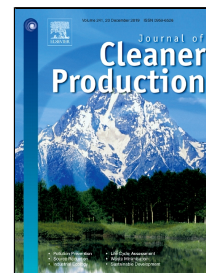


Journal Pre-proof

Getting Ready for Carbon Capture and Storage in the Iron and Steel Sector in China: Assessing the Value of Capture Readiness



Hui Ding, Heran Zheng, Xi Liang, Lihua Ren

PII: S0959-6526(19)33823-5
DOI: <https://doi.org/10.1016/j.jclepro.2019.118953>
Reference: JCLP 118953

To appear in: *Journal of Cleaner Production*

Received Date: 05 August 2019
Accepted Date: 18 October 2019

Please cite this article as: Hui Ding, Heran Zheng, Xi Liang, Lihua Ren, Getting Ready for Carbon Capture and Storage in the Iron and Steel Sector in China: Assessing the Value of Capture Readiness, *Journal of Cleaner Production* (2019), <https://doi.org/10.1016/j.jclepro.2019.118953>

This is a PDF file of an article that has undergone enhancements after acceptance, such as the addition of a cover page and metadata, and formatting for readability, but it is not yet the definitive version of record. This version will undergo additional copyediting, typesetting and review before it is published in its final form, but we are providing this version to give early visibility of the article. Please note that, during the production process, errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

© 2019 Published by Elsevier.

Getting Ready for Carbon Capture and Storage in the Iron and Steel Sector in China: Assessing the Value of Capture Readiness

Hui Ding¹, Heran Zheng², Xi Liang^{3,4,*}, Lihua Ren⁴,

1. School of Public Affairs, University of Science and Technology of China, Hefei, China
2. Water Security Centre, School of International Development, University of East Anglia, Norwich, UK
3. University of Edinburgh Business School, 29 Buccleuch Place, Edinburgh EH8 9JS, UK
4. UK-China (Guangdong) CCUS Centre, Guangzhou, China

Acknowledgement

Thanks to proof reading and advice by Francisco Ascui and Liu Muxin at the University of Edinburgh. Ren Lihua appreciates the financial support of BHP for research on the technical requirement for capture readiness design, as the output of technical design founds the basis for this economic analysis.

Abstract

China's steel sector, contributing 40% of world steel production, are moving the plants out of highly-populated areas in China. Carbon capture and storage (CCS) is an important technology to achieve a deep reduction of emissions in steel plants. Given by high cost and lack of policy incentive in deploying the CCS process, there has been a lack of progress in CCS within the steel sector in China. Capture readiness is a design concept to ease future CCS retrofit and avoid the carbon lock-in effect in steel plants. Capture Readiness design requires moderate upfront investment, i.e. less than 0.5% additional capital expenditure, but could easily enable the plant to be retrofitted with CCS technologies in their lifetime. The paper develops a novel linear programming model to assess the economic cost of Capture Readiness design in a generic steel plant in China. The Baowu Steel Zhanjiang project was used as a reference plant to develop the generic steel plant for the model. Through a Monte Carlo simulation, the results show that the economic cost of making new steel plants in capture readiness for 0.5 million tonnes capture is CNY 65 million (USD 9.5 million) in a conservative 5% carbon price growth rate scenario. The paper found the value of flexibility brought by capture readiness design is significant and is equal to approximately 15% of initial capital investment. The economically viable chance of retrofitting steel plants with CCS technologies in the lifetime is 49%. In an uncertainty analysis, for a 6% growth rate of carbon price, the option value could be increased to CNY 145 million while the probability of retrofit increases to 79%. China's CCS policy should consider a requirement for newly built steel plants to adopt capture readiness design to capture the significant economic value and ease emissions reduction in the iron and steel sector in the long term.

Key Words: Capture Readiness, Steel, CCS, China, Real Option

Highlights

- This is the first study investigating CCS readiness in the iron and steel sector
- Capture readiness steel plant can ease retrofit processes with carbon capture and storage in a plant's lifetime
- The paper proposes the key criteria for designing a CCS readiness steel plant
- A novel model is developed in assessing the value of capture readiness
- The retrofit option value of a steel plant is significantly higher than the estimated additional cost for making a steel plant CCS readiness

1. Introduction

Climate change has become a global challenge, and how to mitigate greenhouse gas emissions from industrial system is the key question. The Paris Agreement in 2015 established an global action plan to mitigate climate change to limit global warming in the long-term to well below 2°C compared to pre-industrial levels, and to pursue best efforts to limit increased warming to 1.5°C [UNFCCC, 2015]. The 2°C target represents that global emissions must be reduced per capita from 7tCO₂ per annum to 4tCO₂ in 2030, and 2tCO₂ in 2050 (ADB, 2015). IEA (2017) suggests that CCS (Carbon Capture and Storage, also called “Carbon Capture Utilisation and Storage, CCUS”) could contribute 14% of greenhouse gas emission reductions between 2010 and 2050 for the 2 degrees scenario (2DS) and 32% for the beyond 2 degrees scenario (B2DS).

China has been a major contributor to the world’s climate mitigation process. In 2016, the estimated emissions from fossil fuels in China was estimated to be equivalent to approximately 1% of the remaining carbon budget (Janssens-Maenhout et al, 2017). China’s Intended Nationally Determined Contribution (INDC) to the Paris Agreement includes targets for carbon dioxide emissions to peak by around 2030 (with best efforts to peak earlier), to lower carbon dioxide emissions per unit of GDP by 60–65% from 2005 levels by 2030, and to increase the share of non-fossil fuels in primary energy consumption to around 20% by 2030 (NDRC, 2015a). The INDC outlines a portfolio of low-carbon technologies and mechanisms to reduce greenhouse gas emissions, including setting up a national carbon market. Furthermore,

CCS has been emphasized as a key technology to help achieve emission reduction target in a large number of government’s policy documents in China (NDRC, 2015b). The Chinese government has 10 years of experience in supporting CCS research, development and demonstration through various policy mechanisms (appendix 1). With moderate policy incentive support, CCS could be an economic viable approach that contributes to 20% of greenhouse gas emissions in China in 2030 (Chen et al, 2016). Current applications of carbon capture projects in China primarily used amine base post-combustion capture technologies for low concentration sources (such as flue gases in the power sector, steel sector, cement sector) and pressurized swing absorption (PSA) for high purity CO₂ sources (such as coal gasification, gas reforming plants). The cost of separating CO₂ from low concentration sources is still much

higher than carbon allowance prices in China's pilot carbon markets. Energy penalty is also a major barrier for deploying CCS at large-scale in China (Liang and Reiner, 2013). Providing above challenges, even though CCS has a crucial role in mitigating climate change, the technology has not been fully understood by stakeholders (Wennerstern et al, 2015).

