UKRAINE’S NATURAL GAS INDUSTRY DURING A FULL-SCALE WAR
Traditionally the Association of Gas Producers of Ukraine prepares a report on its activities on a yearly basis, highlighting the achievements and significant events in the industry, and outlining plans for the next year.

However, 2022 was different from previous years.

The full-scale invasion of Russia into our country fundamentally changed the lives of every Ukrainian and Ukraine as a whole.

We have decided to dedicate this special edition to Ukraine’s gas industry and its workers who fought on the energy front throughout 2022 – working bravely and heroically to produce natural gas, deliver it to the homes of Ukrainians, promptly respond to attacks, and defend the country from the enemy with weapons in hands.

We will tell the story of how the industry lived throughout the months of full-scale war, the extraordinary challenges it faced, and the essential achievements it made.

Considering that this report is being released during a state of war and with restricted access to information about energy resources, we will not disclose some of the data on the sector for security and regulatory reasons.
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2022 рік став роком боротьби та випробувань.
А ще — роком едності, гордості та надії.
Українці показали, як вміють боротися за своє право.
Кожен на своєму фронті робив все від нього захоплене, щоб наблизити перемогу над російськими загарбниками.
Українські газовидобувники впродовж усіх місяців повномасштабної війни виробували газ там, де це було фізично можливо, зокрема, в безпосередній близькості до зони активних бойових дій.
Попри небезпеку та щоденні обстріли, компанії були в свердловинах, здійснювали капітальні ремонти, відреставрували діяльність на десертних територіях, інвестували в нові проекти, розвивали ҐРР, сплачували податки, допомагали армії та місцевим громадам.
Національна енергія також сумісно виконувала все свої зобов'язання перед міжнародними партнерами. Ми вповні обслуговували газ до ЄС, втілювали реформи, винаймляли право маніпулювати наше законодавство у відповідність до європейських стандартів.
Кожен видобутий в Україні кубометр газу зміцнював нашу енергетичну безпеку, а сплачені податки допомагали українській економіці. І державні, і приватні компанії робили все від них залишено, щоб зберегти внутрішній видобуток. Цей європейський рік росіянам намагалися знищити українську газовидобувну індустрію, але це не вдалося.
2023-й буде не менш складним для України, адже росіяні продовжують свої терор на всіх фронтах. Та зламати мужній дух українців їм не вдасться.
Ми вистояли у 2022-му, даємо гідну відсіч зараз і неодмінно переможемо!

Артем Петренко
Виконавчий директор

2022 was a year of struggle and trials.
But it was also a year of unity, pride, and hope.
Ukrainians have demonstrated how to fight for their freedom. Everyone on their own front did everything in their power to bring victory over the Russian aggressors.
Russian gas producers worked tirelessly throughout the months of full-scale war, producing gas wherever it was physically possible, including in close proximity to active combat zones.
Despite the danger and daily shelling, gas producers drilled new wells, carried out workovers, restored operations in the de-occupied territories, invested in new projects, implemented production sharing agreements, paid taxes, and assisted the army and local communities.
Our country also conscientiously fulfilled all its obligations to international partners. We transported gas to the EU in full volume, implemented reforms, and brought our legislation into line with European standards.
Every cubic meter of gas produced in Ukraine strengthened our energy security, and the taxes paid helped the Ukrainian economy. Both state and private companies did everything in their power to preserve domestic production. Throughout the entire year, the Russians attempted to destroy the Ukrainian gas industry, but they were unsuccessful in doing so.
2023 will be no less challenging for Ukraine as the Russians continue their terror on all fronts. But they will not break the courageous spirit of Ukrainians.
We withstood 2022, we are putting up a worthy defence now, and we will undoubtedly win!
Russia’s War Against Ukraine: Consequences for the Sector

The full-scale invasion of Russia has caused Ukraine billions of dollars in damages. With each passing day, the number increases as the war continues and Russian terrorists destroy businesses, residential buildings, infrastructure, and socially important objects.

According to the government’s data, as of the beginning of 2023, the losses inflicted on the Ukrainian economy as a result of the war have already exceeded $700 billion. All sectors have felt the consequences of Russian aggression.

From the first days of the full-scale war, oil and gas producers found themselves under targeted fire from Russian terrorists. Several deposits were captured, and some are still under occupation or on the front line.

