



## Actual Development of the Ukrainian Gas Industry in 2006

Natural gas remains the fuel of choice for Ukraine, covering 40% plus of the overall primary energy consumption. In 2006 the consumption amounted to 73.9 Bcm against 76.4 Bcm in 2005. The domestic gas production, although covering only 28 % of the nation's demand, is slowly but steadily growing: in the year 2006 it was 20.8 Bcm, 0.3 Bcm above the 2005 level. The missing gas was imported from Central Asia and Russian Federation.

Exploration activity during several recent years resulted in stable annual gas reserves addition by 21-25 Bcm. In 2006, four gas accumulations were discovered; three new gas fields were put into operation.

The activities to ensure the gas transmission system reliability proceeded. Three Ukrainian made highly efficient gas turbines were installed on compressor stations instead of outdated ones. Since 1996 the in-line inspection of trunk gas pipelines has been conducted with 'intelligent' pigs. 2,600 km of mains were inspected with pigging technology in 2006. It allowed to complete inspection of all transit pipelines. The modern Eastern-European Inter-state Regional Metrological Center (second phase) for natural gas metrology, constructed with EU assistance, was commissioned last year.

The structure of natural gas consumption almost has not changed as to 2005. The residential/municipal/commercial consumption totaled 46%, the power generation share 5.6% and the rest was delivered to the industrial enterprises, including the fuel gas for the transmission system.

Gas prices for residential and municipal consumers are regulated by National Commission on Energy Regulation (NERC); in second half of 2006 they increased to US \$82 per 1000 m<sup>3</sup>. For industrial enterprises gas prices (including transportation tariff and VAT) increased to US \$147 per 1000 m<sup>3</sup>. Since 2007 gas prices for all consumers will be increased even more.

There is a highly developed network of NGV filling stations in Ukraine. The number of filling stations is above 200, including around 120 private stations. The annual capacity of NGV filling stations totaled more than 1.0 Bcm of compressed natural gas. The number of vehicles using CNG is about 60 thousand.

The transit deliveries of natural gas to the countries of Central and Western Europe were 113.8 Bcm, and the total gas transit across Ukraine amounted to 128.5 Bcm. It should be noted that the actual transit capacity of the Ukrainian gas transmission system to Europe is 140 Bcm, with around 25 Bcm reserved capacity.

The Energy strategy of Ukraine up to 2030 was developed and adopted by the Government last year. With reference to the gas sector, the strategy provides for achieving the following basic goals:

- sustainable satisfaction of domestic gas demand;
- stable operation and development of gas transmission system to guarantee reliability and security of gas transit to Europe;
- reduction of import dependence on gas.

Due to the improvement of the fuel-energy balance structure and the energy-saving measures the share of natural gas in primary energy mix will decrease by the end of the period to about 20 % against 43 % at present. Gas consumption will decrease and in 2010 it will comprise 67.6 Bcm, in 2020 – 53.7 and in 2030 – 49.5 Bcm.

It is planned to increase the domestic production to 28.5 Bcm per year at the end of the period. It will ensure the gas demand with indigenous resources, in accordance with the optimum scenario, at 57.6 % against 26.8 % in 2005.

Reliability and security of gas transit to Europe is a strategically important task. This is being solved by reconstruction and technical renovation of gas pipelines and compressor stations, introduction of European standards of their operation, application of energy-saving technologies and equipment, utilization of secondary energy resources.

Significant attention is paid to the gas sources diversification issue, along with more efficient use of the underground gas storage facilities. Ukraine expresses its interest to participate in the Nabucco project, as well as in other projects on gas transportation from the Caspian region to Europe, which could be of common interest for many European countries.

For several years Ukraine has significant reserves of gas storage capacity. Underground gas storage facilities (UGSF) are used at only 60-70 % of their 33.0 Bcm working capacity. The usage of our UGSF by neighboring countries may considerably increase their natural gas supply reliability.

Taking into account the course to the European integration, the programs of the Ukrainian natural gas industry development should be taken into account when the future European energy policy is developed.