

DEVELOPMENT OF THE NATURAL GAS MARKET AND ITS REGULATION IN UKRAINE



History of development of the gas sector of Ukraine

- 1924 – Dashava gas field and construction of the first gas pipeline Dashava - Stryi;
- 1948 – gas was received by consumers of Kiev and Ternopol;
- 1960-70 - with gasification of oblast and most cities of Ukraine utilities were established, which after in 1975 the Republican Complex of gas supply and gasification “Ukrgez” was established were turned into specialized gas enterprises;
- 1975 - about 23 thousand km of urban and rural gas distribution networks were built, 8.1 million apartments supplied with natural and liquefied gas;
- 1991 - by the time Ukraine gained independence 99.6 thousand km of gas distribution pipelines were built, more than 15 million apartments - gasified



Stages of reforms of the gas sphere of Ukraine

- Decree of the President of Ukraine of August 19, 1997, No. 853/97 “On measures on implementation of the state policy in the sphere of natural monopolies”;
- Decree of the President of Ukraine of February 25, 1998, No. 151/98 “On reforming the oil and gas complex of Ukraine”;
- Decree of the Cabinet of Ministers Ukraine of December 16, 1996
No. 1510 “On areas of reforming the oil and gas complex”;
- Decree of the President of Ukraine “On measures for implementation of the state policy in the field of natural monopolies”;

Legislation applicable in the natural gas market of Ukraine



Constitution of Ukraine

Codes of Ukraine

Civil Code, Economic Code, Code on Mineral Resources

Laws of Ukraine

“On oil and gas”

“On natural monopolies”

“On pipelines transport”

“On protection of economic competition”

“On foreign economic activities”

“On licensing of certain types of economic activities”

“On metrology and metrological activities”

“On agreements on distribution of products”

“On gas (methane) of coal fields”

“On ratification of the Agreement to the Energy Charter and Protocol to the Energy Charter on issues of energy efficiency and related environmental aspects”

“On Energy Saving”

“On protection of consumer rights”

“On main principles of the state supervision (control) in the sphere of economic activity”

Decrees of the Cabinet of Ministers of Ukraine

Name	Date	Number
On approval of the list of licensing bodies	28.04.2001	410
On setting authorities by executive power bodies and executive committees of local councils with respect to price (tariff) regulation	25.12.1996	1548
On supplying natural gas to consumers	27.12.2001	1729
On approval of a Model agreement on provision services on gas supply to the population	5.07.2006	938
On approval of norms of consumption of gas by the population in the absence of gas meters	8.06.1996	619
On approval of the procedure of presenting data for designing urban construction facilities	20.05.2009	489
On approval of the procedure of facility by facility termination (restriction) of gas supply to consumers, except for the population	8.12.2006	1687
On improvement of the procedure of settlements for natural gas used by the population and also institutions and organizations, which are financed from the state and local budgets	26.03.2008	247
On approval of the rules for provision of gas supply services to the population	9.12.1999	2246

NERC Decrees

- Of 13.01.2010 No. 8 "On approval of licensing conditions for carrying out economic activities on storage of natural gas“;
- Of 13.01.2010 No. 9 "On approval of licensing conditions for carrying out economic activities on transportation of natural and oil gas through main pipelines“;
- Of 13.01.2010 No. 10 "On approval of licensing conditions for carrying out economic activities on supply of natural gas at the non-regulated tariff “;
- Of 13.01.2010 No. 11 "On approval of licensing conditions for carrying out economic activities on supply of natural gas at the regulated tariff;
- Of 13.01.2010 No. 12 "On approval of licensing conditions for carrying out economic activities on distribution of natural and oil gas";
- Of 29.05.2003 No. 476 "On approval of the procedure for compensation of losses caused to a natural gas consumer as a result of violation by the gas supply or gas transportation organization of the Rules for providing gas supply services to the population";
- Of 29.05.2003 No. 475 "On approval of the procedure for compensation of losses caused to a gas supply or gas transportation organization as a result of violation by a natural gas consumer of Rules for providing gas supply services to the population";
- Of 4.09.2002 No. 983 “On approval of the Methodology of calculation of tariffs for transportation and supply of natural gas for enterprises from gas supply and gasification”;
- Of 25.10.2008 No. 1239 “On approval of the retail price for natural gas, which is used for the needs of the population, International children center “Artek” and Ukrainian children center “Molodaya Gvardya”;
- Of 10.12.2009 No. 1398 “On approval of prices for natural gas for the needs of religious organizations”;
- Of 25.12.2008 No. 1529 „On approval of the algorithm of allocation of funds, which come to current accounts with the special mode of use of gas supply enterprises"

