

# **CABINET OF MINISTERS OF UKRAINE**

## **RESOLUTION**

of 8 December 2006 No. 1697

Kyiv

### **On measures to further improve the mechanism for providing natural gas to domestic consumers**

With the view to ensure reliable supply of natural gas to the population, communal heat energy enterprises and budget organizations and institutions as well as to encourage economic use of gas resources, the Cabinet of Ministers of Ukraine resolves:

1. To approve the Temporary procedure for setting retail prices of natural gas for needs of the population that is attached.
2. To introduce changes to resolutions of the Cabinet of Ministers of Ukraine which are attached.
3. To recognize as invalid the resolution of the Cabinet of Ministers of Ukraine of 9 February 2006 No. 128 “On approving for the period till 2010 the maximum level of prices of natural gas” (Official Bulletin of Ukraine, 2006, No. 6, page 313).
4. The Ministry of Fuel and Energy together with the National Joint-Stock Company “Naftogaz Ukrainy” shall submit, within the two-month term, proposals regarding the strengthening of responsibility for unauthorized tapping of gas and use of gas equipment in violation of the established rules.
5. This Resolution shall take effect from the day of its publication except for paragraph 2 and subparagraph 3 of paragraph 5 of changes that are introduced to resolutions of the Cabinet of Ministers of Ukraine approved by this Resolution taking effect on January 1, 2007.

Prime Minister of Ukraine  
V. Yanukovich

APPROVED  
by resolution of the Cabinet of Ministers of Ukraine  
of 8 December 2006 No. 1697

TEMPORARY PROCEDURE  
for setting retail prices of natural gas for needs of the population

General issues

1. This Temporary procedure shall stipulate the mechanism for settlement and approval of retail prices of natural gas supplied to the population (the “natural gas”).

2. Retail prices of natural gas shall be differentiated depending:

on the annual amount of its consumption by the population;

on whether or not natural gas meters are installed.

If natural gas meters are not installed, the retail price of natural gas shall be increased by 10 per cent.

3. The terms used in this Temporary procedure shall have the following meanings:

general tariff for natural gas transportation services shall mean an amount of tariff for natural gas transportation services via trunk pipelines and average weighted tariff for its transportation services via distribution pipelines;

retail price of natural gas shall mean the price paid by the population for natural gas depending on its consumption volume;

average sale price of natural gas shall mean the calculated sale price of natural gas with regard to the tariff for transportation services, distribution and supplies as well as taxes and duties;

average weighted tariff for natural gas transportation services via distribution pipelines shall mean the tariff calculated based on tariffs for natural gas transportation services via distribution pipelines and the annual volume of its transportation;

average weighted tariff for natural gas supply shall mean the tariff calculated based on tariffs for natural gas supply and the annual volume of its supply;

price of natural gas as the goods shall mean the average weighted price of natural gas extracted by domestic enterprises in the territory of Ukraine (the “domestically-extracted natural gas”) and other natural gas resources of the National Joint-Stock Company “Naftogaz Ukrainy” that are used for needs of the population in accordance with law.

Calculation of natural gas price

4. The price of natural gas as the goods shall be determined by the formula

$$P_1 \times V_1 + P_2 \times V_2 + P_3 \times V_3 \dots + P_n \times V_{nc} + P_{im} \times V_{iv}$$

Legend:

$P_1, P_2, P_3 \dots P_n$  – prices of domestically-extracted natural gas (VAT exclusive);

$P_{im}$  – the price of imported natural gas;

$V_1, V_2, V_3 \dots V_n$  – volumes of output of natural gas by gas extracting companies;

$V_{iv}$  – the volume of imported natural gas.

5. The average sale price of natural gas shall be determined by the formula

$$P_{average} = P_{good} \times C_{pm} + T_{tran} + T_{supp} + Cost,$$

Legend:

$P_{good}$  – the price of natural gas as the goods (VAT exclusive);

$C_{pm}$  – the coefficient having regard to a targeted price mark-up;

$T_{tran}$  – the general tariff on natural gas transportation services (VAT exclusive);

$T_{supp}$  – average weighted tariff for supply of natural gas (VAT exclusive);

$Cost$  – specific costs of National Joint-Stock Company “Naftogaz Ukrainy” related to the sale of natural gas to the population.

6. The differentiation of natural gas volumes shall be determined by the National Commission on Regulation of Energy of Ukraine based on a submission by National Joint-Stock Company “Naftogaz Ukrainy” with due regard to observing the value balance by the formulas:

$$P_{average} \times V_{general} \times C_{vat} = S_{Pretail I} \times V_{dif I} \text{ and};$$

$$V_{general} = S_{Vdif I},$$

Legend:

$P_{average}$  – the average sale price of natural gas;

$V_{general}$  – the general sales volume of natural gas;

$P_{retail I}$  – the retail price of natural gas established depending on the annual volume of its consumption by the population (VAT inclusive);

$V_{dif I}$  – the volume of natural gas consumption by the population in the relevant category by this indicator, for which the relevant retail price has been established;

$C_{vat}$  – the coefficient that has regard to the VAT rate.

7. Natural gas purchase prices for gas-supplying enterprises shall be determined based on retail prices approved for separate categories of the population depending on annual consumption volumes less the targeted price mark-up established by law, the general tariff for natural gas transportation services and the tariff for natural gas supply.

