

ELECTRICITY AND GAS MARKETS IN PORTUGAL 2004/2005

SHORT SUMMARY

The legal framework of the Portuguese electricity model was defined in July 1995 and since then it has been only slightly modified. A new framework law has been announced by previous Governments since 2003. The current Government has set up a working group with the aim of proposing this law, as well as the transposition of Directive 2003/54/EC; it is expected that a new draft law will go to Parliament soon.

The 1995 model foresees the coexistence of two systems:

- The Public Electricity Supply System (SEP), based on long-term contracts (power purchase agreements between “binded” generators and the grid company, on the one hand, and between the grid company and distributors, on the other hand) and on non-eligibility of low-voltage consumers.
- The Non Binding Electricity System (SENV), based on contractual freedom between generators/suppliers and eligible consumers through regulated network access.

The regulatory authority (ERSE) was created by law in July 1995 and set up in 1996. ERSE ensured the balance between SEP and SENV and promoted the development of competition in electricity, facilitating SENV expansion. In 2004, electricity imports accounted for 14% of total demand and currently about 20% of demand is supplied by SENV. Several suppliers are active, mainly companies related to the former Portuguese and Spanish incumbents. More than 50% of medium-voltage demand left SEP.

Transparency of the tariffs system introduced by ERSE in 1998 and improved since then has been a key factor for the success of fair competition. This system ensures that there are no cross-subsidies between different activities or between different consumer groups, each consumer paying the sum of the cost-reflective tariffs corresponding to the use of the network facilities associated with the consumer’s voltage level.

In 2004 the Portuguese Government decided that all consumers should be eligible. The effective right of choice for domestic consumers depends on implementation of the IT platform by distribution companies.

Following approval by the European Commission, Government and Parliament approved a law determining the end of power purchase agreements and defining the mechanism for recovery of

resulting stranded costs (i.e., CMEC – costs of maintenance of contractual balance). The effective termination of power purchase agreements depends on the beginning of the organized electricity market (until now, all transactions are bilateral, there is no spot market in Portugal). Because Portugal is a relatively small system, the expected organized market (both spot and derivatives) should be Iberian.

Foreseen by the Portuguese and Spanish Governments since November 2001 and initially scheduled for January 1st, 2003, the Iberian Electricity Market (MIBEL) is not yet operational. However, the absence of a common organized market has not prevented Portuguese market agents from trading in the Spanish daily and intra-daily markets; it also has not prevented the five major Spanish companies from selling to Portuguese customers.

At SENV generation level, only the Portuguese incumbent company (EDP) has available capacity (small hydro and combined cycle). However, several investors required generation licences for combined cycle power plants.

The Autonomous Regions of Madeira and Açores, isolated small systems, have their own legal frameworks, approved by the respective Autonomous Governments. Since 2002, their electricity systems are regulated by ERSE and the same tariffs as on the continent apply.

Natural gas was introduced in Portugal in 1997 and is not (yet) present in the Autonomous Regions. Being considered an emerging market, the Portuguese natural gas market was not yet liberalized, although the previous Government had announced that liberalization would start on July 2004.

The present Government intends to publish soon a new framework law, transposing Directive 2003/55/EC and also defining the timetable for liberalization.

At the end of 2004 the European Commission rejected a merger between electricity and gas distribution and supply assets. A new model is under preparation by the present Government.