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Mixing Energy Sources Portuguese-style

By Manuel Santos Vitor & Nuno Serrão Faria

Yet again, renewable energy recently brought Portugal into the spotlight. A zero emission milestone was achieved last May when electricity consumption in the country was fully covered by solar, wind and hydro power for a remarkable consecutive 107 hours. This is expected to become commonplace in Portugal and across Europe in the coming years as the energy transition process is gathering a new thrust, with Portugal at its forefront.

Data from the Portuguese renewable energy association (“APREN”) shows that the final energy consumption in mainland Portugal from renewable origin increased from about 23% in 2013 to 48% last year – 22% from wind power alone. Portugal presented, in 2014, the third highest rate of incorporation of renewables in electricity production within the EU: renewable energy accounted for 30% of the whole energy final consumption. This represents a long step forward towards meeting the 31% target to be reached by 2020 (under the EU 2009 Renewable Energy Directive) and that is the fifth most ambitious target among the EU countries.

Investment in renewables has been deemed a powerful instrument for diversification of the energy mix and reduction of external energy dependence for several years and by different Governments coming from different positions of the political spectrum. The momentum is set to endure despite the support schemes for new wind capacity having been reduced in 2012: in fact, Portugal added 550MW of wind capacity between 2013 and 2016.

Remarkably, last February, renewable energy contributed for 74% of the whole domestic electricity production (the large portion of it being wind and hydro generated power), whereas fossil energy sources, coal and gas represented 26%. Production of renewable energy provided for 95% of the whole electricity consumption with 4,350 GWh – the second highest this century – and resulted in a rather low average electricity price in the Iberian market (27.35 euros/MWh). This figure also places Portugal in a rather good direction towards meeting the ambitious 60% renewables share in its electricity production by 2020, set on its National Energy Strategy (“ENE 2020”).

This success has been revealing a land of opportunities for many players in the industry, which have been paying closer attention to green energy’s export, both within and outside Europe, especially to Africa. Without much surprise, in last February a new record was set for the export of electricity (1,081 GWh), amounting to 20% of the national production of electricity. The export of renewable energy, notably of solar origin, was set to play a crucial role under the recent governmental major planning options (“Grandes Opções do Plano”) for 2016-2019, in view of placing Portugal as an important supplier of clean energy to the European Economic Area – the reinforcement of the electrical interconnections between Iberia and other European countries through the Pyrenees is set as a high priority for such end. The supply to North Africa is also a strategic target: the launching of a feasibility study on the construction of an undersea cable to transport electricity between Portugal and Morocco was put on the table



by the Government of both countries just a few weeks ago and important cooperation protocols were signed (Morocco being a giant energy-importing country). It is also to be noted that a very relevant volume of the natural gas consumed in Portugal is imported from Algeria. There is therefore a strong case in expanding the economic relations between Portugal and the Maghreb countries, apparently more stable than a couple of years ago in spite of security concerns.

The massive investment in wind power, hydropower and more and more in photovoltaic and solar, as well

as the increasing of installed capacity in existing plants has been presenting itself as a direct result of the Portuguese leadership in the European context as far as renewables policies is concerned. Over recent years, Portugal achieved a reference position in respect of the use of renewable energies and the latest technologies in the sector. As a matter of example, IKEA launched last month a project for the installation of solar panels for private consumption (aiming at producing 26% of their whole energy consumption) thus becoming the biggest project ever of this kind in the country.

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All this has meant that Portugal is a very matured and strong market when it comes to RES and has drawn the attention of international players, both from within the industry and the financial market, to invest in Portugal and Portuguese RES assets.

Portugal is also well positioned among its European peers in relation to investment in biofuel (the said renewable “cousins” to fossil fuels), due to both diversity and availability of raw materials. The last year saw an increased quest for second generation biofuels. The production and use of third generation biofuels will be a reality soon and important work is already being done in that regard by the entities in charge of combustibles (ENMC) and the environment (APA).

The import of fossil fuels is the flip side to the coin. Portugal is still mainly dependent on fossil fuels both to generate power and for transportation, representing a significant share of the energy consumption in Portugal. Fossil fuels accounted for 70% of the whole energy final consumption in 2014 (47% from oil and 10% from natural gas).

The fact that Portugal does not possess noteworthy fossil fuel resources makes it heavily dependent on imports. But this too is supposed to change. Portugal aims to reduce fossil fuel imports by 70% by 2020 and cut its energy import balance by 25%, also by increasing efforts in prospection of fossil fuels within the territory.

Therefore, investment in fossil fuels in Portugal shows signs of an accelerated growth, which also calls for huge opportunities for new players: 2015 experienced an increase on O&G prospecting activities as a result of the recent award of concessions agreements for research,

appraisal, development and production of oil and natural gas, especially in the south of the country (Algarve), with some concessionaires starting to move into exploitation and drilling activities (mostly offshore but with a recent trend for onshore). This investment has been stimulated by the Portuguese State (benefits are said by the Government to come in the form of royalties, creation of high-skilled jobs and reduction of external energy dependence) and foreign investment has been seen as most welcome.

Overall, investment on renewables is expected to keep hand in hand with continued efforts regarding fossil fuels in Portugal in the years coming and to keep the country as a role model in mixing energy sources and – the dice are rolling – as an energy-exporting country.

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Manuel has been a partner since 1998. He has also been the head of the energy and natural resources practice since then. Between 2008 and 2015, Manuel dedicated most of his time and attention to first being co-managing partner of the firm and then managing Partner. Nuno Serrão Faria has been an associate with the firm for 3 years, and he has been a member of the energy and natural resources practice since his arrival. Nuno is currently completing an LLM in London.

Although the main focus of PLMJ's energy and natural resources practice are Portugal, Angolan and Mozambique, it also has considerable experience in other Portuguese-speaking countries. Its know-how and experience cover all areas from production, transmission and distribution to renewables and oil and gas.