Although the iron/steel industry has become a mitigation target in the past decade, it is still one of the most energy-intensive and carbon-intensive industries, as only fossil fuel consumption can provide efficient and affordable energy for the iron- and steel-making processes. The consequence of the amount of fossil fuel consumption is emitting a significant amount of CO₂ into the atmosphere (Quader et al, 2015). The iron/steel industry contributes approximately 22% of total industrial energy use and 31% industrial direct emissions in 2012 (IEA, 2015). CCS is a key technology that could decarbonize the iron and steel sector while CCS with biomass could potentially contribute to develop a carbon neutral iron and steel sector (Mandova et al, 2019).

China's steel sector contributed 44% of global crude steel production in 2015 (World Steel Association, 2016). Although the production of crude steel in China has been reduced in recent years, there is a likely long-term growth of global crude steel production. The EU Commission's Low Carbon Roadmap anticipates a global emission intensity of no more than 0.2 tCO₂ per tonne of crude steel by the end of 2050, compared to the EU's current level of above 1.3 tCO₂ per tonne crude steel, and China's average of 2.18 tCO₂ per tonne in 2014 (Zou et al, 2013). The Roadmap suggests CCS is a key technology to meet a more ambitious emission reduction target in the iron/steel sector.

Even though China has been the largest crude steel producer since 2003, there are no CCS pilot or demonstration projects in the steel sector at present. The steel sector generally don't acknowledge the need to achieve a deep cut of emissions. There was not yet any major research for assessing how steel plants could achieve a deep cut of greenhouse gas emissions until 2016. In the absence of the pilot and demonstration projects in the steel sector in China, the Asian Development Bank (ADB) suggested that new steel plants in China should consider a CCS readiness design (ADB, 2014). Capture readiness (also called 'CCS Readiness') is a design concept to build a new plants with engineering consideration for retrofitting to carbon capture and storage in the future. The most important benefit of the capture readiness design is

to avoid the risk of ‘carbon lock-in’ effect. The capture readiness design will also benefit steel companies by offering more flexibility in reducing carbon emissions over the lifetime of a steel plant. In order to understand the benefits, the paper makes a techno-economic assessment of CO₂ capture technologies at a hypothetical Chinese new-build steel plant. A steel plant built today could operate for 25 to 40 years, therefore, establishing carbon capture and storage readiness (CCSR) at steel plants can be a low-cost technical approach to ensuring steel plants could have the opportunity to be retrofitted with CCS to achieve significant cuts in greenhouse gas emissions in the future. This study is the first paper investigating CCS readiness in the iron and steel sector. The paper develops a novel linear programming model for assessing the option value of CCS readiness of steel plants in China. The study and the model could be a reference for policymakers and industry stakeholders in considering design options for building new steel plants in China.

2. Literature review

CCS is a process to reduce greenhouse gas emissions from major stationary emission sources, such as thermal power, refinery, cement and iron and steel sectors. The primary benefit of deploy CCS technologies is to reduce greenhouse gas emissions. Some CCS projects could utilise CO₂ for industry purpose (such as enhanced oil recovery) which could have a side benefit financially. Given high cost and the energy penalty in the CCS process, the technology has not yet been widely deployed in China. However, as IEA (2017) estimated the role of CCS is essential for climate mitigation in the next 3 decades.

The initial consideration for capture readiness design was to ease carbon capture retrofit and avoid the ‘carbon lock-in’ effect. Gibbins (2004) defined capture readiness as a ‘plant designed to have CO₂ capture added at some time in the future with minimal impact on lifetime economic performance’. In the meantime, the physical space is another essential element in any capture readiness proposal to coordinate the additional capture facilities. The concept was further developed in the subsequent years (Gibbins et al, 2006) and is applicable in any kind of capture technologies, both post-combustion capture and pre-combustion capture processes. In

December 2004, the US environmental group Natural Resources Defense Council (NRDC)'s emphasized that 'the development of capture readiness in China for coal gasification based poly-generation' (co-production of electricity and chemicals) listed as one of their national initiatives in its China Clean Energy Project (NRDC, 2004). Wilson and Gibbins (2005) enriched the concept of 'capture readiness' in 2005, especially suggesting that the existing carbon capture plants have to be designed as a capture readiness plant and with proven- and socially- acceptable CO₂ storage options.

Capture readiness should not be restricted to capture technologies alone, it must be viewed as an integrated technology which also includes CO₂ transportation and storage. For example, plant siting should consider the distance between the plant and the storage site in order to lower the cost of transportation. For newly-built plants, a spectrum of investments and design decisions would be required to be undertaken by the plant owner during the design and construction stages of the plant (Bohm et al, 2007).

The Global CCS Institute (GCCSI) (2010) with support from ICF Consulting further developed the capture readiness concept and promoted CCS readiness as an extended definition of capture readiness with more consideration of storage and transport readiness. Capture readiness was adopted by the UK Government in the revision of the Electricity Act 1989. The concept was brought to China in 2006 through stakeholder consultations in the Chinese Advance Power Plant Carbon Capture Option (CAPPCCO) project (Li et al, 2012) and an option value concept was introduced by Liang et al (2009) for a hypothetical case study of a power plant in China to enable stakeholders to understand the intrinsic value of making a new plant capture-ready.

The concept of capture readiness was also promoted by multilateral banks in China, and the ADB (2014) made a recommendation for capture-ready plants' design in 2014. The Chinese industry incorporated the capture readiness concept in the 2014 feasibility study of China Resources Power Haifeng Project's Units 3 & 4 coal-fired power plant (GDCCUSC, 2014). However, there was no study explicitly focus on making new steel plants in a CCS readiness design.

In summary, the concept of capture readiness has evolved over time, from a narrow appreciation

of the basic physical requirements for future retrofit of capture technologies, to a broader understanding of the need to anticipate and support a variety of future CCS-related needs. The concept should not be restricted to ‘capture’ alone; a CCS project should be regarded as an integrated plant across the full chain of capture, transportation and storage. Accordingly, plant siting should consider the distance between the plant and the storage site in order to lower the cost of transportation. Consideration of reuse existing infrastructure could also lower the cost of retrofit to CCS (Li et al, 2019 Alcade et al, 2019).

