

# **2024 Report by the Energy Community Secretariat** **on the Implementation of Regulation (EU) 2022/1032** **(the Storage Regulation)**

## **1. Background**

The Energy Community adapted and adopted Regulation (EU) 2017/1938 on 30 November 2021. The adopted Regulation corresponds mainly to the original EU Regulation, except for the provisions related to the regional dimension and solidarity.

As a response to the uncertain security of supply situation in the wake of Russia's war of aggression against Ukraine, the EU adopted Regulation (EU) 2022/1032 (the Storage Regulation). The main objectives are to impose obligatory national storage targets and certification of storage system operators.

Within three months of its adoption in the EU, the Energy Community also incorporated the adapted Storage Regulation<sup>1</sup>, which entered into force on 1 October 2022. It requires the Contracting Parties to ensure that their undergoing storage is filled up to at least 90% on 1 November 2023 and in subsequent years.

For countries with significant underground storage capacity, the Storage Regulation reduces the obligation to fill their underground gas storage facilities to 35% of their average annual gas consumption over the preceding five years. In the Energy Community, Ukraine is subject to such a reduction.

Beyond the filling targets, the adapted Storage Regulation obligates the Contracting Parties to ensure that storage system operators located on their territories are certified, in line with a binding opinion issued by the Energy Community Secretariat.

## **2. Legal basis and the context of the annual report**

Article 17a of Regulation (EU) 2017/1938, as adapted and adopted for the Energy Community, states that the Energy Community Secretariat shall submit by 1 June 2023 and annually thereafter to the Ministerial Council, containing:

- an overview of the measures taken by the Contracting Parties to fulfil the storage obligations;

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<sup>1</sup> Incorporated and adapted by the Ministerial Council Decision 2022/01/MC-EnC adapting and implementing Regulation (EU) 2022/1032 of the European Parliament and of the Council amending Regulation (EU) 2017/1938 as adapted and adopted in the Energy Community by Ministerial Council Decision 2021/15/MC-EnC, and Regulation (EC) No 715/2009 as adapted and adopted by Ministerial Council Decision 2011/02/MC-EnC, with regard to gas storage.

- an overview of the time needed for the certification procedure, set out in Article 3a of Regulation (EC) No 715/2009 as adapted and adopted by the Ministerial Council Decision 2011/02/MC-EnC;
- an overview of the measures requested by the Energy Community Secretariat to ensure compliance with the filling trajectories and the filling targets;
- an analysis of the potential effects of this Regulation on gas prices and potential gas savings concerning Article 6b(4).

The report shall expand the knowledge base on best practices for filling storage sites.

### 3. Storage capacities in the Energy Community Contracting Parties

In the Energy Community, only two Contracting Parties have storage capacities: Ukraine and Serbia.

In Ukraine, the 12 underground storages operated by *Ukrtransgaz* are located across the country, with a total storage capacity of 31 bcm. All gas storage facilities are located in the territory controlled by Ukraine, except for cca 0.84 bcm of storage capacity situated in the territory illegally occupied by the Russian Federation and not operated by *Ukrtransgaz*. *Ukrtransgaz* is wholly owned by *Naftogaz*, a state-owned vertically integrated undertaking. The Cabinet of Ministers of Ukraine manages the corporate rights in *Naftogaz*. Ukraine's storage operation framework is well-developed based on the Third Energy Package. Ukraine is subject to a reduced storage obligation (35% of the average annual demand for the past five years) because of its vast capacities compared to its yearly demand.<sup>2</sup>

The storage capacity operated by *Ukrtransgaz* can satisfy more than Ukraine's annual demand for natural gas. The average demand in the last five years has always been at or below the total storage capacity (estimated at an average of 26 cm for 2019-2023). The demand has been further reduced following the start of the war to cca 20 bcm per year. The withdrawal rates of the Ukrainian storages are large enough to cover the total demand on a typical cold winter day.

Serbia's only storage capacity, *Banatski Dvor Ltd*, is 450 mcm in working volume capacity. UGS *Banatski Dvor* is majority-owned by *Gazprom Export* (51%), while *Srbijagas* (a 100% Serbian state-owned company, not yet unbundled in line with the Third Energy Package) holds 49% shares. The existing legal and regulatory framework for storage in the Republic of Serbia is not applied to UGS *Banatski Dvor*.