Russians repeatedly shelled the production facilities of companies, destroying equipment and infrastructure. In general, since February 24, 2022, Russians have damaged over 600 natural gas production objects in Ukraine.

But the greatest loss is the loss of our people.

Thousands of industry workers who successfully worked in fields and offices before the war were mobilized or voluntarily joined the Armed Forces to defend the country from the enemy with weapons in hand. Unfortunately, the war unleashed by Russian terrorists forever took the lives of 68 specialists in the oil and gas production industry. We will always remember them and their heroism.

Those workers who remained in the rear are fighting on the energy front daily. They are doing everything possible and impossible to maintain the uninterrupted operation of the sector, providing Ukrainians with gas.
Before the full-scale war, gas production in the country was increasing, with both state-owned and independent gas companies demonstrating growth. In the first month of the year, Ukrgasvydobuvannya increased production by 1.6%, Ukrnafta by 3.3%, and private companies by 4.1%. By the end of February, overall production had increased by 2% compared to the same period in 2021.

On February 24, 2022, Russia began a ground invasion of Ukraine from the north, east, and south, simultaneously attacking dozens of cities in the country from the air. The eastern region is crucial for the industry as it produces over 93% of Ukrainian gas and contains 77% of the explored hydrocarbon reserves. Gas production facilities have repeatedly come under rocket attacks from the Russian army, but despite the constant threat and proximity to the front line, companies continued to work where it was physically possible. Unfortunately, some gas fields were occupied and production was impossible.

In the fall, after the counteroffensive by the Ukrainian Armed Forces and the de-occupation of the Kharkiv region, gas production companies began to quickly restore operations in the liberated territories. Some of the private producers were able to increase daily production by 30-40%. Owing to the army’s success, Ukrgasvydobuvannya gained access to a number of wells and equipment, where repair work was carried out after demining, and some infrastructure facilities were able to be restored to pre-war levels. Overall, from August to October, the total daily production in Ukraine increased by 2.5%; Ukrgasvydobuvannya by 0.5%, Ukrnafta by 3.1%, and independent companies by 9.1%.

As a result of the year, overall gas production in Ukraine decreased by 6.6%, compared to the level in 2021. Despite numerous rocket attacks and close proximity to the combat zone, the Russian terrorists were unable to destroy the gas industry. The prompt response of companies to challenges, quick restoration of work, adherence to safety regulations and rules by employees, as well as faith in and support of the Armed Forces of Ukraine, have enabled producers to minimize the negative impact of the war on production and the sector.
За рік в Україні закладено 74 нові свердловини.

Особливість українських газових родовищ — це високий відсоток виснаженості, адже більшість із них активно розробляються з 1960-1970 років, а також стрімке щорічне природне падіння більш як на 15%.

Єдиним дієвим механізмом для боротьби із цими проблемами та для збільшення обсягів газовидобутку є буріння нових свердловин.

Навіть під час війни, під щоденною обстрілами та з надвисокими ризиками, компанії не припиняли інвестувати в галузь, зокрема в буріння та інтенсифікацію видобутку.

Так, левова частина, а саме 47 нових свердловин, були пробурені Укргазвидобуванням. Працівники компанії встановили одну з рекорду дві рекорди за буріння за останні як мінімум 15 років: місячної і добової проходки. Варто зазначити, що близько семи місяців низька верстатів Укргазвидобування перебувала в окупації, і після звільнення територій та проведення ремонту вони відновили буріння на сході країни.

Досвід попередніх років демонструє, що ефективно боротися із виснаженістю родовищ та їх природним падінням можна саме завдяки стимулюючому оподаткуванню для буріння нових свердловин, яке діє з 2018 року і продовжено до 2032 року.

Завдяки стимулам за п’ять років закладено 432 нові свердловини. Частка видобутку приватних компаній з нових свердловин становить близько 30% від загального обсягу видобутку. Найбільшу кількість свердловин пробурено у 2018 році, коли на ринку була приваблива цінова кон’юнктура.

Поки що, навіть під час повномасштабної війни, в умовах невизначеності та нестабільності, українські газовидобувники продемонстрували впевненість та заклали більше свердловин, ніж у 2020 році, коли в світі панувала пандемія COVID, а ціна на вуглеводні були рекордно низькими.

