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# Update

## Energy

### The Government announces future auctions for the centralized purchase of biomethane and hydrogen produced by electrolysis from water

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On January 4<sup>th</sup>, the Ministry of the Environment and Climate Action issued Order no. 15/2023, establishing a centralized purchase system for biomethane and hydrogen produced from water electrolysis through a **competitive procedure** (in particular, an auction) to be carried out, in principle, in the **second half of this year**.

The first remark to be made about this announcement is that, although it is to be applauded, it is, in fact, an announcement that the Government *will determine* the opening of this procedure, **but that this has not yet happened**. In fact, as one may read in the document, the tender procedure documents are expected to be prepared by DGEG and approved by the competent body by **May 30th, 2023**, and the actual announcement of the opening of the auction should be published by **June 30th, 2023**.

Without prejudice, Order no. 15/2023 already establishes some rules that the tender documents must obey and of which the following should be highlighted:

**1.** This auction is a **mechanism to support** the production of gases of renewable origin or low carbon content gases whose enabling legal basis was already provided for in article 73 of Decree-Law no. 62/2020, of August 28<sup>th</sup> and emerges following the setting, by Decree-Law no. 30-A/2022, of April 18<sup>th</sup>, of the obligation for gas suppliers (whose supply to end customers exceeds 2000 GWh per year)

to **incorporate in their supply a percentage not less than 1% of biomethane or hydrogen produced by electrolysis from water.**

2. Therefore, although the object of the well-known “solar auctions” is related to reserve capacity for injection into the grid, these auctions are intended to provide **financial support for producers of gases from renewable sources** (and not granting access to the grid), as they enable the acquisition of these gases by the **wholesale supplier of last resort (CURg).**

3. Under tender will be **150 GWh/year of biomethane** and **120 GWh/year of hydrogen**, which might be divided into lots in the tender procedure, and that will be injected into the public gas grid through supply contracts to be concluded between producers and the **CURg.**

4. The competitive procedure will be conducted by the Directorate-General for Energy and Geology (DGEG), in coordination with the **CURg.**

5. In this auction, producers may submit bid offers taking into consideration the following *base prices* (maximum price payable by the **CURg**):

a) 62 EUR/MWh for biomethane;

b) 127 EUR/MWh for hydrogen.

6. In terms of **access to the procedure**, although the Order is silent on this matter, it can be anticipated that there will be **criteria to guarantee the origin of hydrogen and biomethane from renewable energy sources** (in this field, it is important to remember that the European Commission is negotiating the amendment of the 2018 Renewables Directive - RED II - in order to establish the criteria to ensure the sustainability of green hydrogen). Additionally, contracting shall have as a precedent condition the authorization of producers to **connect to the gas transmission or distribution networks.**

7. Order no. 15/2023 says nothing about the **criteria for awarding** the auction, which could be the lowest price or a more complex one that takes other factors into account.

8. Gas acquisition contracts to be signed with the **CURg** following the auction will be valid for 10 years, and the quantities and respective prices will be those provided for in the respective contracts. Moreover, Producers shall deliver the gases accompanied by the respective **guarantees of origin.**

9. Once purchased, the renewable gases shall be sold by the **CURg** to suppliers, namely those who are subject to the obligation to incorporate in their supply a percentage of not less than 1% of biomethane or hydrogen in the volume of natural gas supplied (cf. article 9 of Decree-Law no. 30A/2022, of 18 April).

As provided for the legal regime applicable to the issue of guarantees of origin, the **CURg** may also sell the guarantees separately from the renewable gases, under conditions defined by ERSE.

**10.** Whenever the result of the sale of renewable source gases and associated guarantees of origin is higher than the respective acquisition cost, the surplus shall be returned by the **CURg** to the Environmental Fund.