The other Contracting Parties with existing gas markets (Moldova, North Macedonia, Bosnia and Herzegovina) do not have storage facilities in their territories. Nevertheless, they must comply with the storage obligations, like the EU Member States without storage facilities.

Bosnia and Herzegovina, Moldova, North Macedonia, Serbia, and Ukraine are referred to in this report as the Contracting Parties concerned. Albania, Kosovo\*, and Montenegro are currently without gas markets and hence not concerned. Georgia is exempted from the

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<sup>2</sup> Similar to Latvia in the EU

obligations under the Storage Regulation until it either builds a storage capacity or is interconnected with another Party to the Energy Community Treaty.

Ukraine adopted a Law on the Certification of Gas Storage Operators in December 2022 to transpose the Storage Regulation relevant to the certification. The Storage filling obligations were transposed partially.

Moldova adopted the amendments to the Gas Law, transposing the Storage Regulation in December 2023. The Law correctly transposes the obligation to store at least 15% of the national annual gas demand.

The other Contracting Parties concerned have yet to fully transpose the Storage Regulation.

#### **4. Overview of measures taken by Contracting Parties to fulfil the storage obligations**

All Contracting Parties concerned are required to implement measures to meet the filling targets.

While market-based measures should be implemented by default, other measures, such as regulatory or financial incentives, are also possible. The Regulation lists a non-exhaustive inventory of such measures. To follow up, the Secretariat sent a questionnaire to the competent authorities of all Contracting Parties, asking them to describe the tools and measures already implemented or to be implemented for compliance with the Storage Regulation. Of the Contracting Parties concerned, only Moldova submitted a comprehensive response.

Most measures reported for the previous period (1 October 2022 —1 June 2023) have remained unchanged. Demand reduction and the overall situation on the gas market contributed to better market conditions during the 2023 injection season, which allowed both Contracting Parties with storage capacities to meet the filling trajectories and targets.

- In *Ukraine*, the Government imposed obligations on the state-owned companies (in practice, to *Naftogaz*) to fill storage up to 14 bcm before the heating season. Ukraine also ensured the booked capacities were effectively used using a use-it-or-lose-it mechanism.
  - o Ukraine attracted significant gas volumes from foreign operators, partially due to a unique customs warehouse service – CWR (that existed before the Storage Regulation was adopted). This service allows customers to store gas in Ukrainian storage without paying taxes or customs duties for 3 years. As an additional safeguard, the Energy Community Secretariat and other international partners performed a storage stress test with Ukraine. The test reassured the foreign operators that their gas quantities, stored under the warehouse customs regime, could be evacuated back to the owners in a crisis.
  - o Moreover, the storage system operator decided not to ask for a rise in the storage tariffs by April 2025. Finally, the energy regulator NEURC adopted the amendments to the storage code, offering various storage capacity products more flexibly for the injection season from 2024 onward.

- In *Serbia*, continued cooperation with Hungary is based on a signed memorandum of understanding regarding the continuation of the partnership with Hungary, which translated into using Hungarian storage capacities for Serbian customers; no formal government decisions or market-related measures are in place. Serbia's working volume share of the *Banatski Dvor* storage was filled up to the maximum and no withdrawals were reported. *Srbijagas* injected additional volumes of gas into the Hungarian storages.
- In *Moldova*, *JCS Energocom*, a state-owned company, provides security stocks. Retail market participants participate in stock compensation.
  - The amount of gas assigned to security stocks is adjusted depending on gas consumption during the cold period of the current gas year (security stocks are held in equal quantities in Romanian and Ukrainian underground storages);
  - The 15% storage obligation includes so-called stock-holding obligations and the security stocks (which could be released only in an emergency) and forms a total obligation of 149.5 mcm;
  - Moldova's actions regarding the creation of stocks and the supply of gas in emergencies are supported by the EBRD loan.

The Secretariat drafted a template for a Burden-Sharing Agreement in 2022. Moldova is also discussing an agreement with Romania.

