

Energy Agreement

of 29 June 2018

Energy Agreement

Denmark has established a position among the world's elite in renewable energy and climate through decades of committed efforts. With this agreement, the government (the Liberal Party of Denmark, Liberal Alliance and the Conservative People's Party), Social Democracy, the Danish People's Party, the Red-Green Alliance, the Alternative, the Social Liberal Party and the Socialist People's Party agree to further build Denmark's international positions of strength with a focus on renewable energy, energy efficiency improvements, research and energy regulation. The agreement establishes a professional and efficient energy sector as the basis for the transition to a sustainable green society. The parties to the agreement ("the parties") thus agree to maintain the rapid pace of the green transition.

The green transition will not happen by itself. The agreement provides for significant investments to realise the ambition of a low-emission society by the year 2050. It also establishes the framework for a cost-effective green transition, taking into account the costs for society and individuals, as well as the rapidly advancing technology.

The agreement aims to ensure a market-driven green transition. Technological advances and competition between the best companies to deliver renewable energy have made it realistic to envision a scenario in the near future where green solutions can be delivered on commercial terms. This has served as a strong motivating factor in the efforts to establish Denmark's position as the world's leading offshore wind nation. Offshore wind is expected to be able to generate green electricity on market conditions without state subsidies within just a few years. On this basis, a decision has been made to procure three offshore wind farms, which will serve as a substantial contribution to the green transition – with the added benefit that wind turbines situated far from our coastlines cause far fewer inconveniences for Danes.

To ensure that renewable energy becomes our predominant source of electricity within the foreseeable future, as well as an increasingly utilised primary energy source for heating, technology-neutral energy tender processes involving solar PV, land-based wind, offshore wind near coasts and other technologies will be conducted in the coming years. The expansion of renewable energy capacity will need to contribute to the cheapest possible future production of green energy, thus benefitting Danish society as a whole. Funds will also be earmarked to ensure the continued expansion and improved efficiency of biogas and other green gasses in Denmark.

The green transition encompasses both the energy sector and climate policy. The parties therefore agree that Denmark will work towards net zero emissions, in accordance with the Paris Agreement, and advocate for the adoption of a target of net zero emissions in the EU and Denmark by 2050 at the latest. The parties have also noted the announcements made by energy companies in Denmark to phase out coal before 2030. The parties agree to phase out coal in electricity production between now and 2030.

The parties have allocated funding that sets a course towards an RE (renewable energy) share of approximately 55% by 2030. The agreement will also give Denmark an RE share in electricity above 100% of consumption, while ensuring that at least 90% of district heating consumption is based on energy sources other than coal, oil or gas by 2030. The parties agree to monitor developments closely throughout the agreement period.

The Energy Agreement also represents an important step in an ambitious climate agenda, including the allocation of government funding to support green solutions in the transport sector.

The agreement includes the following initiatives:

- World class offshore wind
- Renewable energy on market conditions
- Reduction of taxes on electricity and restructuring of surplus heat utilisation
- Targeted energy savings
- Modernisation of the heating sector and mitigating the impacts of eliminating the “base subsidy”
- Strengthened energy and climate research
- Denmark leading the way in exports of green energy solutions
- A smart and flexible energy system
- Funding for green transport
- Reserve for additional investments in RE from 2025 onwards

World class offshore wind

Denmark holds a strong position in offshore wind, with global leading companies throughout the value chain and solid competencies in research, development and demonstration. The parties agree that the potential in these positions must be utilised for maximum benefit to ensure that Denmark maintains its position as the world’s leading offshore wind nation with world class companies.

Offshore wind is expected to be capable of producing green electricity on market conditions and without state subsidies within just a few years. Therefore, we must use the market wisely to drive developments, rather than the state attempting to micromanage developments.

It is necessary to create an optimum market framework for the establishment, operation and innovation of offshore wind. This framework will enable offshore wind to deliver green electricity at a competitive price within the shortest possible time.

A successful, large-scale and market-driven expansion of offshore wind also requires the electricity infrastructure to keep pace with new developments. This is true both within Denmark’s borders, where the electricity system must improve its ability to handle the major fluctuations in output from offshore wind farms, and even more so at the international level, where electricity grids need to be better integrated to enable the export of large volumes of offshore wind electricity to foreign markets.

The parties agree on the procurement of a new offshore wind farm with a capacity of approximately 800 MW, with planned grid connection in 2024-2027. If built today, a farm of this size would be among the largest of its kind in Europe. A detailed analysis will be conducted to identify a location, or a number of possible locations for this offshore wind farm. The specific subsidy structure will be determined at a later date, *see below*. The ambition is to include the installation of cables from the offshore wind farm to the mainland in the procurement process. A final decision on the feasibility of this approach will depend on the results of a pending analysis.

The parties wish to establish three offshore wind farms in Denmark by 2030. Situated far from our coastlines, offshore wind turbines cause fewer negative impacts, while holding the potential to deliver a major and cost-effective contribution to the green transition in Denmark.

In addition to the procurement of the biggest offshore wind farm in Danish history in 2019/20, the parties will establish two additional offshore wind farms by 2030.

