Ukraine‘s Energy Security: Making Progress?

Ukraine’s Quest for Mature Nation Statehood Special Edition Roundtable:
Providing a Pre 2012 Parliamentary Elections Report Card

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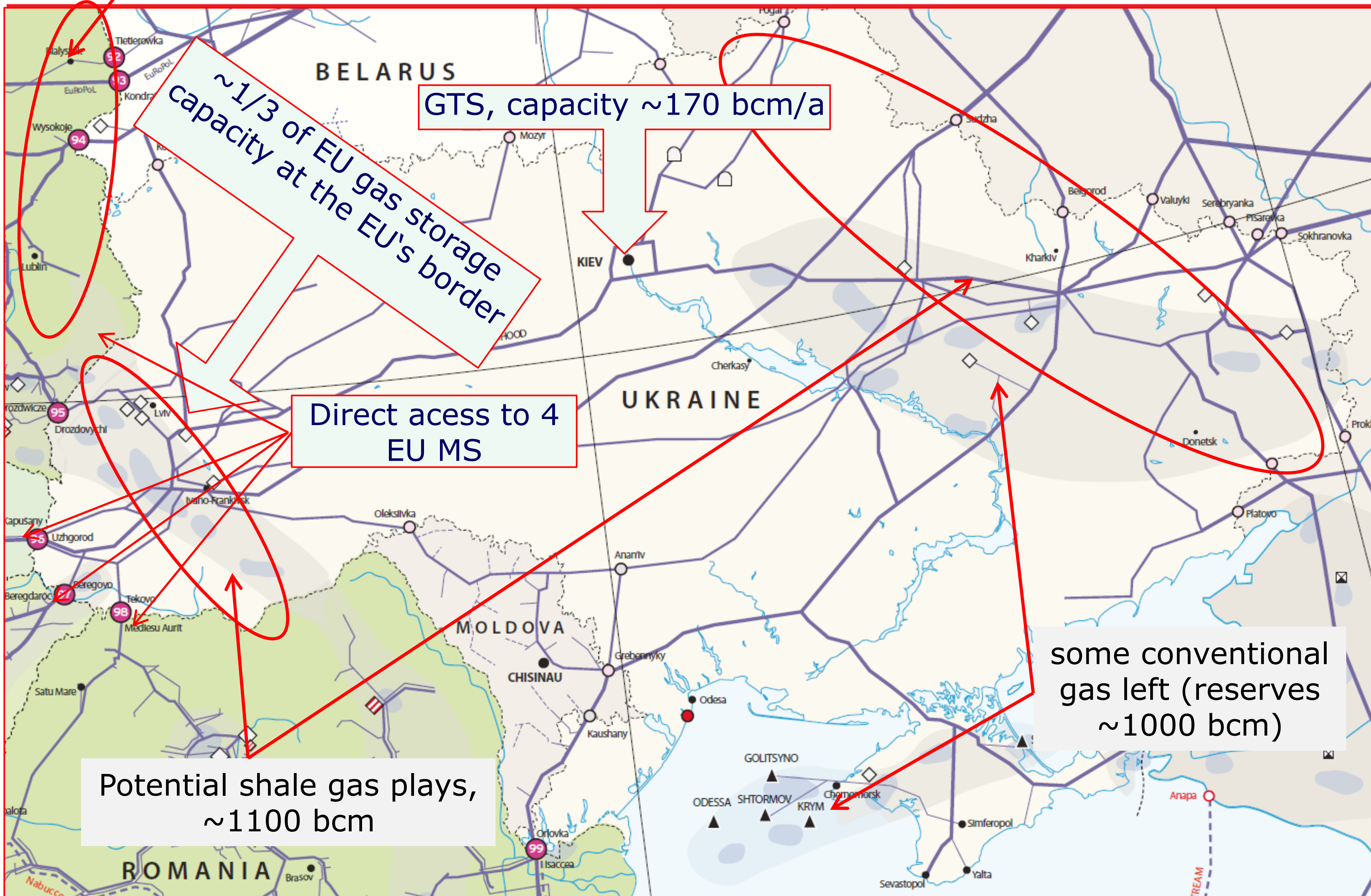
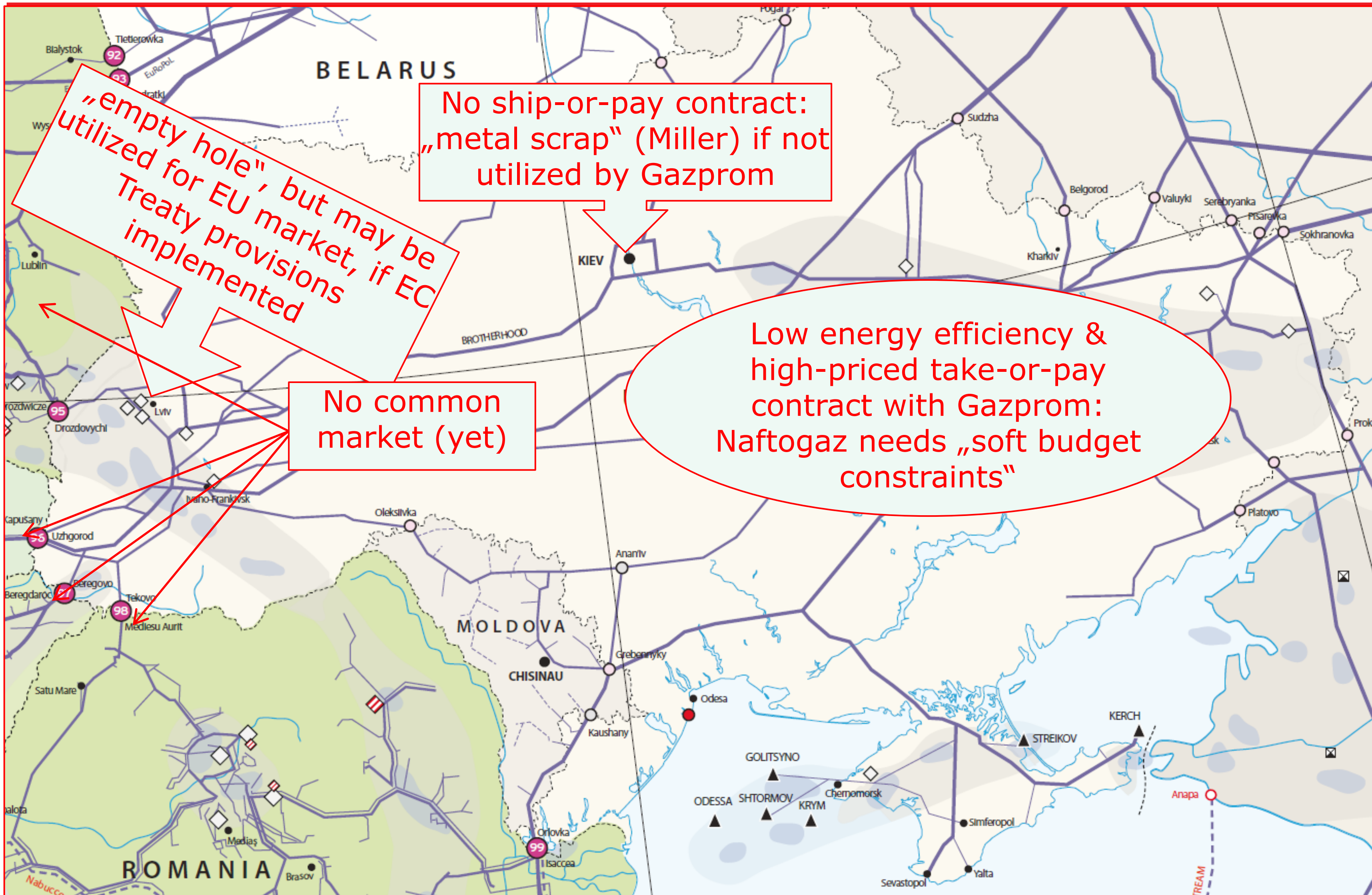
1. taking stock:
   - what are Ukraine‘s assets and vulnerabilities?
   - Russian strategies and vulnerabilities

