



NATIONAL COMMISSION FOR STATE ENERGY
AND PUBLIC UTILITIES REGULATION

New tariff Methodology "entry/exit" in Ukraine

Ukraine's gas transportation system



NEURC has approved a new tariff methodology for the transportation of natural gas for entry and exit points

The Methodology involves:

The use of longstanding incentive regulation

Determination of the required revenue, the basis of which are such components:

Definition of the Regulatory Asset Base

Calculation of tariffs based on capacity fee

Adjustment of the required revenue which takes into account:

Estimated operating controllable and uncontrollable expenditures

Estimated costs for buying technological gas (gas losses);

Depreciation - is calculated for assets that are determined in accordance with the results of an independent valuation of assets

Estimated profit on the Regulatory Asset Base (RAB)

Estimated profit tax

Tariffs for entry and exit points, located on the border and internal points

Tariffs for entry and exit points on an interruptible basis

Coefficients taking into account the terms of the order of capacity, respectively for each quarter, month or day

Indexes of prices, index of growth of nominal average monthly wages

Changes in tax legislation of Ukraine

Change of ordered capacities

The use of performance indicators to reduce inefficient operating costs

Decisions are made on the basis of Methodology (Resolution No. 2517)



Regulatory parameters with a long-term validity for the purposes of incentive based regulation for TSO (PJSC "Ukrtransgas"):

- the first regulatory period is 3 years
- the regulatory rate of return for the regulatory asset base - 15.13%
- total index of efficiency for controlled operating expenditures - 1%
- the efficiency indicator for the volume of technological costs and normalized gas losses - 1%



From 01.01.2016 were established (Resolution № 3158): tariffs for trans-border entry and exit points



From 01.04.2017 were established (Resolution № 348): tariffs for internal entry and exit points (for internal market of Ukraine)

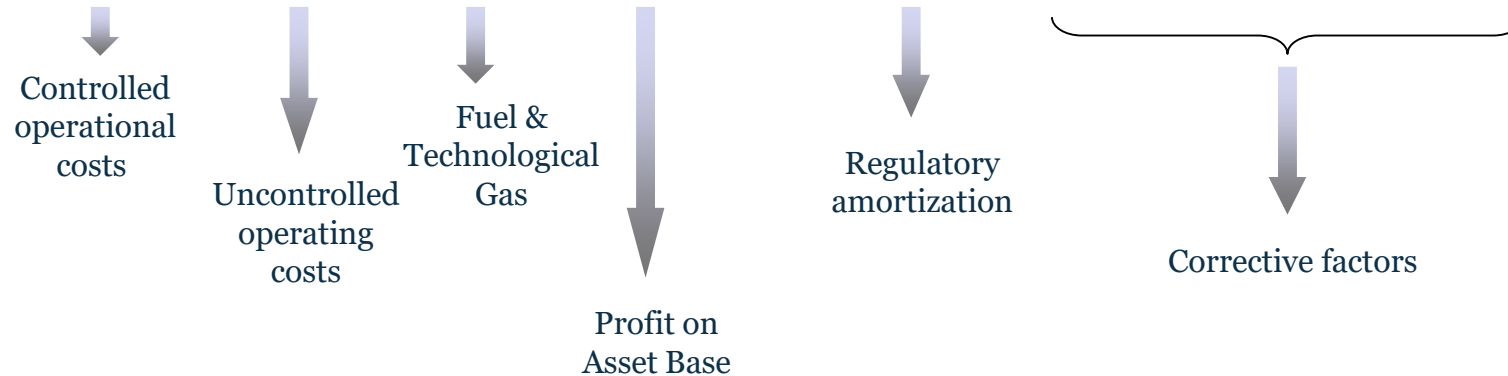
Today, the resolution of 10.04.2017 № 494 "On the abolition of certain resolutions of the NEURC" provides for the abolition of tariffs for the transportation of natural gas to consumers in Ukraine for points of exit from physical location to direct consumers and virtual points of access to the gas distribution system of all Operators of gas distribution systems.

In addition, according to the Decree of the District Administrative Court of Kyiv dated April 27, 2017, No. 826/5621/17, the NEURC resolution dated March 28, 2017 No. 348 "On the establishment of tariffs for services of natural gas transportation for consumers of Ukraine for points of entry and exit of PJSC "Ukrtransgas" has been suspended.

