

Daily Alert

Russian War Against Ukraine: Energy Dimension

(status as of 12:00, March 2)

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Summary

- On the evening of March 1, the Russian military launched missiles at civilian and critical infrastructure in the Kremenchuk district of the Poltava region. Ukrenergo confirmed damage to distribution networks in the Poltava and Sumy regions.
- Exports of electricity could resume in a week, given no significant deterioration of the situation - so the Supervision Board member of Ukrenergo Yurii Boyko.
- The President Volodymyr Zelenskyi chaired an extended meeting to discuss the future operation of the power system. The current tasks include completing the heating season and preparing for the next one, as well as working to protect the system.
- The NEURC adopted a decision on the preliminary certification of the gas storage operator (Ukrtransgaz).
- The CEO of Naftogaz Oleksii Chernyshov believes that, with domestic gas production at 18.5 bcm (which includes the planned increase in production of Ukrgazvydobuvannya by 1 bcm) imports may not be necessary. The company will concentrate on the development of assets in western Ukraine and additional 3D seismic surveys.
- Naftogaz will report a 40 billion UAH loss in 2022 - Chernyshov. He associated such financial results with significant accounts receivable: debts for the difference in tariffs (36 billion UAH), debts of DSOs (76 billion UAH), financial gaps due to the performance of public service obligations (158 billion UAH).

- Naftogaz is not going to return 17 billion UAH of the legacy debts of DSOs to GTSOU. The settlement should be carried out within the framework of legislative initiatives and laws that are actually being developed - Chernyshov.
- The Appellation Chamber of the High Anti-Corruption Court annulled the decision of the court of first instance and imposed a preventive measure (229.248 million UAH bail) to Andrii Kobolyev, the ex-CEO of Naftogaz.
- The government amended the action plan to prevent the abuse of undue influence by oligarchs. The development of a draft law on regulating the security of electricity and natural gas supply was postponed until April 2023. The amendments assume an update of the Energy Security Strategy, while the assessment of the level and threats to energy security has been postponed to December 2023.
- Ukraine has received a powerful autotransformer from Lithuania. Its transportation was the largest logistics operation ever coordinated by the EU Civil Protection Mechanism.

Attacks

On the evening of March 1, the Russian military launched missiles at civilian and critical infrastructure in the Kremenchuk district of the Poltava region, [according to](#) the Poltava Regional Military Administration Head Dmytro Lunin. [According to](#) Ukrenergo, the shelling caused damage to distribution networks in the Poltava and Sumy regions; repairs were underway.

Electricity Sector

Power system operation

[According](#) to the Supervision Board member of Ukrenergo Yurii Boyko, in case there is no significant deterioration of the situation in the power system due to shelling, the exports of electricity could resume within a week. The fact of resuming exports can be linked to a consumption decrease by domestic consumers, primarily due to the improvement of the situation in Odesa. The time from the decision to the actual start of export operations would be needed to hold capacity actions. But even taking into account this factor, given no significant change in the power system, the supply of electricity to Europe would be restored within a week. At the same time, Yurii Boyko noted that if the situation with the electricity surplus changes in a negative direction, the decision on exports will be reviewed.

[According](#) to Ukrenergo, on March 2, electricity consumption corresponds to the level of a working day and is stable during the week, there has been no capacity deficit in the power system for 19 days in a row and it is currently not forecasted. The demand is fully covered by generation capacity and a small amount of imports. Hydroelectric power plants and RES are actively operating due to freshet and favorable weather conditions. All types of generation are in operation. The available capacity in the power system has increased, which increases its operational safety and reduces the risks of deficit.

Consumption limits in the regions have not been applied, there are currently no network restrictions necessitating restriction of supply. Measures to improve power supply reliability are ongoing in the Odesa region. As a result of enemy's shelling, distribution systems damage was reported in two regions.

[According](#) to ENTSO-E, as of March 2, minimal commercial imports of electricity were performed from Slovakia (10-11 MW). Access to the Slovakia->Ukraine capacity [was booked](#) by two companies for a total volume of 260 MW: D.Trading (250 MW) and Avgusta (10 MW) on a flat schedule. D.Trading booked capacity in the Moldova->Ukraine direction (120 MW). In both auctions, the marginal price was "zero". Capacity in other directions was not offered. At the same time, the Base DAM price indices of Eastern European countries (Poland, Slovakia, Romania and Hungary) [exceeded](#) the similar index of Ukraine by 1.82-1.86 times.