2. What has been done by Ukraine under Yanukovich?

Ukraine‘s assets



Ukraine's vulnerabilities: dependence on Russia

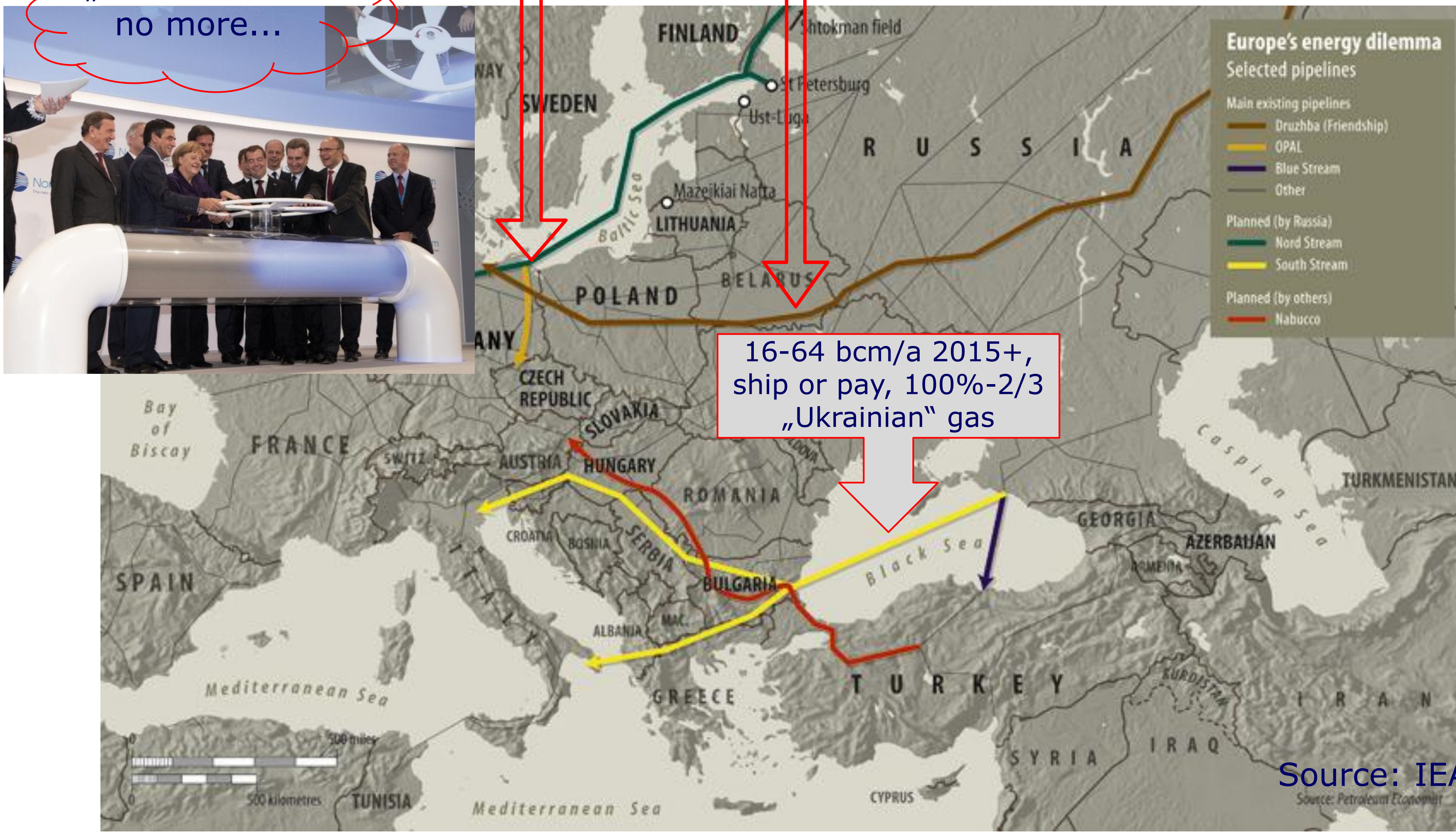


Russian incentives / manipulation of context

„Transit crisis“ no more...