The required revenue regulatory formula

- The required revenue is calculated for each year of the regulatory period
- The required revenue include effective operating and capital costs

$$RR_t = COPEX_t + NOPEX_t + FTG_t + RoR * RAB_t + DEPR_t + COR_{t-1} + COR_{t-2} + COR_{p-1}$$



- Profit is defined as the source of financing for the development plan

- The real value of assets assessed according to the Methodology of the State Property Fund of Ukraine is taken into account
- The assessment takes into account the cost of replacement, deterioration
- The depreciation period of the old base is 4 years

Profitability is determined based on:
Asset Base Estimates
Standards of income on the basis of assets, which should correspond to the value of capital

Components of revenue of the TSO before set tariffs for entry and exit points

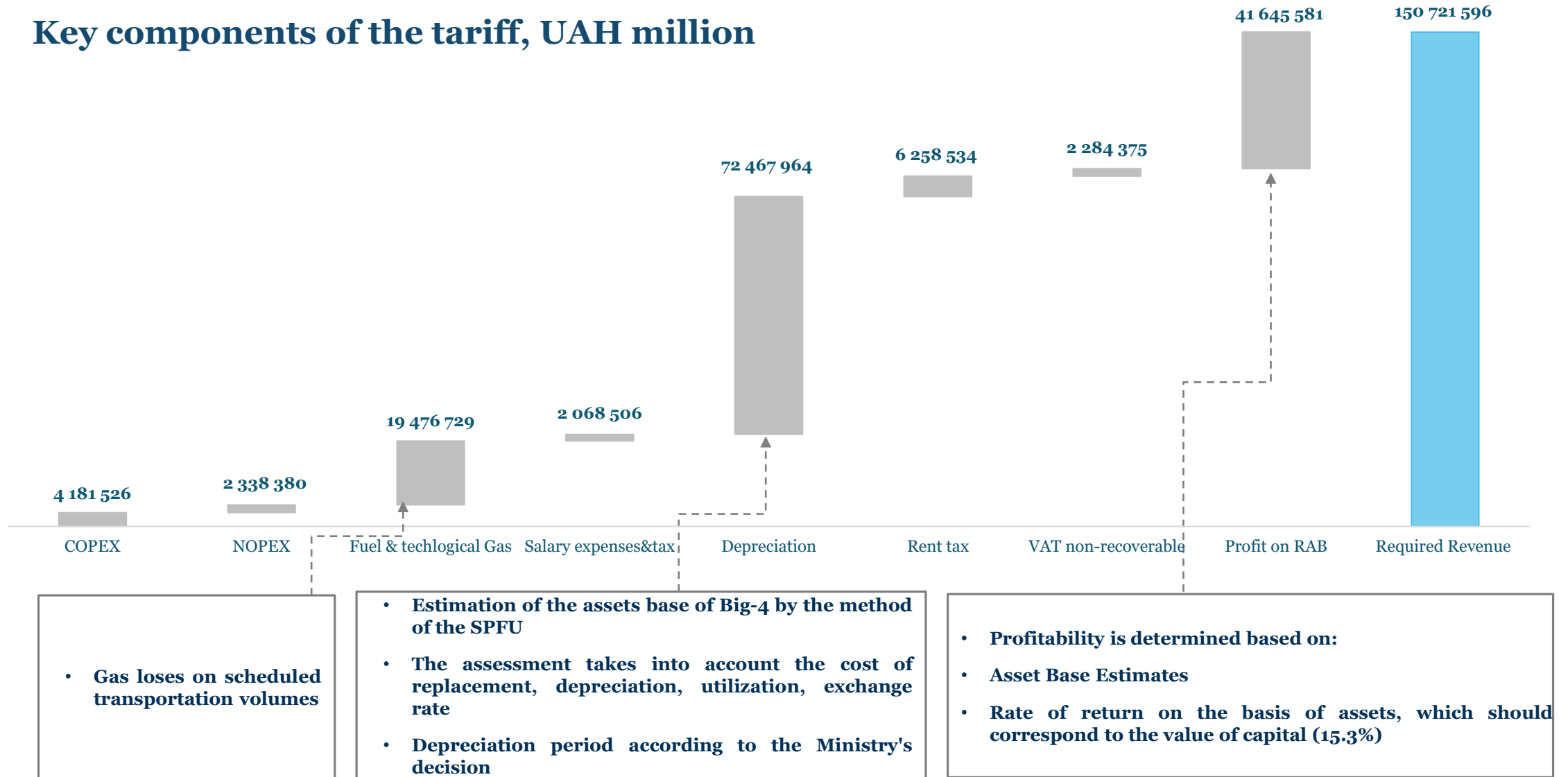
Key components of the tariff, UAH million



