Framework agreed for the changes to the biogas subsidy scheme

3.18.2019

On 8 February 2019, the parties to the energy agreement of 29 June 2018 agreed on the framework for the cessation of the current biogas subsidies for new plants in 2020 and the cap on production subsidies for existing plants.

The aim of the 29 June 2018 energy agreement (the "Energy Agreement") was to further improve Denmark's international position as a leading nation within renewable energy. Under the heading "Existing biogas" it was agreed that: "The subsidies for biogas production from existing plants can be maintained until 2032 and at least 20 years for the individual plants. No new plants based on the current subsidies will be permitted as from 2020, at which time a cap will be established on production subsidies, and assessments will be regularly conducted to identify potential overcompensation."

On 8 February 2019, the parties to the Energy Agreement agreed on the framework for implementing the Energy Agreement's changes to the current biogas subsidy scheme. The changes consist of a halt on new biogas plants being eligible for the current subsidy scheme as of 1 January 2020 as well as a cap on production subsidies for each individual biogas plant covered by the current subsidy scheme.

The changes need to be implemented into law, which will be done by amending the Danish Act on Promotion of Renewable Energy and the Danish Act on Natural Gas
Supply. A hearing on the amendments is expected during the summer of 2019, and the bills are expected to be presented in the fall of 2019.

Effect on existing biogas plants and biogas utilisation

The effect of the changes depends on the individual plant and on how the biogas is utilised.

Plants supplying upgraded biogas to the natural gas network or cleaning biogas for use in the town gas network:

- Plants already operating and connected to the natural gas network can maintain their subsidies under the current subsidy scheme but will be subject to the cap on production subsidies.

Plants utilising biogas or gasification gas from biomass for electricity production:

- Plants already operating and connected to the electricity grid can maintain their subsidies under the current subsidy scheme but will be subject to the cap on production subsidies.

Plants utilising biogas for i) processing purposes in the industry, ii) transportation and iii) heating purposes:

- Subsidies granted after 1 January 2019 must be used within two years.
- No new subsidies will be granted after 1 January 2020.

Effect on projected plants and plants under construction

Projected plants and plants under construction will be eligible for the current subsidy scheme if, no later than 1 January 2020, they are operating and connected to the natural gas network, the town gas network or the electricity grid. Those plants will

Subsidies granted after 1 January 2019 must be used within two years. No new subsidies will be granted after 1 January 2020.
also become subject to the individual cap on production subsidies.

If the plants are not connected in time to meet the 1 January 2020 deadline, they may under certain circumstances still be eligible for the current subsidy scheme if they satisfy the exemption criteria. The cut-off date for satisfying the exemption criteria is 8 February 2019 – the same day as the agreed framework was published.

Exemption criteria

Plants supplying upgraded biogas to the natural gas network or cleaning biogas for use in the town gas network

Exemption can be granted for these plants if three criteria are satisfied:

1. It is proved that an irreversible investment in the construction of the plant was made no later than 8 February 2019. The irreversible investment is considered made if, on or before 8 February 2019, there was i) a written and binding agreement with a main contractor or another party for the construction of the plant; and/or ii) an agreement with either a natural gas distributor or a transmission company regarding connection of the plant to the natural gas grid.

2. It is proved that a binding agreement was entered into no later than 8 February 2019 regarding delivery of biogas to the projected plant from either i) an existing plant or ii) a projected plant that on this date had received a VVM1 or environmental approval (where such approvals are required pursuant to Danish environmental regulation).

3. The biogas plants are operating and connected to the relevant gas grids no later than 31 December 2021.

Plants utilising biogas or gasification gas from biomass for electricity production
The exemption regime for these plants follows the regime mentioned above, except that plants utilising biogas or gasification gas for electricity production do not have to satisfy the requirement of having entered into natural gas grid connection agreements.

The cap on production subsidies

The cap on production subsidies will set a limit on the amount each plant can receive in subsidies.

The cap will be calculated as an annual average multiplied by the number of years in which subsidies can be granted and will be stated in the subsidy commitments issued after 1 January 2020. The determination of the annual average depends on the type of biogas plant and the utilisation of the biogas.

The new subsidy scheme

The Energy Agreement sets out the overall framework for the new subsidy scheme replacing the current one. The new subsidy scheme will be structured as an annual pool of (nominally) DKK 240 million distributed annually over a period of 20 years.

Subsidy grants will under the new scheme be awarded based on a public tender. The specific tender model will be prepared in dialogue with the biogas sector and is expected to include price caps.

The parties to the Energy Agreement had not on 8 February 2019 agreed on the details of the new subsidy scheme.
VVM is an environmental impact assessment (in Danish "vurdering af virkning for miljøet").

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