

DIGEST

3RD QUARTER OF 2020



Association
of Gas Producers
of Ukraine

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The Ukrainian oil and gas industry is going through difficult times. Investors are forced to restructure all their production projects due to falling prices for hydrocarbons, economic crisis and Covid-19 pandemic. Eventually, reduction of domestic gas production volumes and weakening of our country's energy self-efficiency remain the most painful negative consequences thereof.

Gas producers have repeatedly emphasized, that this budget-generating industry requires governmental support and fiscal incentives to continue investment activity. Otherwise, stagnation of the industry is inevitable. Prompt implementation of incentives will be a positive signal for investors to drill new wells and repair the liquidated ones. Hence, it will stabilize the functioning of the entire sector.

If we strive to grow into energy independent country, the development of gas production sector must be a strategic direction.



Yaroslav Kachurin
CEO of KUB-GAS

The balancing neutrality fee has been postponed for one year

The NERC has decided to postpone payment for balancing neutrality on the natural gas market until October 1, 2021, as well as improved the method used for its calculation. It means, that during 2020-2021 year payment for balancing neutrality will be of informative nature only, thus the natural gas market participants will not be obliged to pay this fee during this period. The first calculations related to mandatory balancing neutrality payment are required to be performed by January 1, 2023 for the gas year of 2021-2022.

The interim period is aimed to serve as a stage, allowing to form a transparent and fair rules for charging payment for balancing neutrality and also solve all the existing problems at the legislative level to ensure successful functioning of the natural gas market. This refers to the adoption of the following important laws by the Verkhovna Rada of Ukraine:

- 1) Draft Law No. 3176 "On Amendments to the Law of Ukraine "On Public Procurements" related to the Procurement of Natural Gas";
- 2) Draft Law No. 3800 "On Amendments to the Law of Ukraine "On Natural Gas Market" related to Ensuring Financial Stability at the Natural Gas Market".

Adoption of the above laws will make it possible to launch the market of short-term standardized products for the trading on the platform for the Gas Transmission System Operator of Ukraine, as well as help with resolving the problem of non-payment for imbalances.

The work on the Concept-2025 for the development of domestic gas production has started

Drafting of the new version of the Concept for the Development of the Gas Industry in Ukraine up to 2025 is being conducted with the participation of the relevant ministries, State Service for Geology and Subsoil of Ukraine, the Association of Gas Producers of Ukraine and prosperous oil and gas companies. Each market participant should be guided by this document to increase production, improve regulatory environment and, last but not least, – to ensure energy independence.

AGPU emphasizes, that implementation of the fiscal incentives should remain a priority step among the measures for the implementation of the Concept, motivating to invest in gas production. We speak about the continuation of invariability of the taxation for the extraction from new gas wells up to 10 years; introduction of incentives for depreservation of liquidated wells; incentive rent for the extraction of heavy and unconventional hydrocarbons, as well as for the extraction of oil and condensate from new wells.

PSA agreements must be signed with investors by January 12, 2021

In July, the Cabinet of Ministers of Ukraine decided to extend the final deadline for signing the PSAs for 6 more months (until January 12, 2021).

Notably, as the result of the PSA tenders, Ukraine has attracted the leading domestic gas producers, as well as two large foreign players (the Canadian company Vermilion Energy and the American company Aspect Energy) to participate in the PSAs. All winners have committed to invest from \$450 million to \$1.5 billion in the industry.

Budyshchansko-Chutivska subsoil block **was purchased by DTEK Oil&Gas for UAH 650.5 mln.** The final price has multiplied in 8 times or 700%, which is the absolute record.

Amendments have been introduced to Resolution No.848, under which oil and gas e-auctions **will be held on a permanent basis.**

The Verkhovna Rada of Ukraine **has adopted the Draft Law No.3176** "On Amendments to the Law of Ukraine "On Public Procurement" concerning the Natural Gas Procurement" in the first reading.

In August 1, the PSO conditions expired, consequently, consumers gain the opportunity to choose their own gas supplier.



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Average daily gas production in the 3rd Quarter, million m³

The Covid-19 pandemic and the economic crisis continue to affect the oil and gas industry negatively.

Hence, during 9 month of 2020, Ukraine produced 15.23 bcm of gas, which is 1.85% less than the last year.

At the same time, independent companies increased production by 7% via drilling of the new wells during the last 2 years period.

Wholesale gas price for the 3rd Quarter, \$/thousand m³, VAT exclusive

After a record downturn in prices in the first half of the year, 3rd Quarter brings raise in Ukraine and the world regards the cost of gas. However, the numbers still remain at the lowest point during the last 20 years.

Eventually, the wholesale average price at the European TTF hub, including the cost of transportation, amounted to UAH 3704 (\$121), which is 14% less compared to the previous year.

Average customs value of thousand m³ of imported gas was UAH 3341 (\$116).

UEEX's price for natural gas on 100% prepayment basis, showed decrease to 36% compared to last year, and amounted to UAH 3249 (\$118).

Number of active drilling rigs in Ukraine and Europe, pcs.

The economic crisis caused by Covid-19 remains a key factor that is slowing down drilling.

Nevertheless, in the 3rd Quarter Norway and the offshore part of the United Kingdom have increased the number of active drilling rigs due to implementation of the investment activities incentives.

In Ukraine, production volumes continue to stagnate, demonstrating the downturn in drilling investment.