The "old" tariffs do not include regulatory depreciation and profit on the regulatory asset base

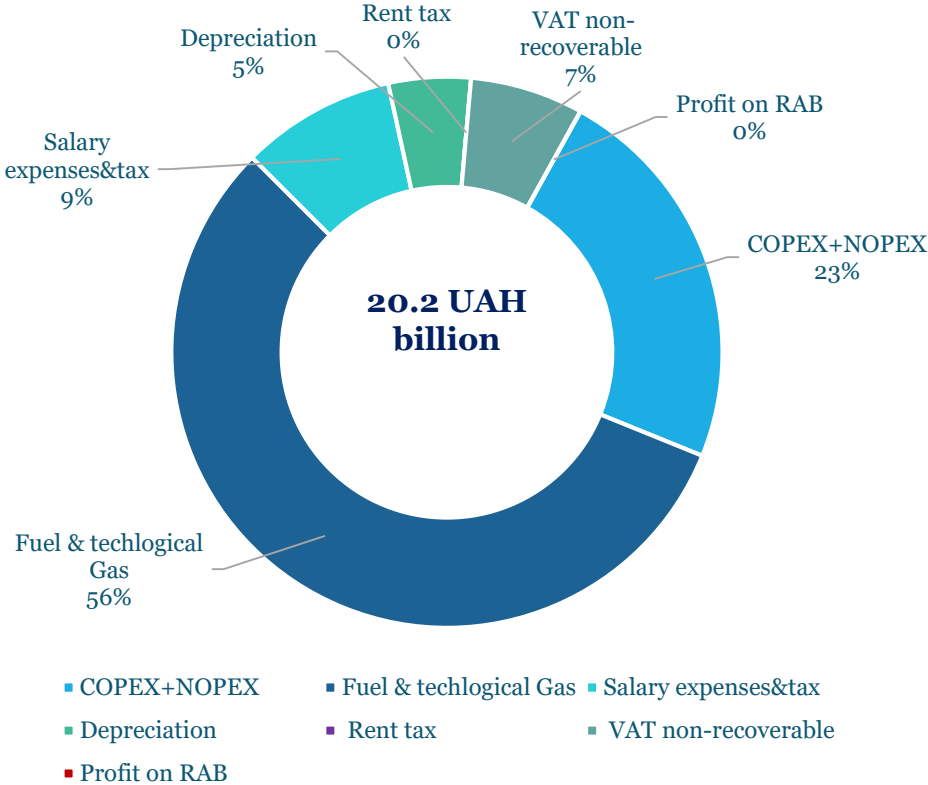
Components of revenue formation TSO with application of incentive base tariff regulation