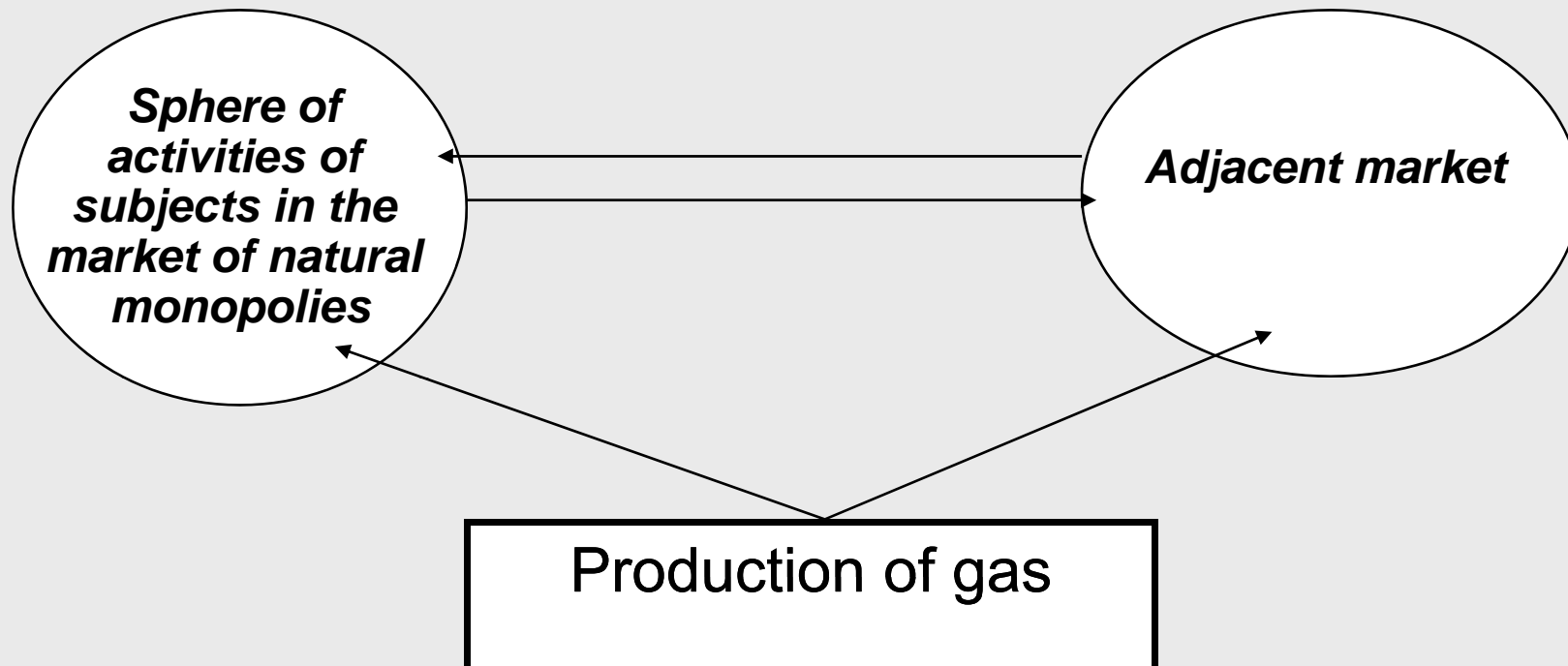
Normative-legal acts of other state executive power bodies