It is noteworthy that even during a full-scale war, in conditions of uncertainty and instability, Ukrainian natural gas producers demonstrated confidence and drilled more wells than in 2020, when the world was experiencing the COVID pandemic and hydrocarbon prices were at record lows.
In 2022, the difference between the price of gas at the TTF hub and the cost in Ukraine was 55%, or $506.

The situation in the European market

It was impossible for Russian manipulations not to trigger a crisis in the European gas market, especially considering the economic downturn caused by COVID-19. During 2020-2021, the market was severely shaken, and throughout 2022, extreme price increases and abnormal volatility were observed.

The highest price for gas was recorded in August and was about $3 500 per thcm, which is an absolute record. The lowest price was at the beginning of the year, in January-February, before Russia’s full-scale invasion of Ukraine. After February 24, gas prices in Europe sharply increased against the backdrop of statements about the refusal to use bloody energy resources from Russia. However, by October, when it became clear that the EU had managed to replace the lion’s share of the resource of Russian origin and fill its gas storages, the price sharply dropped to $800 per thcm. Thus, the average spot price at the TTF hub in 2022 was $1 342, or UAH 43 428 per thcm. The difference between the highest and lowest indicators was 290.74 EUR/MWh ($3 238, or UAH 104 719 per thcm).

The situation in the Ukrainian market

Ukraine is an import-dependent state, and fluctuations in the European market directly affected price formation within the country. Before February 24, a close correlation of prices allowed for a fair balance between sales and tax payments, but the war changed everything. Thus, throughout the year, there was a significant gap between the price in Ukraine and Europe: the price in Ukraine was on average 55%, or $506 lower than the analogous one at the TTF hub. Considering that the royalty base was tied to the customs value of imports and quotes on the Dutch hub, Ukrainian natural gas producers had to pay royalty several times higher than the sales value.

At the end of September, during the peak gas prices in Europe, this problem was resolved at the legislative level: the royalty base was temporarily tied to the domestic gas prices. Along with successes on the front and the liberation of the territories, this led to the stabilization of production.
In 2022, the gas production industry paid UAH 67 billion in royalty.

From year to year, oil and gas producers are among Ukraine’s largest taxpayers. This is a significant contribution by companies to the state’s financial and economic stability, especially in military conflict.

Out of the UAH 67 billion paid in royalty, communities in the territories where hydrocarbon production takes place received 5% — UAH 3.35 billion. It should be noted that this amount will increase after the sale of produced, but currently, unsold gas, which is stored in underground gas storage facilities due to a lack of demand from industry.

Throughout the year, producers helped the Ukrainian Armed Forces defend the state from invaders and helped local communities save lives.

In total, companies allocated nearly UAH 2 billion for the needs of the Ukrainian army and civilians who have suffered from the war.

For defence purposes, these funds were used to purchase unmanned aerial vehicles, thermal imagers, off-road vehicles, and quad bikes. To protect populated areas, companies helped set up checkpoints in various country regions, provided fuel, and transferred body armor, helmets, military equipment, first aid supplies, wood-burning stoves, generators, sleeping bags, Starlink satellite internet terminals, and more.

In close cooperation with the central and local authorities, natural gas producers assisted in the evacuation of Ukrainians from the combat zone. They helped with resettlement, provided sleeping accommodations, and supplied essential goods, including hygiene products and food packages. In addition, they purchased necessary medicines and equipment for medical institutions. Furthermore, the delivery of generators for the autonomous power supply was organized to meet the needs in electricity of hospitals and local communities in different parts of Ukraine.
Повномасштабне вторгнення Росії в Україну докорінно змінило світовий ринок вуглеводнів.

З перших днів війни ЄС рішуче заявив про відмову від енергоресурсів з країни-агрессора. Росія, у відповідь, розпочала газову війну.

Навесні російські зупинники транзит газу до ЄС через ГВС «Сокранивка» згодом намагалися влаштувати аварію на магістральному газопроводі. Кілька разів зупиняли роботу «Північного потоку – 1» та «Гурецького потоку». Впродовж року постачання трубопровідного газу в Європу через українську ГТС зменшили до найнижчого показника з 1991-го — 20.3 млрд м³. За відмову сплатаючи за газ у рубліях Росія призначила постачати газ Польщі, Болгарії, Фінляндії, Нідерландам, а також, якби доконалися позамищення санкцій, погрозувала повною зупинкою транзиту до ЄС.

