

Natural Gas Market

Natural gas consumption

Natural gas consumption in Ukraine, bcm

■ Data: NAK Naftogaz of Ukraine

Groups of consumers	2017	2018
Households (direct use and district heating companies)	15.8	15.4
Industry	9.1	9.3
Process losses, liquid gas production	4.4	4.7
Unauthorized gas withdrawal, non-documented volumes	1.1	1.3
District heating for state-funded organizations and industry	1.0	1.1
State-funded organizations	0.5	0.5
Total	31.9	32.3

Ukraine's natural gas consumption in 2018 amounted to 32.3 bcm. As compared to 2017 indicators, consumption grew by 1.3% or 0.4 bcm.

Households continue to rate first among all consumer groups in relation to gas consumption. That said, gas consumption by residential consumers dropped from 15.8 to 15.4 bcm in 2018. Direct household consumption amounted to 10.6 bcm (-5.4% compared to 2017), while utility companies consumed 4.8 bcm (+4.3%) for heating houses and supplying hot water.

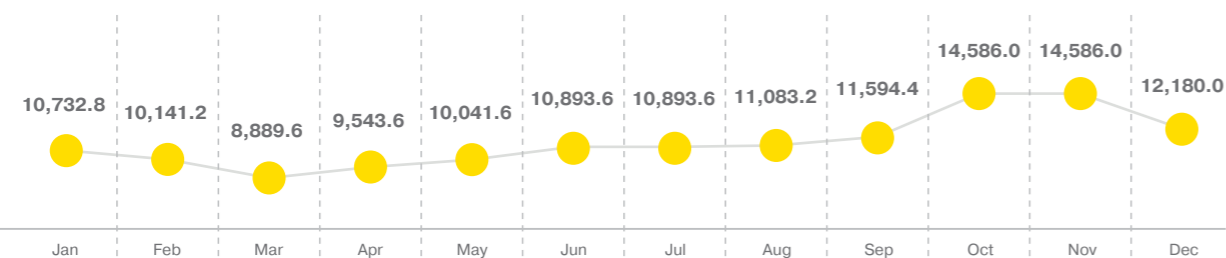
Gas consumption by industrial consumers increased from 9.1 to 9.3 bcm (+2.2%). Process consumption during production, transportation and distribution of natural gas as well as production of liquefied gas increased from 4.4 to 4.7 bcm (+6.8%). This increase is attributed to

the considerable scale of efforts aimed at the stimulation of gas production undertaken by Ukgazvydobuvannya, a state-run company, in 2018.

Since 2016, a natural gas uniform tariff was set for all residential consumers and heating companies. During 2018, the tariff for these consumer groups was reviewed only once: a tariff of UAH 6,958/th cubic meters was charged from 01.04.2017 to 31.10.2018, and a tariff of UAH 8,549/th cubic meters applied from 01.11.2018 to 30.04.2019. The price is set for non-domestic consumers. NAK Naftogaz of Ukraine price lists serve as a reference for the market.

Natural gas price for non-domestic consumers in 2018, UAH/th cubic meters

■ Data: NAK Naftogaz of Ukraine, all prices include VAT.



Natural gas production and import

Natural gas production in Ukraine, bcm

■ Data: Gas producers association of Ukraine.

Companies	2017	2018
Ukgazvydobuvannya	15.3	15.5
Private companies	4.1	4.4
Ukrnafta	1.1	1.1
Total	20.5	21.0

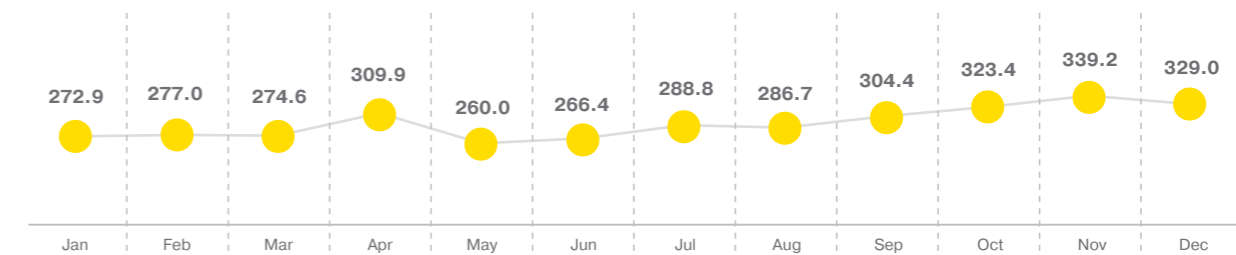
In 2018, Ukraine increased natural gas production by 2.5% as compared to the previous year. As a result, domestic production covered 65% of the aggregate natural gas consumption in the country.