- **Order of the State Labor Safety Supervisory Organization of 1.10.1997 No. 254 “On approval of the Safety Rules of gas supply systems of Ukraine”**
- **Order of the Ministry of Fuel and Energy of 25.02.2004 No. 112 “On approval of the regulation on the procedure for metering volume of misbalancing of natural gas in gas distribution networks”**
- **Order of the Ministry of Fuel and Energy of 27.12.2005 No. 619 “On approval of the regulation on conducting expert testing of gas meters”**
- **Order of the Ministry of Fuel and Energy of 1.10.2004 No. 605 “On approval of the temporary procedure for recalculation of the amount of payment for gas supply for the population in case of deviation from quality parameters of gas from the set values”**
- **Order of the State Consumption Standards Organization of 04.05.2005 No. 109 “On approval of the Methodology of determining cost of metrological works”**

Production, storage, transportation, distribution and supply of natural gas



Scheme of market relations



Production of gas is carried out on the basis of a special permit to use mineral resources, which envisions geological studies of oil and gas containing strata, including geological studies of oil bearing strata, including experimental-industrial development of fields with subsequent extraction of gas (industrial development of fields.

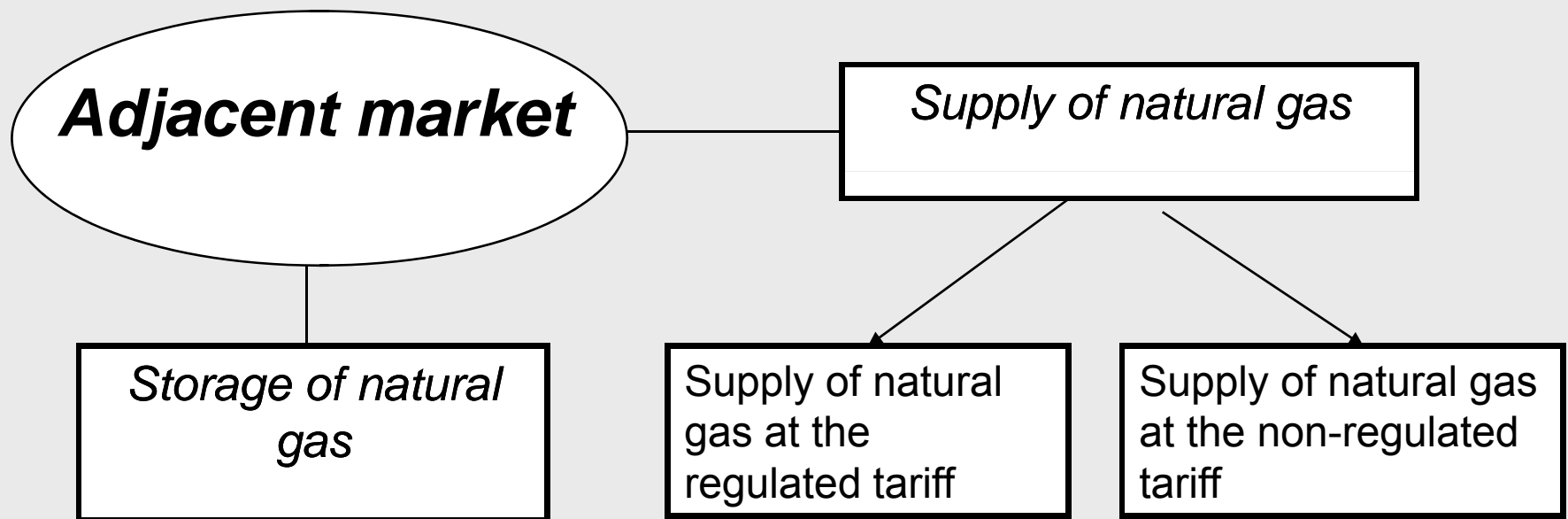
*Distribution of
natural gas*

*Transportation of
natural gas*

***Sphere of activity
of subjects of
natural monopolies***

Transportation of gas by main pipelines is a type of service provision activity on transportation of gas by main pipelines performed by a license holder in accordance with License conditions in accordance with pricing rules established by the Ukrainian legislation.

