Ukrainian Gas market: problems and priorities of development
(Energy Strategy of Ukraine through 2035)

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The problems of energy markets

- the incomplete reform of energy markets sets serious challenges to energy sector development prospects

- contradictions between ensuring social protection and implementing liberal energy markets requires a review of a social policy
The first challenge - Removing subsidies from the energy market

Preserving the imbalance between prices for certain categories of consumers has a number of negative effects.

A model for in-kind compensation creates distortions in price signals on the gas market, enforces administrative control over the market, increases the corruption possibilities for “control bodies” and state owned energy monopolies, disincentives the distributional companies to be more energy efficient.

On the one hand, limiting the profitability of state-owned natural gas extraction companies by an obligation to supply gas for the population at discounted prices discourages state-owned companies from increasing the volume of domestic gas extraction.

In turn, in a crisis situation this leads to introducing administrative control of the market and restrictions on private companies’ activities, undermining the investment climate and the confidence in the Ukrainian state.
The first challenge - Removing subsidies from the energy market

Increase of prices on energy supply for households (population)

but

The source for subsidies is a rent and transit fee

and

Subsidizing scheme is the same
The second challenge - liberalizing gas market functioning

Ukrainian parliament approved the amendments to the Law of Ukraine “On Basic Principles of Natural Gas Market Functioning” (adaptation to the “third energy package”)

Ukrainian parliament approved the amendments to the Law of Ukraine “Amends some legal acts of Ukraine concerning the reforms of the management of the united gas transportation system of Ukraine”, (allows the participation of investors from the EU and the USA in management of the Ukrainian gas transportation system)

Ukraine increased the capacity of “reverse” gas network
The second challenge - liberalizing gas market functioning

Media reports:

02.04.2015. Ukraine increased import of gas from EU countries on 11%.

02.04.2015. Naftogas and Gazprom sign a deal to keep "winter packet agreement".

02.04.2015. Gazprom declared:
   a new price for Ukraine - $247,18;
   applying of prepaid schemes for gas supply;
   and abstaining from "take or pay" clause

04.04.2015. Ukraine are going to continue to buy gas through "reverse" contracts and are going to find an optimal model of rent fee (taxation).

06.04.2015. Gas flow from Hungary to Ukraine dropped in 6 times.

Round table discussion «The Strategy and priorities of gas market development in context of eurointegration of Ukraine»
O. Sukhodolia, Kyiv, April 23, 2015
Energy Strategy of Ukraine through 2035 priorities:

- refraining from any actions that could compromise competition in energy markets and energy services market

- ensuring, if social assistance is required, its minimum impact on the principles of energy markets operation

- refraining from adopting legislative acts that would adversely affect the sustainability and predictability of the rules of energy market operation

- bringing the regulatory and legislative framework, particularly in the energy sector, in line with the principles and provisions of the EU law
The Strategy objectives include changing the approach to energy sector management and energy market reform:

- elimination of privilege prices policy, unified pricing principles for all consumer groups;
- ensuring energy markets reform and strengthening the independence of national energy market regulators;
- tax reforms in the mining sector to ensure fair business environment and create an attractive investment climate;
- integration of Ukraine’s unified energy system to the ENTSO-E-G;
- full implementation (in practice) of the Third Energy Package Directives;
- diversification of routes and sources of energy supply
# The Road Map of the Strategy implementation

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<thead>
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<th>The 1(^{st}) stage</th>
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<td>Amendments to the Law of Ukraine &quot;On Principles of Functioning of Natural Gas Market&quot; in terms of the implementation of provisions of the EU Directive of the &quot;Third Energy Package&quot;</td>
<td>ensuring the full-fledged participation of Ukraine in the European energy regulators association (ACER), participate in the coordination group.</td>
<td>improving the institutional framework for regulation of activity at energy markets and the supply</td>
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| adoption of legislation and regulations on the market liberalization:  
- reforming monopoly structures (for unbundling the extraction activity from transportation, storage and supply of natural gas)  
- providing clear and unimpeded access to the infrastructure of gas transmission  
- defining the usage patterns of gas distribution networks (contracts for long-term maintenance or privatization). | de-monopolization of the natural gas market, establishing restrictions on a market share for one supplier (trader) - the requirement of the response to excess of the Herfindahl-Hirschman Index | compliance and clarification of restrictions concerning the share presence on the market |
| upgrade and increase of the capacity of Ukrainian underground storage facilities in the Western Ukraine  
the infrastructure, legal and organizational preparation to gas purchase at the virtual trading points (VTP) of the EU countries  
development of legislation to prepare the internationalization of the market of Ukraine, including the participation of foreign entities in the formation of complex market services based on underground gas storage in Ukraine  
the gradual introduction of the spot and futures transactions to determine the market price of natural gas through a transparent mechanism of its formation | ensuring the full-fledged operation of the underground gas storage based on Western Ukrainian storages and his involvement in commercial transactions at the markets of Ukraine and the EU | extension of maintenance of the Eastern European Gas Hub for the entire Ukrainian market |
| ensuring the stability and constancy of the fiscal regime for business entities of energy markets | improving the economic instruments regulating the functioning of energy markets (loans, insurance) | Ukraine's joining the international development projects, technology transfer |

## Round table discussion «The Strategy and priorities of gas market development in context of eurointegration of Ukraine»

O. Sukhodolia, Kyiv, April 23, 2015
The Road Map of the Strategy implementation

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<td>ensuring the reform of the subsidies system in the supply of natural gas, taking into account:</td>
<td>introduction of the demand management system and transition to rendering energy services (introduction of the &quot;white&quot; certificates system)</td>
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<td>- ensuring a smooth transition to the introduction of a system of targeted monetary help starting from 2019 to offset the price increase;</td>
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<td>- bringing release prices for the gas of the domestic extraction for the state gas-extracting companies to market prices in proportion to the gas tariff increase that goes for the population's needs</td>
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<td>- for the period of completion of the prices unification, to reserve natural gas of domestic extraction to the needs of the household.</td>
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<td>- improving energy stimulation of extraction of natural gas and oil by reducing the rates of rent payments of enterprises extracting hydrocarbons from the exhausted deposits, low debit wells and deposits with complex mining</td>
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<td>- alignment for enterprises of all propriety forms the fees for the use of the subsoil during the extraction of oil and gas according with the schedule of reducing subsidies and equalization of prices for different categories of customers (commercial/residential sector)</td>
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<td>simplification of licensing procedures for:</td>
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<td>- issuance of special permits for subsoil use;</td>
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<td>- registration of land plots during exploration work and commercial extraction of hydrocarbons;</td>
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<td>- registration of land plots for construction of energy facilities, the pipelines and power grids;</td>
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<td>- use of transparent and competitive tender procedures for obtaining licenses, extension of licenses</td>
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<td>- defining an comprehensive list of grounds for revocation of licenses, prohibition of the license revocation without costs compensation and increased control over the execution of license conditions</td>
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