Gas production has been growing in Ukraine for three years in a row. In 2018, private companies demonstrated higher growth rates of 7.3% as compared to state-run companies. State-run Ukgazvydobuvannya's growth rate reached 1.6% while Ukrnafta demonstrated a negative trend and reduced its natural gas production by 2.3% as compared to 2017.

According to the BP Statistical Review of World Energy 2018, Ukraine has the second largest amount of proven natural gas reserves in Europe, after Norway. Reserves are estimated at 1.1 trillion cubic meters. The state's need for natural gas will be completely satisfied by domestic production if further liberalization of the sector continues, helping secure new investments.

Average price for imported natural gas in 2018, USD/th cubic meters

■ Data: Ministry of Economic Development and Trade of Ukraine.



In 2018, Ukraine's natural gas imports came exclusively from Europe. Ukraine did not directly import natural gas from the Russian Federation both in 2016 and 2017.

In 2018, Ukraine reduced the amount of natural gas it imported from 14.1 to 10.6 bcm (-24.8%) with all imports coming from the European market. Naftogaz of Ukraine

purchased 7.0 bcm, and the remaining quantities were imported by other companies. 65 companies supplied gas to Ukraine in 2018 (67 companies in 2017).

Regulatory environment

There were considerable improvements made to the regulatory environment in 2018, and the legal framework for the Ukrainian gas production industry has been upgraded.

The launch of oil and gas auctions: preparations to online oil and gas auctions based on the ProZorro platform and international tenders for production sharing agreements (PSA) launched in 2018.

Transfer to electronic auctions was launched by the government as an experimental project that would run from October 24, 2018 until December 01, 2019. There will be a subsequent decision on the further development of this project. It is expected that more than 40 fields, with a total area in excess of 20,000 square meters, will be put up for auction in 2019. According to the information collected by the State Service of Geology and Mineral Resources of Ukraine, the resource base of the sites submitted for the first auction was estimated at 90 bcm of gas and 16 mln tonnes of oil. The auction took place on 6 March 2019. DTEK Oil & Gas won the bid for the license to use subsoil of the Svitankovo-Logiv's'ka field in Kharkiv region.

The opening of tenders for conclusion of PSA was announced in February 2019. 9 promising sites were offered for tender and DTEK Oil & Gas submitted its bids for two of them.

Industry deregulation: More than 15 permit procedures have been cancelled and access to land for hydrocarbon exploration and extraction has been simplified. As a result, the Ukrainian legal framework for the gas extraction industry was brought closer into line with the best international practices. Furthermore, EITI international reporting standards became mandatory for gas production companies, which increases the industry's transparency.

Introduction of incentive tax schemes for the drilling of new gas wells: conditions have been created for staking more than 160 new gas wells in 2018, which is 30% higher than in 2017.

Access to geological information: access to geological information was opened in 2018, and the circulation of such data was liberalized. These changes included the digitalization of state-run databases and creation of an electronic data room, which is common practice in leading oil and gas countries.

Decentralization of royalties: in 2018, gas production companies paid UAH 2 bln of taxes to local communities where gas is extracted. This change provided a strong incentive for a constructive dialogue and active cooperation between the industry and local communities.

GTS tariffs for production companies: the Regulator set a competitive charge for the entry into a gas transportation system in line with European practices.

A single license fee: fees for the extension of a special permit to use mineral resources, and for reserve growth have been cancelled. The requirement for the reevaluation of reserves in the absence of valid grounds has also been annulled. This practice is in line with the European legislation.

Gas production intensity by countries, reserves-to-production ratios, %

■ Data: Energy Industry of Ukraine Reference Book 2018.

Countries	%
Romania	10.1
USA	8.4
Norway	7.2
Kazakhstan	2.4
Ukraine	1.9

The core problem faced by the gas production sector lies in the absence of an efficient market of geological information and special permits to use mineral resources. The ongoing upgrade of sector-specific legislation is aimed at dealing with these issues, which will promote the development of domestic gas production.

