

TO:
MP Gerus A.M.
Chairman of the Verkhovna Rada of Ukraine Committee
on Energy and Housing and Communal Services

MP Zhupanyn A.S.
Chairman of the Subcommittee on Gas, Gas Transport
and Gas Supply Policy of the Verkhovna Rada Committee
on Energy and Housing and Communal Services

CC:
MP Hetmantsev D.O.
Chairman of the Committee of the Verkhovna Rada of Ukraine
on Finance, Tax and Customs Policy

MP Klympush-Tsintsadze I.O.
Chairman of the Committee of the Verkhovna Rada of Ukraine
on Integration of Ukraine with the European Union

Aristov Yu.Yu.
Chairman of the Budget Committee of the Verkhovna Rada of Ukraine

CC:
Energy Community Secretariat

20 November 2020

Subject: EFET¹ letter regarding Ukraine's gas system conversion to energy units under draft Act No. 2553

The European Federation of Energy Traders is an active participant to the discussions around improving Ukraine's gas market. Our Members are impressed and encouraged by the achievements in reforming the country's gas sector over the recent years and we are eager to further support the development of a liquid market that has the potential to become the reference for other markets in the region. In this spirit, we would like to bring to your attention the potentially harmful effects that the Draft Act No. 2553 of 10 November 2020 *on Amendments to Certain legislative acts of Ukraine regarding the introduction of energy units for accounting and measurement on the natural gas market* (hereinafter "the Act") may have.

Conversion of the gas sector metering and billing to energy units should in general be viewed as a positive development, that further integrates Ukraine's gas market with the internal gas market of the European Union. This transition is included in the EU NC Codes and has been concluded few years ago by others TSO in Europe. However, we have noted that articles 2 and 3 of the Act propose a fixed gross calorific value (GCV) of 10.35 kWh/m³ for the conversion

¹ The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

of the already booked transmission and storage capacities. We first note that the wording in articles 2 and 3 is confusing, as it refers to the term “quantities of services” that is currently missing from the service rules of the TSO and SSO. This term does not give a clear indication of whether the conversion with the GCV in question relates to the capacity held by the network users, or also to the volumes already stored or transported. In other words, it must be absolutely clear from the wording of the Act that energy units will be used for capacity bookings, volume nominations, and calculation of imbalances.

More importantly, we note that fixing the GCV at this level will be damaging to the system users that have already transported and stored gas with a significantly higher calorific value (e.g. the GCV of gas fed into storage in 2020 is within the range 10.55-10.66 kWh/m³). Recalculation to energy units under the Act will effectively expropriate from these companies a share of capacity/commodity they have booked/stored. As a matter of fact, an application of the current legal proposal would translate into losing 2.5% - 3% of gas stored. The current volume of gas in storage is above 28 Bcm, of which 10 under CWR regime. The application of the proposed GCV could result in a loss of more than 800 mcm of gas for these shippers

In order to prevent unwanted credibility loss by the Ukrainian gas market as a stable and reliable place to trade, we urge the Ukrainian authorities to revise the provisions governing the conversion to energy units under the Act and to set a fixed GCV determined using actual historical data from cross-border points SK/HU/PL TSO to UA TSO. Such historical data (as required by the network code on interoperability and data exchange rules) is public and easily accessible: Eustream, for example, already publishes the SK-UA border GCV on their website. . This is the best option to provide transparency and most importantly certainty to shippers. In sum, shippers need a clear benchmark for recalculating the UA gas inventory in 2021 and for application beyond. Only a fixed GCV based on transparent methodology and transparent data can achieve this, while ensuring an equal treatment of all market participants.

We remain at your disposal should you wish to discuss these matters further.

Kind Regards,
On Behalf of EFET TF CSEE-G



Davide Rubini,
Chairman of EFET TF CSEE-G



Doug Wood
Chair of EFET Gas Committee