



# THE PORTUGUESE NATURAL GAS SECTOR

A regulatory and market overview



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# 1. Overview

In 1993, the year the Portuguese natural gas project lifted up, Portugal had no backbone high pressure natural gas pipeline, storage and other infrastructures. From 1993 onwards, such infrastructures were built and natural gas became one of the most important sources of energy used in Portugal.

In the period between, 2000 and 2011, the natural gas demand increased 10% per year, and in 2015 the gas consumption, registered an increase of 16%.

Until 2006 the promotion of natural gas and the development of the system's main infrastructures were handled by the Galp group companies, Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás") and GDP – Gás de Portugal, SGPS, S.A. ("GDP"), under concession agreements entered into with the Portuguese State.

The public service concession for the import, transmission and supply of natural gas through the high pressure pipeline, was granted to Transgás, and the public service concession for the distribution of natural gas through regional pipeline networks, was granted to six different companies, held by the GDP group.

However, the Decree-Law no. 30/2006 of 15 February 2006 ("Gas System Law") transposed Directive 2003/55/EC, implementing common rules for the internal market.

The most important measures established by the Gas System Law were (i) the creation of a National Natural Gas Distribution Network (RNDGN), licensed or licensed to several operators, to guarantee non-discriminatory and transparent access to the network infrastructures of Liquid Natural Gas (LNG) and RNDGN terminals, (ii) the legal unbundling between the network and infrastructure operators of the National Natural Gas System (SNGN) and the marketers, and (iii) the creation the figure of the natural gas supplier and the last resort supplier.

The Gas System Law principles were specified by Decree-Law 140/2006, of 26 July 2006 ("Gas Regulatory Law"), with new rules for the exercise of transmission, operation of storage of the LNG facilities, and distribution and supply services.

As a result of these changes, the natural gas sector was unbundled, and is currently divided into several activities, each one with different operators. Thus, the sector is structured in (i) reception, (ii) storage and regasification, (iii) underground storage, (iv) transportation, (v) distribution, and (vi) commercialization.

This briefing intends to give an overview on the functioning and organization of the different activities of the Portuguese Natural Gas Sector and on the main players of the sector.

## 2. Gas reception, storage and regasification

Portugal does not have natural gas deposits in its territory, so there is no gas output in our country. The supply of natural gas to the Portuguese market is carried in to the national gas system via the interconnection with Spain and via the port terminal of Sines (responsible for 80% of the Natural Gas consumed in Portugal).

At the Sines terminal, the gas is received in liquid form. After unloading of the methane carriers, the LNG is sent to intermediate storage tanks where it waits until there is a regasification order issued by the gas owner. At the end of this process the natural gas (already in gaseous form) is compressed and injected into the high pressure network at the terminal delivery point.

Following the liberalization policy of the sector in 2006, the Government established the unbundling between the operation of facilities and supply activities and compelled Galp to sell the high pressure pipeline, the underground storage facilities and the LNG terminal to REN – Rede Eléctrica Nacional, S.A ("REN"), currently a private company.

REN then incorporated new companies for the operation of major gas facilities (high pressure pipeline, underground storage facilities and LNG terminal, respectively). REN SGPS, S.A. was also incorporated as the holding company of the group.

The National Gas System is currently based on public service concession contracts entered into with the Portuguese State, as a general rule, after a public tender or restricted competition for prior qualification, in accordance with the Gas System Law.

The concession is granted for a period of forty years, and can not be transferred, sold or otherwise charged by the concessionaire, without prior authorization from the Government.

The concession of the activity in the LNG terminal of Sines was awarded to REN Atlântico, Terminal de GNL, SA, to carry out the following activities:

- Reception, storage, treatment and regasification of liquefied natural gas discharged from methane ships in the Port of Sines;
- The injection of high pressure natural gas into the National Natural Gas Transportation Network, or its dispatch through specialized trucks for this purpose; and
- The construction, use, maintenance and expansion of the LNG terminal infrastructures (buildings, tanks, pipelines, etc.).

# 3. Transportation network and underground storage

## Transportation network

Natural gas is received at the Portuguese border with Spain (Campo Maior e Valença), or at the LNG Terminal and transported through the high pressure gas pipelines of the National Natural Gas Transportation Network, which are connected through pressure and metering stations to the medium pressure gas pipelines operated by the distribution companies.

Prior to 2006, Transgás was the entity responsible for the transportation and storage of natural gas. With the unbundling of the sector, these activities began to be exercised by REN in exchange for the 18.3% stake held by it in Galp.

The concession to use the National Natural Gas Transportation Network (RNTGN) was assigned by the Portuguese State to REN - Gasodutos, S.A., with the object of:

- Management of the National Natural Gas System (SNGN);
- The operation of the gas transport network under high pressure; and
- Development of the necessary infrastructures, under the regime of provision of public service

## Underground storage

The operation of the underground storage facilities is located at Carriço, Pombal, and was awarded under public service concessions to REN Armazenagem, S.A. and Transgás Armazenagem, S.A., a subsidiary of Transgás.

However, in 2014 REN bought from Galp the rights to use and manage the concession for the underground storage of natural gas at Carriço for the value of €72 million euros, with REN to hold all the infrastructure of this type existing in the portuguese territory.

In the underground storage facilities (Pombal) high pressure natural gas is stored in gaseous form in wells created inside a salt mass, at depths greater than 1,000 meters, being expected the expansion of storage capacity with the construction of new cavities.

