

Ukraine's Gas Market Reform

Building an open competitive gas market



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23 April 2015

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Fundamentals for gas market development are established

Key milestones already achieved in the gas sector reform...

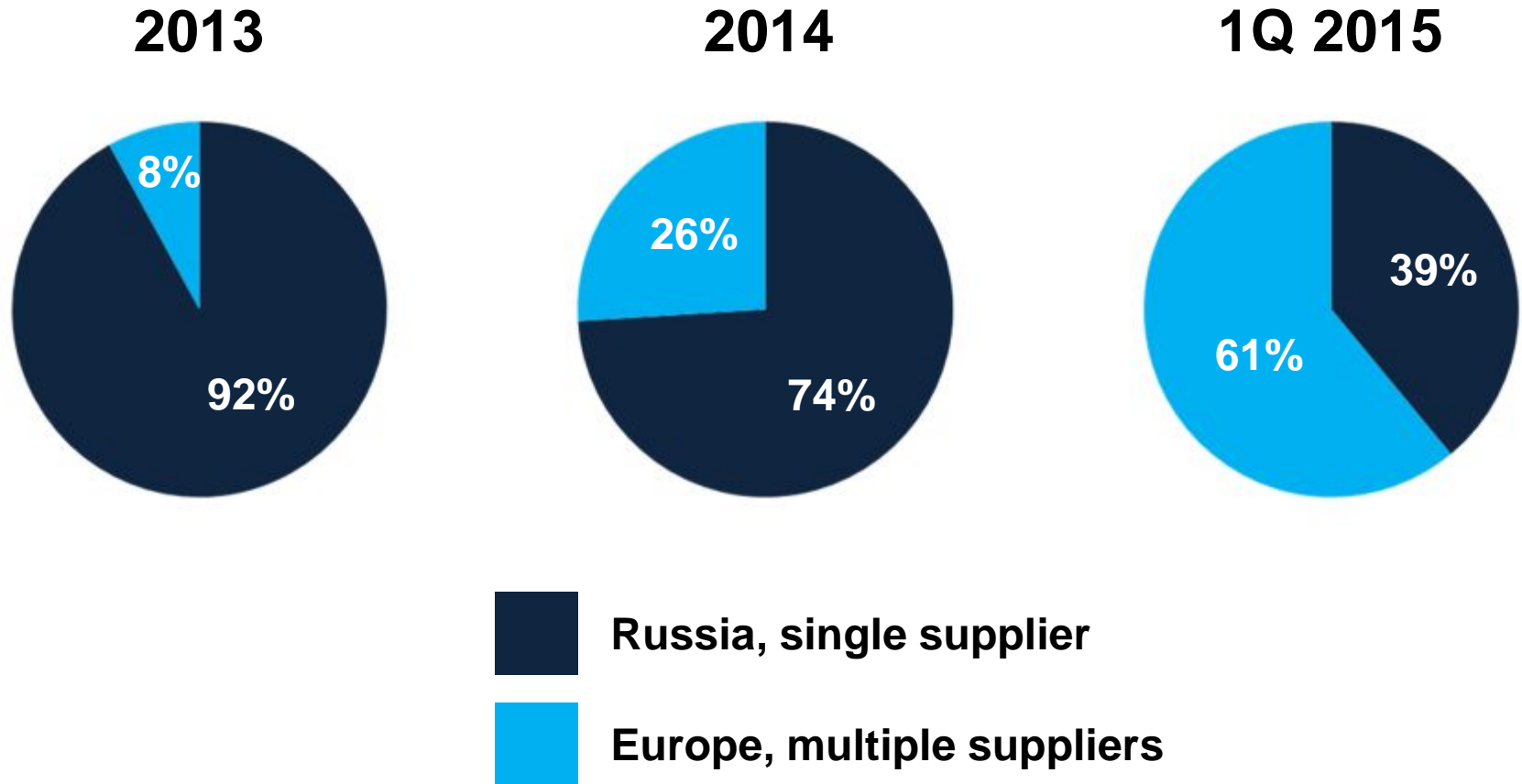
- ✓ Import supplies effectively diversified
- ✓ Gas Market Law passed
- ✓ Price increase for residential consumers
- ✓ Draft of Public Service Obligations (PSO) developed for transition period

...finally create fundamental framework for competitive and efficient gas market

- Decrease budget and Naftogaz deficit
- Improve competition across value chain in the gas sector
- Enhance energy security via integration into European Energy Community
- Enable local upstream production increase through price deregulation
- Contribute to energy efficiency improvement via measures anchored in PSO framework