Disruption and resumption of supply

As of March 1, the Ministry of Energy did not update information on the restoration of supply and the number of consumers without electricity.

Large-scale power supply disruptions and, consequently, active recovery works were taking place:

- in the **Zaporizhzhia region**, [according](#) to the local DSO, as of 07:00 on March 2, 24,109 consumers in 70 settlements remained offline (excluding the temporarily uncontrolled territory). As a result of the night missile attack, equipment was damaged in the city of Zaporizhzhia, and 160 consumers were left without power supply. In the rest of the territories, the situation did not change: due to active hostilities and lack of access to the damaged areas, no restoration work was carried out, no new outages were recorded;
- in the **Odesa region**, [according](#) to Ukrenergo, there is a plan to solve the problem with electricity supply soon, which allow to resume exports of electricity;
- in the **Dnipropetrovsk region**, [according](#) to the Regional Military Administration, on March 2, the enemy opened fire on the Nikopol district, as a result power grids were damaged in the city of Nikopol;
- in the **Kherson region**, [according](#) to the Regional Military Administration, as of February 28, 36 crews (174 specialists and 65 units of equipment) were working to restore electricity supply. Specialists performed works on the damaged lines supplying the cities of Kherson and Beryslav, the towns and villages of Bilousove, Olhyne, Myroliubivka, Trudoliubivka, Kalynivske, Tverdomedove, Pravdyne, Daryivka and Posad-Pokrovske;
- in the **Mykolaiv region**, [according](#) to the Regional Military Administration, as of March 2, 1,042 electricity supply facilities were partially or completely damaged, while 4 settlements of the Bashtanka and Mykolaiv districts remained offline;
- in the **Donetsk region**, [according](#) to the local DSO, on February 27-28, specialists restored electricity supply to 21,361 households in 17 settlements. 108 settlements remained offline, as specialists did not have access to carry out works there. [According](#) to the General Staff of the Ukrainian Armed Forces, in the temporarily occupied Manhush district, the occupiers continue to put pressure on civilians, in particular by disrupting power supply. The invaders destroyed a pole, which led to the outage in a settlement;
- in the **Kharkiv region**, [according](#) to the local DSO, specialists restored electricity supply in the de-occupied village of Oskil, which had been offline since the beginning of the war. In total, specialists repaired more than 30 km of 0.4 kV and 6 kV overhead lines, installed 35 new pylons, and replaced a wire cut by explosions. Restoration works were complicated by heavy mining and artillery ammunition under power lines;

- in the **Sumy region**, [according](#) to the Regional Military Administration, on the night of March 2, the Russians shelled 5 communities, as a result power lines were damaged in the Sumy community. [Ukrenergo confirmed](#) damage to distribution networks in the region;
- in the **Poltava region**, [according](#) to Ukrenergo, on the evening of March 1, as a result of Russia's shelling, damage was reported to the distribution networks;