Key components of the tariff, UAH million

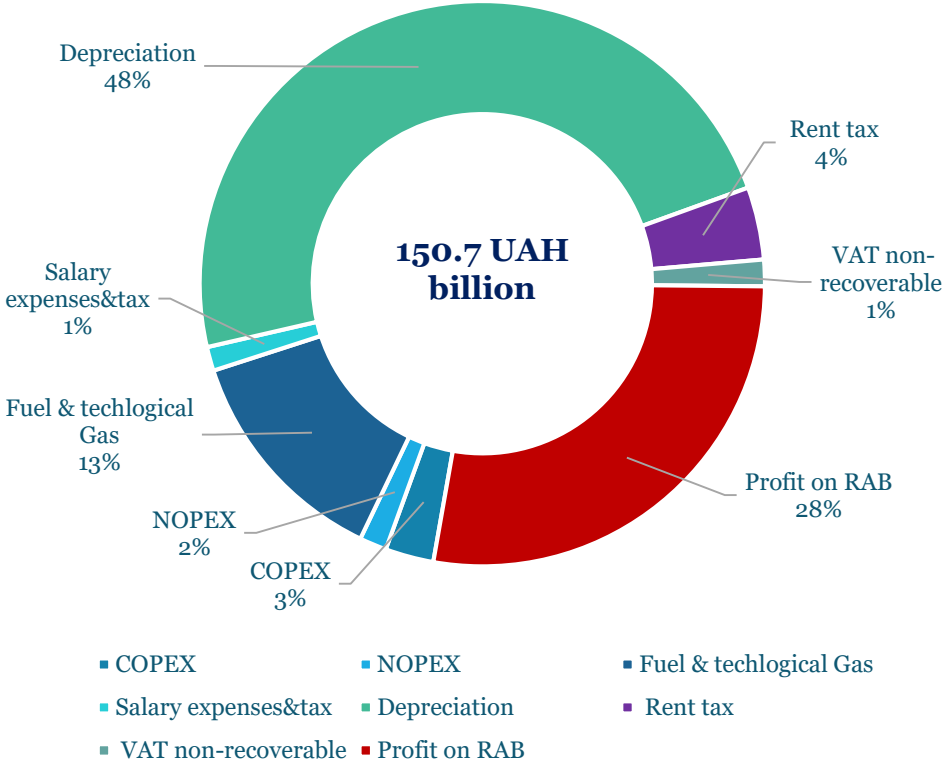


Comparison of TSO tariff structure

Tariff structure (old methodology), %

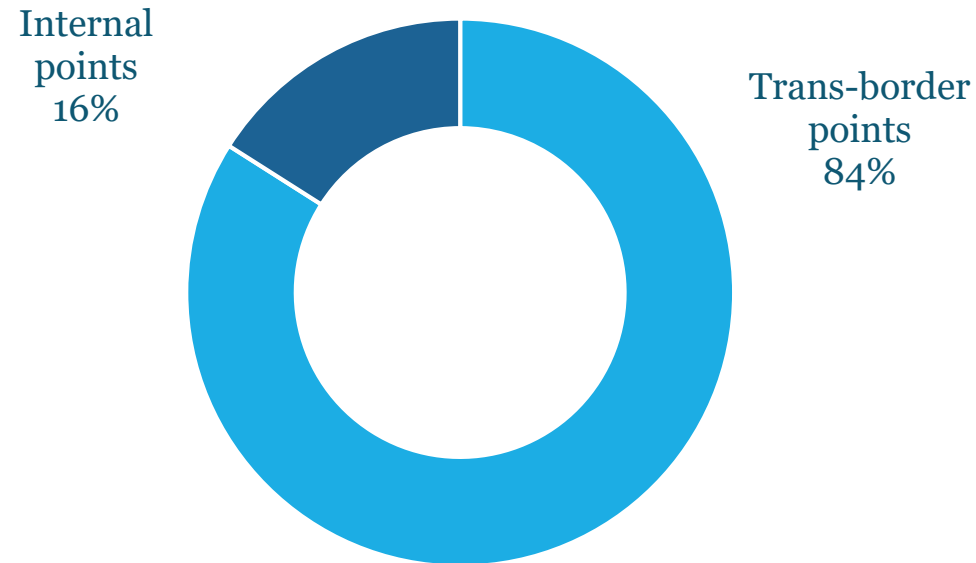


Tariff structure (incentive regulation), %