A new offshore wind farm of at least 800 MW will be procured in 2021, and a second offshore wind farm of at least 800 MW will be procured in 2023. If technologically and economically feasible, even larger farms will be established. The decisions on additional offshore wind are based on assumptions that the farms can be established without subsidies for construction and operation, and because, based on technology and price developments, offshore wind is assessed to be an attractive means of increasing RE share. If these assumptions change significantly, the parties will meet again and discuss the developments.

The parties agree on the launch of a large-scale screening of Danish waters in the North Sea and Baltic Sea. The screening will identify locations for up to 10 GW of offshore wind capacity, establishing an extensive selection of attractive offshore wind farm sites. This will ensure our ability to offer well-suited and vacant locations, facilitating the rapid establishment and grid connection of new turbines when developments truly begin to accelerate.

The North Sea will be developed into a global leading region for offshore wind, where new farms are established without subsidies. The parties therefore agree on the execution of an offshore wind analysis, which will provide optimum market conditions for the fastest possible commercial exploitation of offshore wind potential. The analysis will also examine potential new offshore wind solutions, such as hubs, that can provide new growth opportunities for Danish companies. The analysis will provide models for generating income for the state through the utilisation of wind resources when offshore wind becomes completely free of subsidies.

As increasingly larger offshore wind turbines are developed, the power of municipalities to reject the installation of wind turbines close to the coast should be expanded to ensure local support for the projects. Therefore, the parties agree on an expansion of the municipal right of rejection from 8 km to 15 km off the coast.

Continued utilisation of oil and gas resources in the North Sea

The green transition will require major investments over a number of years, which in turn requires healthy public finances. Investments in oil and gas extraction in the North Sea generate proceeds for the state and activities that support the Danish economy, thus creating a basis for investments in the green transition.

An agreement has been reached with the Danish Underground Consortium (DUC) on the full reconstruction of the Tyra facilities in the North Sea. The agreement ensures a continued high degree of economic activity in the region for many years to come and the continued extensive extraction of resources that serve as stabilising factors in our energy system.

The parties note the signing of the Agreement on Development of the North Sea of March 2017, which aims to establish greater certainty that the remaining resources in the North Sea will be extracted. The parties also agree that, in the event that any of the parties wish to enter into agreements on further extraction and exploitation of resources in the North Sea, they will be free to do so.

Renewable energy on market conditions

Renewable energy sources must become our primary energy sources within the foreseeable future. Therefore, continued expansion of renewable energy capacity is required. Going forward, the subsidies for renewable energy should be harmonised and simplified as far as possible.

Technology-neutral RE subsidies

With the Energy Agreement, the extensive expansion of renewable energy continues. A total of 4.2 billion DKK (2018 prices) will be allocated for technology-neutral procurement of solar PV, onshore wind, offshore wind near coasts, wave power, and hydroelectric power in the period 2020-2024.

Strategy for land-based wind energy

Experience in recent years relating to procurement of offshore wind turbines indicates that it will be possible within the foreseeable future to establish and operate offshore wind farms without direct subsidies.

On this basis, the parties have agreed to significantly reduce the number of onshore wind turbines during the agreement period and in subsequent years, while gradually intensifying the prioritisation of offshore wind production, based on an expectation that prices and technological advances will support this shift.

The parties have specifically agreed to reduce the number of onshore wind turbines by more than half. This represents a reduction of onshore wind turbines from the current level of approximately 4,300 to a maximum of 1,850 in 2030.

The Danish Energy Agency will prepare a plan for the gradual reduction of onshore wind turbines and compose a biennial status report. If the reduction of onshore wind turbines does not follow the plan, the procurement of new onshore wind energy will be suspended until a sufficient number of onshore wind turbines have been decommissioned. The parties recognise the necessity of granting the municipalities powers to issue permits for the construction of modern wind turbines in accordance with current practice.

This policy will be gradually implemented during the agreement period, based on annual reviews and ongoing monitoring of progress. However, the two test centres in Østerild and Høvsøre are excluded from the policy.

The parties agree to improve the conditions for affected landowners. Therefore, the distance requirement for installing wind turbines onshore will be reassessed to identify potentially beneficial changes to the requirement.

The parties also agree to ensure that options for compensation are utilised in a manner that provides sufficient protection for the affected landowners. Therefore, the parties have agreed to implement a sale option scheme based on the model used at the test centres in Østerild and Høvsøre.

A review of the option-to-purchase rights scheme will also be conducted to ensure that it remains tenable as future turbines increase in size.

The parties note that the industry is working on a green scheme to support the municipalities' incentives to promote renewable energy. Together with the industry, the Danish Energy Agency will draw up a proposal for establishing a fund to enhance municipal incentives for increased RE expansion. This proposal will then be presented to the parties.

Denmark thereby embarks on its next great energy adventure, including in the North Sea, which for decades has supplied the country with oil and gas but will now supply Denmark with renewable energy.

The decision to shift focus from land-based to offshore wind turbines recognises the experiences of Danes who have experienced inconveniences caused by wind turbines near their homes, and the resulting declines in their property values.