3. Methodology

This study is the first to provide a techno-economic assessment of a hypothetical first-of-its-kind (FOAK) CCS project at commercial scale in a newly-built modern Chinese steel production plant. The simulation assumes the use of amine technology to capture the relatively-high concentration CO₂ emissions from the iron-making process. The steam and electricity used for operating the CCS project is assumed to come from an on-site supercritical coal-fired power plant. Advanced System for Process Engineering (ASPEN) was used to simulate the technical process, combined with a financial model developed by the authors.

Amine-based scrubbing technologies have been applied in CO₂ capture in many industries for many years, such as coal-fired power plants, refinery plants, coal-chemical plants, etc. New types of amines are still being developed and commercially-available amines include some proprietary amines developed by technology providers, as well as conventional amines with open access, such as MEA and MDEA, which are the earliest and most common amine family members used in CO₂ separation processes. Compared with MEA, proprietary solvents generally have lower regeneration heat duties and higher CO₂ absorption capacities. In general, the CCR requirements of future new types of amine should not be greater than those of current conventional amines. This study will therefore focus on assessing the carbon capture readiness requirements associated with using a generic amine solvent (30 wt% MEA) as the base-case scenario (Abadie and Chamorro, 2008; Junginger, 2010).

The study uses ASPEN software to perform process simulation, which is then used to develop

a conceptual design for CCR requirements. ASPEN Plus is a proven chemical process simulation software that has been widely applied for R&D, design of large chemical systems, and production operation optimization of the whole chemical plant. As a powerful engineering design tool, ASPEN Plus can provide engineering design parameters, chemicals consumption and utility requirements. The estimation of the operation cost can be performed based on the outcome of the ASPEN Plus simulation, as a starting point for further technical and economic analyses.

The economics of retrofitting flexibility in a steel plant is a real option problem, because a deterministic net present value may fail to capture the option value of retrofitting involved in the sequential decision-making at each year (Liang et al, 2009). Therefore, the paper applies a real option approach (ROA) with a linear programming model to value the retrofitting option in the steel plant. For economic modelling, the paper applies Excel with and @risk simulation programme with 100,000 trials to estimate the option value of Capture Readiness design.

3.1 Simulation Sample and Assumptions

The study assesses the economics of CCS from a generic crude steel production plant with blast furnace (BF) route, applying the process and financial assumptions of the Baowu Steel Zhanjiang plant (BSZ) in Guangdong, China, as a case study example (Baowu Steel, 2016; Liang et al, 2018). We assume the plant aims to capture 0.5 MtCO₂/year by using a mature amine CO₂ capture technology for a newly-built steel plant in 2022.

The BSZ is one of the most design-advanced steel plants in China, with a compact layout, an integrated waste metal recycling unit and a pollution control unit. It is located at Donghai Island in Zhanjiang City, in the west of Guangdong province, and covers an area of 12.98 km². The plant is co-located with the site of the SINOPEC-Kuwait project, a major petrochemical complex at its development stage. Construction of the BSZ reference plant was completed in July 2016. The total capital investment was CNY 50 billion (USD 7.1 billion). The plant, which has a production capacity of 9.38 million tonnes of steel per year (4.48 million tonnes hot casted and 4.9 million tonnes cold casted), plant was designed by the China Metallurgical Group

Corporation (MCC).

The CO₂ concentration in the flue gas is 25%. The flue gas initially enters a cleaning process, then arrives at the amine capture absorber module. After the capture process, the captured CO₂ would be compressed before it is transported for storage. In order to reutilize the energy (H₂ and CO) in the remaining flue gas, it is recycled to the bottom of blast furnace. The composition of the flue gas is listed in Table 1.

Table 1. Estimated composition of blast furnace flue gas steam

| Treated BF Gases | Units | Compositio n |
|---------------------|--------------------|-----------------|
| CO ₂ | % (v/v) dry | 25% |
| CO | % (v/v) dry | 21% |
| H ₂ | % (v/v) dry | 3% |
| N ₂ /Air | % (v/v) dry | 49% |
| H ₂ S | mg/Nm ³ | 10 |
| Particulate Matter | mg/Nm ³ | 5 |
| Mn | mg/Nm ³ | 0.2 |
| Pb | mg/Nm ³ | 0.05 |
| Zn | mg/Nm ³ | 0.05 |

3.2 Economic Modelling Methodology

The cost of CO₂ avoidance (CNY/tCO₂) (COA), is:

$$COA = \frac{\sum_{n=0}^T \frac{(I_0 + O_n + F_n + S_n)}{(1+d)^n}}{\sum_{n=0}^T \frac{(Q_n - A_n)}{(1+d)^n}} \quad [1]$$

Where

I_0 is the value capital investment cost accumulated to year 0,

O_n is the fixed operating and maintenance cost at year n,

F_n is variable costs at year n,

S_n is the transport and storage cost at year n,

Q_n is the total amount of CO₂ captured from the project at year n,

A_n is the total amount of CO₂ generated from an auxiliary power plant for supplying steam and electricity for capturing and compressing CO₂ at year n ,
 d is the discount rate (i.e. the required rate of return), and
 T is the lifetime of the project.

The main driver for retrofitting the blast furnace with carbon capture is an increase in carbon emission savings related revenue and a reduction of capital and operational cost. The study adopted capital cost reduction and electricity output penalty to represent technology learning rates. These learning rates focus on the capital cost of building a post-combustion capture steel plant and the performance of the CO₂ capture process rather than the total cost of separating CO₂. The electricity output penalty (EP) of available capture technologies is modelled here by a one-factor learning curve model (Abadie and Chamorrow, 2008;), given by formula 2 as below:

$$EP_n = EP_0 \left(\frac{CA_n}{CA_0} \right)^{\log(1-m)} \quad [2]$$

Where

EP_n is the Electricity output penalty at year n in kWh/tCO₂.

CA_n is Global installed capacity of post-combustion capture power plants at year n

m is the technology learning rate for electricity output penalty

The capital cost of available capture technologies is given by formula 3 as below:

$$I_n = I_0 \left(\frac{CA_n}{CA_0} \right)^{\log(1-w)} \quad [3]$$

Where

I_n is the CCS retrofit investment cost at year n in kWh/tCO₂.