Gas distribution is a kind of service provision activity on transportation of gas by distribution pipelines to customers, which is done by licensees in accordance with license terms complying with the Rules set by the legislation of Ukraine for pricing and in a certain geographic territory in order to deliver it to consumers



Storage of gas is a type of economic activity on providing services on injection, storage and take off of gas to customers, provided by the licensee in accordance with License Rules and pricing rules set by the legislation of Ukraine;

Gas supply is a type of economic activity on provision of services on supply of natural gas to consumers in accordance with concluded agreements, which is carried out on the basis of a relevant license

Storage of natural gas

Enterprises, which carries out activity on storage of natural gas is an economic entity, which on the basis of a relevant license performs injection, storage and take off of gas for customers.

Carrying out economic activity on storage of gas, possibly, on the following terms:

- Availability at the licensee of a gas storage with total capacity exceeding 5 million cubic meters, which it owns or uses.
- Availability at the licensee of agreements on injection, storage and take off of gas and/or creation of reserve stock of gas.
- Carrying out economic activity on storage of gas only in gas storages that are owned by it or used by it, according to the list of underground storages approved by NERC.
- Ensuring equal access rights to underground gas storages for all customers.
- Availability of agreements on sale and purchase of gas (contracts) for production technological needs with owners of gas.

Transportation of natural gas through main pipelines

Gas transmission enterprises is an economic entity, which carries out transportation of gas through main pipelines, storage of natural gas using gas transmission system facilities, which it owns or uses

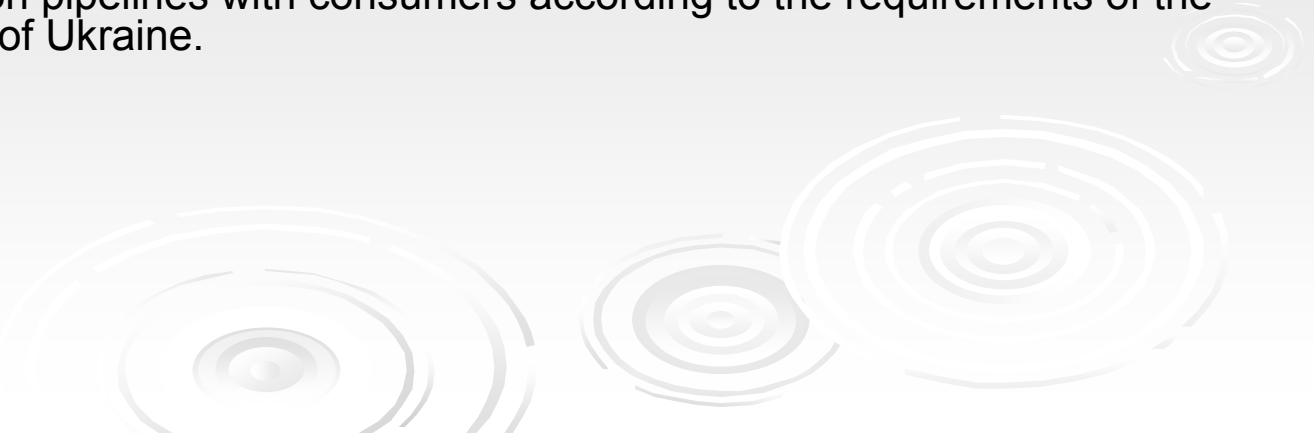
Conditions for carrying out this type of activity:

- Availability at the licensee of main pipelines, which are owned or used by it.
- Availability at the licensee of agreements with customers and/or gas supply enterprises on transmission of gas through main pipelines.



Conditions for carrying out activities on transportation of natural gas through main pipelines

- Carrying out economic activities on transportation of gas only through main pipelines, which it owns or uses, in accordance with the list of main gas pipelines approved by NERC.
- Carrying out economic activities on transportation of gas through main pipelines based on the principle of economic expediency, ensuring reliability of transportation and safety operation of main pipelines.
- Ensuring measurement of gas transported through main pipelines together with customers, gas distribution and gas supply enterprises.
- Availability of agreements with gas supply enterprises for execution of work., related to restriction and disconnection from gas supply of consumers with debts.
- Ensuring equal rights of access to the system of main pipelines for all transportation customers using main pipelines, and in case there is not enough (gas transportation capacity) – compliance with the established mechanism of its distribution.
- Presence of sale agreements (contracts) for gas and agreements for transportation of gas by distribution pipelines with consumers according to the requirements of the existent legislation of Ukraine.



