



# Draft tender material for the Danish CCS Fund

Tender process and tender design

28 June 2024

# Revised tender process

# Revised tender process

- The political agreement "*Aftale om styrkede rammevilkår for CCS i Danmark*" signed on 20 September 2023 states that the CCS Fund will be deployed via two bidding rounds: one published in June 2024 (DKK 11.1 bn.) and the other in June 2025 (DKK 17.2 bn.). Both rounds include a requirement for full-scale carbon capture and storage by 1 January 2029.
- However, input from the first market dialogue, the Danish Energy Agency's knowledge on storage development, and experience from the CCUS & NECCS Fund have shown that it would be beneficial to revise the tender process to ensure that the estimated carbon reductions from the Fund are realised in time to contribute to the Danish climate target in 2030.

## Input from the market dialogue


- **More projects:** More CCS projects are likely to be ready for the first bidding round than originally anticipated. Furthermore, the original subsidy profile for the first bidding round has been estimated as insufficient to finance one or two larger projects.
- **Onshore storage:** a number of players in the market are aiming for onshore storage as part of their value chain. A later deadline for BAFO would increase the number of potential storage operators participating in a final bidding process.
- **Sufficient time for implementation:** It is a time consuming and complex process to complete a CCS project, and hence more time is necessary to complete the CCS projects from award of contract to the fully operational CCS project.
- **Timing of two tenders:** Hard to conduct two tenders in time for the 2030 climate target, since it is not preferable to have the tenders overlap in time. If the bidding process for the first round is postponed, it would delay the second round. This would mean that projects in the second round would not contribute fully to the Danish 2030 climate target.

# Considerations for a revised tender process



Sufficient time for  
implementation

Time expected from award of contract to fully operational CCS project: 3-5 years.



Adequate and early  
financing

To support participation by more – and larger - projects, thus increasing competition.



Sufficient storage  
options

Deadline for BAFO should preferably be close to the storage operators' FID.

# Merging the two bidding rounds into one

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1. The two bidding rounds in the CCS Fund will be merged into one bidding round published in 2024 with deadline for BAFO in Q4 2025.
2. The requirement for full-scale capture and storage by 1 January 2029 will move to 1 January 2030. This will be combined with a requirement to commission the capture plant in 2029.
3. Companies that are able to capture and store CO<sub>2</sub> in 2029 can also receive financial support for this (full subsidy available). The funds from 2028 will be reallocated to the contract period 2029-2044.

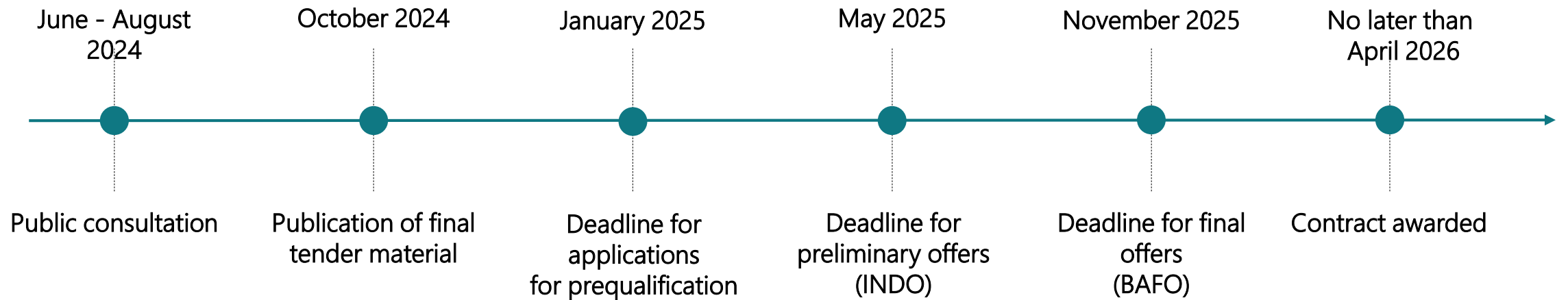
# Profile and reallocation of funds

**Table 2: The CCS Fund – New profile and reallocation of funds in 2028-2044**

	2028	2029	2030-2040 (per year)	2041	2042	2043	2044	Total
<b>DKK mill. (2024 prices)</b>								
New profile	0	1,770	1,770	1,770	1,770	1,770	1,770	28,322
Reallocation	-1,198	-31	-32	41	250	380	908	0

