

Power-to-X – Tenders for financial support from 2022

A Bill to amend the Danish Natural Gas Supply Act and a number of other Acts is currently going through the legislative process in Danish parliament. The second reading (of three) was done on 4 May and third reading, and final adoption, is expected on 11 May 2021. The new rules are expected to enter into force on 1 July 2021.

We have previously reported that one of the purposes of the Bill is to ensure that new, green gasses (upgraded biogas) can be effectively introduced and enhanced in the Danish gas system.

This article describes one of the other elements of the “green transitioning” of the Danish gas system, namely the Danish government’s plans to introduce tenders for financial support to the price of Power-to-X.

Introduction

One of the purposes of the Bill, as an element in the transition to a green gas system, is to ensure that tenders can be held for upgraded biogas and other gases from renewable energy sources in the period 2022-2030, and that tenders can be held for support for the production of chemical fuels or products from electricity (Power-to-X) in the period 2022-2030.

Tenders for upgraded biogas and other gases from renewable energy sources is expected to contribute to the government’s target of reducing greenhouse gas emissions by 70 percent by 2030 and climate neutrality by 2050.

Provision of support for the production of chemical fuels or products from electricity (Power-to-X)

The Act on the Promotion of Renewable Energy, cf. Executive Order No. 125 of 7 February 2020 (the Renewable Energy Act), does not authorize the Minister of Climate, Energy and Supply to hold tenders for support for the production of chemical fuels or products from electricity (Power-to-X).

With the Climate Agreement for energy and industry of June 2020, an agreement was reached that at least DKK 750 million (appr. Euro 100 mill.) can be allocated (2020 prices) for tenders for support for the production of chemical fuels or products from electricity (Power-to-X).

The purpose of the tenders is to promote the production of Power-to-X in an efficient manner and promote the use of electricity based on renewable energy for the production of green products, which can be used in sectors and for purposes that are otherwise difficult to electrify.

A new provision will therefore be inserted in the Renewable Energy Act (§ 43 k), according to which the Minister of Climate, Energy and Supply is authorized to hold tenders for support for the production of Power-to-X in the period 2022-2030.

With the Power-to-X technology, a wide range of chemical fuels and products can be produced on the basis of electricity. It can e.g. be hydrogen by electrolysis or its conversion to other products such as ammonia, methanol, aviation fuel or fertilizers.

Price support

The aid can be granted as, for example, a price surcharge for the production of hydrogen or other products. In addition, the aid may be granted as construction aid for the establishment of plants producing chemical fuels or products produced by electricity.

The proposed provision will entail that the Minister of Climate, Energy and Utilities,

- sets conditions for the granting of support in the tender material,
- enters into contracts with the winning tenderers,
- administers the contracts and
- pays support in accordance with these.

The design of, and the conditions set in the tenders for the production of Power-to-X, await that the specific implementation of the tender is agreed between the parties behind the Climate Agreement for energy and industry of June 2020 on the basis of proposals from the government.

Tender conditions

Information about the tenders for support for the production of Power-to-X will appear on the Danish Energy Agency's website, and in addition a news item will be issued regarding the tenders. The actual procedure for awarding aid must be transparent, which entails a certain degree of publicity. All bidders will be treated equally in connection with the tender process and selection of tenders.

Projects that participate in the tenders must, among other things, not be commenced. This means that the work on the investment project must not have started, or no binding commitment must have been made to purchase equipment that makes the investment irreversible before a support contract has been entered into.

According to the Minister, aid for the production of Power-to-X constitutes state aid within the meaning of Article 107 (1) of the EU treaty. Tenders must therefore be organized in accordance with EU state aid rules, and tenders must be notified and approved by the European Commission.

As a result of the Minister of Climate, Energy and Utilities' competencies under the Renewable Energy Act being delegated to the Danish Energy Agency, cf. section 70 of the Renewable Energy Act, the Danish Energy Agency will hold the tenders for production of chemical fuels or products produced by electricity and enter into contracts with the winning bidders. The task of administering the received contracts, including the payment of support, will also be handled by the Danish Energy Agency.

WSCO law firm will continue to monitor and report on the legal framework of electricity and gas projects in Denmark.

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For questions or comments to this newsletter, or energy, infrastructure and offshore in general, please contact Bo Sandroos on +45 4088 5422 or bos@wsko.dk.

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