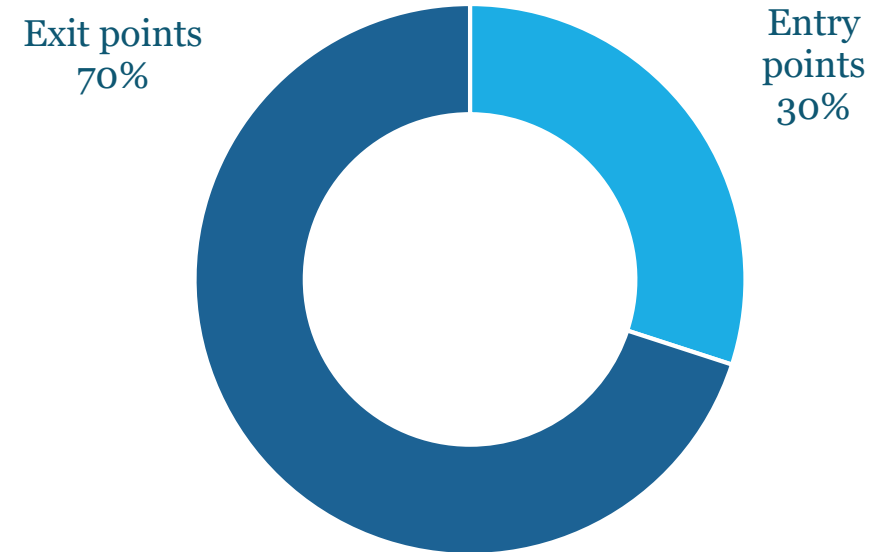


Structure of the required revenue

Distribution of required revenue between cross-border and internal points



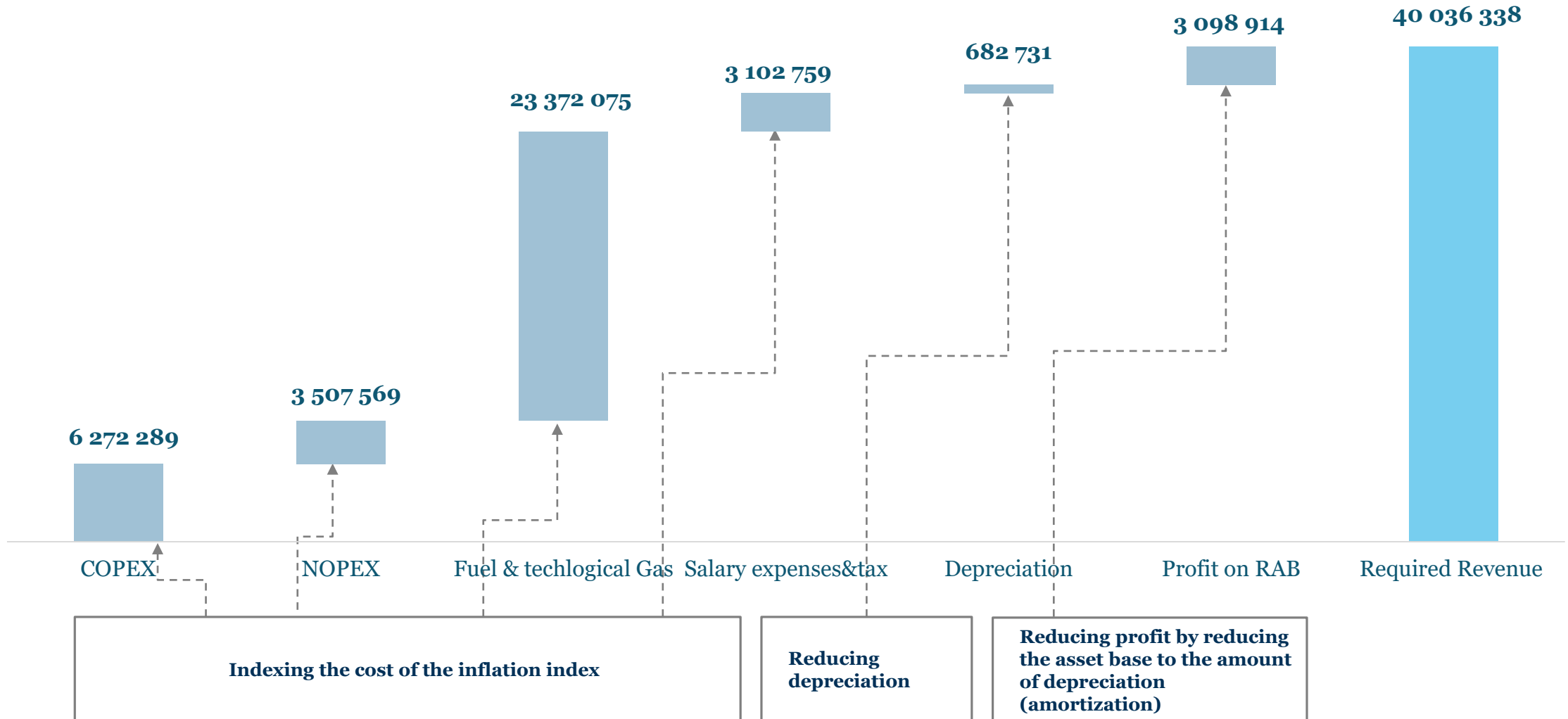
Distribution of required revenue between entry points and exit points