The efforts and measures implemented by the Contracting Parties exceeded the 90% filling target on 1 November 2023.

## **5. Overview of the time needed for the certification procedure**

Under the Storage Regulation, Contracting Parties must ensure that each storage system operator is certified by a national regulatory authority or other designated authority (certifying authority). The emphasis of the certification of storage facilities or storage system operators is on assessing whether any elements could negatively affect the incentives and the ability of storage operators to fill the gas storage facility.

The Storage Regulation requests that the certifying authority issues a draft certification decision in respect of storage system operators operating facilities with a capacity of over 3,5 TWh where, regardless of the number of storage system operators, total storage facilities were filled on 31 March 2021 and on 31 March 2022 at a level which, on average, was less than 30% of their maximum capacity by 27 February 2023 or within 150 working days of the date of receipt of notification. No such cases existed in the Energy Community Contracting Parties.

In respect of all other storage system operators, the certifying authority shall issue a draft certification decision by 31 March 2024 or within 18 months of the date of receipt of a notification. The amended Gas Regulation requires the Secretariat to deliver a *binding* opinion on the draft certification decision to the certifying authority within 25 working days of such notification. The certifying authority shall comply with the Energy Community Secretariat's opinion henceforth by issuing the final certification decision within 25 working days.

Ukraine certified its storage system operator, *Ukrtransgaz*, in line with the Storage Regulation. *Ukrtransgaz* submitted to NEURC a request for certification of *Ukrtransgaz* on 27 January 2023. NEURC’s preliminary decision was notified to the Secretariat on 3 March 2023. The Secretariat issued a binding opinion on 31 March 2023, with which the NEURC complied and adopted a final certification decision on 7 April 2023.

Serbia has not yet initiated the certification of its storage system operator, *Banatski Dvor Ltd*. To assist Serbia in this process, the Secretariat developed draft amendments to the national energy law and shared them with the Serbian competent authority, the Ministry of Energy. The amendments would empower the national regulatory authority to certify the storage operator. The certification was due by 31 March 2024, so Serbia violated its Treaty obligations.

## 6. Compliance with the Storage filling objectives

The Storage Regulation requires Contracting Parties to achieve the mandatory filling targets on 1 November and maintain certain filling levels throughout the year. Moreover, the Regulation requires Contracting Parties to keep the filling targets following filling trajectories. For the two Contracting Parties with underground gas storages on their territories, Serbia and Ukraine, the Secretariat adopted a Decision on 15 November 2022<sup>3</sup>, which set the intermediate gas storage filling targets for 2023 and a Decision on 13 November 2023<sup>4</sup> which set intermediate gas storage filling targets for 2024.

The Regulation obliges Serbia and Ukraine to meet the following targets in these years to reach the 90% gas storage target by 1 November of that year.

The Energy Community filling trajectory with intermediate targets for 2023:

Contracting Party	February 1 <sup>st</sup> Intermediate target	May 1 <sup>st</sup> Intermediate target	July 1 <sup>st</sup> Intermediate target	September 1 <sup>st</sup> Intermediate target
Serbia	50%	15%	45%	70%
Ukraine* <sup>5</sup>	33%	23%	47%	58%

The Energy Community filling trajectory with intermediate targets for 2024:

Contracting Party	February 1 <sup>st</sup> Intermediate target	May 1 <sup>st</sup> Intermediate target	July 1 <sup>st</sup> Intermediate target	September 1 <sup>st</sup> Intermediate target
Serbia	23%	30%	62%	93%
Ukraine* <sup>5</sup>	74%	41%	61%	80%

<sup>3</sup> <https://www.energy-community.org/news/Energy-Community-News/2022/11/17.html>

<sup>4</sup> <https://www.energy-community.org/news/Energy-Community-News/2023/11/15.html>

<sup>5</sup> For the Contracting Parties falling under Article 6a(2), the pro rata intermediate target shall be calculated by multiplying the value indicated in the table by the limit of 35 % and by dividing the result by 90 %.