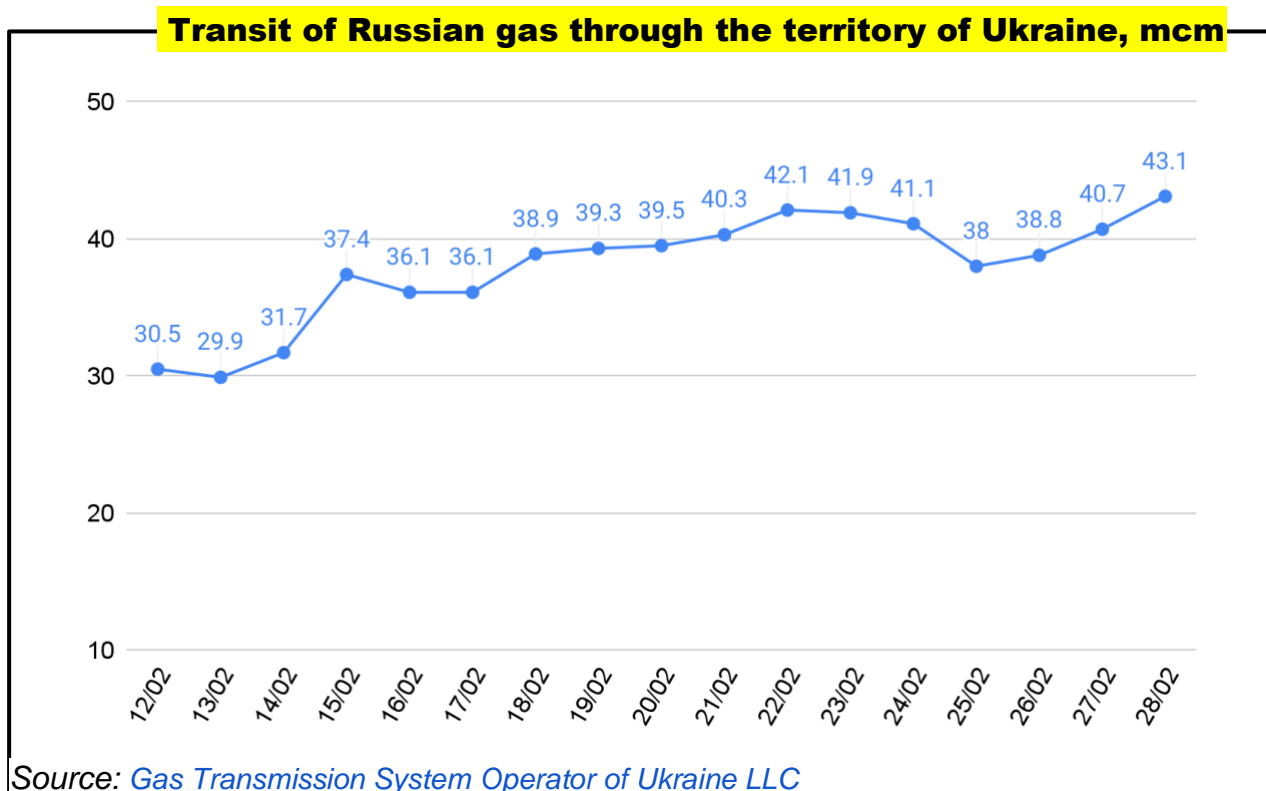
there was no up-to-date consolidated information on power supply in the **Luhansk region** at the time of the review preparation.

Oil & Gas Sector

Gas system performance

On February 28, the volume of gas transit through the territory of Ukraine amounted to 43.1 mcm (+2.4 mcm as compared to the previous day), i.e. only 40% of the capacity contracted by Gazprom (109 mcm per day). There were no transit flows via the Sokhranivka interconnection point.

The physical imports from EU countries in the reporting period were reported at 10.8 mcm and performed via the Beregdaroc interconnection point (VIP Bereg) at 3.8 mcm, via the Hermanowice interconnection point (VIP Ukraine-Poland) at 1.6 mcm, via the the Budince interconnection point at 4.6 mcm and via the Căușeni interconnection point (Ukraine-Moldova) at 0.8 mcm. On February 28, on Ukraine's gas system exit, except for transit flows, no gas was transmitted.



Performance of the natural gas market

The CEO of Naftogaz Oleksii Chernyshov noted that 10 bcm are currently accumulated in Ukraine's storages, which - given the current withdrawal - allows to count on sufficient reserves at the end of the heating season. [Naftogaz plans](#) to accumulate at least 15 bcm of gas in storage by the beginning of the next heating period. Also, Naftogaz introduces two-year planning in preparation for the heating season.

He also noted the approximate planned 2023 gas balance: with domestic gas production at 18.5 bcm (which includes the planned increase in production of Ukgazvydobuvannya by 1 bcm) imports may not be necessary. To increase production, the company will concentrate on the development of assets in western Ukraine, as well as on additional geological studies (3D seismic surveys). Also, in an interview with media, Chernyshov said that the [level of settlements](#) by consumers of Naftogaz group in regions with no active hostilities is about 80%.

