



## **Usage of Ukraine gas storage facilities by European operators**

**by the Energy Community Secretariat**

**April, 2024**

# PURPOSE STATEMENT

**Assessment of regulatory-related risks related to storing gas in Ukraine by foreign traders and measures aimed at their reduction and mitigation**

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# Ukraine Energy Market Observatory

Assessment 5/24

## *Usage of Ukraine gas storage facilities by European operators*

### Background

In March and April 2024, for the first time since the start of the war, ground infrastructure related to gas storage was hit by Russian attacks. Ukraine's storage system operator, Ukrtransgaz, communicated that damages do not affect its capabilities for gas injection into underground gas storage. Some withdrawal capacity may have been lost at present, which is not endangering its operations. Ukraine's storage is able to reliably and efficiently provide gas storage services to foreign energy companies even under these conditions of shelling and transit termination.

Last year, the Secretariat issued Market Observatory Assessment No15/2023<sup>1</sup> concerning the injection season 2023/24, elaborating on market opportunities for the EU traders and security of supply for EU Member States and Contracting Parties. The note explored the market situation in the EU and the perception of the risks among the shippers' community. A meeting between shippers and Ukraine's stakeholders, organized by the Secretariat on 26 March 2024 in Vienna, took place after the first military attacks on storage facilities. Shippers were reassured that the damages to the facilities do not affect the start of the injection season. The shippers also discussed other perceived risks related to the regulatory framework of Ukraine. In particular, the lack of predictability of government actions was stressed.

The Secretariat invested significant efforts during the injection season of 2023 to bring together the traders' community with Ukraine's companies and to make Ukraine's regulatory framework compliant and business-friendly, thus decreasing the perceived risks. Some Ukrainian operators adjusted their business policies to a certain extent. Moreover, an ad hoc stress test was performed to prove the resilience of the Ukraine gas storage and transmission system.

Additionally, Ukraine implemented the Storage Regulation<sup>2</sup>. It certified its storage system operator, Ukrtransgaz, as the second one in Europe, complying with the Secretariat's Opinion<sup>3</sup>. Ukraine complied with the filling targets adopted for the Energy Community in 2022 and 2023. It fulfilled the intermediary target for 1 February 2024 and is on track to comply with the 1 May 2024 target.

Nevertheless, several risks identified last year still persist. In particular, uncertainty about the halt of Russian gas transit via Ukraine needs to be considered for the next withdrawal season.

To assist Ukraine in reforming its gas market and reconsidering the future functioning of the gas sector, the Secretariat published a high-level assessment earlier this year.<sup>4</sup> In addition,

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<sup>1</sup> [https://www.energy-community.org/dam/jcr:9f848c72-8c3d-4fbf-a8ca-fdb3273f31ce/Ukraine\\_Energy\\_Market\\_Observatory\\_Assesment\\_Note.pdf](https://www.energy-community.org/dam/jcr:9f848c72-8c3d-4fbf-a8ca-fdb3273f31ce/Ukraine_Energy_Market_Observatory_Assesment_Note.pdf)

<sup>2</sup> Regulation (EU) 2022/1032 as adapted and implemented by the ministerial Council Decision No.2022101/MG-EnC

<sup>3</sup> NEURC Resolution No.630 of 07.04.2023 "On making the final decision on the certification of the gas storage operator"

<sup>4</sup> Ukraine Energy Market Observatory Assessment Note 1/2024, <https://www.energy-community.org/dam/jcr:f9d7a554-aaa9-48ff-ac4b-c7802eb90500/Note1.pdf>

this note assesses the impact on the market, security risks, and residual risks for storing gas in the season 2024/25 and lists several recommendations.

## Stress tests in 2023 and 2024 and enemy attacks

In last year's Market Observatory Note on derisking the storage business<sup>5</sup>, the Secretariat invited Ukrtransgaz (UTG) and Gas TSO of Ukraine (GTSOU) to update, test, and simulate scenarios that would confirm the technical flexibility of the storage and transmission systems to evacuate stored gas (from foreign operators) in case of a crisis.

