would have to surrender allowances as if no CCS process had been in place, and no benefits from the CCS would be achieved through the ETS. There is so far no precedent as to how CCS installations could be included in the EU ETS, including the legal aspects, and how it would affect the allocation. It is therefore premature to describe the process in detail.

The role of CCS in the post 2012 ETS is an issue for the revision of the EU emissions trading regime. The opt-in procedure is also described in chapter 5.2. *[In any case, the volume of CO₂ from CCS activities related to TCM would be limited to 100 000 tonnes/year, which at present represents a value of about 230 000 Euros/year.]*

5.2 Carbon capture – political background and relation to the Emission Trading Scheme

The current Government's political platform from 2005 states that *"the Government will, through economic measures and technology development, ensure that new concessions to gas-fired power plants shall be based on carbon capture management"*. Thus, the Government will cooperate closely with industry to facilitate the achievement of this aim. With a combination of strong emission standards and financial support, the Government is over the coming years determined to develop CCS technologies which can be deployed world wide at an affordable cost.

The Government acting as regulator has, however, not taken a decision as to whether future permits “based on carbon capture management” would imply that the operator of the power plant would have to bear all costs to install CCS technology. Possible financial support from the Government as public authority or participation as owner will have to be decided on an ad-hoc basis depending on, among others, whether CCS technologies are commercially available. If such state participation takes place in the future, the Government will take due account of its obligations under the EEA Agreement.

The Government is in the final stages of defining the detailed framework for allocation from the new entrant reserve for gas fired power plants based on CCS and highly efficient CHPs, in accordance with paragraph seven of the Emission Trading Act, from which the CHP at Mongstad could apply for allowances.

On the issue of including the CCS facility in the ETS, we refer to the below and the principle of alternative cost in the Agreement between Statoil ASA and the State c/o Ministry of Petroleum and Energy of 12 October 2006.

With respect to the Emission Trading Scheme, it has not yet been decided whether CCS facilities (capture, transport and storage) should be opted into the emissions trading scheme for 2008-2012 and, if they are opted in, how this opt-in should be undertaken. Unless CCS facilities are included in the emissions trading scheme, the operator of a power plant with CCS technology cannot subtract safely stored CO₂ from its duty to surrender allowances. Until CCS facilities are included in the ETS, the operator of a power plant with CCS technologies would be required to surrender allowances equalling CO₂ emissions from energy production whether captured CO₂ is safely deposited or not. When capture facilities are included, CO₂ captured and stored will be credited as not emitted under the emissions trading scheme.

The issue of opt-in of CCS facilities is addressed in preambular paragraph eleven of the EEA Joint Committee Decision of 26th October 2007 on inclusion after Emission trading directive in EEA agreement.

Opt-in of CCS facilities in the emissions trading scheme would require an application to the EFTA Surveillance Authority. The application would need to describe how captured CO₂ would be dealt with under the Emissions Trading Act. Detailed monitoring and reporting requirements would have to be developed. Reliable monitoring and reporting is necessary to ensure that stored CO₂ remains safely stored, and to calculate the net emissions from the power plant. Safely deposited CO₂ may be subtracted from the duty to surrender allowances, and reliable monitoring and reporting is necessary i.a. for calculating how many allowances should be surrendered.

Regulating the inclusion of CCS facilities in the emissions trading scheme is both an issue in several EU Member States and in the Commission. As yet, no detailed legal framework covering opt-in of CCS activities in the emissions trading scheme has been presented. The Commission is expected to issue a draft directive regulating CCS activities in January 2008. As yet, no applications to opt-in CCS facilities have been filed. Consequently, the issue of how to include CCS facilities in the emissions trading scheme has not yet been resolved.

6. TECHNOLOGY SUPPLIER

6.1 The State acting as a private market investor

The Government is asked to clarify *“since Alstom had signed an agreement with Statoil on commercial terms before the State participation was decided upon, the question arises, why was the notified Step I of the project not continued on this basis instead of involving the State”*.