55 bcm/a, ship-or-pay

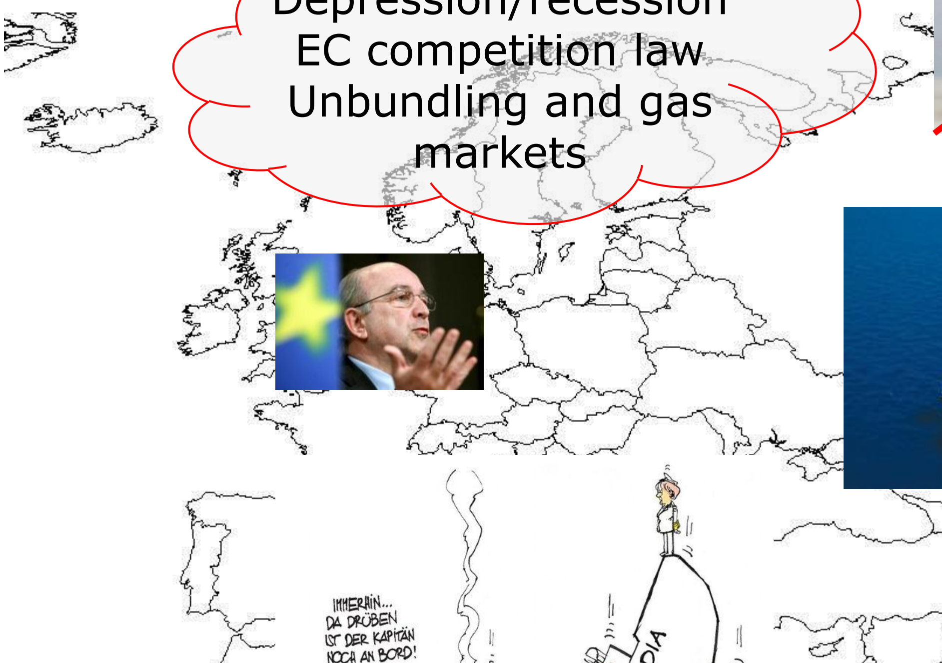
100% Gazprom



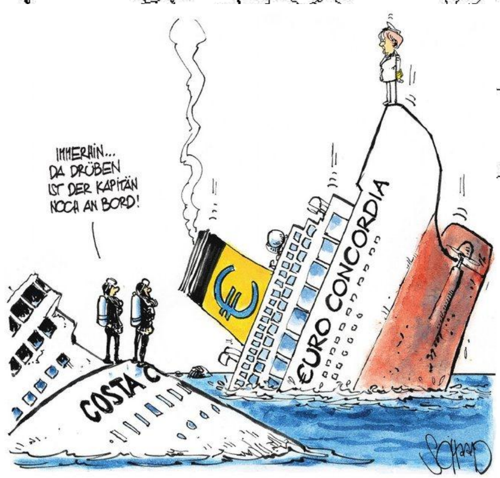
16-64 bcm/a 2015+, ship or pay, 100%-2/3 „Ukrainian“ gas