Current tariffs for entry points and exit points

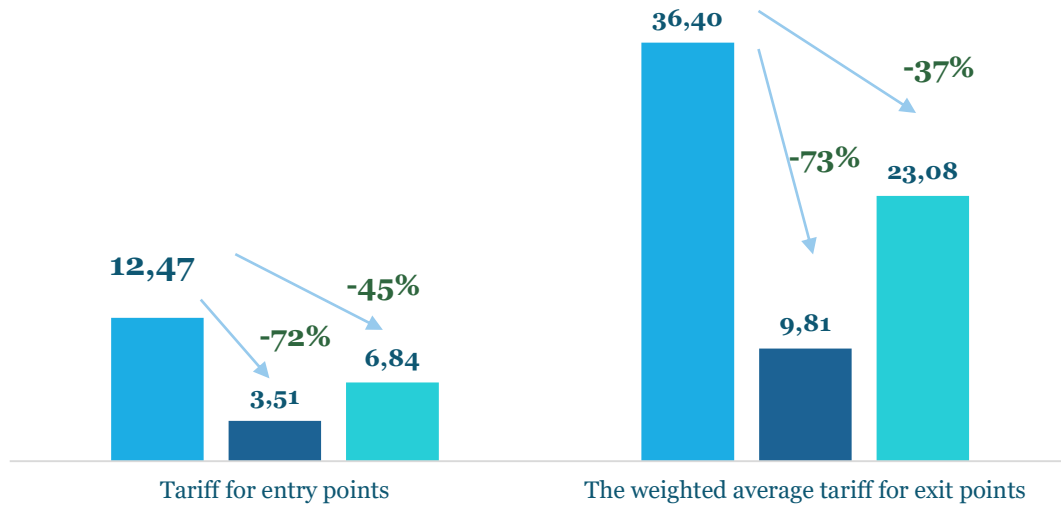
No.	Name of entry/exit point	Tariff for entry point, USD/1000m ³ /day	Tariff for exit point, USD/1000m ³ /day	Unit commodity charge to cover own use gas, %
1	Ananyiv	-	16,74	1,73
2	Beregdarots	12,47	-	-
3	Beregove	-	31,03	2,58
4	Budintse	12,47	-	-
5	Valuyky	12,47	-	-
6	Hermanovychi	12,47	-	-
7	Grebenyky (ATI)	-	16,74	1,73
8	Grebenyky (SHKRI)	-	21,33	2,01
9	Drozdovychy	-	25,73	1,91
10	Cobryn	12,47	-	-
11	Mosyr	12,47	-	-
12	Oleksiivka	-	32,16	2,65
13	Orlivka	-	23,12	2,11
14	Pysarivka 1400	12,47	-	-
15	Sudzha 1200	12,47	-	-
16	Sudzha 1400	12,47	-	-
17	Tekove	-	28,99	2,46
18	Uzhgorod	-	32,8	2,69
19	Ustylug	12,47	25,73	1,91