Also, at an event organized by one of the business media, [Chernyshov said](#) that Naftogaz will report a 40 billion UAH loss in 2022. He associated such financial results with significant accounts receivable to the company, which is related to the preferential supply of gas to various categories of consumers. Thus, according to Chernyshov, this debt now consists of the following elements: debts for the difference in tariffs (36 billion UAH), debts of DSOs (76 billion UAH), financial gaps related to the performance of public service obligations are also significant (158 billion UAH).

In addition, Chernyshov noted that, while integrating into the group the assets of DSOs (those with corporate rights arrested in the spring of 2022), Naftogaz is not going to return 17 billion UAH of the debts of these operators to GTSOU. The settlement of relevant debts should be carried out within the framework of legislative initiatives and laws that are actually being developed (probably, [the Law](#) "On measures aimed at overcoming crisis and ensuring financial stability in the natural gas market").

The Specialized Anti-Corruption Prosecutor's Office [reported](#) on the decision of the appeal court to impose a preventive measure in the form of 229.248 million UAH bail to Andrii Kobolyev, the ex-CEO of Naftogaz. Thus, the Appellation Chamber of the High Anti-Corruption Court annulled the decision of the court of first instance to refuse applying a preventive measure. Also, Kobolyev, as a suspect, is required to hand over his foreign passport, cannot leave Kyiv without the permission of the detective, the prosecutor and the court, shall refrain from communicating with other suspects in the case and witnesses, etc. To remind, Kobolyev is suspected of illegally rewarding himself for the victory over Gazprom in the Stockholm arbitration, facing 7 to 12 years of conviction.

The National Energy and Utilities Regulatory Commission (NEURC) [adopted a decision on the preliminary certification](#) of the Ukrainian gas storage operator (Ukrtransgaz). The justification for the decision contains general information about property relations, gas supply and other economic relations of the SSO and its officials. At the same time, more detailed information - in particular, about the use and reservation of storage capacity by non-residents, which may pose a threat to the security of supply, or about other relations with such companies, is hidden as "information with limited access".

In 2022, DSOs operating under the brand of Regional Gas Company [directed 83%](#) of the received tariff revenue to pay salaries to employees, pay taxes, and make payments with the Naftogaz group and GTSOU for gas (technological needs). At the same time, the companies claim that, due to hostilities, the forced migration of Ukrainians abroad, and the shutdown of industrial enterprises, they have not received 3.8 billion UAH in tariff revenues.

Disruption and resumption of supply

As of March 1, the Ministry of Energy did not update information on the supply restoration and the number of consumers without gas supply.

The **Dnipropetrovsk, Donetsk, Luhansk, Zaporizhzhia, Kherson, Mykolaiv, and Kharkiv regions** had the most challenging situation.

In the **Mykolaiv region**, [according](#) to the Regional Military Administration, as of March 2, 1,147 gas infrastructure facilities (+233 as compared to February 1) were damaged during the war, as a result, 5,273 consumers (-2) remained with no gas supply.

In the **Kharkiv region**, [due to Russian shelling](#), one of the gas regulatory points, high and low pressure pipelines were damaged. The local DSO restored gas distribution to the Kupyansk community. In two villages, it was possible to repair the damaged facilities without stopping gas supply, i.e. by applying bandages. Specialists started repairing the high-pressure gas pipeline immediately after the bombings, as a result, gas supply was restored to 760 houses.

Operational information on gas supply in affected regions was not available at the time of the review preparation.

Countermeasures of Ukrainian Companies and Public Authorities

The President of Ukraine Volodymyr Zelenskyi [chaired](#) a meeting to discuss the future operation of the Ukrainian power system. The current tasks include completing the heating season and preparing for the next one, as well as working to protect the energy system. The meeting was attended by the managers of energy companies (Naftogaz, Energoatom, Ukrenergo, Ukrhydroenergo and others), members of the government, the Presidential Office, the chair of the relevant parliamentary committee, the military and intelligence community. "This winter is over. It was very difficult, and every Ukrainian felt this difficulty. But we still managed to provide Ukraine with energy and heat. Yes, the threat to the energy system remains. But the work also goes on", Zelenskyi emphasized.