Subsidies will be subject to price ceilings. Subsidies will also be subject to competition in open tenders where RE technologies will compete to deliver the cheapest possible renewable energy. Subsidies within this framework may also be granted to new electricity production based on biomass and biogas, provided that they can compete with the other RE technologies.

Further examination will be required to determine the feasibility of a suitable and legally sound model in which bidders can submit offers based on a model with a fixed price subsidy as well as a model with contract for difference (CfD). If this is not possible, the parties will assess the future RE subsidy model after the completion of the technology-neutral tender in 2018.

The results of the tenders will serve as a ceiling for subsidies for new electricity production from biomass- and biogas-based combined heat and power plants; these subsidies will be fixed for the first five years of the subsidy period and subsequently adjusted according to the results of the latest technology-neutral tender.

The parties also wish to expand Denmark's position as the global leader in wind energy development and demonstration projects. Therefore, the parties agree to earmark annual funding within the total budget for technology-neutral tenders for the expansion of test wind turbines, both outside and within the national test centres for large wind turbines in Denmark.

The parties also agree to eliminate direct subsidies for the establishment of new household systems based on wind turbines as from 2020.

New biogas and other green gasses

The parties agree to earmark 240m DKK annually over a 20-year period to expand the use of biogas and other green gasses; these funds will be used for upgrades, transport and industrial processes. The funding will be implemented during the period 2021-2023, and will help to ensure the continued expansion and improved efficiency of this technology in Denmark. These funds will likely be allocated through tenders with price ceilings. The procurement model will be developed in dialogue with the industry. An additional 5.4m DKK will be allocated for a bioenergy task force in 2019-2021, whose areas of focus will include potential efficiency improvements in biogas and sustainability in various forms of bioenergy, including biogas from wastewater. A portion of this funding will be earmarked for organic biogas.

A gas strategy will be developed, focusing on the continued commercial utilisation of the Danish gas infrastructure, including as part of the green transition. The strategy will also examine the framework conditions for a competitive expansion of biogas and other green gases, as well as the overall finances of the Danish gas sector, including investments and activities in the North Sea and potential scenarios for a long-term phasing-out of natural gas. The strategy will also examine the framework conditions for integration of the energy systems, including opportunities for converting and storing electricity as gaseous fuel, e.g. through methanation.

Existing biomass for electricity production

The current scheme for biomass-based electricity production will expire in April 2019. The parties agree that existing plants which are not fully depreciated will be able to continue operations within the scheme at the current subsidy levels. The depreciation period is 20 years for new plants and 15 years for converted plants. The depreciated plants will be covered by a new scheme in which subsidies only cover extra operating expenses due to the use of green fuels.

Existing biogas

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 ceiling will be established on production subsidies and assessments will be regularly conducted to identify potential overcompensation.

Reduction of taxes on electricity and restructuring of surplus heat utilisation

The parties agree on the need to reduce energy taxes to encourage more people to choose green solutions such as heat pumps, which can also promote a more flexible and integrated energy system and better utilisation of surplus heat. The tax reductions will also reduce costs for Danes and deliver significant socioeconomic benefits.

The tax reductions will also reduce income inequalities, as the largest relative benefit will be for the lowest income groups.

Dynamic electrical taxes means that the tax levels will vary, e.g. according to the time of day. This could be used to increase demand during periods with low electricity prices and high RE output. The parties agree to explore the possibility of a dynamic electricity tax.

Reduction of the electrical heating tax

The parties agree to reduce the electrical heating tax by .152 DKK/kWh (2018 prices), effective from 2021. Thus the electricity heating tax will be reduced from .307 DKK/kWh to .155 DKK/kWh (2018 prices). The tax reduction constitutes a follow-up on the *Agreement on Business and Entrepreneur Initiatives*.

This initiative will make the tax on electrical heat more balanced in relation to the tax on fossil fuels for space heating. The reduction of the electrical heating tax promotes the green transition in the heating sector by increasing the use of individual heat pumps and heat pumps in district heating systems. It also increases the incentive for utilising surplus heat.

As a result of the shift from fossil heating to electrical heating, the tax reduction contributes to reducing carbon emissions in non-quota sectors. It will also make electrical heat more attractive than wood-burning stoves, thereby lowering particle emissions.

Reduction of the electricity tax

The Energy Agreement will reduce the standard electricity tax by .04 DKK/kWh in 2019-2022, .07 DKK/kWh in 2023, .08 DKK/kWh in 2024, and .14 DKK/kWh in 2025 (2018 prices). As a result of the agreement, the electricity tax will amount to .774 DKK/kWh in 2025 (2018 prices).

Danish households pay the highest electricity taxes in the EU and thereby disproportionately higher energy taxes than in other countries. A lower electricity tax will promote the electrification of society and ensure better utilisation of the increasing volumes of renewable energy.

It will also allow Danes to benefit more from the green electricity we produce. The initiative provides significant socioeconomic benefits while also making life cheaper for Danes through lower electricity bills. Reducing the electricity tax will also limit individual production units, which are significantly more expensive and thus less socioeconomically beneficial than expanding capacity through procurement processes. The agreement will bring about an extensive expansion of renewable energy in electricity production, enabling us to replace fossil fuels with green electricity, which is expected to meet all of Denmark's electricity consumption needs by 2030.