Key components forecast revenue structure of TSO (after 2020), UAH million



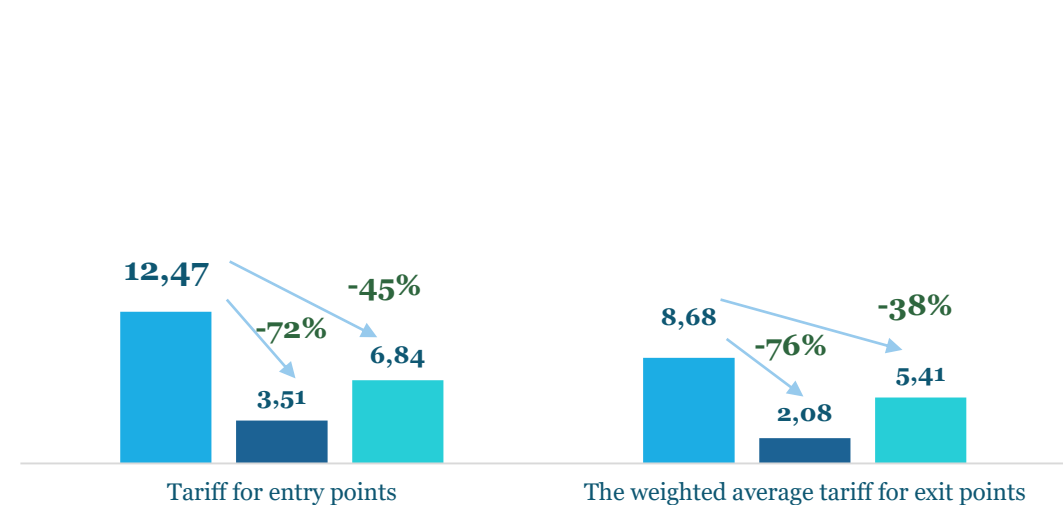
Comparison of tariffs, US \$ per 1000 m³ / day

Tariffs for cross-border points (US \$ 1000 m³/day)



- Tariffs from 01.01.2016
- Forecast tariffs after 2020 (preservation of transit)
- Forecast tariffs after 2020 (total reduction of transit)

Tariffs for internal points (US \$ 1000 m³/day)

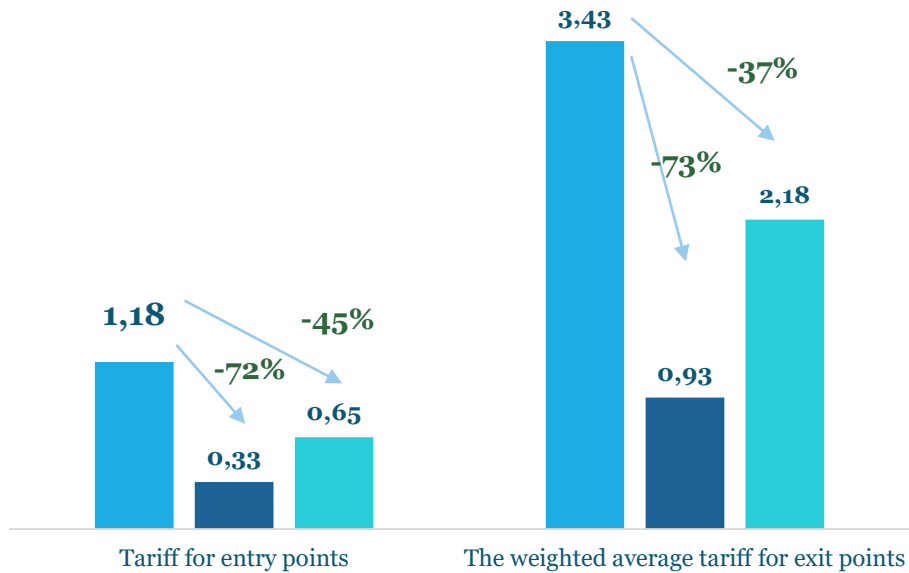


- Tariffs from 01.04.2017
- Forecast tariffs after 2020 (preservation of transit)
- Forecast tariffs after 2020 (total reduction of transit)

* At the rate of hryvnia to the dollar at the date of setting tariffs

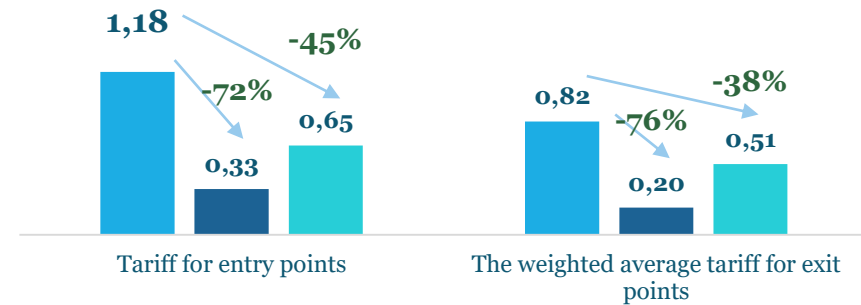
Comparison of tariffs, US \$ per MW · h / day

