Gas Landscape in Brazil – Challenges and Opportunities

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Summary

- Natural Gas in Brazil - The journey until nowadays
- “Gás para Crescer” Program
- “Gas para Crescer” - Topics description
Natural Gas in Brazil - The journey until nowadays
Natural Gas in Brazil - Timeline

- **1988**
  - Start of Operation GASPAL Petrobras
  - Start of Operation GasBol Petrobras

- **Apr/99**
  - Privatization COMGAS

- **Jul/99**
  - PPT Thermal Generation Priority Program

- **Feb/00**
  - Creation of the IBP Gas Council

- **Jun/00**
  - First proposal Gas Act Senator Tourinho

- **Jan/04**
  - First Pre-Salt Gas Petrobras

- **Jun/05**
  - Start of operation Route 1 Petrobras and partners

- **Jan/09**
  - LNG First regasification terminal – Pecém Petrobras

- **Jun/09**
  - Sale announcement 90% NTS Petrobras

- **Aug/09**
  - 49% Gaspetro sold Petrobras

- **Mar/10**
  - Start of operation Route 2 Petrobras and partners

- **Jan/11**
  - Start of operation Gasene Petrobras

- **Jul/2011**
  - Start of operation Route 1 Petrobras and partners

- **Nov/11**
  - Launch of the “Gás para Crescer” initiative

Source: IBP
Evolution of Natural Gas Demand in Brazil

Source: EPE
Natural Gas Processing and Transport Infrastructure

- Flow (operation)
- Flow (construction)
- Natural Gas Processing Unit
- Planned Gas Pipeline
- Operation

Source: ANP – Anuário Estatístico 2015
Wet Gas Pipeline Routes

Source: Petrobras
Petrobras in Natural Gas

- **Importation**: Free Market
- **Production**: Free Market
- **Transmission**: Regulated
- **Trading**: Free Market
- **Distribution**: Regulated
- **Consumption**: Free Market

Source: Petrobras
The new environment will be shared among several agents.
“Gás para Crescer” Program
Milestones - Gás para Crescer

- **July 2016**: Launch of "Gás para Crescer" at IBP's Natural Gas Seminar

- **Oct - Dec 2016**: Public Consultation Draft Resolution CNPE - Guidelines and creation of the MME’s Technical Committee (CT-GN)

- **Jan 25th**: CT-GN Establishment Meeting

- **Feb**: Establishment of the subcommittees between 02/06 e 02/10
  - Execution of subcommittee activities

- **Mar - Apr**: Execution of subcommittee activities
  - Presentation of the amendment proposal within the legal framework until 04/25

- **May - Jun**: Presentation of the work progress report to CNPE
  - Execution of subcommittee activities

- **From July**: July 8th CNPE meeting to approve the government proposal.

Source: MME and IBP
Gás para Crescer Structure (MME)

Technical Committee for the Development of the Natural Gas Industry (CT-GN)

- SC1 - Wet Gas Pipeline, Processing and LNG Subcommittee
  - Coordination: EPE
  - Rapporteur: IBP WG Pipeline, Processing ANP Regasification

- SC4 - Trading Subcommittee
  - Coordination: ABRACEEL
  - Rapporteur: ABIAPE

- SC8 - NG and Power Sectors Integration Subcommittee
  - Coordination: EPE e MME
  - Rapporteur: IBP e ABRAGET

- SC7 - Use of NG from PSC (Gás da União) Subcommittee
  - Coordination: ABRACE
  - Rapporteur: EPE

- SC2 - Gas Transmission and Storage Subcommittee
  - Coordination: ABRACE
  - Rapporteur: EPE Transmission ANP Storage

- SC3 - Local Distribution Companies Subcommittee
  - Coordination: ABEGAS
  - Rapporteur: ABIVIDRO

- SC5 - Tax Improvement of the NG Sector Subcommittee
  - Coordination: IBP
  - Rapporteur: ABEGAS

- SC6 - Natural Gas Feedstock Subcommittee
  - Coordination: MIDC
  - Rapporteur: ABIQUIM

Source: MME
“Gas para Crescer” - Topics description
SC1 - Wet Gas Pipeline, Processing and LNG

Main discussed topics

- Access to the infrastructure:
  - Wet Gas Pipeline
  - Processing
  - LNG Terminals
- Arbitration:
  - ANP or independent entities
- Disclosure of information
- Investor’s priority
- Access refusal
- Access fee
Main discussed topics

- Gas Transmission System Coordination models
- Operationalization of the model
- Gas Transmission System Concession Models
- Expansion of the Gas Transmission system
- Capacity Reserve Model: entry/exit methodology
- Storage
- Transparency on Gas Transmission Costs
- Capacity Release
Main discussed topics

- Definition of Local distribution gas services (Art. 25, 2nd paragraph)
- Regulation of Free Consumer and Trader (under discussion)
- Guidelines for the State Regulatory Agencies
- Auctions for gas purchases by LDCs (part of the guidelines for the State Regulatory Agencies)
Main discussed topics

- Creation of an Independent Manager of the Gas Market (IMGM)
- Short-term market (STM)
- Accounting / Settlement
- Deverticalization (Self-dealing)
- Gas release
- Auctions (For mitigation of self-dealing)
Main discussed topics

- Barriers to the entry of new agents
  - Prevalence of the contractual flow over the physical flow
  - GN processing and LNG Regasification
  - LNG importation: customs matters
- Procedure Improvement and Reduction of Legal Insecurity
  - LNG and NG importation from Bolivia
  - Back to Back Operations
  - Transfer price
- Topics to be explored in the next phase
  - Virtual HUB
  - REIDI
  - Storage
  - Wet Gas pipelines

SC5 - Tax Improvement of the NG Sector
Main discussed topics

- Subsidize the gas sold as petrochemical feedstock with securitization resources from “Gás da União”
- Maintain the Gas specification to increase the supply of ethane
Main discussed topics

- In compliance with CNPE Resolution no. 12/2016, for the transition period, the “Gás da União” may be offered by Public Auctions, with publicity, transparency and participation of interested agents under same condition.

- As for the long term when there will be competitiveness, liquidity and sufficient flexibility in the Brazilian natural gas market, the “Gás da União” should be included in the model under construction in SC4 without differentiated treatment from the other agents.
Main discussed topics

- Adoption of a Rolling Horizon approach for Reserves Availability (proven)
- Penalty clauses in supply contracts due to lack of supply (double penalty)
- Recommendations to Subcommittee 2 – Gas Transmission and Storage
- Other points addressed during Subcommittee discussions
Next IBP Events
A unique opportunity to discuss with the key stakeholders of the gas industry the perspectives and challenges of this sector, expanding the possibilities of business development in all segments of this chain.
Highlight of the 2016 Edition

Launch of the “Gás para Crescer” Program by MME, which is laying the groundwork for the regulatory changes needed to promote the opening of the gas sector in Brazil, a move started from the repositioning of Petrobras in this segment.

Further information soon
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