The Energy Community Security of Supply Coordination Group discussed and endorsed the adoption of the filling trajectories and intermediary targets for 2024. The trajectory itself is based on multiple factors, including data submitted by the Contracting Parties, the average filling rate during the preceding five years, a thorough assessment of the general security of the gas supply situation, and an analysis of the evolving gas demand and supply dynamics within the Energy Community and individual Contracting Parties.

This report covers the interval from 1 June 2023 to 1 June 2024. Both Contracting Parties with storage facilities complied with the intermediary targets during this period. Their minimum filling level did not experience a substantial or sustained deviation from the target. Thus, the Secretariat did not have to take measures to comply with the filling trajectories and targets.

Period	Working gas volume 2023 (TWh)			Working gas volume 2024 (TWh)	
	July 1 <sup>st</sup>	September 1 <sup>st</sup>	November 1 <sup>st</sup>	February 1 <sup>st</sup>	May 1 <sup>st</sup>
Serbia	4,16	4,80	5,06	3,62	3,16
Ukraine <sup>6*</sup>	66,94	101,64	125,87	60,89	40,59

\*without long-term stored gas of 41.84TWh

In Ukraine, during the 2023 injection season on top of the stored gas by Ukrainian companies, additional 2.5bcm was imported into CWR by foreign companies from the EU and Moldova (out of which 0,705 bcm was still stored in CWR on 1 April 2024). These stored quantities ensured increased security for the EU Member States and Moldova.

Serbia stored additional quantities in Hungary; on 1 January 2024 they accounted for 2,3TWh and in May there were at cca 1,68 TWh. Serbia is engaged on extension of the storage capacity to 750 mcm.

## 7. Analysis of the potential effects on gas prices

The Secretariat recalls the European Commission’s Report on the implementation of the EU Storage Regulation<sup>7</sup>, which acknowledges that the very high level of storage filling observed since late autumn 2022 has been a key (albeit not unique) element in easing the market tension and driving gas prices down.

The Energy Community has not transposed Regulation (EU) 2022/1369<sup>8</sup> on coordinated demand-reduction measures for gas. Yet most of the Contracting Parties implemented some reduction or efficiency measures. Current and future gas demand reduction measures are expected to facilitate storage injections and fulfilment of the gas storage target.

<sup>6</sup> Data from AGSI transparency platform: <https://agsi.gie.eu/>

<sup>7</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0089>

<sup>8</sup> Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas

## 8. Conclusion

In 2023, all storage targets were met and surpassed. On 1 November 2023, Ukraine and Serbia surpassed the 90% target by a considerable margin.

The compliance with the storage targets enabled the Contracting Parties to be better prepared for the upcoming winter seasons.

Ukraine's vast storage capacity added to the EU's and Moldova's security and contributed to the restraint of price volatility. The additional 2.5bcm of gas stored in Ukraine in the winter season of 2023/24 was a mutually beneficial activity.

The measures implemented by the Contracting Parties were still primarily non-market based, with Ukraine implementing several market-based examples.

The Secretariat invites the Contracting Parties to use more market-based measures to the most significant extent possible, such as tendering the capacities to market participants, having a mechanism in place for when the total capacity subscribed is below the minimum filling level, for example, pre-agreed terms with market participants for the complementary volume; ensuring that the capacities booked are effectively used by applying a 'use it or lose it' mechanism or imposing penalties for non-compliance.

While the Contracting Parties with storage complied with the targets, they should transpose the missing elements of the Storage Regulation in their national laws.

The Contracting Parties without storage should follow Moldova's example and implement the storage obligations in line with the Storage Regulation to have at least 15% of their national demand stored in the neighbouring countries.

All Contracting Parties should use the template for the burden-sharing mechanism developed by the Secretariat, which can be used among them and with the EU Member States.

Ukraine's Ukrtransgaz is one of the two certified storage system operators in the Energy Community Contracting Parties. Serbia did not certify its storage system operator and thus violated the Storage Regulation. Serbia should rectify this breach immediately.

Ukraine made efforts to increase the business case for its national gas storage system. However, there are still obstacles to maximizing the trust of foreign operators, such as derisking the regulatory (including gas export ban) risks, and thus exploiting its capacity to the maximum extent possible.