Source: *Danish Ministry of Climate, Energy and Utilities*

# Timeline for the tender process



# Design of the tender



# Key principles of the tender design

- The bidding process is designed to ensure competition for the funds in order to achieve the most possible CO<sub>2</sub> reductions at the lowest possible cost.
- The tender will be designed to ensure that the estimated reductions from the Fund (i.e. the contribution to the Danish 2030 climate target) are reached with sound national financial management and low socio-economic costs.
- The reductions have to contribute to realisation of Denmark's climate targets as outlined in the Danish Climate Act (in Danish: "Klimaloven").
- The final design depends on state aid approval by the EU Commission.

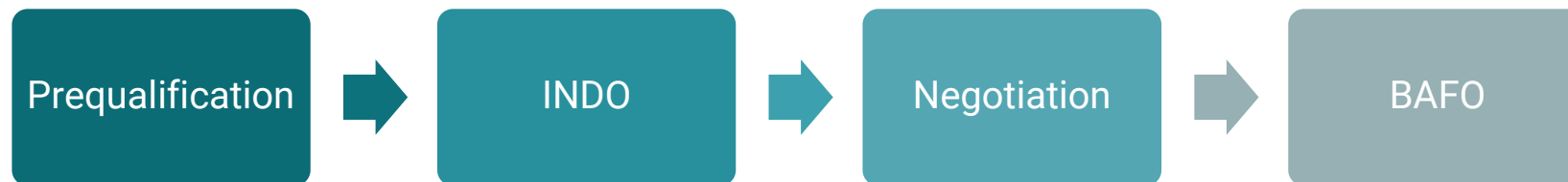
# Tender design and minimum requirements

- The bidder must ensure that a minimum of 100,000 tonnes CO<sub>2</sub> is stored annually from 2030-2044.
- The DEA can and expects to award several contracts.
- The recipient(s) will be responsible for the full value chain.
- The subsidy will be paid per tonne of CO<sub>2</sub> captured and stored.
- The Operator may be any economic operator or a group of operators willing to assume the responsibility for the contract by itself and/or by engaging sub-suppliers.

# Competitive bidding process

The competitive bidding process will be conducted as a negotiated procedure (Danish: udbud med Forhandling) to ensure the best possible quality of the final bids.

The procedure entails that candidates interested in participating in the competitive bidding procedure must **first** apply for **prequalification**. **Second**, the prequalified bidders will be invited to submit an **indicative offer (INDO)** that will serve as the foundation for the negotiations. **Third**, the **negotiation procedure** will take place. **Finally** the bidders will be invited to submit their **Best And Final Offer (BAFO)**.



# Prequalification: minimum requirements

During the prequalification, the DEA will assess the candidates based on their:

- Economic and financial capacity (minimum requirements).
- Technical and professional capacity (selection criteria)

## **Economic and financial capacity:**

- As a minimum requirement, the candidate will be required to present positive (above zero) equity for the latest financial year prior to the prequalification application.

## **Further contract requirements:**

- The contract holder must be responsible for the entire CCS value chain.
- The point source (or DAC facility) must be located in Denmark, as the reductions must count in the Danish national inventory report.

# Prequalification: selection criteria

If more candidates than the maximum number of prequalified candidates set by the DEA fulfil the minimum requirements regarding economic and financial capacity, selection of candidates invited to the competitive bidding process will be based on the following criteria:

- Which candidates have demonstrated the most relevant experience with CCS, for example demonstration projects, pilot projects and research.
- Which candidates have demonstrated the most relevant experience with acquiring and establishing plants or platforms and/or modifying or expanding plants or platforms and commissioning them.

# Key components of the evaluation model

**Evaluation of price:** The price is evaluated per tonne captured and stored CO<sub>2</sub>. The DEA will award the contract based on an evaluation of the best price-quality ratio.