The underground storage activity comprises the following activities:

- Direction, injection, underground storage, extraction, treatment and delivery of natural gas in order to create or maintain natural gas safety reserves or for delivery to the RNTGN; and
- Construction, use, maintenance and expansion of underground storage chambers.

## 4. Natural gas distribution network

The distribution activity is carried out by the exploitation of the infrastructures that, as a whole, make up the National Network of Distribution of Natural Gas.

Gas distribution is carried out under public service concessions and under public service licenses granted by the Government. The entities responsible for the distribution must be legally unbundled, not being able to carry out other activities within the sector.

Natural gas from the high pressure pipelines is transferred to the medium pressure branches through regulation and metering stations, which is granted to distribution companies under concession contracts entered with the Portuguese State, which allows the supply of natural gas to the final consumer.

The natural gas distribution activity is carried out in one of two ways:

- Concessions of regional distribution networks exclusively exercised and under public service; and
- Distribution licenses in autonomous local networks, not linked to the interconnected system of pipelines and networks, also exclusively exercised and on a public service basis.

The public service concessions for regional distribution of gas have been granted to six concessionaire, each one with its exclusive distribution area, being Galp the main player holding four of them.

The companies are: Setgás, Lisboagás, Lusitaniagás, Tagusgás, Beiragás, and EDP Gás Distribuição.

Recently, REN bought from EDP for €532 million euros the entire capital of EDP Gás Distribuição, which has a concession contract in 29 counties of the country, in the districts of Oporto, Braga and Viana do Castelo, joining the distribution activity to the activities of reception, storage, and transportation of natural gas.

In regions where the local distribution is not connected with the high pressure pipeline, the natural gas supply to the grid is truck transported from the LNG terminal to autonomous regasifying units. The supply of natural gas to these regions is made equally through concessions, in this case of local distribution.

There are currently five licenced companies operating in the local distribution. They are: Dianagás, Duriensegás, Medigás, Paxgás, and Sonorgás.

## 5. Natural gas commercialization

The commercialization activity of natural gas is fully liberalized and subject to a competitive market, only requiring the granting of a license to be issued by the Portuguese State, in accordance with the Gas System Law.

Licensed suppliers, in the exercise of their activity, can freely buy and sell natural gas. To this end, and upon payment of a regulated tariff, they have the right of access to (i) storage facilities and LNG terminals, and (ii) transport and distribution networks.

The commercial relationship with the clients derives from the conclusion of a contract for the purchase and sale of natural gas, whose content is conditioned to the provisions of the Commercial Relations Regulation of the natural gas sector and to the provisions of article 36 of the Gas Regulatory Law.

Consumers have the right to freely choose their natural gas supplier, without any charge, in the contractual change. For this to be possible, it was created the Logistics Trader Change Operator (OLMC), currently being exercised by the Energy Agency (ADENE), an independent entity focused to ensure that the change of the natural gas marketer demanded by the consumer is carried out free of charge and quickly, with simple, transparent, standardized and dematerialized rules and procedures carried out through a digital platform, by a simple process called "switching".

There are currently twelve entities operating in the commercialization of natural gas. They are: EDP Comercial, Endesa, Energia Simples, Galp, Gold Energy, Iberdrola, Incrygas, Luzigas, Molgas, Rolear, Cepsa, and Fenosa.

According to the latest published data by ERSE, referring to the second half of 2015, EDP was the main market operator in terms of number of customers with a 50% market share, while Galp came second with a market share of 27%. Nevertheless, Galp came first presenting the largest share of consumption (55%), while EDP came third (10,5%). Goldenergy ranks third in number of customers (23%), and Fenosa is second, in terms of gas consumption (15%).

There is also the figure of the last resort marketer who ensure the supply of natural gas to all customers who request in the areas covered by the National Network of Distribution of Natural Gas and comply with the requirements prescribed by law.

The last resort marketer license is currently attributed to the current holders of distribution licenses, but it will only be for some more time. Under Decree-Law 15/2015 of January 30, 2015 consumers who are still being supplied by a last resort supplier have a transitional period until December 31, 2017 to choose a new supplier of natural gas.

## 6. Regulatory Entity for Energy Services

The Regulatory Entity for Energy Services (ERSE) is the entity responsible for regulating the natural gas and electricity sectors at national level.

ERSE is a legal person governed by public law, with administrative and financial autonomy and its own assets, governed by its articles of association approved by Decree-Law no. 97/2002, of 12 April 2002

It has the duty to ensure that operators in the natural gas and electricity sectors comply with public service obligations and other obligations laid down in laws and regulations, as well as in the concession contracts.

It is an independent entity in the exercise of its functions, without prejudice to the guiding principles of energy policy established by the Government in legal terms, and of acts subject to ministerial approval

In the course of its activity, it has the task of adequately protecting the interests of consumers, in particular economically vulnerable consumers, in relation to prices, quality of service, access to information and security of supply.

ERSE also aims to promote competition between market players, in particular in the internal energy market, by ensuring that the companies in the sector perform public service functions, but at the same time maintain the economic and financial balance in the framework of an adequate and efficient management.

At last, it intends to contribute to the progressive improvement of economic and environmental conditions, and also arbitrate and resolve litigation by encouraging the extra-judicial resolution of disputes.

Specifically, regarding the natural gas sector, ERSE has the following attributions:

- Ensure the existence of conditions to meet the demand for natural gas efficiently; and
- To guarantee concessionaires and licensed entities the existence of conditions that allow them, within an adequate and efficient management, to obtain the economic and financial balance necessary to fulfill the obligations set forth in the concession agreement and in the respective licenses.





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