Abolishment of Annex 1 of the Electricity Tax Act

The parties agree to equalise the electricity tax for process consumption by liberal businesses with the process tax for other VAT-registered businesses (abolishment of Annex 1 of the Electricity Tax Act), effective 2023. As a result, the electricity tax for certain liberal businesses will be reduced from the full rate of .914 DKK/kWh to the process rate of .004 DKK/kWh.

This initiative will also ensure that Danish businesses in crisis are not obliged to pay a higher electricity tax than at present; under EU state subsidy regulations, businesses in crisis may not receive support in the form of taxes that are lower than for other businesses. As long as Annex 1 of the Electricity Tax Act exists – whereby certain liberal businesses are not subject to the same taxation as other VAT-registered businesses – the EU views the high tax rate on liberal businesses as the standard rate, while the tax rate on process is seen as the reduced rate for businesses.

Restructuring of the regulations for surplus heat

The elimination of the PSO tax and the permanent reduction of the electrical heating tax to approximately .15 DKK/kWh will promote increased utilisation of surplus heat. The parties also agree to allocate 100m DKK, beginning in 2020, which combined with the restructuring of regulations will support efforts to promote increased utilisation of surplus heat. The restructured regulations will be agreed upon in the autumn of 2018 based on a proposal by the government.

Targeted energy savings

The parties note that an EU agreement has been reached to increase the energy efficiency target to 32.5% by 2030; the parties support the continuation of Denmark's proactive advocacy of energy efficiency measures in the EU, including an intensified effort to institute higher energy efficiency requirements for products and devices.

To address criticism of the current scheme and to ensure greater impact, the current energy efficiency measures will undergo a comprehensive modernisation process. Future measures will be subject to competition, targeting areas where energy efficiency improvements provide greater benefit for consumers and society than today; the costs of energy efficiency measures will also be assessed in relation to the costs of increasing renewable energy capacity.

Subsidies for energy saving initiatives

The parties agree to allow the current energy saving scheme to expire in 2021, as it has delivered insufficient savings, proven expensive and caused administrative burdens for consumers and society. Evaluations of the scheme have shown that a significant share of the subsidised energy saving measures, particularly in households, would have been carried out regardless of the subsidy.

Instead, a market-based scheme will be established in 2021-2024, targeting savings in process energy in industrial and service businesses, as well as energy consumption in buildings. The funds will be awarded through open tenders, where bidders offer a given volume of energy savings at a given price. These funds will be capped at 500m DKK (2018 prices) annually and subject to a subsidy ceiling. Of this funding, 200m DKK will be earmarked for energy saving measures in buildings. Regarding energy savings in businesses, projects where more than 50% of the energy savings are within process energy are eligible to apply. The scheme will be organised to ensure the highest possible degree of additionality.

Energy saving – data and information

To ensure that consumers have the necessary information about new savings opportunities, the parties agree to launch an information initiative targeted at the most relevant times for energy efficiency measures, e.g. in connection with home purchase or renovation.

The parties further agree that the potential held by data and increased digitisation must be better utilised to ensure energy efficiency measures where they provide the most value. Therefore, the information initiative will be accompanied by increased collection and active utilisation of data, which can help to ensure that the chosen energy efficiency measures deliver the most possible value for Danish consumers. The primary focus of the initiative will be improving the energy performance certificate scheme for buildings.

The Energy Agreement allocates 19m DKK in 2018, 33m DKK in 2019, 34m DKK in 2020, and 44m DKK annually from 2021-2024 for the information and data initiative.

The parties also note that a long-term building renovation strategy for existing buildings will be composed, including indicative milestones for 2030, 2040 and 2050.

Support schemes to promote replacement of oil-fired boilers in favour of individual heat pumps

The parties wish to phase out the use of oil-fired boilers and promote the use of individual heat pumps in areas outside of the collective district heating and natural gas networks. Therefore, funding of 20m DKK will be allocated annually from 2021-2024 to support the installation of individual heat pumps in connection with the scrapping of oil-fired boilers.

Loan scheme for energy renovations in municipal and regional buildings

Regions and municipalities play a key role in ensuring energy-efficient public buildings. Therefore, the parties agree to allocate 100m DKK annually in the period 2021-2024 for loans to help finance energy renovations in buildings owned or operated by Denmark's municipalities and regions. These funds will be kept separate from the municipalities' budget limitations for construction and maintenance of property.

Modernisation of the heating sector and mitigating the impacts of eliminating the “base subsidy”

The parties agree to work for a modernised heating sector where district heating plants and consumers have the freedom to make their own decisions on future investments, thereby improving access to green and cheap heating for businesses and consumers. Therefore, the parties agree to eliminate production commitments in the form of combined heat and power plant requirements and the fuel commitment (to natural gas). This will be supported by a lower electricity heating tax, which increases the incentive to choose heat pumps – a core component of the green heating sector of the future.