As mentioned above, the oil and gas business is an extremely technology driven business. It is normal industry practice within the oil and gas business, as in many similar lines of business, that technology users engage in joint ventures together with technology suppliers in order to develop technology solutions that could be deployed in specific projects or in the business as a whole. There are a vast number of examples of such symbiotic co-operation between technology users and technology suppliers in the international oil and gas business.

According to the normal industry practice, this symbiosis is demonstrated by the fact that the technology users are providing a.o. financing and operational input whilst the technology suppliers provide know-how, intellectual property rights (typically patent rights) and technological skills.

Oil and gas producers as technology users do not regularly have any interest in owning intellectual property rights to technology applied in their business. They are focusing on improvements to cost effectiveness of producing, marketing and selling their oil and gas. Thus, the normal output to be gained for the technology users from such co-operation with technology suppliers, is rights of use to newly developed technology.

In this particular case, the agreement with Alstom is important due to the fact that Alstom holds patent rights to the technology that seemed most likely to be applied for the capture plant.

As explained on pages 12-13 of the Notification the State will seek to maximise the value creation from its petroleum activities, including the SDFI. Thus, the Government

considered TCM as a profitable investment, as this would contribute to the maximisation of its commercial revenues from its petroleum activities.

6.2 Procurement procedure for selection of additional vendors

The procurement procedure that will be applied for selection of other technology suppliers is carried out in accordance with Norwegian public procurement regulation, which implements the EU Public Procurement Directives. Thus, the procedure is based on competition between qualified technology suppliers.

A qualification process has been carried out in which 12 technology suppliers were invited to qualify on the basis of pre-defined, transparent, objective and non-discriminatory criteria. Four of these companies are considered to be qualified for further participation, and have been notified of this.

The final contract award will be made subsequent to negotiations and front-end engineering and design, pending investment decision in TCM.

7. TRANSPORTATION/STORAGE

The Government notes that the Authority is of the opinion that it *“would need information on how the Government envisages how transportation and storage solutions would be before it can consider the notification complete.”*

The Government will in due course inform – and notify, as appropriate – the Authority of the final organisational, technical and financial structure of the transport and storage solution, which has not yet been decided.

The Government recalls, however, that the present notification relates merely to the TCM as such and not to the transport and storage solution of the captured CO₂. The rationale behind this way of separating the issues between, on the one hand the TCM and on the other the transport and storage solution is the mere fact that the latter is not a part of the technology development project on TCM as such, and has therefore not been notified to the Authority. Consequently, the Government is of the opinion that the transport and storage solution is not relevant for the NPV calculation of the investment in TCM as such.

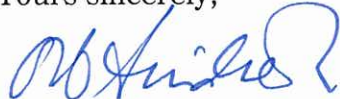
8. MISCELLANEOUS

(1) Regarding the application of the R&D&I State Aid Guidelines, the Government notes the question by the Authority in which it questions why the notified measure is not considered as an R&D&I project within the State Aid Guidelines.

The reasoning of the Government in this respect is that the aid intensity under the R&D&I State Aid Guidelines is limited to a level which likely is below what is considered necessary for the notified State investment in TCM. Further, as stated in the notification the investment in TCM pursues combined objectives, namely environmental protection and R&D&I. Consequently, whereas the investment pursues different objectives, the Government found it appropriate to notify the investment with its legal basis directly in Article 61(3)b and 61(3)c EEA. Importantly, if the Authority is of the opinion that the notified measure can, without opening the formal investigation procedure be found compatible as notified with the EEA Agreement using the R&D&I State Aid Guidelines, the Government will, if necessary, certainly amend the notification. Thus, the Government kindly invites the Authority to comment on the application of the R&D&I Guidelines to the notified measure.

(2) Regarding the opposition right the Government notes that the Authority still has concerns. However, the Government has no additional comments than those set out in the Reply to the First Information Request.

Yours sincerely,



Ole Anders Lindseth
Director General



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