REDATA and the Energy Sector: Energy Sourcing and Natural Gas

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In Brief

REDATA is Brazil's new incentive regime for data center investments, combining tax benefits with a series of operational, sustainability, and research and development commitments. From an energy-sector perspective, the regime's most significant feature is the requirement that qualifying projects source 100% of their electricity demand from renewable or low-emission sources. While that requirement presents opportunities for Brazil's renewable energy sector, important questions remain regarding the treatment of natural gas-fired generation, making forthcoming regulations a key consideration for investors, developers, and operators evaluating data center projects in Brazil.

REDATA and the Energy Sector

Brazil recently enacted Law 15.504/2026, establishing the Special Tax Regime for Data Center Services (REDATA – Regime Especial de Tributação para Serviços de Datacenter). The regime forms part of the country's broader effort to attract investment in digital infrastructure, including data centers supporting cloud computing, artificial intelligence, and other data-intensive technologies.

REDATA provides tax incentives for qualifying data center investments while linking those incentives to a series of operational, sustainability, and investment commitments. Among its key features are requirements relating to energy sourcing, environmental performance, and research and

development activities, reflecting the government's objective of promoting data center growth while encouraging investment in strategic infrastructure and innovation.

From an energy-sector perspective, one aspect of the regime stands out. To qualify for REDATA, data center operators must source 100% of their electricity demand from renewable or low-emission energy sources. As a result, access to the regime's benefits will depend not only on investment decisions and technology choices, but also on how projects secure and structure their energy supply.

This requirement comes at a time when Brazil is expected to see significant growth in electricity demand from data center operations. According to projections by the Energy Research Office (EPE), demand could reach approximately 5.6 GW by 2030 and as much as 20 GW over the following decade. As a result, energy availability, transmission capacity, and long-term power procurement strategies are likely to become increasingly important considerations for developers, operators, and investors.

The implementation of these requirements, particularly the treatment of natural gas-fired generation, is expected to be one of the most closely watched aspects of REDATA.

The Key Qualification Requirement: Energy Sourcing

One of REDATA's central requirements is that qualifying data center projects must meet their electricity needs through supply contracts or self-generation sourced from renewable or low-emission energy sources. Energy procurement is therefore not merely an operational issue, but a core eligibility condition for access to the regime's benefits.

For investors and developers, this places power sourcing at the center of project planning from the outset. Decisions regarding location, power procurement structures, and potential self-generation arrangements may affect not only project economics, but also qualification for REDATA.

Renewable sources such as hydroelectric, wind, and solar generation are generally expected to satisfy the statutory requirement. The principal outstanding question concerns the treatment of natural gas-fired generation, which remains the subject of ongoing regulatory and policy discussions.

Natural Gas: The Main Regulatory Question

While REDATA clearly favors the use of renewable and low-emission energy sources, the treatment of natural gas remains one of the regime's most important unresolved issues.

During the legislative process, Congress replaced references to "clean or renewable" sources with the broader concept of "renewable or low-emission" sources. The change reflected a deliberate effort to accommodate a wider

range of energy sources, including, potentially, natural gas-fired generation.

The Ministry of Mines and Energy has publicly supported a broader interpretation, arguing that natural gas can play an important role in providing reliable and scalable power for energy-intensive data center operations. The Ministry of Finance, by contrast, has indicated that any recognition of natural gas should be assessed in light of the environmental criteria underlying Brazil's sustainable finance and decarbonization policies. In particular, the Ministry has defended the adoption of carbon-mitigation measures for gas-fired generation, including Carbon Capture, Utilization and Storage (CCUS) solutions and the acquisition of carbon credits to offset emissions.

Congress has also signaled a position. Lawmakers involved in drafting the "low-emission" language have publicly defended a broader interpretation and have indicated that they may seek to challenge implementing regulations that, in their view, depart from the approach adopted by Congress, including through a Legislative Decree (Projeto de Decreto Legislativo or PDL).

For developers and investors, the treatment of natural gas may have a direct impact on project design and power procurement strategies. A broader definition of eligible low-emission sources could provide greater flexibility in structuring energy supply arrangements, particularly for projects seeking a combination of renewable resources and firm power sources. Conversely, additional environmental requirements could affect the economics and compliance requirements associated with gas-backed solutions.

The forthcoming regulations are expected to clarify both the scope of the "low-emission" category and any conditions that may apply to qualifying sources, making the treatment of natural gas one of the most closely watched aspects of REDATA's implementation.

Other REDATA Qualification Requirements

In addition to its energy-sourcing requirements, REDATA imposes a series of operational, sustainability, and investment commitments on participating projects.

Domestic Capacity Commitment

As a general rule, projects benefiting from REDATA must allocate at least 10% of their effective data processing, storage, and management capacity to the Brazilian market, either through commercial services or by making capacity available to designated public-interest beneficiaries. The Law also provides an alternative mechanism under which this obligation may be replaced by additional investments in research, development, and innovation projects in Brazil.

For operators planning to serve primarily international demand, this requirement may become an important consideration when evaluating project structure and qualification strategies.

Sustainability and Water-Efficiency Requirements

REDATA is intended to support the development of energy-intensive digital infrastructure while maintaining environmental performance standards. In addition to the requirement to source electricity from renewable or low-emission sources, participating projects will be subject to sustainability criteria and water-efficiency requirements, the details of which, including compliance methodologies and verification procedures, will be established through implementing regulations.