The parties agree to help ensure that consumers experience as few price increases as possible resulting from the elimination of the base subsidy, while also providing incentives to choose heat pumps as a part of tomorrow's solutions.

Under the Energy Agreement, production commitments in the small district heating areas will be eliminated effective 1 January 2019. This is important for mitigating the impacts of eliminating the base subsidy. The small district heating areas serve approximately 240,000 households.¹ The parties will investigate whether additional plants can be covered by the agreement effective 1 January 2019. It is expected that the plants will convert to the use of heat pumps after the elimination of the base subsidy.

¹ Small district heating areas are defined as areas that deliver less than 200 TJ heat (approximately 350 district heating areas/240,000 households). Medium-sized district heating areas are defined as areas that deliver more than 200 TJ heat, with electricity production under 50 MW (approximately 50 district heating areas/280,000 households). The large areas have electricity production capacity in excess of 50 MW (approximately 16 district heating areas and more than 1,000,000 households).

The parties agree that the approval process for conversion of heat production must include temporary support to ensure that plants only convert to biomass if deemed necessary for reasons including the elimination of the base subsidy. The government will draw up a proposal for this model.

To promote conversion to heat pumps in district heating, heat pumps will be subject to the same rules for calculation and extraction of surplus as those currently applicable for industrial surplus heat, geothermal heat, solar heat, and plants fired with biogas or biomass. This will help to ensure that collective heat pumps compete on equal terms with the other technologies capable of producing a surplus. The measure will become effective as quickly as possible, taking into account the new financial regulation of the district heating sector (agreed in June 2017).

The parties also agree, effective 1 January 2019, to prohibit new consumer commitments in the form of connection and continuation requirements.

It is untenable if consumers are bound to companies with non-competitive prices. An analysis of the consequences of eliminating consumer commitments will be conducted. Upon the conclusion of this analysis, the parties will negotiate a potential prohibition of consumer commitments on the basis of a proposal by the government.

A decision on the elimination of production commitments in medium-sized and large district heating areas and a decision on the elimination of existing consumer commitments will be made after the parties have had the opportunity to review the results from the small district heating areas and analyze issues including security of electricity supply. The goal is a modernised heating sector, taking into account past investments, security of supply and consumers. The parties note that an elimination of the production commitments in the medium-sized and large areas will require the provision of funding for this purpose.

The parties agree to continue working for a climate-friendly and sustainable international regulation of biomass, including in connection with the EU's forthcoming long-term low emission strategy.

Mitigating the impacts of eliminating the base subsidy

Eliminating production commitments in the small district heating areas and reducing the electrical heating tax is expected to provide an expedient framework for mitigating the impacts of eliminating the base subsidy. To assist distressed plants and customers, the parties agree to launch a number of additional initiatives:

- Funding to manage stranded costs: 294m DKK in 2019-2023.
- Expanded advising of the plants and distressed heating customers: 26m DKK in 2019-2023.
- Financial support for individual solutions: 70m DKK in 2019-2023.
- Initiative for heating customers who will experience increased heating prices for a period of time (including screening of plants): 150m DKK in 2018-2021.

The specific structure of these allocations will be negotiated by the parties on the basis of a government proposal.

Geothermal heat

Denmark has extensive geothermal resources, which in the future could meet a large share of Denmark's heating consumption needs with clean energy.

The Energy Agreement promotes the adoption of new green solutions and technologies, including geothermal heat. The modernisation of the heating sector will help open the heating market for new technologies in collective heat production, thus providing the opportunity to increase the share of RE technologies (e.g. geothermal heat) in central areas. The reduced electrical heating tax will also make the use of heat pumps to extract geothermal heat considerably cheaper.

The scheme providing financial risk coverage in connection with geothermal drilling was introduced in 2017. The scheme provides the option of limiting financial risk in connection with geothermal drilling. Companies with geothermal permits can also apply for coverage by the scheme, which they must pay for themselves. The scheme will be extended until the end of 2024.

The parties agree to conduct an analysis of geothermal heat under the new framework to ensure that subsidy conditions are competitive with biomass in heat production.

District cooling

The parties are launching a series of initiatives to promote the development of the district cooling sector, including free choice of technology and better options for the operation of cross-municipal district cooling projects. District cooling is a form of green energy increasingly sought by Denmark's industrial and commercial businesses.

Phasing out of coal

The parties will phase out Denmark's use of coal in electricity production by 2030, thus joining the international initiative in this respect. The parties agree to conduct an analysis of how and how quickly coal can be phased out in an expedient manner.

Strengthened energy and climate research

Research, development and demonstration of new green solutions not only promotes the green transition in Denmark, but also generates the basis for growth, jobs in the energy sector nationwide, and exports of Danish energy technology.

The government has committed to participate in the Mission Innovation initiative. As part of this commitment, the parties will increase state funding for research, development and demonstration of energy technology to 580m DKK in 2020, divided into 500m DKK for the Energy Technology, Development, and Demonstration Program (EUDP) and 80m DKK for Innovation Fund Denmark.