CA_n is Global installed capacity of post-combustion capture power plants at year n

w is the technology learning rate for capital cost

Table 2. Capture plant capital cost assumptions

| Variable Cost Components | |
|---|-------|
| Amine Cost (CNY/tonne) | 35000 |
| Amine Consumption (kg/tCO ₂) | 1.2 |
| Electricity Price (CNY/kWh) | 0.485 |
| Initial Electricity Output Penalty | 142 |
| Waste Amine Disposal (CNY/t amine) | 500 |
| Water Cost (CNY/tCO ₂) | 6.5 |
| CO ₂ transport and storage (CNY/tCO ₂) | 112 |

Table 3. Capture plant initial capital cost assumptions

| Capital Cost Components | Million CNY |
|----------------------------------|----------------|
| Total capture plant cost | 360.0 |
| Owners costs | 25.2 |
| Working capital | 16.0 |
| Start-up costs | 2.0 |
| Total capital investment in 2022 | 407.2 |

Based on the estimate, the current capital cost of the capture plant is CNY 360 million¹ (USD 51 million) with an additional 8% margin for owner's cost (**Table 2**). The project needs CNY 16 million (USD 2.3 million) working capital cost to regulate the development and CNY 2.4 million (USD 0.35 million) to cover start-up costs. The modelling results show an electricity output penalty (EOP) for the auxiliary power plant of 142kWh/tCO₂ captured (**Table 3**) and the EOP assumption was verified by the engineering team. The electricity price of auxiliary power used in the calculation is CNY0.485/kWh (USD 7 cents/kWh) – approximately 10% above the benchmark electricity price in Guangdong which was adopted as a general practice for internal cost accounting in Iron and Steel plant. The price of amine is CNY 35,000 per tonne based on the market price quoted by China Resources Power Haifeng carbon capture project team. The fixed O&M cost is CNY 14 million (USD 2 million) per year estimated by the authors based

¹ The engineering team of China Resources Power Haifeng Carbon Capture Plant provide the estimates.

on the engineering experiences of current CCS project (**Table 4**).

Table 4. Assumptions of capture plant operating costs

| Operating Cost Component | Million CNY |
|--|--------------|
| <i>Fixed operating costs</i> | |
| Maintenance | 3.00 |
| Operating labour | 8.60 |
| Insurance and local taxes | 1.00 |
| Other O&M | 1.40 |
| Total Fixed Operating Costs | 14.00 |
| <i>Variable operating costs (at 90% capacity factor)</i> | |
| Fuel cost at year 0 | 34.08 |
| Amine | 21.00 |
| Waste disposal | 0.30 |
| Water Cost | 3.25 |
| Total Variable Costs | 58.63 |

From an investor point of view, the value and the exercising strategy of a retrofitting option on the steel plant has been investigated. Uncertainties are drivers of the option value. The stochastic cost cash flow model has been established, and it used option value at each time-step (i.e. year) as the criterion to justify the decision of retrofitting. The ROA decision-making framework is a complex model with Bermuda style claims (i.e. options could be exercised at the end of each year from now to any expiration date). This requires a backward-looking algorithm to find the optimal exercise boundary. A least square regression method with Monte-Carlo simulation has been used to estimate the option value.

In each operating year, there are some options to retrofit an unabated steel plant with CO₂ capture technology. A group of factors would influence the retrofit decisions: electricity price (PE_t), carbon price (PA_t), the expected benefit of retrofit in the present value at year t ($E(B_{R,t})$), the retrofit cost at year t ($K_{R,t}$), and r is the risk free discount factor (at 3.2% in this case²). The carbon price and electricity prices follow GBM with Mean Reverting stochastic processes with assumptions given in **Table 5**. The technology learning rate is based on a consultation of five senior scientist with experiences in developing amine carbon capture technologies and

² Apply the average Chinese Yuan 10-year sovereign bond yield rate from Jan to Jun 2019.

another five engineers who have experiences in building carbon capture pilot projects in China. The global post-combustion capture capacity and its growth rate assumption is estimated based on a linear approximation based on 5-year data from 2014 to 2018. The carbon price and stochastic variable assumptions were made based on the team's experiences.

Table 5. Assumptions of stochastics factors

| | |
|--|--------------------------|
| Learning Rate for Electricity Output Penalty (m) | 5% |
| Learning Rate for Capture Plant's Total Capital Cost (w) | 8% |
| Global installed post combustion capture capacity in | 10 million |
| Growth rate of post-combustion capture capacity from | 22% |
| Carbon Price in 2022 | CNY 100/tCO ₂ |
| Drift Factor for Carbon Price from 2022 | 5% |
| Lognormal Standard Deviation of Carbon Price | 20% |
| Mean Reverting Factor for Carbon Price | 20% |
| Drift Factor for Electricity Price from 2022 | 0% |
| Lognormal Standard Deviation of Electricity Price | 10% |
| Mean Reverting Factor for Electricity Price | 40% |

Assuming the retrofit time is one year, we can use the following Bellman formula to evaluate the value of retrofit option at year t (V_t):

$$V_t(PE_t, PA_t) = \max \left\{ E(B_{R,t}) - K_{R,t}, \frac{1}{1+r} E(V_{t+1}(PE_{t+1}, PA_{t+1})) \right\} \quad [4]$$

In this equation, at year t, the plant's life time is N, the terminate value $V_N = 0$. The initial retrofit option value could be estimated as V_0

i.e. the value of making a plant retrofitable at year 0 is equal to the value of retrofit option V_0

The expected retrofit benefit ($E(B_{R,t})$) is affected by electricity output penalty cost, transportation and storage cost and the CO₂ allowance benefit. $Q_{i,R}$ is the net output capacity after retrofit at year i, Q_0 is the initial plant capacity (i.e. 188.7MW), u is annual utilisation hours (assumed 5000 constantly). The emission factor after retrofit is $H_{i,R}$, the emission factor before retrofit is H_0 . GC is the total amount of CO₂ captured at year i, CS_i is the cost for

storage and transportation at year i . d is the commercial discount factor (assumed to be 8%³, reflecting retrofit investment is less risky than current CCS demonstration projects) while the lifetime of the steel plant is T (i.e. 25) as shown in formula 5.

$$E(B_{R,t}) = \sum_{i=t+1}^T \frac{[(Q_{i,R} - Q_0) \cdot u \cdot E(PE_i) + (H_{i,R} - H_0) \cdot Q_{i,R} \cdot u \cdot E(PA_i) - GC_i \cdot CS_i]}{(1+d)^{i-t}} \quad [5]$$

The following formula 6 illustrates the main principle of a CCS readiness investment decision making. The decision depends on the retrofit option value difference between with CCR and without CCR scenarios at year 0 (V_0) and the required investment for Capture Readiness (I_{ccr}) to make the selected plant retrofitable.

$$\text{Invest, if } V_0 \geq I_{ccr} \quad [6]$$

Notably, in some special cases, the plants may be retrofitable without CCR investment, as only very minor design modification is needed.

