

**UKRAINE ENERGY MARKET
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Compliance assessment of the draft amendments to
the Gas Storage Code
by the Energy Community Secretariat

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Purpose Statement

Assessment of the draft amendments to the provisions of the Gas Storage Code published by the national regulatory authority of Ukraine, NEURC, for public consultations on 20 February 2024.

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Introduction

NEURC, in close cooperation with Ukrtransgaz, a Ukrainian storage system operator (UTG), announced amendments to the Gas Storage Code (the Code). The main purpose of the amendments to the Code is to broaden the variety of capacity products for storage users, and to make the Code more compatible with the transmission system to which it is connected.

Article 49 of the Gas Market Law¹ stipulates that the storage system operator drafts the Code. The Gas Storage Code², adopted in 2015, defines legal, technical, organisational, and economic principles for the functioning of the gas storage facilities, including rights and obligations of the storage system operator and its customers; conditions for access to gas storage facilities; terms and procedures for the provision of natural gas storage (injection, withdrawal) services; interaction procedures between the storage system operator (SSO), the gas transmission system operator (TSO), and other participants in the natural gas market; and other basic operating rules of gas storage facilities.

The Code remained unchanged, although the circumstances have changed significantly. For instance, the gas TSO has since implemented several network codes related, inter alia, to interoperability and data exchange, balancing, capacity allocation, with procedures governing its everyday operation.

The Secretariat, in its Assessment Note No 01/2024³ on the need for the reforms of Ukraine's gas market stressed that: "...the storage system operator should optimize the products it offers to the market, e.g. by reorganizing capacity types and synchronizing the allocations with the auctions on the system's entry and exit points and offering different short- and long-term products. Due to the interface between the product and tariff design, the regulatory authority should be included in the process in the early stage of product design. ...

Before the drafting process started, UTG conducted a survey among market participants to identify and tailor the needs of users.

Compliance assessment

Storage operation is based on Regulation 715/2009 of 13 July 2009 on conditions for access to the natural gas transmission networks, as amended by Regulation (EU) 2022/1032 with regard to gas storage⁴ which inter alia establishes non-discriminatory rules for access conditions to storage facilities.

The draft amendments to the Gas Storage Code are assessed against Article 15 (Third-party access services concerning storage and LNG facilities), Article 17 (Principles of capacity-allocation mechanisms and congestion-management procedures concerning storage and

¹ <https://zakon.rada.gov.ua/laws/show/329-19#n703>

² NEURC Resolution No 2495 of 30.09.2015, <https://zakon.rada.gov.ua/laws/show/z1380-15#Text>

³ <https://www.energy-community.org/dam/jcr:f9d7a554-aaa9-48ff-ac4b-c7802eb90500/Note1.pdf>

⁴ As adapted by Permanent High Level Group Decision 2018/01/PHLG-EnC of 12 January 2018, Ministerial Council Decisions 2011/02/MC-EnC, 2021/14/MC-EnC and 2022/01/MC-EnC, [https://www.energy-community.org/dam/jcr:d0f7d046-57cb-479a-a39a-9bce06065155/REGULATION%20\(EC\)%20715_2009%20of%2013%20July%202009%20kor1.pdf](https://www.energy-community.org/dam/jcr:d0f7d046-57cb-479a-a39a-9bce06065155/REGULATION%20(EC)%20715_2009%20of%2013%20July%202009%20kor1.pdf)

LNG facilities), Article 19 (Transparency requirements concerning storage facilities and LNG facilities) and Article 22 (Trading of capacity rights) of Regulation 715/2009 (the Gas Regulation).

a) Third-party access services concerning storage facilities

Article 15 of the Gas Regulation requires SSOs to offer services on a non-discriminatory and transparent basis, in a manner compatible with the use of interconnected transmission systems. The services offered shall be firm, interruptible, long and short term, bundled and unbundled, and shall not result in arbitrarily higher tariffs for non-standard products. Smaller system users shall be permitted to gain access. In case financial guarantees from system users are required, those shall not constitute undue market-entry barriers.

The draft amendments respect non-discriminatory third-party access. At the same time it broadens the range of services available to system users.

The services are offered to all network users under equal terms and conditions. The amendments aim at making such services compatible with the use of the interconnected transmission system. This includes synchronisation of the storage capacity allocation calendar with the ENTSO-G auction calendar used by the gas TSO.

At the same time gas TSOs are required by the network code on Interoperability⁵ to use a common set of units, listed under Article 13. Most notably, units for energy shall be in kWh. The Gas Storage Code should reflect such a provision to enhance compatibility.

While the existing Gas Storage Code already transposes the transparency requirements, the exchange of information is formalised in the draft amendments by way of an electronic platform in the form of a web application on the Internet.