After 2020, the parties intend to further increase state funding for research, development and demonstration in the fields of energy technology and climate, and during the agreement period will increase funding for these efforts to 1 billion DKK in 2024. The goal of 1 billion DKK will be prioritised within the framework of the government's goal of investing at least 1% of GDP in research. The increase will be phased in linearly from 2020 to 2024 based on the expected increase in GDP, see *Denmark's Convergence Programme 2018*.

Denmark leading the way in exports of green energy solutions

Danish knowledge and Danish energy solutions are increasingly in demand globally, as ever more countries pursue a transition to green energy. Denmark must seize these opportunities through efforts such as bilateral collaborations with public authorities in other countries and exports.

The parties agree to significantly intensify export promotion activities in the energy sector – both in scale and volume – to a total of 174m DKK from 2019 to the end of 2024. The current export scheme in the key export markets of Germany, the UK and the United States will be extended until the end of 2024 and expanded to include two new partner countries and the posting of four new energy advisors.

Denmark will also increase its collaborations with authorities in future growth markets through public-private partnerships with an increased focus on the promotion of Danish exports, market development and investments.

A smart and flexible energy system

Denmark must have the most integrated, market-based and flexible energy system in Europe, with efficient energy utilisation across the electricity, heating and gas sectors, and with a continued strong security of supply. There is also a need to further develop the electricity market and determine the potential role of the gas system in the green transition of the energy system.

As part of creating a smart energy system, the potential held by data and digitisation must also be utilised more than at present. Initiatives in focus include the testing of regulatory free zones and improved use of data and digitisation in the utility sectors. The parties agree on the following concrete initiatives (in total, between now and 2024):

- Development of a market model 3.0, which will improve the electricity market model: 24.5m DKK.
- Smart energy action plan.
- Testing of regulatory free zones: 12.5m DKK.
- Improving the utilisation of data and digitisation in the authorities' servicing of the utility sector: 18.1m DKK.
- Appointing a task force that will simplify and consolidate regulations across the utilities sector: 13.4m DKK.
- Preparation of a gas strategy to provide the necessary basis for a market-based and commercially utilised gas system: 5.5m DKK.
- Strengthening efforts with various analysis models: 36m DKK.
- 2.5m DKK annually in the period 2019-2024 to Samsø Energy Academy.

The parties note that a working group will be appointed in the second half of 2018, whose tasks will include a review of whether current tariff legislation is properly composed for today's conditions, e.g. in terms of flexible consumption, and whether the tariffs can be billed in a more cost-reflective manner.

Pricing of interruptible electricity customers, including those with heat pumps, will be part of the working group's focus areas. As part of the above initiative, the parties also agree to explore the possibility of a dynamic electricity tax.

The parties also agree that Denmark must proactively advocate further liberalisation and integration of the electricity markets so that energy can flow freely across borders in the EU.

Funding for green transport

The parties agree that Denmark must work in support of raising the EU Commission's proposed carbon emissions reduction for light vehicles from 30% to at least 40% compared to 2021 levels, and for ambitious emissions requirements for heavy vehicles. The parties also agree to allocate 100m DKK annually in the period 2020-2024 to support green solutions in the transport sector. This funding will be adopted by the parties in the autumn of 2018 based on a proposal from the government on promoting green mobility and transport in a broad sense, including collective and individual transport by land and collective maritime transport.

Reserve for additional investments in RE from 2025 onwards

The parties agree to establish a reserve of 400m DKK in 2025 and 500m annually from 2026 to support further efforts to advance the use of RE. The parties also agree to fund two additional offshore wind farms between now and 2030. The total funding commitment agreed by the parties enables the achievement of an RE share of 55% by 2030.

The parties further agree to allocate funding of 250m DKK annually in 2026-2030 for climate-related efforts.

The parties note that the gradual expiration of subsidies funded by the PSO tax will free up finances that will be utilised to fund the above initiatives.

Administrative costs

The Energy Agreement establishes a reserve for additional administrative costs, amounting to 10m DKK in 2018, 45m DKK in 2019, 45m DKK in 2020, 50m DKK in 2021, 50m DKK in 2022, 40m DKK in 2023, and 40m DKK in 2024.

Upon adoption of the agreement, the Ministry of Finance and the Ministry of Energy, Utilities and Climate will launch a joint validation of costs to be covered by the administrative reserve for the purpose of detailed budgeting.

The Energy Agreement provides funding of 15m DKK in 2018, 106m DKK in 2019, 124m DKK in 2020, 116m DKK in 2021, 95m DKK in 2022, 83m DKK in 2023, and 80m DKK in 2024 for administration, analyses, modelling, advising, etc. in the Ministry of Energy, Utilities and Climate, etc.

Some administration costs relating to eliminating the base subsidy will be covered by earmarked funds.

Funding of expenses in the agreement

The parties agree upon the emphasis on transparency and the capacity for comprehensive political prioritisation and management of future subsidy costs relating to renewable energy and energy efficiency improvements. Therefore, the parties agree to continue observance of the principles from the *Agreement on the elimination of the PSO tax*, whereby these expenses will be funded via the Finance Act and not via tariffs. This will ensure that these costs are treated equally to other costs funded via the Finance Act. Thus, among other things, the costs of energy efficiency efforts and cabling from offshore wind farms will be shifted from the tariffs to the Finance Act.