**Weighting of price:** Price (weight 80%) evaluated on basis of the evaluation amount, which means the offered rate plus a calculated evaluation-technical supplement. The 80 percent weight is to ensure high price competition in the tender. The remaining 20 percent is evaluated based on project maturity.

**Evaluation technical supplement:** The evaluation amount is the offered rate per tonne CO<sub>2</sub> plus an evaluation-technical supplement reflecting possible savings or reimbursement of CO<sub>2</sub> taxes that implementation of CCS would entail for the bidder in question. The incentive from quotas is not taken into account, as the reduced quota payment is not a cost for Danish society from a socio-economic perspective.

**Bid cap:** The DEA will establish a maximum bid cap to ensure that contracts are not rewarded to very high bids. The purpose of the bid cap is to ensure mature projects and support competitive pricing.

# Subsidy

- **The subsidy will be paid per tonne of CO<sub>2</sub> captured and stored** in accordance with the contract, including requirements regarding verification and documentation.
- **The subsidy will be based on a rate per tonne of CO<sub>2</sub> offered by the bidder**
- **Subsequent corrections:** The subsidy is subsequently corrected to safeguard against over-compensation. Changes in the quota price in addition to the forecast price, or income from the sale of climate credits after a final bid has been given, will to a certain extent be corrected in the subsidy.

# Penalties

- There will be a penalty scheme for non-performance including delay in COD and if operators are not able to get capture plants to full capacity within the first years.
- Penalties will be imposed for a two-year period from COD. If the COD is in 2029, the penalty period will be 2030-2031, meaning that non-performance in 2029 will not be subject to penalty.
- The penalty level will constitute fifty percent (50%) of the offered rate per tonne CO<sub>2</sub> not delivered.
- This means that the maximum penalty over the two years from COD (at the earliest from 2030) will amount to one year's total subsidy.
- The penalty will not apply in the event of e.g. force majeure or reduced demand for the point source's primary product.



# Extension of time

- The operator is entitled to a postponement of the COD in the following circumstances:
  - › If the circumstances could not be foreseen at the deadline for submission of the operator's bid
  - › If the circumstances could not be overcome after the parties entered into the contract
  - › If the circumstances cannot in any other way be attributed to the operator's own circumstances
- If the operator considers that it is entitled to a postponement of the COD, the operator must notify the DEA of this in writing as soon as possible.
- The operator is not entitled to an increase of subsidies or any other additional payment or compensation in the event of a postponement of the COD.

# Termination for convenience (exit clause)

- Operators will have a certain flexibility to exit the contract, e.g. if the operator sees a business case in selling the CO<sub>2</sub>.
- The exit clause can come into effect on 1 January 2036 at the earliest, with a minimum notice of two calendar years.
- No fee will be imposed if the operator terminates for convenience.

# Termination for cause and termination fee

## Termination for cause:

- The DEA is entitled to terminate the contract with immediate effect, in whole or in part, in the event of material breach of the contract in specific circumstances, including:
  - › If the operator is more than twelve months late in achieving the COD, or if the COD has been postponed.
  - › Non-performance by the operator with respect to the required annual quantity of CO<sub>2</sub> for two consecutive calendar years (25% or more deficit in each year).

## Termination fee:

- If the DEA terminates the contract for cause, a termination fee will be imposed on the operator – also after the two-year penalty period in 2030 and 2031.
- The termination fee will be fifty percent (50%) of the offered rate per tonne of CO<sub>2</sub> not delivered over a two-year period. The maximum termination fee for the two years of consecutive non-performance will amount to one year's total subsidy.

# Public Consultation

Themes and questions are specified in the public consultation document available at <https://ens.dk/ansvarsomraader/ccs-fangst-og-lagring-af-co2/ccs-udbud-og-anden-stoette-til-udvikling-af-ccs>

The deadline for submitting inputs is

**20 August 2024**

Inputs can be submitted by e-mail under the headline “Public consultation CCS Fund” to [ccs-puljer@ens.dk](mailto:ccs-puljer@ens.dk) with copy to [makp@ens.dk](mailto:makp@ens.dk).

# Questions