Для зменшення залежності від російського газу Єврокомісія представила план REPowerEU, який передбачав диверсифікацію поставок, економію енергії та збільшення частки ВДЕ. ЄС також активізував співпрацю із США, Алжиром та країнами Близького Сходу, що дало змогу на два місяці раніше від запланованого заповнити ПСГ на 80%.

Німеччина, яка була найбільшим імпортером газу з РФ та єдиною країною ЄС без LNG-терміналу, за рекордні терміни запустила перший термінал і до кінця 2023 року планує збільшити її кількість до шість. Польща стала першою європейською країною, яка у травні 2022 року достроково розірвала контракт із газпромом, а вже вовни запустила в роботу Baltic Pipe, прокладений від норвезьких родовищ. Ще два газопроводи — з Польщі та Словаччини, Греції та Болгарії — допомогли зменшити залежність від російського газу у Східній Європі.

Крім цього, європейці добровільно вирішили скоротити споживання газу на 15%. Деякі держави вдалися ще й до інших заходів економії, зокрема, заборонили обігрівати приватні басейни, освітлювати архітектурні споруди і навіть запровадили штраф за надмірну витрату тепла взимку. У підсумку Європа за рік зменшила споживання газу з Росії близько нім удвічі.

EN

The full-scale invasion of Russia into Ukraine has fundamentally changed the global hydrocarbon market.

From the first days of the war, Europe firmly declared its refusal to use energy resources from the aggressor country. In response, Russia started a gas war.

In the spring, the Russians stopped the transit of gas to the EU through the GMS Sokhranivka and later attempted to cause an accident on the main gas pipeline, also several times stopping the operation of Nord Stream 1 and Turkish Stream. In general, the supply of pipeline gas to Europe via the Ukrainian GTS was reduced to the lowest level since 1991 and amounted to 20.3 bcm. Russia stopped supplying gas to Poland, Bulgaria, Finland, and the Netherlands for refusing to pay in rubles and also threatened to halt natural gas transportation to the EU in order to achieve mitigation of sanctions.

To reduce dependence on Russian gas, the European Commission presented the REPowerEU plan, which envisaged supply diversification, energy efficiency, and an increase share of RES. EU has also intensified cooperation with the United States, Algeria, and the countries of the Middle East. This made it possible to fill underground gas storages 80% two months earlier than planned.

Germany, the largest gas importer from Russia and the only EU country without an LNG terminal, launched the first terminal in record time and plans to increase their number to five by the end of 2023.

Poland became the first European country to prematurely terminate the contract with Gazprom in May 2022, and in the fall, it launched the Baltic Pipe, laid from Norwegian deposits. Two more gas pipelines — between Poland and Slovakia, Greece and Bulgaria - helped reduce dependence on Russian gas.

In addition, Europeans have voluntarily decided to reduce gas consumption by 15%. Some countries have also taken additional measures to save energy, including prohibiting the heating of private pools, illuminating architectural structures, and even imposing fines for excessive heating during winter. As a result, Europe reduced its gas consumption from Russia by more than half in a year.
At the beginning of the year, the government, by the decision of the President of Ukraine, introduced a mechanism to support socially important sectors of the economy in conditions of abnormal spikes in gas prices. According to the approved documents, independent gas producers were required to sell up to 20% of the produced gas at a regulated price on the Ukrainian Energy Exchange to enterprises that produce socially significant food products such as bread, oil, pasteurized milk, eggs, chicken, and so on.

Although state regulation is a non-market mechanism not used in leading countries, Ukrainian private companies conscientiously complied with its requirements. Together with the UEEX, they accredited, formed lots, and processed necessary documents shortly. A special committee of representatives from the Ministry of Economy, Energy, and Agrarian Policy monitored the trading organization and compliance with the procedures.

Owing to the coordinated work of business, the relevant ministry, and the UEEX, 14 auctions were held in January-February, where companies sold 25.65 million cm of “social” gas.

Gas producers always advocate for market conditions, competitive pricing, and transparent rules, which guarantee the sector’s further development.