Public finances

The agreement prioritises approximately 0.5 billion DKK in 2019, increasing to approximately 2.8 billion DKK in 2025, see *Table 1*.

Table 1								
Budgetary impacts – priorities								
2018 prices, DKKm	2018	2019	2020	2021	2022	2023	2024	2025
World class offshore wind	2	10	17	16	105	117	220	376
Renewable energy on market conditions	0	0	0	6	291	346	392	429
- <i>Technology-neutral RE subsidies</i>	0	0	0	6	51	111	161	202
- <i>New biogas and other green gasses</i>	0	0	0	0	240	235	231	227
Reduction of taxes on electricity and restructuring of surplus heat utilisation	0	325	375	675	650	1,200	1,250	1,575
- <i>of which reduction of the electrical heating tax</i>	0	0	0	325	325	350	350	350
- <i>of which reduction of the electricity tax</i>	0	325	275	250	225	400	450	775
- <i>of which abolishment of Annex 1 of the Electricity Tax Act</i>	0	0	0	0	0	375	350	325
- <i>of which restructuring of the regulations for surplus heat</i>	0	0	100	100	100	100	100	100
Targeted energy saving effort	20	35	35	545	550	550	555	10
- <i>of which subsidies for energy saving initiatives</i>	0	0	0	500	500	500	500	0
- <i>of which energy saving – data and information</i>	19	33	34	44	44	44	44	0
Modernisation of the heating sector and mitigating impacts of eliminating the base subsidy	2	38	235	255	120	110	50	50
- <i>of which modernisation of the heating sector</i>	0	10	40	60	60	50	50	50
- <i>of which base subsidy initiatives</i>	2	28	195	195	60	60	0	0
Analyses, policy development and export promotion	3	53	64	52	47	44	42	0
- <i>of which export promotion</i>	0	20	31	31	31	31	31	0

- of which gas strategy	0	2	2	1	0	0	0	0
- of which electricity market and security of supply	3	4	5	3	3	3	3	0
- of which smart energy and storage	0	3	3	3	3	3	0	0
- bioenergy task force	0	2	2	2	0	0	0	0
- digitised public servicing of the utility sector	0	6	5	5	2	0	0	0
- task force for digitisation-ready legislation and smart energy - pilot phase	0	7	7	0	0	0	0	0
- of which analysis and model development	0	7	7	5	5	5	5	0
- Samsø Energy Academy	0	3	3	3	3	3	3	0
Funding for green transport	0	0	100	100	100	100	100	0
Funding for scrapping oil-fired boilers	0	0	0	20	20	20	20	0
Reserve for additional investments in RE as from 2025	0	0	0	0	0	0	0	400
Administrative costs	10	45	45	50	50	40	40	0
Priorities, total	25	500	875	1,700	1,925	2,525	2,675	2,825

Note: Due to rounding, there may be deviations between the sum of the components and the total sum.
The tax reductions are listed in 2018 prices and calculated according to reversals and behaviour. "Targeted energy saving effort" also includes a derived lower tax revenue.

The Energy Agreement is fully financed within the framework of the medium-term financial planning, which runs until 2025. The agreement is funded in part by a contribution from the government's fiscal surplus. Additional funds are derived from the energy sector, including available funds from the energy efficiency contribution and released funds as a result of overcompensation in subsidies for biomass and biogas, see *Table 2*.

2018 prices, DKKm	2018	2019	2020	2021	2022	2023	2024	2025
Energy efficiency contribution	21	31	31	87	87	87	87	87
Energy reserve	0	51	51	0	0	0	0	0
Overcompensation depreciated biomass plants	0	30	100	100	170	160	160	160
Overcompensation biogas plants	0	50	50	50	70	100	10	0
Advancement of reduction of green check	0	240	170	150	50	40	20	0
Funding from tax succession of commercial foundations	0	190	190	190	190	190	190	190
Temporary funding contribution from energy taxes	0	0	0	1,100	900	800	700	200
Adjusted ceiling on public investments	0	0	0	-250	250	250	0	-250
New dividend policy in Statens Ejendomssalg A/S	25	50	50	75	100	100	100	100
Specific calculated estimates of PSO taxes in 2023-2025 in CP18	0	0	0	0	0	325	1,425	2,500

Additional prioritisation of climate and energy initiatives	-25	-125	225	225	125	475	-25	-150
Financing, total	25	500	875	1,700	1,925	2,525	2,675	2,825
<i>Total (balance)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

Note: Due to rounding, there may be deviations between the sum of the components and the total sum.

In Denmark's Convergence Programme 2018, the fiscal surplus was increased by ¼ billion in 2023, 1½ billion in 2024 and 2½ billion in 2025, based on the inclusion of specific estimates of costs of green energy in 2023-2025, whereas the estimates were previously based on technical calculation principles. On this basis, the parties agree to prioritise a corresponding amount in connection with the Energy Agreement to support the green transition and make daily life cheaper for Danes. In addition to this contribution, an additional approximately 100m DKK from the fiscal surplus will be prioritised annually in the period 2018-2025.