This recommendation resulted in two independent technical reviews of Ukraine's storage and transmission system resilience. An international team, comprising the USAID-financed project Tetrattech, the Secretariat, the EC Joint Research Center, the Simone Research Group, and Ukrainian stakeholders, designed stress scenarios and verified the results. In all scenarios, the transmission and storage systems were able to return the stored foreign gas to their owners.

This is possible regardless of whether the evacuation must occur in a shorter period or will occur across the entire winter season until the end of March 2024 or 2025.

Despite enemy attacks and damage to ground infrastructure in 2024, UTG continues to accept and confirm nominations and to offer booking capacity. The Emergency Response Plan was implemented immediately after the first strike on one underground storage facility. Gas withdrawal was temporarily halted from this particular facility until the damage could be assessed. Meanwhile, UTG has compensated for the limited withdrawal with reserves stored in other underground gas storage facilities. UTG maintains sufficient reserves in both injection and withdrawal capacities.

## Impact on the market

Ukrainian underground storage facilities (UGSs) have a technical capacity of circa 30.95 billion cubic meters (bcm), the largest in Europe. This translates into 10 bcm of available capacity for storing gas for consumers outside of Ukraine.

A customs warehouse regime (CWR) allows customers to store gas in Ukrainian UGSs without paying taxes or customs duties for 1095 days.

During the 2023 injection season, 2.5 bcm was delivered to the CWR by non-residents (as of 1 April 2024, 0,705 bcm is still stored in the CWR by non-residents). The stored quantities ensured increased security for the EU Member States and Moldova in the last winter, while bringing additional income to shippers due to a favorable summer-winter spread. During the 2023/2024 heating season, 8.5 bcm of natural gas were withdrawn from the UGS, of which Ukraine used 6.7 bcm domestically.

To attract more clients, UTG decided<sup>6</sup> not to ask for a raise in the storage tariffs until April 2025.

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<sup>5</sup> Ukraine Energy Market Observatory Assessment Note 15/2023

<sup>6</sup> <https://utg.ua/utg/media/news/2023/ukransk-psg-gotuyutsya-do-aktivnogo-sezonu-zakachuvannya.html>

## Gas storage code amendments

The regulatory authority NEURC<sup>7</sup>, in close cooperation with UTG, amended the Gas Storage Code<sup>8</sup> and the standard agreement on natural gas storage on 3 April 2024<sup>9</sup>. The amendments to the Gas Storage Code aim to widen the variety of capacity products to its users and make the Code compatible with the operations of the transmission system operator. The new storage capacity products should be available from June 2024.

## Storage tariffs

Article 48 of the Ukrainian Gas Market Law,<sup>10</sup> in line with the European rules, envisages both regulated and negotiated regimes as a possibility. In the EU, both regimes are widely used. The recent ACER report on Gas Storage Regulation and indicators<sup>11</sup> concludes that different tariff and access to storage regimes coexist across the EU. 11 Member States apply regulated access to storage, while 7 Member States implement a negotiated access regime. Negotiated access is based on reasonable and non-discriminatory technical and economic terms, with reference tariffs published in most cases. Regarding how tariff values are set, it is frequent that the value of both regulated and negotiated tariffs results from an auction for capacity storage.

The Ukrainian Gas Market Law requires NEURC to approve and publish criteria for each gas storage's negotiated or regulated access regime. Based on these criteria, a gas storage operator shall transparently and non-discriminately determine the access regime applicable to each gas storage and place this information on its website. Under the negotiated access regime, the price of storage services are freely decided between the gas storage operator and a user.

The gas storage operator posts on its website updated information on general commercial conditions of access to gas storage to which the negotiated access regime applies at least once per year. NEURC will take the necessary measures to ensure access to gas storage to which the negotiated access regime applies.

However, NEURC opted<sup>12</sup> only for regulated under a storage tariff regime.

Tariffs for services provided by Ukrtransgaz are among the most commercially attractive in Europe.

