



## **Actual Development of the Ukrainian Gas Industry in 2005**

Natural gas is the predominant fuel for the Ukraine's economy, covering more than 45% of the country's primary energy consumption. Domestic gas production, although covering only 27 % of the country's demand, has a steadily growing trend: in 2005 it increased up to 20.5 Bcm, or by 0.2 Bcm compared to 2004. The remaining 72% of gas demand is covered by 56 Bcm of imports from Russia and Central Asia transported through the Russian territory.

The exploratory activities within recent years provided stable increase of gas reserves by 25-30 Bcm per annum. In 2005, five gas fields were discovered; four gas fields were put into operation.

Naftogaz of Ukraine continued the activities ensuring reliability of gas transmission system:

- implemented the information system for gas pipeline certification;
- installed three highly efficient gas turbines produced in Ukraine at compressor stations instead of the outdated ones;
- commissioned the new highly efficient (42.1%) compressor unit with 16 MW combine cycle turbine and environmentally friendly parameters: exhausted gas temperature – 18.6<sup>0</sup>C, NO<sub>x</sub> content – 32 ppm, CO content – 8 ppm;
- inspected about 3,000 km of main gas pipelines with “intelligent” pigging technology.

The structure of natural gas consumption remained almost the same as in 2004: residential/municipal/commercial consumers - 43%, power generation - 8% and industrial enterprises, including oil and gas sector – 49%.

The National Commission on Energy Regulation (NERC) establishes fixed retail gas tariffs for residential and municipal consumers (in 2005 they remained at the level of US \$35-45 per 1000 m<sup>3</sup>). It also establishes the maximum wholesale tariff for industrial consumers supplied by Naftogaz of Ukraine (US \$85 per 1000m<sup>3</sup>). Since 2006 gas prices for all consumers are expected to be increased gradually up to free market level.

Ukraine has a developed network of more than 160 natural gas filling stations (NGFS) with annual capacity of 0.9 Bcm. Economical and environmental advantages of natural gas vehicles resulted in last year's 25% growth of natural gas consumption at NGFS (up to 0.51 Bcm). About 60,000 natural gas vehicles use compressed natural gas.

Transit deliveries of natural gas to the countries of Central and Western Europe reached their peak of 121.5 Bcm, or 1.5% above the 2004 level. Actual transit capacity of the Ukrainian gas transmission system to Europe is 140 Bcm, with almost 20 Bcm of reserve.

Diversification of sources of natural gas supply and increase of gas storage volumes are critical issues for the country's energy security. Ukraine is interested to take part in the Nabucco project, as well as in other projects of gas transportation from the Caspian region to Europe, which could be of common interest for many European countries.

Within last years Ukraine has significant reserves of gas storage capacities. Underground gas storage facilities are used for only 60-70% of their 30 Bcm working capacity. The loading of our storages with gas of neighboring countries will considerably increase reliability of their natural gas supply.