Distribution of natural gas

At gas distribution

enterprise is an economic entity that carries out activities on distribution of natural and oil gas by means of transporting it through distribution pipelines, which it owns or uses.

As of today there are more than 50 such enterprises

Conditions for carrying out activities on distribution of natural gas:

Availability of licensee's distribution networks, which belong to it or which are in its use.

Availability of licensee's agreements with customers and/or gas supply enterprises on transmission of natural gas through distribution pipelines.

Carrying out economic activities on distribution of natural gas only in the territory approved by NERC.

Carrying out economic activities on distribution of natural gas based on the principle of economic expediency, ensuring reliability of transmission and safe operation of gas distribution networks.

Ensuring accounting for natural gas transported through distribution pipelines together with customers, gas transmission and gas supply enterprises.



Distribution of natural gas

Conditions for carrying out activities on distribution of natural gas

Availability of agreements with gas supply enterprises for execution of works related to restriction or disconnection from gas supply of consumers-debtors.

Ensuring equal access rights to distribution pipelines for all customers of services on transmission of natural gas through distribution pipelines, and in case of insufficiency of transfer capacity of distribution networks (gas distribution capacities) – compliance with the set mechanism of its allocation.

Availability of agreements (contracts) on sale and purchase of natural gas for production – technological needs with owners of gas and agreements on transportation of gas through distribution pipelines and consumers according to requirements of the current legislation of Ukraine.



Supply of natural gas at the regulated tariff



Economic entities, which are licensed to supply natural gas at the regulated tariff, sell gas in order to satisfy needs of the population and religious organizations, and also for institutions and organizations, which are funded from the state and local budgets.

Conditions for carrying out economic activity on supply of natural gas at the regulated tariff:

- *Availability of licensee's distribution networks, which belong to it or which are in its use.*
- *Availability of licensee's agreements on sale and purchase of natural gas (contracts) with owners of natural gas, agreements on transmission of natural gas through main pipelines and agreements on transmission of natural gas through distribution pipelines. Volume of natural gas indicated in sale and purchase agreements for natural gas (contracts) and agreements on supply of natural gas has to correspond to the volume, which is shown in agreements on its transmission through main and distribution pipelines.*

Conditions of carrying out economic activity on supply of natural gas at the regulated tariff:

- *Availability of licensee's agreements concluded with the gas transmission enterprise on creation of insurance stock of natural gas in cash and/or in-kind, in volumes envisioned by the legislation of Ukraine. Carrying out economic activities on supply of natural gas at the regulated tariff only in the territory approved by NERC. Carrying out economic activities in the volume that ensures economic expediency of such activities for the purpose of achieving the lowest cost of natural gas for consumers.*
- *Carrying out economic activities on supply of natural gas at the regulated tariff only in the territory approved by NERC.*
- *Carrying out economic activities in the volume that ensures economic expediency of such activities for the purpose of achieving the lowest cost of natural gas for consumers.*

Supply of natural gas at the non-regulated tariff

Sale of natural gas for all consumer categories, except for the population, religious organizations, and also for institutions and organizations, which are financed from the state and local budgets, is carried out by the DK “Gaz Ukrainy” NAC “Neftegas of Ukraine” and economic entities that supply natural gas at the non-regulated tariff.

Conditions of carrying out economic activity on supply of natural gas at the non-regulated tariff

Availability of some agreements on sale and purchase of natural gas (contracts) with owners of natural gas, agreements on transmission of natural gas through main pipelines and agreements on transmission of natural gas through distribution pipelines.

The volume of natural gas indicated in agreements on sale and purchase of natural gas (contracts) and agreements on supply of natural gas should correspond to the volume, which is indicated in agreements on its transmission through main and distribution pipelines..