³ Apply the discount rate used in Haifeng Carbon Capture Project Feasibility Study.

4. Results

The result shows the CO₂ avoidance cost for a new built steel plant with the capture capacity of 0.5 million tonnes per year is CNY 442.54/tCO₂ (USD 63.22/tCO₂) at 12% discount rate. Over the lifetime of the plant, it would capture 11.25 MtCO₂ in total, 0.45 MtCO₂/year. However, there are some factors that would greatly influence the CO₂ avoidance cost, including the discount rate and the transportation and storage cost. Discount rate is one of the most important factors, Discounting is an empirical economic principle which means that property's economic value in the future are worth less than they are at present. There is also uncertainty regarding future CCS related policies and regulations, especially whether the value of carbon credit is enough to support CCS large scale application. Furthermore, the development of capture technology is uncertain. Therefore, we then test the impacts of different discount rate in the simulation. Different discount rates imply the different level of risks, with higher risk indicating higher discount rate, and the risk is highly related with policy environment. We make a comparison between moderate and high risks. If this investment is considered as a moderate risk, with an 8% discount rate applied, the cost of CO₂ avoidance (i.e. the abatement cost) will be reduced to CNY 407.56/tCO₂ (USD 58.22/tCO₂). In contrast, if assuming the investment with higher risk at a 16% discount rate, the cost would increase to CNY 480.14/tCO₂ (USD 68.59/tCO₂) with an increase of 17%. Despite of different type of manufactory, this simulation result is much larger than the natural gas combined cycle CCS (NGCC-CCS) plants, where the discount rate increased by 8% to 10% results in an increase in the additional costs of the coal plants by 5%.

Generally, CO₂ is transported via pipeline and the costs depend on the length of pipeline, the terrain and the volume of CO₂ transported. In CO₂ storage, the type, depth and shape of the geological formation and the storage process largely determinate the cost, which could be varied plant to plant. Also, it implies transport and storage costs are very case-specific. In this experiment, if the CO₂ storage and transport cost increased from 112 CNY/tCO₂ to 123 CNY/tCO₂ (USD 16 to 18/tCO₂), the abatement cost would be CNY 443.96/tCO₂ (USD 63.42/tCO₂) at a 12% discount rate. Overall, with the setting different premasters, the analysis shows that the cost is ranged from CNY 407 to 480 /t CO₂, which is much higher than the

current carbon price in Guangdong, ranging from CNY 20 to 40/tCO₂. This indicates the cost-effective hardship in promotion of the investment in CCR in Guangdong provinces.

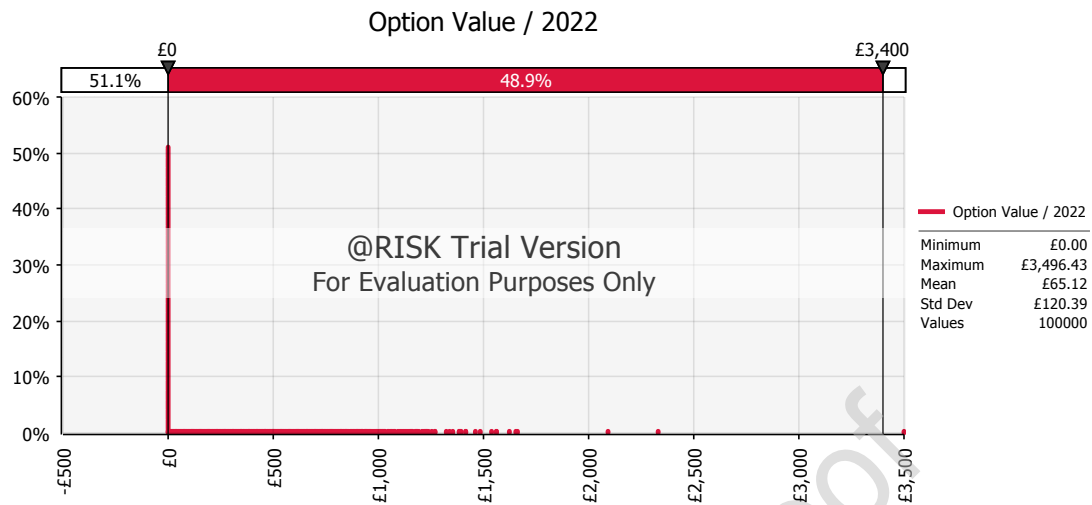


Figure 1. Steel Plant Capture Readiness Option Payoff Schedule at 5% Carbon Price Drift Factor Assumption. X-Axis: Option Value. Y-Axis: Probability Distribution.

On the other hand, the cost of CCR is also on the reduction of electricity output, as its work needs electricity. We found that for a plant with CCR, the electricity output penalty is 29MWh, if the wholesale electricity tariff is CNY485/MWh in 2022 (following a GBM-MR process, with a 0% drift factor, a 20% standard deviation and a 40% mean reverting ratio). When we set the carbon price to be CNY 100/tonne CO₂ (following a GBM-MR process, with a 5% drift factor, a 20% standard deviation, a 20% mean reverting ratio) in 2022 and the transportation cost is CNY112/tonne CO₂ captured, the average retrofit option value is CNY 65 million (USD 9.5 million), with payoff distribution shown in **Figure 1**. The simulated option payoff in Figure 1 shows there is 51% chance the option payoff is zero, in other word, the retrofit would not happen in this scenario. For the remaining 49% probability, the option payoff varies with the maximum payoff is up to 3496 million. Thus, based on the average retrofit option value finding, if the carbon and electricity prices and technical assumptions are valid, it is commercially viable to invest up to 65 million Yuan (USD 9.5 million) to ensure the base steel plant to be retrofittable for post-combustion carbon capture.

