OIL, GAS & BIOFUELS

CLIENT ALERT

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CNPE APPROVES RESOLUTION TO FOSTER COMPETITIVENESS IN THE NATURAL GAS MARKET

The National Council for Energy Policy (CNPE) approved yesterday, 24, the new guidelines for the liberalization of the natural gas market, which are mainly focused on breaking Petrobras' monopoly over the value chain.

The full text of the document has not yet been published, but among other impactful measures for the gas market, the following recommendations are anticipated:

- Federal government incentives for states, through their resource transfer and fiscal adjustment programs, to voluntarily modernize distribution regulation;
- Execution of amendments to the distribution concession agreements to include and improve free market mechanisms (free consumer, self-producer and self-importer);
- Privatization of Local Distribution Companies; and
- Harmonization of the collection of ICMS on the natural gas transportation under the entry/exit regime: Confaz to incorporate the concept of contractual flow as a taxable event, as a replacement to the physical flow.

The resolution is also likely to provide for transparency rules applicable to Petrobras in the definition of capacity demands at entry and exit points, allowing the provision of additional transportation services covering idle capacity. The provision of flexibility and network balancing services will also be recommended.

The compulsory sale of natural gas to third parties through auctions - the so-called gas release – is also expected to be provided for under the new resolution. The idea is to enable the producers themselves to market their natural gas, weakening Petrobras' absolute dominance over the commercialization of natural gas.

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With these proposals, it is expected that the government will no longer propose a comprehensive bill of law in Congress but instead indicate to congresspeople a set of guidelines that need to be implemented as laws to ensure the effectiveness of the New Gas Market, also based on the new resolution. An audience is scheduled with the Minister of Mines and Energy in the Senate today to discuss the relevant points.

The Oil, Gas & Biofuels team is at your disposal if you have any questions or need additional information.

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