At present, UTG operates under regulated tariffs. The current level of storage tariff is 0,40 UAH (approximately 0.01 Euro) per 1000 cubic meters per day (excluding VAT). The injection tariff is 243,52 UAH (6 Euro) per 1000 cubic meters per day (excluding VAT). The withdrawal tariff is 253,03 UAH (approximately 6.3 Euro) per 1000 cubic meters per day (excluding VAT). The calculated full storage tariff (injection, withdrawal, and working volume) in Ukraine does

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<sup>7</sup> National Energy and Utilities Regulatory Commission

<sup>8</sup> Ukraine Energy Market Observatory Assessment Note 3/2024, [https://www.energy-community.org/dam/jcr:e0209d1d-42a1-4167-9221-c8e7792cdb14/Ukraine%20Energy%20Market%20Observatory%20Assessment%20storage%20code\\_final\\_public\\_sh.pdf](https://www.energy-community.org/dam/jcr:e0209d1d-42a1-4167-9221-c8e7792cdb14/Ukraine%20Energy%20Market%20Observatory%20Assessment%20storage%20code_final_public_sh.pdf)

<sup>9</sup> NEURC Resolution No.631 of 03.04.2024

<sup>10</sup> Law of Ukraine "On natural gas market", No. 329-VIII of 09.04.2015.

<sup>11</sup>

<https://acer.europa.eu/sites/default/files/documents/Publications/ACER%20Report%20on%20Gas%20Storage%20Regulation%20and%20Indicators.pdf>

<sup>12</sup> NEURC Resolution No.2495 30.09.2015, <https://zakon.rada.gov.ua/laws/show/z1381-15#Text>

not exceed 1,8 EUR/MWh, which is 1,6 to 5 times lower compared with EU storage operators. These tariffs are valid from injection/withdrawal season 2024/2025 until April 2025.

## Shippers' comments and perceived residual risks

The Secretariat organized a shippers' meeting on 25 March 2024, together with UTG and Ukrainian authorities, to get feedback from the storage users.

The shipper's community pointed to some risks related to uncertainty in the regulatory framework. De-risking measures should be taken to assure foreign operators that any measures by Ukraine, including security of supply-related measures, will not interfere with the gas stored in the customs warehouse regime.

The shippers requested that, GTSOU offers standard capacity bookings on the so-called transit route until there is no outright sanction to import Russian gas.

Further clarity on tariff developments for transport and storage tariffs would be helpful to increasing trust. The shippers invited Ukraine operators to transit to energy units.

They also explained that the rising west-to-east gas transmission costs threaten the commercial attractiveness of importing and storing gas in Ukraine.

## Recommendations

The following set of recommendations updates the previous Market Observatory Note on derisking the storage business:

1. The Ministry of Energy of Ukraine to amend the National Action Plan to:
  - a. Explicitly rule out any emergency measures impacting the free flow of gas stored in the storage system of Ukraine, and envisage advance consultations of declaring emergency measures with the Secretariat;
  - b. In case of emergency curtailment, prioritize withdrawals from gas storages and their transmission without prejudice to the supply to protected customers.
2. The Government should transpose and implement Regulation 1938/2017 as adopted in the Energy Community and draft updated preventive and emergency plans. The competent authority should consider the Secretariat's opinion before adopting the final plans.
3. NEURC should ensure that any future amendments to the storage tariff methodology or the tariff are subject to consultations with storage customers and that their feedback is taken into account.
4. NEURC should explore the possibility of adopting a negotiated tariff regime for storage in consultation with Ukrtransgaz, storage customers and the Secretariat.
5. NEURC should continuously monitor Ukrtransgaz as regards compliance with the certification requirements and the Storage Regulation. NEURC should immediately notify the Secretariat in case of any changes to the UTG corporate structure;
6. Additional risk-mitigation measures should be explored by Naftogaz of Ukraine, the sole shareholder of UTG. Naftogaz, a trader in the European gas markets, should explore the possibility of compensation in case of force majeure and/or inability to withdraw natural gas from storage facilities. Naftogaz could hence substitute quantities of natural gas with the value of storage services provided by UTG to every international trader affected by force majeure. The compensation should be proportionate to the

participation of such a trader in UTG revenues over the relevant period of storage services in the 2024-2025 injection-withdrawal season.

7. UTG and GTSOU should continuously share data relevant to storage and transmission operations with the relevant EU transparency platforms and immediately update system users on any events that may affect them. In particular, UTG should share relevant storage data on a daily basis via the EU platform “Aggregated Gas Storage Inventory” (<https://agsi.gie.eu/>).