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<td>2</td>
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<td></td>
<td>1%</td>
<td>16%</td>
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<td>5</td>
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<td>24%</td>
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<td>6</td>
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<td>16%</td>
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</tr>
<tr>
<td>7</td>
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<td>7%</td>
<td>36%</td>
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Source: Ukraine Energy Exchange (UEEX)
Рентні зобов’язання

Нова система оподаткування

Високі ціни на газ на європейських хабах спонукали державу кардинально переглянути податкову політику в сфері видобутку вуглеводнин.

На початку року за поданнями народних депутатів та урядців у Верховній Раді зареєстрували низку законопроєктів, які передбачали вкрай жорсткі умови для газовидобувників. Згідно з ініціативами, пропонувалося радикальне підвищення ставок рентної плати за видобуток природного газу — в 3-5 разів. Зокрема, урядовий законопроєкт мав на меті зробити ренту найвищою в Європі, кількісно близькою до 74%.

Окрім того, передбачалася зміна бази оподаткування, за якою нараховується рента, та скасування державних гарантій незмінності оподаткування для нових свердловин, пробурених після 2018 року.

Газовидобувна індустрія не підтримала державних ініціатив, адже вони ставили під загрозу енергетичну безпеку країни. Асоціація газовидобувних компаній України наголошувала, що кардинальне підвищення податкового навантаження призведе до зменшення інвестицій в газову отримку, зменшення виробництва украинського газу, втрати сектору та ще більшої залежності від імпортного ресурсу.

Законодавчий процес тривав багато років. Законопроєкт, який Верховна Рада ухвалила вже в розпал війни — 15 березня 2022 року.

Якщо ціна знаходиться в діапазоні $150-400, застосовуються старі ставки ренти — 29/14% для старих свердловин і 12/6% для нових; якщо ціна нижче за $150, до ставок ренти 29/14%, 12/6% застосовується коефіцієнт 0.5; якщо ціна більше за $400, ставки ренти збільшуються до 57/28% для старих свердловин і 36/18% для нових.

Практика застосування нового підходу оподаткування з огляду на ціну газу в $1 000 за 1 000 м³

/ The practice of applying a new approach to taxation given the gas price of $1,000 per 1,000 cm³

1. Якщо ціна нижче за $150, до ставок ренти 29/14%, 12/6% застосовується коефіцієнт 0.5; / If the natural gas price is less than $150, the 0.5 coefficient is applied for 29/14%, 12/6% royalty rates;
2. Якщо ціна знаходиться в діапазоні $150-400, застосовуються старі ставки ренти — 29/14% для старих свердловин і 12/6% для нових; / If the natural gas price is in the range of $150–400, royalty rates are 29/14% for old wells and 12/6% for new ones;
3. Якщо ціна перевищує $400, ставки 29/14% для старих свердловин і 12/6% для нових застосовуються до частки $400, а 65/31% та 36/18% до різниці між фактичною ціною та $400. / If the natural gas price is more than $400, the royalty rates of 29/14% for old wells and 12/6% for new ones are applied for the share of $400, and the difference between the actual price and $400 is taxable for 65/31%, 36/18% royalty rates.
Drop in natural gas demand from the industry

From the first days of the war, Ukrainian industry became a target of Russian terrorists. This led to a significant decrease in gas demand in the first months of the war, it fell by almost 70%, and later by 50-60%. As a result, gas producers saw a decrease in sales volumes, as industrial facilities were the main consumers of gas for private companies. In some months, the percentage of unsold gas in some enterprises reached 90%.

Another challenge for companies was the ban on gas exports according to the decision of the Crisis Committee at the Ministry of Energy, which was adopted in March. In the early summer, the government extended this ban for the entire year of 2022. As of February, zero quotas for the export of Ukrainian gas have been extended for 2023.

The drop in gas demand and its export ban did not affect companies’ tax obligations in any way. Royalty had to be paid on time and in full, regardless of whether the companies sold the resource. Accordingly, every month, the companies’ available funds decreased, and therefore, their ability to invest in the sector. In close cooperation with the Cabinet of Ministers, the Office of the President, and the Verkhovna Rada, gas producers adopted draft law No. 7249, according to which royalty is paid based on the actual gas sales. This means that every month, companies calculate royalty for the entire volume of gas they produced but pay for the portion they were able to sell during that period.