The parties note that after the adoption of the Energy Agreement, there will still be considerable budgetary flexibility to finance ongoing fiscal priorities.

A number of the agreed initiatives must be reported or approved in accordance with the European Commission's state aid rules. If, contrary to expectations, an initiative is unable to secure approval under the EU's state aid rules, or if this would require significant changes to the individual initiative, the parties agree to discuss the handling of such issues, including alternative utilisation of the funds allocated for the initiative.

Advancement of reduction of green check

The green check for non-pensioners amounts to 630 DKK in 2019, plus an additional 145 DKK per child (up to 2 children). As part of the *Agreement on elimination of the PSO tax from November 2016*, the green check is to be gradually reduced to 525 DKK in 2025, and the additional amount per child reduced to 120 DKK. The green check for pensioners is not changed under the PSO agreement. The parties agree to advance the reductions of the green check under the PSO agreement so that they take effect in 2019.

Temporary funding contribution from energy taxes

Up to approximately 1.5 billion DKK is currently charged via tariffs to finance the current energy saving scheme.² This charge will be eliminated when the energy saving scheme expires in 2020. The Energy Agreement institutes a temporary funding contribution in 2021 that is gradually phased out to zero in 2025.

With the Energy Agreement, the parties agree upon a funding contribution of 1.1 billion DKK in 2021, 0.9 billion DKK in 2022, 0.8 billion DKK in 2023, 0.7 billion DKK in 2024, and 0.2 billion DKK in 2025 (calculated after reversals and behaviour at 2018 levels, and including any administrative costs). The funding contribution will be financed by the implementation of a new temporary tax in the energy sector, or by a temporary increase in existing energy taxes. When considering this financing, one factor to be examined is the connection with financing of the current energy saving scheme. The parties will decide on the specific financing structure based on a proposal from the government.

Adjusted ceiling on public investments

In connection with the 2025 plan *Growth and prosperity 2025*, the government increased public investments by 22 billion DKK between now and 2025. In connection with the *Agreement on lower taxes on working income and higher deductions for pension contributions*, the government reduced the original ceiling on public investment by approximately ½ billion DKK annually in 2021-2025. On this basis, public investments were to grow by 19½ billion DKK during that period.

The parties note that, in connection with the Energy Agreement, the government adjusts the ceiling on public investments so that it is approximately ¼ billion DKK lower in 2022 and 2023, and approximately ¼ billion higher in 2021 and 2025. Thus the government's overall ceiling on public investments remains unchanged during the period, corresponding to a ceiling of 19½ billion DKK.

New dividend policy in Statens Ejendomssalg A/S

A new dividend policy will be developed for Statens Ejendomssalg A/S (Freja). Under the new dividend policy, Statens Ejendomssalg A/S will have a goal of distributing an annual dividend of 500m DKK to the state as the sole owner. The dividend policy is based on the current economic outlook for the company. The dividend policy is also based on the company's robust capital structure and high solvency ratio. In recent years, the company has distributed considerable dividends to the state as sole owner, while maintaining a relatively high level of liquidity.

² The 1.5 billion DKK corresponds to the politically adopted ceiling for annual costs.

The new dividend policy represents expected additional dividends to the state of 100m DKK annually from 2020, compared to the current estimates for expected dividends under the existing dividend policy. The additional revenue is included in the financing of the agreement.

In principle, the new dividend policy is permanent, but it will be reassessed by the end of 2023 at the latest.

Nature of the agreement

The parties agree that the agreement applies for the period 2020-2024, after which their commitments under the agreement will be seen as expired, unless otherwise specified in the agreement.

The parties also agree that a fundamental examination of all previous agreements relating to energy policy must be conducted. On this basis, the government will prepare a proposal on which agreements or parts of agreements should remain in force.

The agreement contains elements covered by binding political commitments, as well as elements based on political agreements. The parties agree that the following parts of the agreement are covered by binding political commitments:

- Technology-neutral procurement processes.
- Subsidies for existing and new biomass and biogas.
- Procurement of three offshore wind farms.
- Screening to identify additional offshore wind farm locations.
- Procurement model for energy efficiency measures, including the agreed distribution of the allocated funding.
- Termination of fuel commitments and combined heat and power plant requirements.
- Base subsidy initiatives.
- Financing of two additional offshore wind farms after 2025.
- Climate funding of 250m DKK in 2026-2030.
- Mechanism for the number of land-based wind turbines.
- Goal of phasing out coal by 2030.
- RE reserve of 400m DKK in 2025 and 500m DKK from 2026 to 2030.

The rest of the agreement is a political agreement. However, the parties commit to vote in favour of bills and appropriations reflecting the contents of the agreement.

Once the necessary legislation is adopted and the agreed appropriations have been approved, the parties are free of commitments beyond those elements of the agreement covered by a binding political commitment.

Two years before the expiry of the agreement, the government will take the initiative to commence discussions on energy policy after 2024.