Source: IEA

But: Russia is also vulnerable

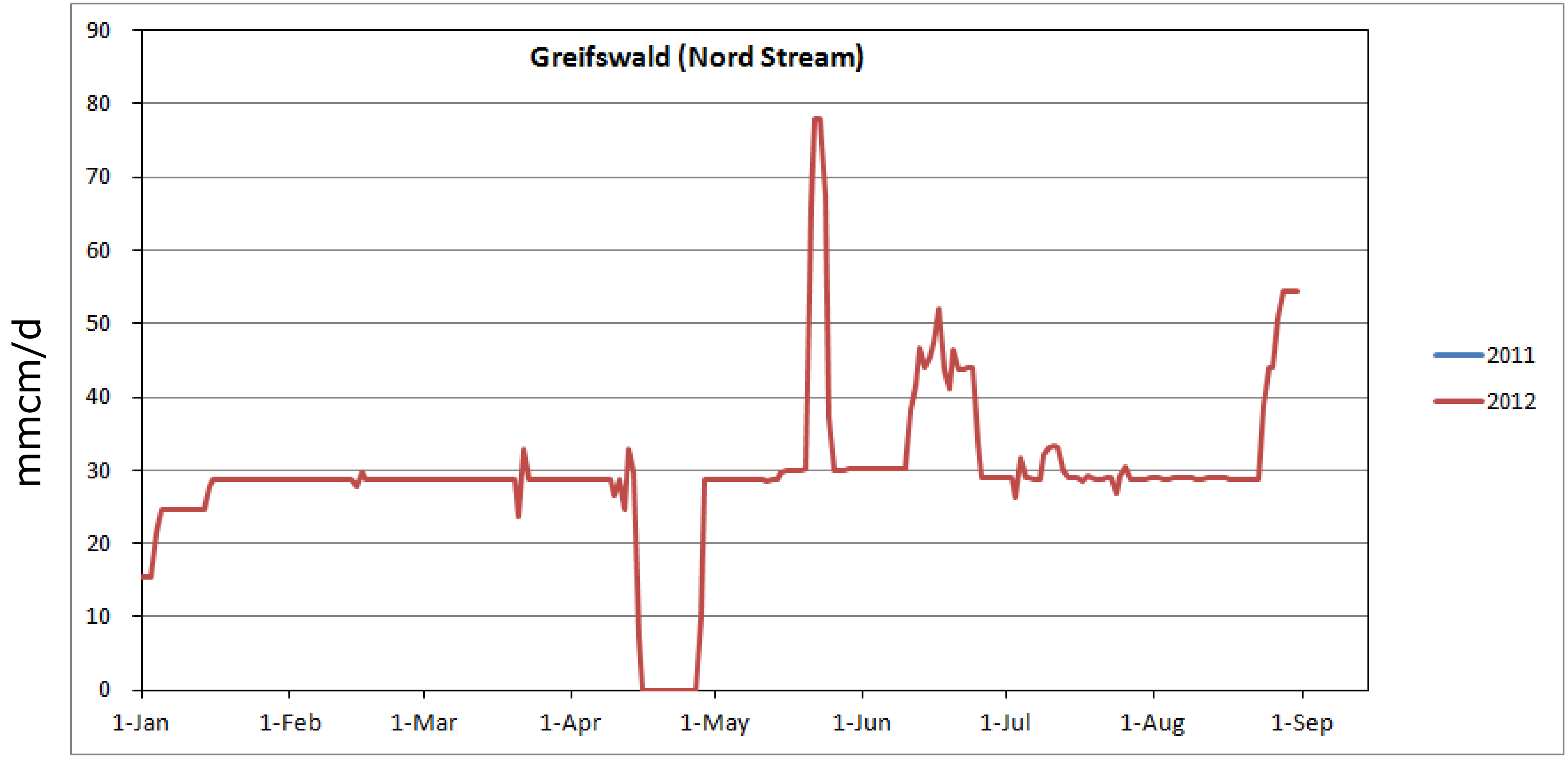


Depression/recession
EC competition law
Unbundling and gas markets



Nice, but still no gas contract, no pipe

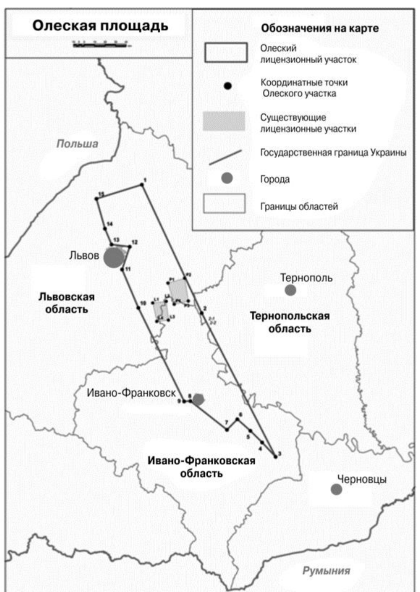
Misinvestments: 1st Nord Stream pipe is being utilized at 1/3 of capacity



Ukraine‘s steps: 1) Reducing gas imports

- Gas imports y-o-y down 34% in Jan-Aug 2012
- This year approx. 33 bcm
- Gazprom contract establishes minimum ToP level of 33 bcm
- Who is importing? Naftogaz 27 bcm, Firtash (Ostchem) about 8 bcm (also from Gazprom, same price)
- Next year, Naftogaz plans to import 24,5 bcm, how much will Firtash import?
- If Russia invokes ToP provision, Ukraine should buy more gas, export it to EU at discount to damage Gazprom

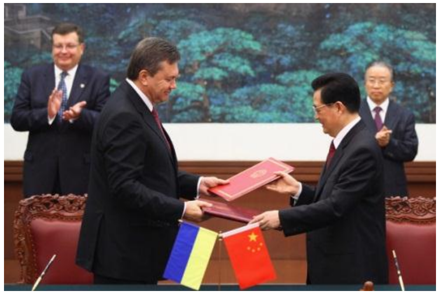
- Production did stay flat, but progress underway



  - 2 „Boyko towers“ (jack-up-rigs) have been bought, will produce in 4q 2012 (about 1,15 bcm) from Storm and Archangel-fields
  - Shale gas development is progressing fast:
    - Brought in IOCs, but PSA still to be negotiated; production start by 2018
      - Olesk area (Lviv, Ivano-Frankivsk) → Chevron
      - Juzovsk area (Donetsk) → Shell
      - Eni took over majority in a range of licenses in Western Ukraine
    - Small-scale production (about 0,24 bcm) takes place by Polish Kulczyk in Eastern Ukraine
    - Slobozhanska area in Kharkiv region to be put up for tender

Ukraine‘s steps: 3) diversifying imports

- Implementation of Energy Community Treaty progresses