Naftogaz has effectively diversified gas imports

Sources of imported gas supplies to Ukraine

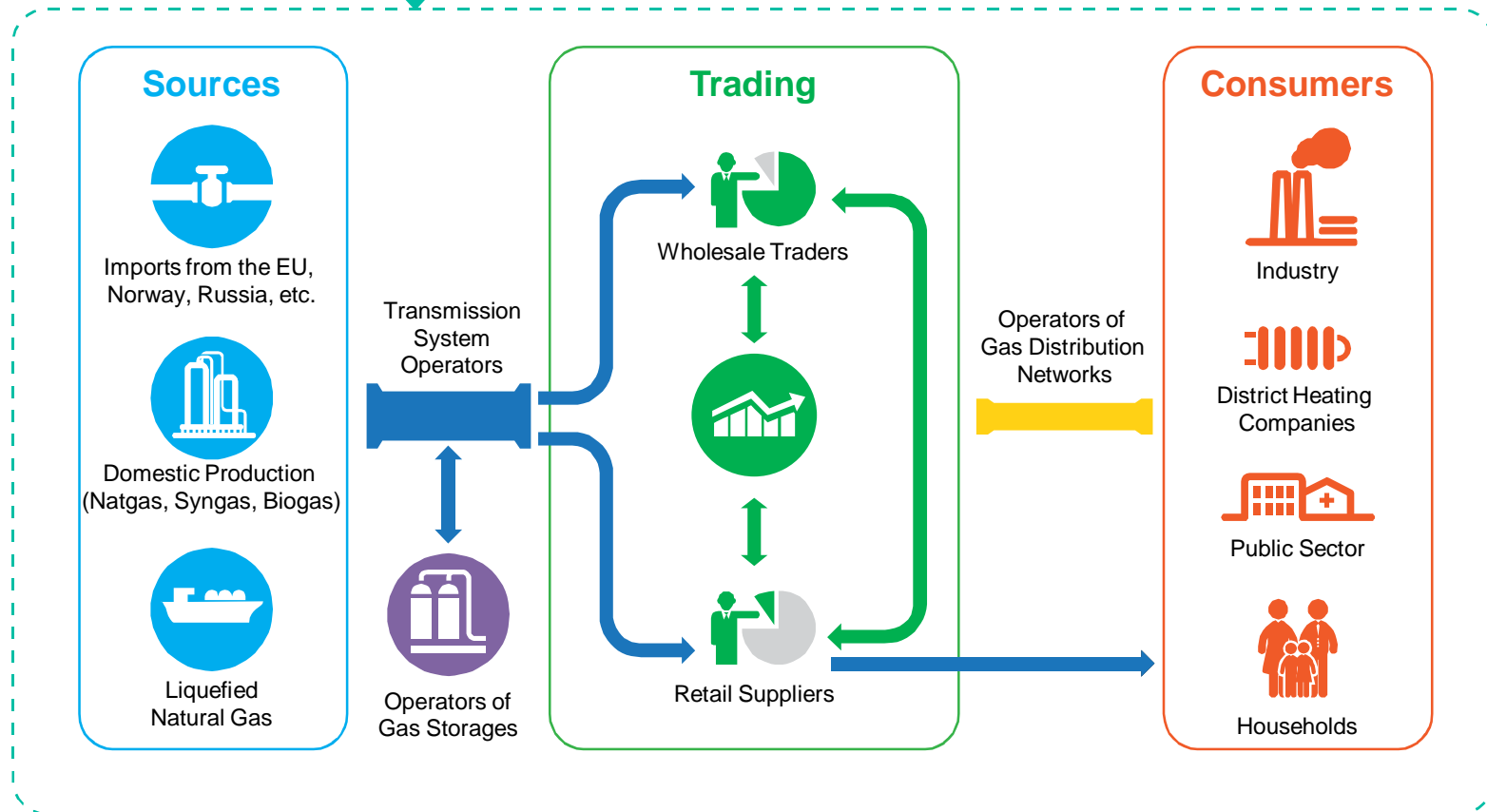


Gas Market Law adopted by Rada: 3rd energy package compliance



Market Regulation and Supervision

Cabinet of Ministers of Ukraine; Ministry of Energy and Coal Industry of Ukraine; National Commission for State Energy and Public Utilities Regulation; Secretariat of Energy Community



1. Unbundling on wholesale and distribution levels
2. Independent regulation and clear limits for state intervention
3. Market liberalization combined with public service obligations provisions

Household tariffs increased starting from 1 April 2015

Tymoshenko Govt.

