

## Energy/Natural Resources - Portugal

### Energy Sector Undergoes Overhaul

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#### New Energy Policy Privatization Developments

#### New Energy Policy

Council of Ministers Resolution 63/2003 has approved the Energy Policy, which sets out the government's new strategy for the sector. The programme has several ambitious objectives, which are summarized in the tables below.

#### General measures

Measure	Description	Implementation
Study of the reorganization of the national energy sector.	<ul style="list-style-type: none"> <li>Study of the competitiveness in the Iberian market of those companies in which the Portuguese state is still a shareholder - Galpenergia (oil and gas), EDP (electricity generation and distribution) and REN (electricity transmission).</li> <li>Report regarding the creation of the company in charge of the management of strategic energy reserves (EGREP).</li> </ul>	First and second quarter of 2003.
Diversification of natural gas supply sources.	<ul style="list-style-type: none"> <li>Construction of the seaport terminal for reception of liquefied natural gas.</li> <li>Construction of a subterranean natural gas reservoir.</li> </ul>	<ul style="list-style-type: none"> <li>Fourth quarter of 2003.</li> <li>First reservoir in March 2004.</li> </ul>
Reinforcement of electricity interconnection with Spain.	Implementation of the plan to boost electricity interconnection with Spain.	<p>On course. Conclusion:</p> <ul style="list-style-type: none"> <li>first phase - 2004 (1,100 megawatts (Mw));</li> <li>second phase - 2006 to 2007</li> </ul>

		(1,500 Mw).
Reinforcement of the national electricity grids.	Secure the planning and construction of the access infrastructure and transmission and distribution markets.	On course.
Reinforcement of the natural gas infrastructure.	Secure the planning and construction of the access infrastructure and transmission and distribution markets.	On course.
Reduction of external energy dependency (Portugal imports 85% of its energy at a cost of €4 billion a year).	Modify systems and technologies with the objective of reducing consumption of imported primary energy. Required investment until 2010 is €5 billion.	On course.
Establishment of the company responsible for the management of national strategic energy reserves.	Establishment of EGREP.	2003.

### **Environmental measures**

<b>Measure</b>	<b>Description</b>	<b>Implementation</b>
Allocation of carbon dioxide emissions per sector and main industries in compliance with the Kyoto Protocol.	<ul style="list-style-type: none"> <li>• Definition of total emissions allowed per sector and, within each, allocations for main polluters.</li> <li>• National Emissions Allocation Programme.</li> <li>• Establishment of the emissions market.</li> <li>• Equity with EU and Spanish markets.</li> </ul>	First semester 2003.
Definition of carbon emission taxes (Kyoto Protocol).	Applicable to polluters that cannot participate in the emissions market. Carbon tax defined in accordance with the standards established by other EU member states (mainly Spain).	Second semester 2003.
National Climate Change Programme.	Execution of the measures referred to in the National Climate Change programme.	Second semester 2003.
Promote the use of solar collectors and solar hot water.	<ul style="list-style-type: none"> <li>• Fiscal deduction on the acquisition of solar collectors and other equipment up to €700.</li> <li>• Solar Hot Water Programme objective - installation of 1 million square metres of solar collectors.</li> </ul>	On course.
Incentive to use indigenous energy sources.	Value added tax (VAT) at 12% for equipment destined for use with indigenous energy sources (normal VAT rate 19%).	On course.
Implementation of energy efficiency in buildings.	<ul style="list-style-type: none"> <li>• Implementation of the EU directive.</li> <li>• New legislation, pilot projects and energy certification.</li> </ul>	<ul style="list-style-type: none"> <li>• Second semester 2003.</li> <li>• On course.</li> </ul>

**Electricity market**

<b>Measure</b>	<b>Description</b>	<b>Implementation</b>
Implementation of the Iberian Electricity Market (IEM).	Formation of the Iberian market through a phased approach.	By 2006.
Definition of a common regulatory platform in the IEM	Institution of the Portuguese and Spanish Committee on Regulation and Technical Management for the Harmonization of Regulatory Policy between the two states.	By the end of 2003.
Definition of the tariff structure in the IEM.	Definition of the common principles for the establishment of the mechanisms used in the stipulation of tariffs.	On course.
Elaboration of the harmonized rules regarding the IEM.	Elaboration of the harmonized rules for the operation of technical and commercial systems, including the mechanisms for the resolution of incidents (eg, congestion and overloads) and for the maintenance of the grid.	On Course. Conclusion by the end of 2003.
Implementation of the Iberian Market Operator.	Implementation of the operational structure of the Portuguese body that will be in charge of the financial and futures markets.	First semester 2003.
Conclusion of the demand analysis in respect of the IEM.	Analysis of demand factors in the IEM.	Concluded.
Presentation of a common Portuguese and Spanish document for use in the planning of interconnection infrastructure in the IEM.	Conclusion of the document in compliance with the electricity interconnection plans of both states.	Concluded.
Liberalization of the electricity distribution market to final customers.	Opening up of the market to all consumers.	By July 2004.
Termination of long-term power purchase agreements and establishment of compensation mechanisms for stranded costs.	Elimination of power purchase agreements and establishment of financial compensation measures for stranded costs on the incumbent electricity generators.	By the first semester of 2003.

**Natural gas market**

<b>Measure</b>	<b>Description</b>	<b>Implementation</b>
Liberalization of the gas sector.	Liberalization of the natural gas sector, prior to the EU internal gas market, specifically regarding natural gas used for the generation of electricity.	To be established in accordance with the government strategy for the energy sector.

Unbundling of the transmission and distribution markets.	Separation of natural gas transmission activity from other activities connected with natural gas.	By the end of the first semester of 2004.
Extend the scope of the electricity regulator's (ERSE) powers to the gas sector	Implementation of ERSE as the regulator of the natural gas sector.	On course.

### **Liquid fuels market**

<b>Measure</b>	<b>Description</b>	<b>Implementation</b>
Review of the legal regime applicable to the liquid fuel sector and its derivatives.	Reformulation of the legal framework governing commercial activities in the liquid fuel sector.	On course. To be concluded by the end of 2003.
Definition of the legal framework applicable to the monitoring of the liquid fuel sector.	<ul style="list-style-type: none"> <li>• Monitoring commercial activities in the liquid fuel sector in respect of price liberalization.</li> <li>• Market supervision by the Portuguese Competition Authority.</li> </ul>	April 2003.
Investigation into the creation of an Iberian entity responsible for part of the strategic hydrocarbon reserves.	Feasibility study of an agreement between Portugal and Spain that allows for the combined management of part of their strategic hydrocarbon reserves.	By the end of 2003.
Liberalization of liquid fuel prices.	Liberalization of prices in the liquid fuel market (diesel, diesel for agricultural use and unleaded gasoline with a 95 octane rating).	During 2003.

### **Aims**

By introducing the above legislative and political measures based on increased competition and the opening of the energy markets to new companies, Portugal intends to create a more dynamic and efficient national energy sector.

To this end, the Portuguese government also intends to prepare the Portuguese incumbents EDP and Transgas for participation in the fully operational and competitive EU internal electricity and gas markets, to be implemented, in the short term, by two new directives which will repeal Directives 96/92/EC and 98/30/EC.

### **Privatization Developments**

Decree-Law 124/2003 approves the legal rules applicable to the third phase in the privatization of GALP – Petróleo e Gás de Portugal SGPS, SA. GALP is the leading Portuguese player in the petroleum and gas markets. This third phase will involve the direct sale of 18.3% of the company's share capital to a company with expertise in the energy sector.

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