

The New Gas Market in Brazil

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Context

- **General Overview:**
 - Very concentrated market in all segments of the natural gas industry;
 - Uncompetitive prices.
- **Actions Taken:**
 - Gas to Grow – broad discussion between policy makers and the market. Identification of the main measures to open the Market to the private sector. Bill has not been approved yet;
 - Decree nº 9.616/2018 – planning of the transmission expansion, coordination between transmission companies, entry-exit model with rates regulated by National Agency of Petroleum, Natural Gas, and Biofuels (ANP).
- **Additional measures are needed for rapid market opening:**
 - Supply shock - associated pre-salt gas and potential to explore onshore gas.

Convergence of Interests

- **Public stakeholders:** Ministry of Mines & Energy (MME), Ministry of Economy (ME), National Agency of Petroleum, Natural Gas, and Biofuels (ANP), Energy Research Office (EPE) e Administrative Council for Economic Defense (CADE).
- **Petrobras:** it's repositioning its business plan to focus on Exploration & Production.
- **Federal Government:** it's trying to adjust its federative pact with states, generating opportunities to incentive them to modernize their gas sector.
- **Nacional Council for Energy Policy (CNPE):** aims to implement an Energy Policy that promotes greater competition in the Gas Market.
- - **Gas Market Competition Committee - established in April, 2019**
 - Proposes measures to stimulate competition;
 - Proposes actions to states for sound regulatory practices;
 - Recommendations to CNPE.
- - **Expected Results:**
 - Clear and well defined actions, responsibilities and deadlines for a safe and rapid market opening;
 - Economic incentives in place to ensure states adopt sound regulatory practices, with full respect for existing contracts;
 - Clear and effective communication on the potential benefits of the agenda.

UPSTREAM (E&P, Gathering Pipelines and Processing Units)

- **There is Competition at the entrance, already:** attractiveness of the auctions ensures competition among the agents. Currently, all major international players are present in the country.
- **CNPE Resolution and agreements between the dominant company and the competition authority / regulators "may" allow on gathering pipelines and on Natural Gas Processing Units (UPGNs):**
 - Negotiated market access with clear and isonomic conditions, with ANP approval;
 - If necessary, clear rules for arbitrage – ANP.

MIDSTREAM (Transmission)

CNPE Resolution and agreements between the dominant company and the competition authority / regulators "may" allow:

- - **Transparent and non-discriminatory access conditions**, with provision of idle capacity;
- - **Unbundling**: E&P companies should not be in transmission;
- - **Entry-exit model**: conditions and rates defined by ANP, allowing new carriers;
- - **Operation allocated to transmission companies**: network codes approved by ANP, ensuring the physical security of the operation.

DOWNSTREAM (Distribution)

Incentives brought in through two legislative measures aimed at helping the states and distributing "new resources" from the pre-salt "may" enable:

- **Implementing the Free Consumer:** with access to competitive prices for the pipelines, making possible new competitive arrangements and demand growth;
- **Separate distribution and trading activities:** distribution company focused on the distribution service;
- **Focus regulation on efficiency incentives:** strong and autonomous regulatory agencies;
- **Unbundling:** E&P companies should not be in distribution;
- **Accelerate privatization:** States focused on activities that can not be carried out by private companies.

Final Considerations

- **The current agenda covers all segments of the industry, with the following potential benefits:**
 - Increase the supply of gas and promote competition in the market;
 - Competitive prices in the gas market;
 - New investments at the state level (large industrial consumers) and the high seas;
 - Increase the demand for gas with new investments in all segments of the industry and in electricity generation (thermoelectric);
 - Reduction in the cost of energy, by increasing the national industry's competitiveness and stimulating new investments, job creation and economic growth;
 - Increase tax revenues at the state and federal level.
- **Finally, "The New Gas Market" led by Ministers Bento and Paulo Guedes will contribute to help Brazil resume its path to prosperity, considering the fiscal sustainability which will be attained by the approval of the pension reform by the National Congress.**

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