The Prime Minister Denys Shmyhal [discussed](#) with the new Chairman of the Supervisory Board of Naftogaz Anthony Marino the vision for developing the gas production industry. According to Shmyhal, the meeting focused on one of the common challenges - the next winter season. "We look forward to close coordination with Naftogaz in preparing for the upcoming heating season", so the PM.

The Cabinet of Ministers has partially [postponed](#) the implementation of the Action Plan to prevent the abuse of undue influence by persons with significant economic and political weight in public life (oligarchs). According to the updated plan, the launch of the registry of oligarchs should begin "three months after the publication of the Venice Commission's opinion". In addition, the updated plan postponed until the end of 2023 the development of a draft law on lobbying, which was supposed to be ready at the end of 2022.

Also, the development and submission of a draft law on regulating the security of electricity and natural gas supply (a systematic approach to identifying and avoiding risks, strengthening the institutional capacity of the Ministry of Energy and the functions of the State Inspectorate for Energy Supervision) has been postponed until April 2023. In terms of ensuring the integrity and transparency of wholesale energy market, the task was clarified to support the draft law No. 5322 (implementation of Regulation (EU) No. 1227/2011, REMIT) consideration by the Verkhovna Rada, and the creation of a single

database of household consumers in electricity and gas markets containing information on consumption and tariffs was removed from the expected results. The amendments assume an update of the Energy Security Strategy, while the approval of the methodology for assessing the level and threats to energy security has been postponed to August, and the very assessment - to December 2023.

The process of restoring Ukraine's energy infrastructure opens up broad opportunities for cooperation with Croatia, the Minister of Energy Herman Halushchenko [emphasized](#) at a meeting with the Prime Minister Andrej Plenković and the Minister of Economy and Sustainable Development Davor Filipović. Halushchenko also called on Croatian partners to coordinate efforts to increase pressure on Russia and impose sanctions on the aggressor's nuclear industry.

Following the informal meeting of EU energy ministers in Stockholm, Halushchenko also [held](#) a series of meetings with the relevant ministers of Bulgaria, Romania, Belgium, Austria and the Netherlands. One of the main topics was the support for Ukraine's candidacy to the IAEA Board of Governors. In addition, at the meeting with the Bulgarian Energy Minister Rossen Hristov, the parties discussed cooperation in the field of nuclear energy and participation in the initiative to analyze the gas market in South-Eastern and Central Europe.

Ukraine has received a powerful autotransformer from Lithuania, to be installed at a high-voltage substation of the electricity transmission system, the Ministry of Energy [reported](#). The transportation of this autotransformer to Ukraine was the largest logistics operation ever coordinated by the EU Civil Protection Mechanism.

At its meeting on March 1, the NEURC [decided](#) to:

- make a preliminary [decision](#) on the certification of gas storage operator;
- approve [amendments](#) to the license conditions for gas storage (injection, withdrawal).

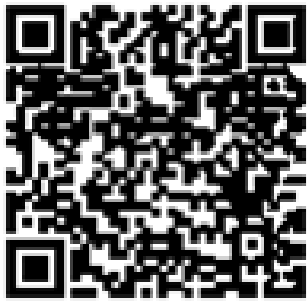
The NEURC also [announced](#) a meeting on March 7, where it plans to consider:

- [amendments](#) to the license conditions in the field of heat supply to ensure energy efficiency measures;
- [amendments](#) to unblock the Regulator's approval of the service to increase the share of RES electricity production, taking into account the decision of the Supreme Court of September 8, 2022.

The Ministry of Social Policy has [announced](#) the relaunch of the Helping Hand program, which is aimed at assisting low-income individuals in starting their own business. The program provides up to 100,000 UAH, granted on a repayable basis.

For subscriptions, comments and other questions, please email to: author@dixigroup.org

SUPPORT UKRAINIAN ENERGY SECTOR



Ukraine urgently needs emergency energy equipment to restore energy supply in the regions affected by war. More than 12,000 items are on the list of requested emergency energy equipment. If your company, association or country is ready to help, please [contact the Energy Community Secretariat's Ukraine Support Task Force](#).

[Energy Community Homepage \(energy-community.org\)](http://energy-community.org)

SUPPORT UKRAINIAN ARMY

To financially support the Armed Forces of Ukraine, please follow the [link](#) (the National Bank of Ukraine special account).