- Signed framework agreement with RWE in May 2012
  - Virtual reverse flow desirable (UKR keeps part of Gazprom‘s gas destined westward for RWE, pays RWE for this amount of gas)
  - BUT: gas contracts of EU utilities envisage sale of gas at contractually specified EU border points! Ukraine does not own gas that goes through its pipes and hence cannot withhold it
  - Slovak Eustream held Open Season for reverse flow capacity from June until yesterday, results still open
  - Slovakia‘s Fico sceptical towards ensuring reverse flow
- LNG plant – pre-feed by Spain‘s Fenosa endorsed by govt.
  - 1st phase FSRU, 5 bn m^3, 2nd phase stationary plant, 10 bn m^3/a
  - Confidentiality agreement with Qatar reached
  - Turkey will cause problems with LNG going through straits
  - Negotiations with Turkey, Azerbaijan on LNG plant in Georgia



- Secured US$ 3.6 bn loan from China Development Bank to convert heating power plants to coal-firing (with Chinese equipment)
  - Intially, 4 state-owned power plants to be converted, total cost ~500 mln
  - Plan to save 4-5 bn m^3 annually with this measure
  - What will happen with the rest of the money?
- Inefficient small heating plants shall be closed

- Implementation of Energy Community Treaty is progressing – but still problems with unbundling
- Still no arbitration case in Stockholm – negotiations ongoing
- Gas price for population and heating still very low – expected to rise after elections
- Gas Transit System modernisation still not on track

Thank you for your attention!

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