Zmіна бази оподаткування

An unfair approach to determining the base for gas production became a serious challenge for the industry. Gas sales were only possible to Ukrainian consumers, and tax obligations were calculated based on the price formed in Europe, which was several times higher than the cost in Ukraine. As a result, the amount of taxes a number of private companies exceeded the revenue from the resource sales.

Constructive cooperation between businesses and government officials helped to regulate this issue at the legislative level. At the end of September, draft law No. 7732 came into force, according to which the calculation of royalty is temporarily tied to internal price indicators. This norm will be in effect until the complete cancellation of the ban on the export of Ukrainian gas.

Tying the royalty to the internal market prices is a big step in creating Ukraine’s own indicative price for natural gas, which did not exist before. The government’s decision positively affects every consumer and the gas industry, protecting them from abnormally high gas prices. Now, Ukraine is oriented towards the domestic sector and will not depend on the turbulence of the European market. Owing to the change in the taxation base, gas companies can work stably and have the potential to increase natural gas production in the country.

Change of taxation base

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<td>Source: AGPU</td>
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Change of taxation base

Serедньозважена ціна у договорах купівлі-продажу за результатом викупу Нафтогазом газу приватних компаній на ліцензованних біржах.

/ The weighted average price in sales contracts based on the result of Naftogaz buying natural-gas from private companies on licensed exchanges.

Середньозважена ціна, що склалася за результатами торгів газом приватних компаній на ліцензованих біржах.

/ The weighted average price of natural gas based on the results of trading of private companies’ natural gas on licensed exchanges.

ЦНОВІ АГЕНТСТВА / PRICE AGENCIES

// EXCHANGE

Українська промисловість потратила під приціл російських терористів з перших днів війни. Це призвело до суттєвого зниження попиту на газ у перші місяці війни — майже на 70%, а далі — на 50-60%. Відтак, у газоводовівників знизились обсяги реалізації, адже саме промислові об’єкти були основними споживачами газу приватних компаній. В останні місяці відсоток нереалізованого газу досягав 90%.

Ще одним викликом для компаній стала заборона на газову експорт від того, продали підприємства ресурс чи ні. Відповідно, ренту треба було вчасно та в повному обсязі, незалежно від того, що сума податків ряду приватних компаній перевищувала дохід від реалізації ресурсу.

Прив’язка ренти до внутрішніх ринкових цін — це великий крок у створенні власного індикативного ціноутворення на природний газ, якого в Україні раніше не було. Державне рішення позитивно впливає на юридичного споживача та газоводовівника, адже зазначає від аномально високих цін. Тепер Україна орієнтується на внутрішній сектор і не залежатиме від грубелюваності європейського ринку. Зауважимо зміну бази оподаткування компанії можуть стабільно працювати та мають потенціал для збільшення видобутку газу в країні.

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Reform of the subsoil use sector

The adoption of the amended draft law No. 4187 is a step by the state toward businesses. It is also a powerful signal to international partners that Ukraine is committed to the European integration course and will not deviate from it.

The Law was approved by the Verkhovna Rada on December 1, 2022, and will enter in force on March 28, 2023.

The extensive reform of the subsoil use sector provides for a reduction in the terms for obtaining licenses, ensures transparent rules in the sector, modernizes and simplifies access to geoinformation, cancels a number of archaic agreements, and also reduces excessive state influence and eliminates corruption risks. A number of innovations contained in the Law will have a positive impact on subsoil users and help to effectively develop Ukrainian subsoil.

The key feature of the reform is the liberalization of the circulation of licenses for subsoil use. Thus, for the first time in Ukraine, producers will be able to freely dispose of licenses — buy/sell them or use them as assets. This will stimulate interest and foster participation of foreign investors, capital and technologies to the sector. It should be noted that restrictions will apply to state-owned enterprises, which will prevent any abuses.

Producers will also have the opportunity to conduct an assessment of reserves in accordance with international standards and simplified access to land plots. For the rational use of subsoil, a fee will be established for the renewal of a license if less than 5% of reserves are produced on the plot, and it will generally be prohibited to extend the term of the license if the volume of production is less than 1%.

The Law provides that citizens and residents of the aggressor country, as well as companies of which Russians will own a significant portion, cannot be users of Ukrainian subsoil to protect national interests.

At the same time, for the first time in Ukraine, an economic passport will be created, which will allow Ukrainians to receive a portion of the income from the royalty for subsoil use.