Conditions for carrying out economic activity on supply of natural gas at the non-regulated tariff:

- The total volume of supply of natural gas should not exceeds the volume stated by the licensee when obtaining the license or corrected in the course of activities.
 - Availability at the licensee of agreements concluded with the gas transmission enterprise, on establishment of insurance stock of natural gas in cash or in-kind, in the volumes envisioned by the legislation of Ukraine.
 - Licensee's compliance with NERC approved norms for sufficiency of own assets and other indicators (requirements), which limits risks of operations in the natural gas market.
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METHODOLOGY QUESTIONS AND PROBLEMS



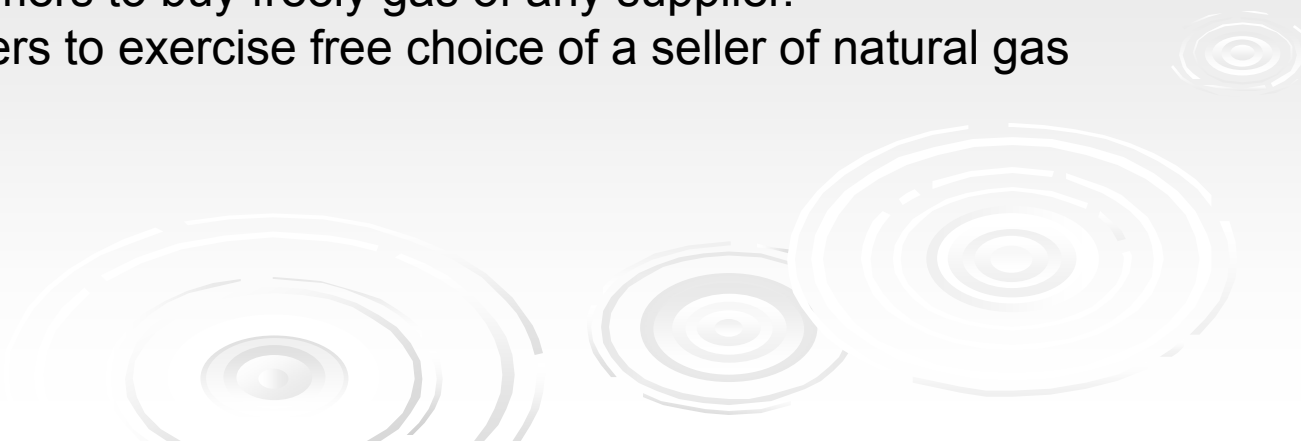
Lack of special law on gas market in Ukraine





Major issues that will be resolved by the Law on basics of functioning of the gas market

- harmonization of the legislation of Ukraine with major provisions of the legislation of EU that regulate relations on the gas market including those provided for by EU Directive No. 2003/55 EC from June 26, 2003;
- improvement of the state policy basis regarding price- and tariff making in the gas sector, in particular, formation of prices (tariffs) in the competitive and monopolistic segments of the market, bringing the legislation of Ukraine into compliance with EU directives in terms of setting transparent pricing rules in the gas market;
- introduction of a notion of a last resort supplier – a gas supply enterprises, which has no right to refuse a consumer to conclude an agreement on gas supply.
- a possibility for consumers to buy freely gas of any supplier.
- a possibility for suppliers to exercise free choice of a seller of natural gas resources.



- Obligation of a subject authorized to form gas resources for consumers of Ukraine, to provide with gas resources the supplier of last resort in necessary volumes in accordance with terms and conditions of agreements with consumers.
- Equal opportunities for access to the Unified Gas Transportation System of Ukraine (EGTSU) and underground storages, including those in newly constructed gas pipelines.
- Separation of functions on distribution and supply of natural gas, which allows gas market participants to avoid cross subsidies and possibilities to abuse their monopoly position.
- Creation of conditions for possibility to sell gas freely, as it will allow attraction of efficient investors in the gas production industry, which in its turn has to increase gas production in Ukraine and stabilize situation in the industry.
- Protection of consumer rights and enhancement of responsibility of subjects, which carry out economic activity in the market that is a natural monopoly, as well as in the markets that are adjacent to it



Thank you for attention!



Information was prepared by the Department for methodological support of regulation of relations in the oil and gas complex, Division of Oil and Gas Complex Regulation of NERC