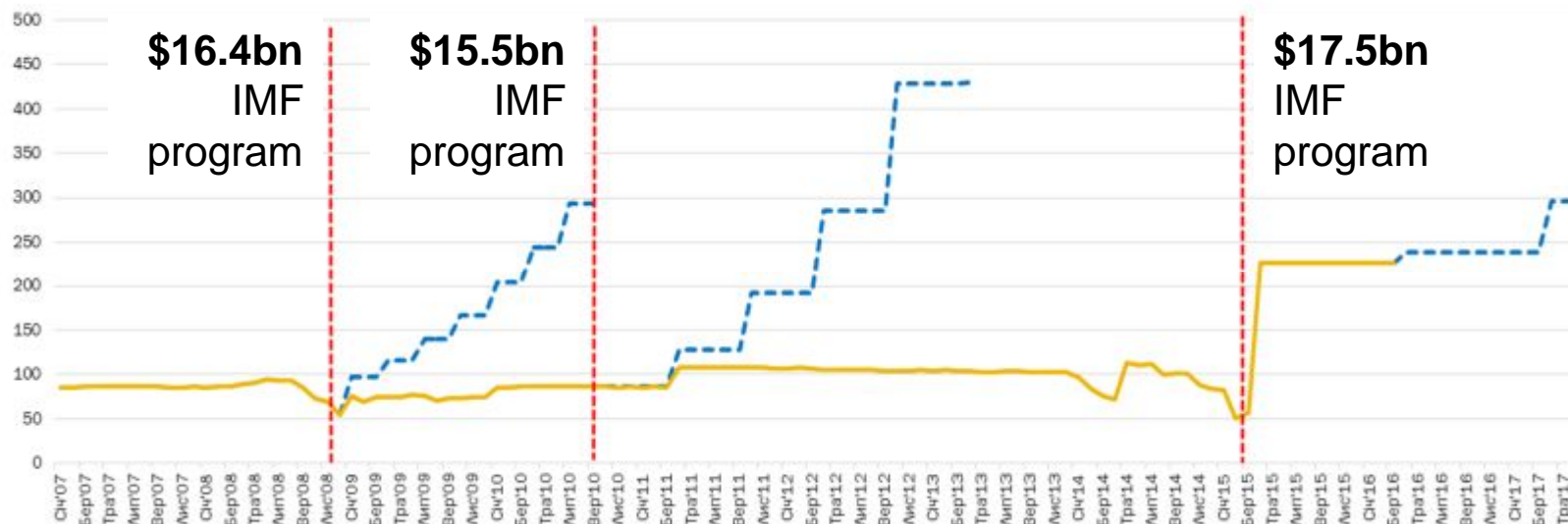
Market level tariffs
in 3 years by 2012

Azarov Govt.

Market level tariffs in
2.5 years by May 2013

Yatsenyuk Govt.

Market level tariffs
in 2 years by May 2017



Tariff increase schedule the government committed to



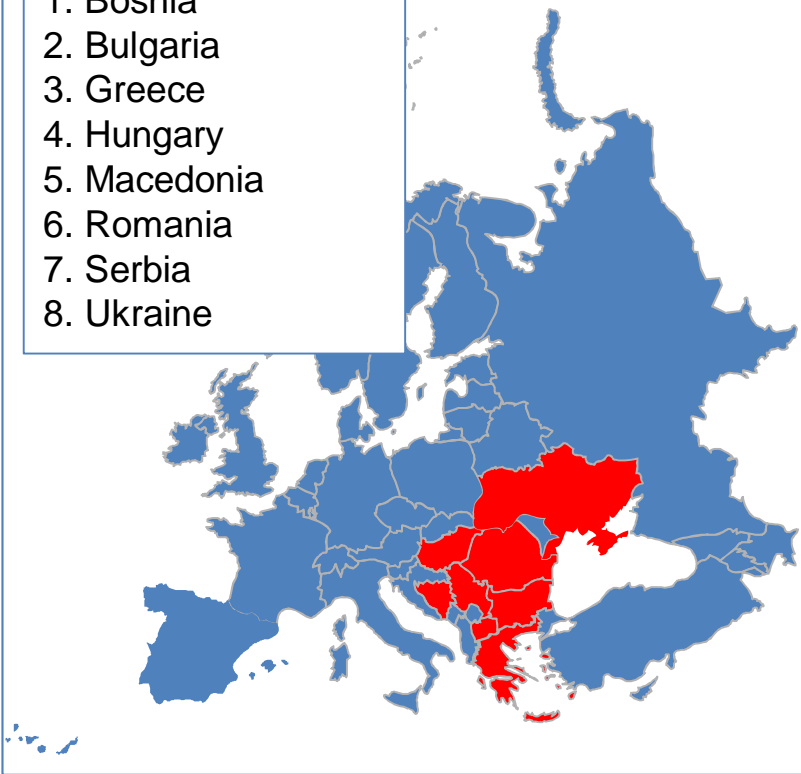
Actual tariff level (weighted average across categories of households, in US\$)

Ukraine's gas network is Europe's missing piece of a puzzle

If Russia cuts off supply through Ukraine 8 countries would suffer from gas deficit

Affected countries:

1. Bosnia
2. Bulgaria
3. Greece
4. Hungary
5. Macedonia
6. Romania
7. Serbia
8. Ukraine



This can be avoided by expanding throughput capacity between Ukraine and EU

Current EU Imports



Large Slovak Reverse



New Polish Inter-connector

Slovakia (key route)
Hungary, Poland

EU law enforcement required;
no investment
Time to implement:
immediately

Investment:
EUR0.3bn
Time to implement:
2-3 years

EU-Ukraine integration is hindered by Gazprom; action needed

