

LEGAL ALERT

ADJUSTMENT OF ELECTRICITY PRODUCTION COSTS WITHIN THE IBERIAN ELECTRICITY MARKET

Considering the instability in the energy sector caused by the armed conflict in Ukraine, as well as the specific characteristics of the Iberian Electricity Market (MIBEL), Portugal and Spain have worked together to create a way to decouple the price of natural gas from the price of electricity in order to ultimately enable energy cost savings for the end consumer.

In this respect, the Portuguese government has enacted [Decree-Law no. 33/2022, of 14 May](#) (Decree-Law), which establishes an exceptional mechanism to adjust electricity production costs by setting a reference price for the natural gas consumed in the production of electricity traded on the MIBEL. This mechanism shall be in place until 31 May 2023.

According to the Decree-Law, combined-cycle power plants and cogeneration facilities under the market regime (being the generation of electricity carried out under physical power purchase agreements excluded) domiciled in the Portuguese price area of the MIBEL shall make their offers internalizing the adjustment calculated under the terms set out in the Decree-Law. The daily adjustment is determined by the Nominated Electricity Market Operator (NEMO) and its calculation corresponds to the differential (increased by a factor of 0.55) between the gas market price index and the natural gas reference price of 40 EUR/MWh, which will be increased from the 7th month of application of the adjustment mechanism, expressed in electric MWh.

The NEMO also calculates the global adjustment to be passed on exclusively to electricity consumers within the electricity wholesale market (*i.e.*, in practice, great consumers of electricity).

The cost of liquidation of the market adjustment value shall not, however, impact the following consumptions:

- Pumping in hydroelectric plants;
- Ancillary services of the remaining power plants;
- Storage systems, such as batteries; and
- Electricity supply agreements executed before 26 April 2022 and establishing fixed prices, except if these are renewed or if the contractual conditions concerning the electricity price are amended.

The provisions on repercussion of the cost adjustment, as well as other provisions set forth in the Decree-Law require regulation to be approved by the Electricity Services Regulatory Entity (ERSE).

ERSE has approved [Directive no. 11/2022, of 14 May](#), which approves the procedures and templates for the compliance of the reporting obligations established by the Decree-Law.

[The energy and natural resources team](#)

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