The draft amendments offer new short-service products, besides the annual (long-term) product. The new products comprise seasonal withdrawal and injection products. Storage user can now book not only monthly capacities but also several months according to their choice. The products are no longer linked to the storage curves and thus offer more flexibility to shippers.

The services can be booked as bundled or unbundled. The minimum offered withdrawal and injection capacity is 1m³ per day, allowing for the small system users to access the capacity.

A novelty is the so-called conditionally guaranteed capacity, with 30% of the storage capacity offered on that basis. This product provides the user with a guarantee of the right to use the capacity during the contracted period of natural gas storage, injection, or withdrawal services, provided that the customer complies with certain conditions defined by the Code.

Conditionally firm capacity allows the SSO to allocate an additional 30% of firm capacity provided that nominations by shippers are submitted on time (until 14.00h CET day ahead). Conditionally firm capacity has priority over daily interruptible in case of congestion. The only type of interruptible capacity will hitherto be daily (injection/withdrawal).

⁵ REGULATION (EU) 703/2015 of 30 April 2015 establishing a network code on interoperability and data exchange rules incorporated and adapted by Permanent High Level Group Decision 2018/02/PHLG-EnC of 12 January 2018.

According to the draft, UTG will continue to offer services without requiring system users to submit financial guarantees. The tariffs for short-term products are equal to the tariff for long-term products. There are thus no arbitrarily higher tariffs for non-standardized products.

The Secretariat considers that the drafted amendments offer new products in a compliant and user-friendly way, with no arbitrarily higher tariffs, no financial guarantees required, and permitting smaller system users to gain access.

b) Principles of capacity-allocation and congestion-management procedures concerning storage facilities

Article 17 of the Gas Regulation requires SSOs to offer maximum technically available capacity, implement and publish non-discriminatory and transparent capacity allocation mechanisms, and include measures to prevent capacity hoarding.

The amendments envisage that the SSO offers no more than 90% of free storage capacity for annual allocation, bundled capacity, capacity for the basic season of injection/withdrawal, and monthly capacity. At least 10% of free storage capacity must be free for monthly and day-ahead allocations. Not less than 60% of free storage capacity of injection and withdrawal is to be offered by the gas SSO as guaranteed capacity. The remaining free capacity, but not less than 30%, is to be offered as conditionally guaranteed capacity, and up to 10% is offered as intermittent capacity. The customer can simultaneously use the services provided for the following periods: the storage year, the basic season of withdrawal, the basic season of injection, a month, and a day.

Bundled firm capacity (annual and for the following 4 years) is allocated proportionally/pro rata. For all other products (basic seasons and monthly) firm capacity is allocated in accordance with a first come – first served rule, whereas conditionally firm capacity is allocated pro rata (if 100% of firm capacity is allocated). Working gas volumes are allocated proportionally as firm capacity.

The congestion management procedures remain unchanged, compliant with the Gas Regulation. Whilst the minimum requirement from the Gas Regulation is to offer unused capacities on a primary basis at least on a day ahead interruptible basis, UTG in practice goes beyond this provision and offers unused capacity on a monthly firm basis. The Gas Storage Code stipulates that in case no free storage capacity is available, and allocated annual capacity is used at less than 80%, the user is obliged to release the unused capacity. Capacity that was not allocated monthly will be offered for the day ahead.

The draft amendments comply with requirements from Article 17 of the Gas Regulation. The Code should stipulate more clearly that during the allocation of monthly capacities also unused capacity should be offered.

c) Transparency requirements concerning storage facilities

The amendments do not substantially change the existing Code's provisions. The Secretariat notes that the Code lacks the obligation of the SSO to provide information for contracted and available capacity on a numerical basis on a regular and rolling basis.

Additionally, martial law suspended the transparency of the gas market functioning, including storage. At least, information must be available to system users on the dedicated information platform. UTG should engage in a dialogue with the European-wide, voluntary AGSI+ transparency platform for storage inventories⁶ to ensure that the data placed on the Ukrainian and European platforms are consistent.

d) Trading of capacity rights

The amendments to the Code improve the possibility of transferring capacity rights. Except for the right of transfer of annual capacity, system users will be able to transfer the entire volume or part of the volume of the combined (bundled) capacity (injection/withdrawal/working gas volume). The draft amendments are compliant with the Gas Regulation, which requires SSOs to take reasonable steps to allow capacities to be freely tradable and shall recognise the transfer of capacity rights where notified by system users.

Conclusion and Recommendations

The draft Gas Storage Code amendments offer more market-oriented products, thus promoting Ukraine's storage capacities.

NEURC should take into account the recommendations related to transparency, energy units, and allocation of released capacity. The changes in the Code should be reflected in the standard storage contract.

⁶ <https://www.gie.eu/agssi-and-alsi-transparency-platforms/>