A clear and transparent system in the sector will increase competition, which will ultimately encourage businesses to invest more in the development of Ukraine’s natural resources. This will have a positive impact on the state budget, and the Ukrainian economy, and will be a key factor in the post-war recovery.
During the year, a number of government documents were modernized for the effective functioning of the industry.

First of all, the Rules for the development of oil and gas fields were updated, which were approved in March 2017. Over the course of five years, a number of changes to profile legislation were approved, which prompted the modernization of the Rules. In particular, approval and coordination procedures for hydrocarbon development projects were updated, procedures for evaluating oil, gas, condensate, and hydrocarbon deposits were refined, opportunities for using advanced technologies and measures to intensify production were introduced, and so on. Clear and understandable rules will ensure the rational use of Ukrainian subsoil resources.

Modernization of the Rules for safety in the oil and gas production industry is important for the sector, as it will significantly simplify regulation by adapting technological standards to European legislation. In particular, it will bring the Rules fully in line with the provisions of Council Directive 92/91/EEC on minimum requirements for improving the safety and health protection of workers in industries using drilling. Currently, the updated Rules are in the final stage and require approval from relevant state authorities.

In conditions of full-scale war and during martial law, a decision was made to postpone the entry into force of a number of documents:

- during the war, Ukraine will not switch to energy units for accounting for natural gas. All calculations on the market during transportation, storage, distribution, purchase and sale, supply, and consumption of gas will continue to be made in cubic meters;
- the introduction of the balancing neutrality charge has been postponed for one year, as, partly due to the full-scale war in Ukraine, sufficient liquidity of the short-term wholesale gas market has not been achieved;
- the Technical regulations for the quality of liquefied gas will be implemented after the end of martial law since active combat operations have practically made it impossible to carry out the necessary inspections and tests.
In 2019, Ukraine held a massive series of oil and gas tenders for the conclusion of production sharing agreements (PSAs), attracting both Ukrainian and foreign investors for the development of natural resources. At the end of 2020 and the beginning of 2021, the government and field operators officially signed agreements, which kicked off the implementation of oil and gas projects.

The full-scale Russian invasion of Ukraine significantly revised the plans of gas producers. Most of the PSA blocks are located in the east of Ukraine, in close proximity to the front line. According to the Ukrainian Geological Survey, out of 13 valid hydrocarbon agreements, 11 are suspended due to force majeure circumstances, temporarily ceasing their activities.

However, one PSA became a breakthrough for the industry and for Ukraine as a whole. For the first time in history, and even during wartime, gas production is being carried out on a field provided in accordance with such an agreement. The project is being implemented by Wellco LLC from the Zakhidnadraservis group, which is developing the Uhnivska block in the west of the country.

Since April 2022, there has been continuous industrial gas production on the field, which strengthens Ukraine’s energy security. According to the signed PSA, the Zakhidnadraservis group is obligated to drill 45 exploration wells and invest a total of $65.7 million in the development of the oil and gas field within the first five years.

After winning the war, the successful implementation of all production sharing agreements, including the development of the Black Sea shelf, will help Ukraine increase its own gas production and strengthen its energy security.
Even during the war, Ukraine knows how to set records. In November, the Mayorivska block in the Poltava region was sold at e-auctions on the Prozorro.Sale platform, with a starting price of UAH 40 million, and the final price – of UAH 1 102 million. This became an absolute record in the history of Ukrainian oil and gas auctions, as the amount is the largest ever paid for an oil and gas block/field.

The competitive struggle between the participants led to a price increase of 27 times, or 2 600% of the starting price, which once again demonstrated the efficiency of selling licenses at electronic auctions. The winner of the auctions was the private company DTEK Oil&Gas.

In addition, two more oil and gas blocks were sold at online auctions in the war year.

Thus, DTEK Oil&Gas acquired another block - Birkivsko-Zinkivska in the Poltava region for UAH 211 million. During the auction, the price increased four times from the starting price. The winner of another lot - Rybnytska block in Ivano-Frankivsk region was Ukrgasvydobuvannya. The block was sold for more than UAH 9 million.

The successful implementation of these three oil and gas lots replenished the state budget in 2022 by more than UAH 1 322 million.