Research and Development Commitments

The regime also requires beneficiaries to invest in research, development, and innovation initiatives involving Brazilian universities, research institutions, and digital economy projects. Certain investments must be directed toward projects located in Brazil's North, Northeast, and Center-West regions, reflecting the regime's broader regional-development objectives.

Regional Incentives

Projects located in the North, Northeast, and Center-West regions may benefit from more favorable compliance thresholds for certain REDATA requirements. These measures are intended to encourage the geographic diversification of data center investment within Brazil.

What Investors and Developers Should Be Watching

While REDATA creates a potentially attractive framework for data center investment in Brazil, several issues are likely to play a significant role in project structuring and development over the coming months.

Energy Procurement and Project Design

Given the central role of the energy-sourcing requirement, project sponsors should consider energy procurement arrangements early in the development process. Power supply strategy may influence not only operating costs, but also a project's ability to qualify for and maintain REDATA benefits.

Natural Gas and Regulatory Definition

Investors considering gas-fired generation, whether as a primary energy source or as part of a broader energy mix, should closely monitor forthcoming regulations. How the regulations ultimately define eligible low-emission sources will directly affect project economics, financing assumptions, and long-term compliance requirements.

Transmission Capacity and Project Location

As data center investment accelerates, the availability of transmission infrastructure and access to reliable power supplies may become increasingly important factors in site selection. Developers should assess both energy availability and grid connection considerations alongside

traditional real estate and operational criteria.

Implementation, Compliance, and Tax Reform

Important aspects of REDATA remain dependent on implementing regulations, including compliance and auditing requirements, sustainability criteria, and the categories of investments eligible for the regime's benefits.

Investors should also consider the interaction between REDATA and Brazil's ongoing consumption tax reform. In particular, starting 1 January 2027, gross receipts taxes PIS/Cofins and the excise tax IPI will no longer be covered by REDATA, as they are phased out by the new Contribution on Goods and Services (CBS). As a result, import-duty relief is expected to become the regime's main benefit.

Conclusion

REDATA reflects Brazil's growing ambition to attract large-scale investment in digital infrastructure and position itself as a destination for data center development. While the regime is often discussed in terms of its tax incentives, its long-term impact may depend just as much on how projects satisfy REDATA's energy, sustainability, and operational requirements.

From an energy-sector perspective, the 100% electricity-sourcing requirement places power procurement and infrastructure planning at the center of investment decisions. At the same time, the treatment of natural gas remains an unresolved issue, with potentially significant implications for project economics, energy-supply strategies, and the pace at which new developments can be deployed.

As implementing regulations begin to take shape, investors and developers will need to assess REDATA not only as an incentive regime, but also as a framework that links access to benefits with broader energy and sustainability objectives. The interaction between these requirements, Brazil's expanding power sector, and the country's ongoing tax reform will play an important role in shaping the regime's practical impact in the years ahead.

For more on REDATA's tax incentives and the impact of Brazil's ongoing tax reform, see our companion REDATA Tax briefing.

Key points

What does REDATA require from data centers regarding energy sourcing?

To qualify for REDATA, data center operators must source 100% of their electricity demand from renewable or low-emission energy sources. One of REDATA's central requirements is that qualifying data center projects must meet their electricity needs through supply contracts or self-generation sourced from renewable or low-emission energy sources.

Is natural gas-fired generation eligible as a low-emission source under REDATA?

While REDATA clearly favors the use of renewable and low-emission energy sources, the treatment of natural gas remains one of the regime's most important unresolved issues. The forthcoming regulations are expected to clarify both the scope of the "low-emission" category and any conditions that may apply to qualifying sources, making the treatment of natural gas one of the most closely watched aspects of REDATA's implementation.

What positions have the Ministries and Congress taken on natural gas under REDATA?

The Ministry of Mines and Energy has publicly supported a broader interpretation, arguing that natural gas can play an important role in providing reliable and scalable power for energy-intensive data center operations. The Ministry of Finance, by contrast, has indicated that any recognition of natural gas should be assessed in light of the environmental criteria underlying Brazil's sustainable finance and decarbonization policies. Congress has also signaled a position. Lawmakers involved in drafting the "low-emission" language have publicly defended a broader interpretation and have indicated that they may seek to challenge implementing regulations that, in their view, depart from the approach adopted by Congress, including through a Legislative Decree (Projeto de Decreto Legislativo or PDL).

How much of its capacity must a REDATA data center allocate to the Brazilian market?

As a general rule, projects benefiting from REDATA must allocate at least 10% of their effective data processing, storage, and management capacity to the Brazilian market, either through commercial services or by making capacity available to designated public-interest beneficiaries. The Law also provides an alternative mechanism under which this obligation may be replaced by additional investments in research, development, and innovation projects in Brazil.

How much electricity demand from data centers is expected in Brazil by 2030?

According to projections by the Energy Research Office (EPE), demand could reach approximately 5.6 GW by 2030 and as much as 20 GW over the following decade.

How does Brazil's consumption tax reform affect the benefits of REDATA?

In particular, starting 1 January 2027, gross receipts taxes PIS/Cofins and the excise tax IPI will no longer be covered by REDATA, as they are phased out by the new Contribution on Goods and Services (CBS). As a result, import-duty relief is expected to become the regime's main benefit.

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