



PROJECTS AND ENERGY

Centralised purchasing system for biomethane and green hydrogen

In its current wording, [Decree-Law 62/2020 of 28 August](#) allows the member of the Government responsible for energy to establish support mechanisms for the production of gases of renewable origin or low carbon content gases. The aim of these mechanisms is to achieve cost parity between these gases and natural gas or fossil fuels.

Following on from this, [Ministerial Order 15/2023 of 4 January](#) was published recently to establish the centralised purchasing system for biomethane and hydrogen produced by electrolysis from water using electricity from renewable energy sources and then injected into the national gas network. This is a mechanism to support the production of renewable gases injected into the public network by signing supply contracts between producers and the wholesale supplier of last resort (wSLR).

To achieve this, the ministerial order has provided for auctions to be held to acquire biomethane and hydrogen. These auctions will operate through bids based on base prices made by the producers in order to sign renewable gas supply contracts with a duration of 10 (ten) years as of the first supply. Under these contracts, the producer must provide the applicable guarantees of origin upon delivery of the renewable gas.

The competitive procedure will be conducted by the Directorate-General for Energy and Geology (Direção-Geral de Energia e Geologia - DGEG), in coordination with the wSLR. The documentation of the procedure will be submitted for approval to the member of the Government responsible for energy by 30 May 2023. The announcement regarding the competitive procurement procedure must be made by 30 June 2023.

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In this auction, producers will be able to make bids for biomethane and hydrogen supply contracts, with differentiated prices and quantities, with the possibility of being divided into different lots:

- Biomethane producers will be able to bid up to total quantities of 150 GWh per year, with a base price of €62/MWh.
- Green hydrogen producers will be able to bid up to total quantities of 120 GWh per year, with a base price of €127/MWh.

The ministerial order does not make it clear what the award criterion will be, nor what other obligations the producers will have to undertake. However, if, as expected, the award criterion is the lowest price, the producers that offer the lowest price will enter into a supply contract with the wSLR.

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Unlike the competitive procedures launched in the electricity sector, the object of this auction is to support the production of renewable gas and not to award access to the grid. Therefore, we expect that it will be a precondition for participation in the auction that producers have previously qualified for connection to the transmission or distribution grid.

The wSLR will resell the gas purchased to the various suppliers which, following the provisions of the law, are subject to compliance with the targets for incorporating renewable gases and wish to do so (as they probably will) by centralised purchase from the wSLR. Under Decree-Law 30-A/2022 of 18 April, gas suppliers with supplies above 2000 GWh per year must incorporate at least 1% biomethane or green hydrogen into the natural gas supplied to customers.

Provision is made for the wSLR to trade the renewable gas purchased separately from the guarantees of origin. However, if it does so, the gas sold separately from the guarantees of origin will not count as renewable gas. This will be the case, for example, if the gas purchased is sold on the Mibgás organised market (separately from natural gas). This is because, in such a case, the guarantees of origin will have to be sold separately and only the purchaser of the guarantees of origin can claim the renewable quality of the gas traded or consumed in quantities equivalent to the guarantees of origin purchased.

The wSLR is remunerated by the Environmental Fund to ensure economic balance. Specifically, the remuneration is paid for the extra cost of acquiring renewable gases resulting from the auction, plus the tariff and operating costs, compared to the sale price of those gases in the market. The ERSE (the Portuguese energy services regulatory authority) will be responsible for specifying the remuneration rules for the wSLR. These include the rules on interest and the procedures for selling renewable gas in the market. In situations where the difference between the proceeds of the sale of biomethane and hydrogen is higher than the acquisition costs and applicable tariffs, the remainder will be returned to the Environmental Fund by the wSLR. ■