Tariffs for cross-border points (USD per MW·h / day)



- Tariffs from 01.01.2016
- Forecast tariffs after 2020 (preservation of transit)
- Forecast tariffs after 2020 (total reduction of transit)

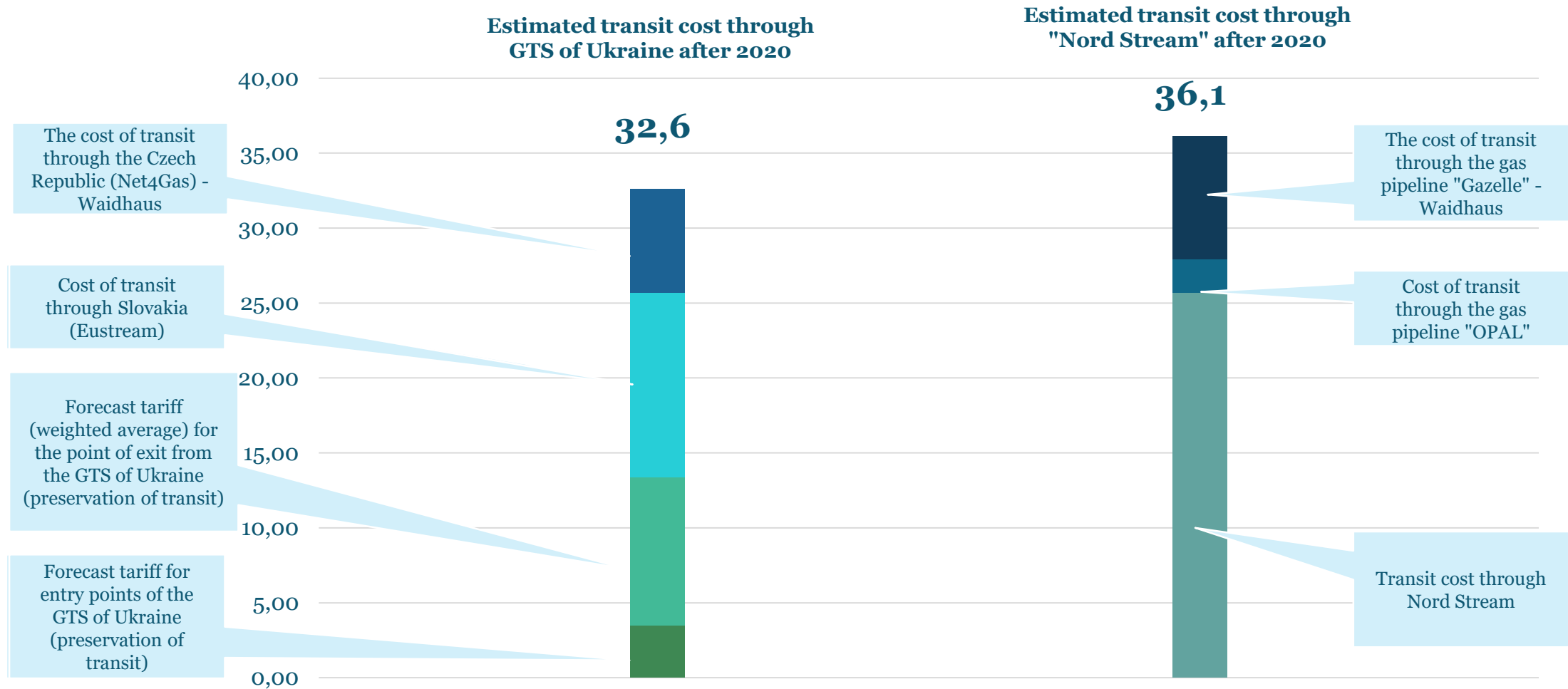
Tariffs for internal points (USD per MW·h / day)



- Тарифи з 01.04.2017
- Forecast tariffs after 2020 (preservation of transit)
- Forecast tariffs after 2020 (total reduction of transit)

GCV kWh / m³ at 25 ° C / 20 ° C = 10,607 is taken into account

Comparison of the gas transit cost to Europe through the Gas Transmission System of Ukraine and through the Nord Stream gas pipeline after 2020 (USD per 1000 m³/day)



Thank you!

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