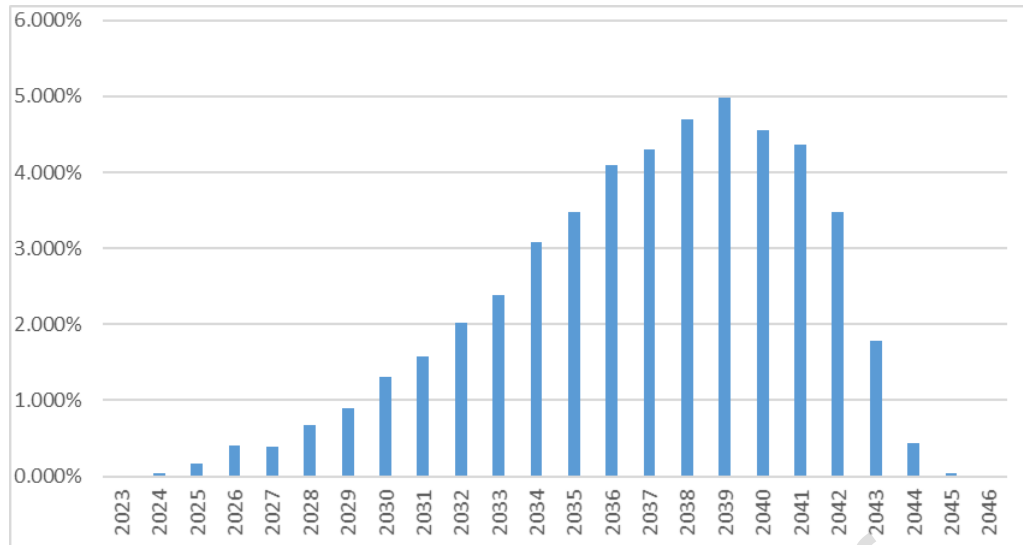


Figure 2. Probability of economic viable retrofit of steel plant to 0.5 million tonnes carbon capture and storage. X-Axis: Year of Retrofit. Y-Axis: Probability of Retrofit.

There is approximately 49% of financially viable probability in retrofit for the lifetime, with the probability of retrofit year illustrated in **Figure 2**. The Option Value is very sensitive to the assumption of carbon price growth (drift factor). The drift factor of carbon price is assumed to be 6%, the option value will be increased to CNY 144.9 million with 78.9% chance of economic viable retrofit to CCS in the lifetime.

5. Discussion

CCR in Iron/steel industry is still not cost-effective to be widely applied in the China.

However, CCR in iron/steel industry is rarely seen, where only two large-scale iron/steel CCS projects are currently in operation: the UCLOS (Ultra-Low CO₂ Steel Consortium) Project and the Emirates Steel Industry CCS Project (GDCCUSC, 2016). The former is located in France with a capture capacity up to 700,000 tCO₂/year from a blast furnace in a steel plant, while the latter is built in Abu Dhabi with a capture capacity of 800,000 tCO₂/year from a Direct Reduced Iron (DRI) facility. The Emirates Steel project has started operation but the DRI process is rarely used in the steel sector. There is a lack of experience in capturing CO₂ from conventional blast furnace steel making process and flue gas streams from blast furnaces are also in low partial pressure.

As per IEAGHG (2007)'s definition of capture readiness, developers of capture-ready plants are responsible for ensuring that all known factors under their control and which could prevent the installation and operation of future CO₂ capture are identified and eliminated. This includes **(a)** Conducting a study of options for CO₂ capture retrofit and potential pre-investments; **(b)** Inclusion of sufficient space and access for the additional facilities that would be required; and **(c)** Identification of reasonable route(s) for the storage of CO₂. Pre-investment in these essential capture-readiness features is expected to be relatively inexpensive. Further optional pre-investments could be made to reduce the cost and downtime for CO₂ capture retrofit.

A key requirement for the construction of capture-ready steel plants that adopts amine capture technology is the reservation of sufficient space onsite to accommodate the additional CO₂ capture equipment, plus the ducts and pipes for connections to it and points where the necessary connections to the existing plant can be made. A further requirement is to allow for the extension of additional related requirements (cooling water, auxiliary power distribution, etc.) of the capture equipment. The space required is also discussed in the context of individual systems and equipment, as illustrated in **Table 6**. The building complex includes Distributed Control System (DCS) control rooms, the electrical switching rooms, research laboratories and offices. The utilities and auxiliary facilities could possibly be shared with the steelmaking plant. Other auxiliary systems include a compressed air system, maintenance, and a fire station.

Table 6. Design Requirement for CCS Readiness in Steel Plant

| (A) Essential Space and Design Requirement | |
|---|---|
| For Carbon Capture | Flue gas pre-treatment unit |
| | CO2 capture unit |
| | CO2 compression and liquefaction unit |
| | Raw material storage facilities |
| | Building complex |
| For utilities & auxiliary facilities | Electrical distribution system |
| | Cooling water system |
| | Raw water and desalted water treatment |
| | Waste treatment and disposal system |
| Other common facilities | Flue gas ducts |
| | Pipe racks |
| | Other auxiliary systems |
| (B) Further Pre-investment | |
| Design Consideration | Flue gas desulphurisation (FGD) equipment |
| | DeNOX equipment |
| | Particulate removal unit |
| | Steam sources and waste heat recovery options |
| | water-steam condensate cycle |
| | Compressed air system |
| | Cooling water system |
| | Raw water pre-treatment plant |
| | Desalination plant |
| | Waste water treatment plant |
| | Electrical equipment |
| | Chemical dosing systems and steam water analysis system |
| | Plant pipe racks |
| | Control and instrumentation |
| | Safety equipment |
| | Fire-fighting and fire protection system |
| Plant infrastructure | |
| Steam turbine options for CO2 compression | |

As well as satisfying the essential requirements of space, access and a route to the storage site, further pre-investments can be made to reduce the cost and downtime for the retrofit of CO2 capture. The pre-investments are suitable for many technologies in the plant design, for example, oversizing pipe-racks and making reserved design of the control system and constructing a larger electrical distribution station. These pre-investments are generally low in

cost and could significantly reduce the CCS retrofit costs and downtime. Potential pre-investments that could be applied are illustrated in **Table 6**. The current experience of amine post-combustion capture shows a bag filter particulate removal unit is likely to be better for post-combustion capture than an electrostatic precipitator due to improved aerosol removal.

The costs of capture technologies are expected to decrease in the future due to 'learning by doing' and incremental technological improvements. If a plant is made capture-ready for a single existing technology, it makes for a higher risk and is locked-in to a technology, thus making the pre-investment worthless. Capture-ready plants should therefore be designed to accommodate anticipated future technological improvements, as far as is reasonably possible, with what is called an open technology design. Based on the estimate by Guangdong CCUS Centre, the estimated total capital cost for a 0.5 million tonne capture is in the range of CNY 10 million (USD 1.5 million) to 14 million (USD 2 million). Nevertheless, it is difficult to predict future technology developments and the risk of obsolescence remains a major reason for not making substantial technology-specific pre-investments.