Overall, since the launch of e-auctions in 2019, subsoil users through the Prozorro.Sale platform have acquired 30 blocks for hydrocarbon production with a total area of almost 4.5 thousand sq. km. From the sale of lots, the state budget received almost UAH 2.9 billion.

The conduct of e-auctions in 2022 demonstrated that companies believe in Ukraine's victory and are even willing to invest significant funds in the development of the industry during the war. Increasing gas production volumes is a top priority for enterprises.

Year after year, the sale of oil and gas blocks at e-auctions confirms its efficiency, ensuring unified rules and competition for all participants.
War and active combat operations in Ukraine

The Russian aggression against Ukraine continues. Since the beginning of the new year, Russian forces have launched dozens of mass attacks on Ukrainian cities and villages. Rockets from Russian terrorists continue to kill civilians, destroy residential buildings and critical infrastructure, deprive people of light, heat supply, communication, and normal life.

Every day of the war causes numerous losses to the Ukrainian economy. Further destruction of industrial facilities may further reduce the demand for natural gas within the country, and damage to gas production facilities will lead to a decrease in fuel production volumes.

In addition, active combat operations, especially in the east of the country where the main hydrocarbon deposits are located, prevent companies from actively implementing new oil and gas production projects.
Preparing for the heating season 2023/2024

Ukraine has successfully passed the majority of the heating season 2022/2023. This was facilitated by warm weather, efficient resource use, and the filling of gas storage facilities.

According to the results of 2022, our country imported only 1.5 bcm of gas, which accounts for less than 10% of total consumption. Thus, despite being in difficult wartime conditions and experiencing daily terrorist attacks, Ukraine met 90% of its gas needs through domestic natural gas production.

The new heating season will be another challenge for our country. Considering the continuation of hostilities and the active phase of the war, Ukraine has already started preparing for the upcoming winter. The state has set an ambitious goal to pass the heating season 2023/2024 without import, focusing primarily on domestic production.

Coordinated and constructive cooperation between the state and business should ensure stable production volumes of Ukrainian gas. This requires maintaining a permanent link between the royalty base and internal indicators and incentives for the development of unconventional hydrocarbon deposits. Undoubtedly, Ukraine’s victory in the war will lead to economic recovery and thus an increase in demand for gas from industrial enterprises.

Suspension of transit of Russian gas through the Ukrainian GTS

The Ukrainian gas transportation system remains a key source of Russian gas supplies to Europe. According to the contract signed in 2019 under the principle of “take-or-pay”, the minimum transit volume in 2020 was 65 bcm meters and 40 bcm in 2021-2024.

After starting a full-scale war, Russia significantly reduced gas transit via the Ukrainian GTS. For example, since May, transportation through the gas measuring station Sokhranivka and the border compressor station Novopskov, which are under occupation, has not been carried out. Overall, in 2022, the volume of transit of Russian gas through the territory of Ukraine was record low, amounting to 20.3 bcm.

As of the beginning of 2023, only the GMS Sudzha is operational, but there is a risk of transit suspension through this branch due to rocket attacks or the intentional creation of an emergency by Russia.

The Ukrainian GTS is designed and operated as a single integrated system for transporting its own, imported and transit gas. In case of transit suspension, the TSO of Ukraine will have to change the system’s working conditions, which will operate in reverse mode, as it was already done in 2006, 2009, and 2019 when the Russians stopped supplying gas to the EU. Today’s situation may be complicated by military actions in Ukraine and possible associated risks.
The Association of Gas Producers of Ukraine is the largest union of independent gas-producing enterprises in Ukraine. AGPU was established in 2015 to strengthen energy and economic security, increase gas production, and develop the industry.

The Association includes:

- DTEK
- ESCO
- UNB
- ZAKHIDNODOR
- SMART ENERGY
- СТРИЙНАФТОГАЗ
- FOLO ALLIANCE GROUP
- ГАЗСЕРВІС

The Association actively cooperates with the Office of the President of Ukraine, the Cabinet of Ministers of Ukraine, the Verkhovna Rada of Ukraine, the NERC, the Ukrainian Geological Survey, profile ministries, investment associations, territorial communities, public organizations, and associations in Ukraine and abroad.

We believe that coordinated work between the state, local communities, and businesses is the key to increasing the volumes of Ukrainian gas production and strengthening energy security in Ukraine.

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