6. Conclusion

CCS is an important low-carbon technology to decarbonize the steel sector in China. Given the barriers of high cost and high energy penalty, it is difficult to deploy CCS on a large scale in China in the short-term. Although the iron and steel sector in China has significant greenhouse gas emission, there was a lack of CCS pilot or demonstration projects in the iron and steel sector in China. The paper is the first attempt in researching capture readiness design and value in the world. The paper proposed key considerations for first-of-a-kind capture readiness design steel plant and explores the option of pre-investment for making new steel plants capture readiness. With a capture readiness design, a steel plant would be able to be retrofitted to CCS at a lower cost. However, the paper finds the option value of CCS retrofit is CNY 65 million (USD 9.5 million). In other words, by investing in Capture Readiness design for 0.5 million tonnes capture, the economic value of steel plant is increased by CNY 65 million (USD 9.5 million) in their lifetime, significantly higher than the estimated investment for capture readiness design at USD 1.5 to USD 2 million. The capture readiness investment will also avoid the carbon lock-in effect, as the pre-investment would allow the owner of the steel plant to actively consider CCS retrofit option.

In regard to business and policy implications, it would be beneficial if national or regional CCS entities could be set up to coordinate capture readiness planning and inform developers of new steel plants on capture readiness design requirement. It is also beneficial to develop CCS related design standard in China with a particular focus on capture readiness design standard. The introduction of policy incentives options for making new steel plants capture readiness is worth further studied. It is also worth pursuing a technology roadmap for CCS in China with consideration for CCS options in the iron and steel sector. There are a number of limitations to be addressed in the future. The paper makes simplified assumptions on CO₂ transport and storage while the route for utilizing or storing CO₂ is an essential part of CCS readiness design. The paper assumes a partial capture from blast furnace. The hypothetical project would only reduce the emissions by 0.40 MtCO₂/year, or a total of 9.93 MtCO₂ in 25 years. More studies should be conducted to assess the viability and the economics of CCS for all emissions sources for the whole steel plant. It is also valuable to assess the value of benefits if all newly built steel

plants in China adopt the capture readiness design in the next decade.

Reference

- Abadie, L., Chamorow, J.M., 2008. European CO₂ prices and carbon capture investments. *Energy Economics* 30, 2992-3015.
- ADB (2014). Carbon Capture and Storage (CCS) – Ready Policy to Facilitate Future CCS Deployment in the People’s Republic of China. Available at: <https://www.adb.org/sites/default/files/publication/180082/ccs-ready-policy-prc.pdf> [Accessed March 20, 2018]
- ADB (Asian Development Bank) (2015). Roadmap for Carbon Capture and Storage Demonstration and Deployment in the People’s Republic of China. Available at: <https://www.adb.org/sites/default/files/publication/175347/roadmap-ccs-prc.pdf> [Accessed Aug 30, 2018]
- Alcade, J., Heinemann, N., Mabon, L., Worden, R., de Coninck, H., Roberston, H., et al, (2019). Acorn: Developing Full-chain industrial carbon capture and storage in a resource- and infrastructure- rich hydrocarbon province. *Journal of Cleaner Production* 223, 963-971.
- Baowu Steel. 2016. Baowu Steel Limited 2015 Annual Report.
- Chen, H., Wang, C., Ye, M., (2016). An uncertainty analysis of subsidy for carbon capture and storage (CCS) retrofitting investment in China’s coal power plants using a real option approach. *Journal of Cleaner Production* 137, 200-212.
- Elias, R.S., Wahab, M.I.M., Fang, L., (2018). Retrofitting carbon capture and storage to natural gas-fired power plants: A real-option approach. *Journal of Cleaner Production* 192, 722-734.
- GCCSI (Global CCS Institute) (2010). Defining CCS: an approach to an international definition. <https://www.globalccsinstitute.com/publications/defining-ccs-ready-approach-international-definition> [Accessed April 10, 2018]
- GDCCUSC (UK-China Guangdong CCUS Centre) (2014). China Resources Power (Haifeng) Units 3 and 4: 2 x 1000 MW Ultra-Supercritical Coal-fired Plants Carbon Capture Readiness (CCR) Report. No. 2014/D03. Available at:

<http://www.gdccus.org/col.jsp?id=116> [Accessed March 10, 2018]

GDCCUSC (UK-China Guangdong CCUS Centre) (2016). China Resources Power Haifeng Project Engineering Feasibility Study Report (August Draft Version).

Gibbins, J. (2004). Making pulverized coal plant "capture ready": methods and benefits. 7th International CO2 Capture Network Meeting, Vancouver, Canada. March 2004.

Gibbins, J., Lucquiaud, M., Li, J., Lord, M., Liang, X., Reiner, D. and Sun, S. (2006). Capture ready fossil fuel plants: definitions, technology options and economics. Proc. 7th European Gasification, 25-27 Apr 2006, Barcelona, Spain.

IEA, (2017). Energy Technology Perspectives 2017- Catalysing Energy Technology Transformations. Available at: <https://www.iea.org/etp2017/> [Accessed 11/Oct/2018]

IEA GHG (2007). CO2 Capture Ready Plants. Technical Study, 2007/4. Available at: https://ieaghg.org/docs/General_Docs/Reports/2007-4%20Capture%20Ready.pdf [Accessed 20/Sep/2019]

IEA. (2015). ETP 2015: Iron & Steel Findings. OECD Steel Committee Meeting. Available at: https://www.oecd.org/sti/ind/Item%208b%20-%20IEA_ETP2015_OECD%20Steel%20Committee_final.pdf [Apr 7, 2019]

Janssens-Maenhout, G., Crippa, M., Guizzardi, D. Muntean, M., Schaaf, E., Olivier, J., Schure, K.M., & Peters, J.A.H.W. (2017). Fossil CO2 & GHG Emissions of All World Countries. Luxembourg: Publications Office of the European Union.

Junginger, M., van Sark, W., Faaij, A., (2010). Technological Learning in the Energy Sector, Edward Elgar Publishing, Cheltenham.

Li, J., Liang, X., Gibbins, J., Reiner, D., (2012). Chinese Advanced Power Plant Carbon Capture Options (CAPPCCO). Published by UK Department of Energy and Climate Change.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/66052/7476-cappcco-final-summary-report-march-2012-.pdf [Accessed November 2, 2018]

Li, P., Yi, L., Liu, X., Hu, G., Lu, J., Zhou, D., Hovorka, S. & Liang, X., (2019). Screening

and simulation of offshore CO₂-EOR and storage: A case study for the HZ21-1 oilfield in the Pearl River Mouth Basin, Northern South China Sea. *International Journal of Greenhouse Gas Control*, 86, 66-81.

Liang, X., Lin, Q., Lei, M., Liu, Q., Li, J., Wu, A., et al. (2018). Assessing the Economics of CO₂ Capture in China's Iron and Steel Sector: A Case Study. Deliverable WP4.8, BHP Carbon Capture, Utilisation and Storage in China's Iron and Steel Sector.

Liang, X., Reiner, D. (2013). Resolving the Tensions between CCS Deployment and Chinese Energy Security. *Environmental Science and Technology* 47 (10), 4963-4964.

Mandova, H., Patrizio, P., Leduc, S., Kjarstad J., Wang, C., Wetterlund, E., et al., (2019). Achieving carbon neutral iron and steel making in Europe through the deployment of bioenergy with carbon capture and storage. *Journal of Cleaner Production* 218, 118-129.

MOST (Ministry of Science and Technology) (2011). National "Twelfth Five-Year" Science and Technology Development Plan. Available at:

http://www.most.gov.cn/mostinfo/xinxifenlei/gjkjgh/201107/t20110713_88230_6.htm

[Accessed Aug 30, 2018]

MOST (2013). Notice on subject plan of national CCUS technology development in Twelfth "Five-Year" Plan. Available at:

http://www.most.gov.cn/tztg/201303/t20130311_100051.htm [Accessed Aug 30, 2018]

NDRC (National Development and Reform Commission) (2012). Notice on Twelfth "Five-Year" Plan of coal industry development. Available at:

http://www.sdpc.gov.cn/zcfb/zcfbghwb/201203/t20120322_585489.html [Accessed Sep

14, 2016]

NDRC (2015a). Enhanced Actions on Climate Change: China's Intended Nationally Determined Contributions. Available at:

http://qhs.ndrc.gov.cn/gwdt/201507/t20150701_710233.html [Accessed Sep 12, 2016]

NDRC (2015b). National Key Category of Low-carbon Technologies. Available

at:http://qhs.ndrc.gov.cn/zcfg/201512/t20151218_767903.html [Accessed Sep 11, 2016]

NRDC (Natural Resources Defense Council) (2004). Clean Power, in NRDC's China

Clean Energy Project. Available at: <http://www.nrdc.org/air/energy/china/cleanpower.asp>

[Accessed July 12, 2018]

NRDC (Natural Resources Defense Council) (2004). Clean Power, in NRDC's China Clean Energy Project. Available at: <http://www.nrdc.org/air/energy/china/cleanpower.asp>

[Accessed July 12, 2018]

Quader, M.A., Ahmed, S., Ghazilla, R.A.R., & Ahmed, S. (2015). A comprehensive review on energy efficient CO₂ breakthrough technologies for sustainable green iron and steel manufacturing. *Renewable and Sustainable Energy Reviews*, 50, pp: 594-614.

State Council (State Council of the People's Republic of China) (2006). Outline of the National Medium and Long-Term Science and Technology Development Program (2006 - 2020).

UNFCCC (2015). Adoption of the Paris Agreement. Paris.

Wang, X., Du, L., (2016). Study on carbon capture and storage (CCS) investment decision-making based on real options for China's coal-fired power plants. *Journal of Cleaner Production* 112, 4123-4131.

Wennerstern, R., Sun, Q., Li, H., (2015). The future potential for Carbon Capture and Storage in climate change mitigation – an overview from perspectives of technology, economy and risk. *Journal of Cleaner Production* 103, 724-736.

Wilson, M. and Gibbins, J. (2005). Getting Ready for Carbon Capture and Storage: Canada's Progress, Energy INET Report.

World Steel Association (2016). World Steel in Figures 2016. Brussels: World Steel Association, pp. 3-17.

Zou, A., Luo, X. and Quan, C. (2013). Analysis of Factors Influencing CO₂ Emissions in an Integrated Steel Works based on EIO-LCA. *Management World*, 12, pp. 178-179.

Appendix 1 CCS related policy documents in China

| Year | Institutions | CCS Relevant Policy Document |
|-------------|---------------------|---|
| 2006 | State Council | Outline of the National Medium and Long-Term Science and Technology Development Program (2006 - 2020) |

| | | |
|-------------|---|--|
| 2007 | Ministry of Science and Technology | China's National Climate Change Program |
| 2007 | Ministry of Science and Technology, NDRC, Ministry of Foreign Affairs etc. | China's Response to Climate Change Science and Technology Special Action |
| 2011 | Department of Social Science and Technology, Ministry of Science and Technology | China's Carbon Capture, Utilisation and Storage Technology Roadmap |
| 2011 | Ministry of Science and Technology | National "Twelfth Five-Year" Science and Technology Development Plan |
| 2011 | State Council | "Twelfth Five-Year" Greenhouse Gas Emissions Control Work Plan |
| 2012 | State Council News Office | China Energy Policy (2012) White Paper |
| 2012 | National Energy Administration | Coal Industry "Twelfth Five-Year" Development Plan |
| 2013 | Ministry of Science and Technology | "Twelfth Five-Year" National Carbon Capture, Utilization and Storage Technology Special Development Plan |
| 2013 | NDRC | Notice on Promoting the Demonstration of Carbon Capture, Utilization and Storage |
| 2013 | State Council | Opinions of the State Council on Accelerating the Development of Energy Saving and Environmental Protecting Industries |
| 2013 | Ministry of Environmental Protection | Notice on Strengthening the Environmental Protection Work of Carbon Capture, Utilization and Storage Test Demonstration Projects |
| 2014 | General Office of the State Council | Energy Saving and Emission Reduction Action Plan for Low Carbon Development 2014 - 2015 |
| 2015 | State Council News Office | Strengthening the Response to Climate Change Action – China's Intended National Determined Contributions |

| | | |
|---|--|---------|
| | | (INDCs) |
| Sources: State Council, 2006; MOST, 2011; NDRC, 2012; MOST, 2013; GDCCUSC, 2016: p. 24 | | |

Journal Pre-proof

Authors declare no interests conflicting

Journal Pre-proof