Establishing retail prices

8. The National Commission on Regulation of Energy of Ukraine shall establish retail prices of natural gas, to which end:

1) it shall analyze the following materials submitted by the National Joint-Stock Company “Naftogaz Ukrainy”:

the calculation of the price of domestically-extracted natural gas with a justification of its components (in particular, the full cost of natural gas extraction, capital expenditures and all obligatory payments to the budget) and an explanatory note for the calculation period prepared with regard to the reported data for the previous year in general for the Company and with the breakdown by gas extraction enterprises;

justification of costs related to the sale of natural gas and their components;

analytical and statistical data on consumption of natural gas by the population, the breakdown of general volumes by use structure and grouping by annual volumes of consumption, the use of gas meters in the calculation period and the relevant reports for the prior year;

proposals regarding the differentiation of retail prices of natural gas with regard to the requirements of paragraphs 2 and 6 of this Temporary procedure;

2) based on the analyses, it shall calculate retail prices of natural gas, obtain the approval of the Ministry of Economy and make the decision on approving the said prices in accordance with the procedure stipulated by Rules of Order of the National Commission on Regulation of Energy.

9. The review of retail prices of natural gas shall be carried out by the National Commission on Regulation of Energy of Ukraine both on its own initiative and following the submission by the National Joint-Stock Company “Naftogaz Ukrainy” in case the price of natural gas as the goods should change, relevant normative acts should change or other circumstances arise that have a significant impact on the established retail prices.

APPROVED

by Resolution of the Cabinet of Minister of Ukraine  
of 8 December 2006 No. 1697

#### CHANGES

to be introduced to Resolutions of the Cabinet of Minister of Ukraine:

1. In paragraph 8 of Annex to the Resolution of the Cabinet of Ministers of Ukraine of 25 December 1996 No. 1548 "On delineating powers of executive authorities and executive bodies of city councils to regulate prices (tariffs)" (Restatement of Resolutions of Ukraine, 1996, No. 21, page 596; Official Bulletin of Ukraine, 2000, No. 28, page 1167; 2003, No. 21, page 928; 2005, No. 33, page 1989; 2006, No. 42, page 2800):

1) passage two shall be deleted;

2) passages three, five and six shall have the following language:

"subject to approval by the Ministry of Economy, prices of natural gas for needs of the population with regard to the maximum price levels established for the population by the Cabinet of Ministers of Ukraine”;

"tariffs for pumping, storage and tapping of natural gas;

tariffs for distribution of natural gas and its supply”;

3) passage seven shall be deleted.

2. Passage one, paragraph 10 of the Rules on the provision to the population of gas supply services approved by the Resolution of the Cabinet of Ministers of Ukraine of 9 December 1999, No. 2246 (Official Bulletin of Ukraine, 1999, No. 50, page 2446; 2004, No. 16, page 1101; 2006, No. 27, page 1965) shall be replaced by the following passages:

"10. Settlements by the population for the provided gas supply services shall be carried out beginning 1 January 2007 at retail prices differentiated depending on the volumes of consumption established by the National Commission on Regulation of Energy of Ukraine based on readings of gas meters and, should those be unavailable, based on the norms of natural gas consumption.

The application of retail prices in the current year for consumers shall be effected depending on the volume of actually used natural gas in the prior year.

As of 1 January, gas-supplying companies shall recalculate, on an annual basis, payments for the used natural gas separately for each consumer depending on its actually used volume in the prior year and on retail prices that were in effect in that year.”

In this connection, passages two and three shall be considered passages four and five respectively.

3. In the Resolution of the Cabinet of Ministers of Ukraine of 27 December 2001 No. 1729 "On providing natural gas to consumers" (Official Bulletin of Ukraine, 2001, No. 52, page 2347; 2004, No. 4, page 162; 2006, No. 10, page 616, No. 24, page 1769):

1) in paragraph 2:

passage three of subparagraph 1 and subparagraph 2 shall have the following language:

"The sale of natural gas for needs of the population shall be carried out by business subjects holding a license to supply natural gas at regulated tariff, at retail prices established by the National Commission on Regulation of Energy of Ukraine;

2) enterprises of communal heat energy, heat power plants, heat-supply electric units and business subjects' boiler houses (the “enterprises”), in particular, block (module) boiler houses (in amounts used to provide heat and hot water supply services to the population, if such enterprises maintain separate equipment accounting for heat and hot water) – from natural gas resources of the National Joint-Stock Company “Naftogaz Ukrainy.”

The sale of natural gas for needs of the said enterprises shall be carried out by the subsidiary "Gaz Ukrainy" and the subsidiary "Gaz-Teplo" of the National Joint-Stock Company "Naftogaz Ukrainy," by business subjects holding a license to supply natural gas at regulated tariff, at prices not exceeding the maximum natural gas price levels established by the Cabinet of Minister of Ukraine";

in subparagraph 5:

passage one shall have the following language:

"5) all categories of consumers, in particular, institutions and organizations financed from the state and local budgets except those specified in subparagraphs 1 and 2 of paragraph 2 of this Procedure – from gas resources";

passage six shall be deleted;

2) paragraph 7 shall be deleted;

3) passage two of paragraph 4 of the Procedure for providing natural gas to consumers approved by the said resolution shall have the following language:

"Gas-extracting enterprises of the National Joint-Stock Company "Naftogaz Ukrainy," the National Joint-Stock Company "Nadra Ukrainy," Open Joint-Stock Company "Ukrnafta" and other business companies, whose charter funds have state participation in excess of 50 per cent as well as business companies, whose 50 per cent of stocks (shares) have been contributed to charter funds of other business companies having the state as their majority shareholder as well as the state joint-stock company "Chornomornaftogaz" shall sell natural gas they extract (including that extracted in the course of performing joint activity agreements) to the National Joint-Stock Company "Naftogaz Ukrainy" only, which will sell the indicated volumes of natural gas to business subjects holding licenses to supply natural gas at regulated tariff for needs of the population."

4. In the Resolution of the Cabinet of Ministers of Ukraine of 29 April 2006 No. 605 "Certain issues of activities of the National Joint-Stock Company "Naftogaz Ukrainy" (Official Bulletin of Ukraine, 2006, No. 18, page 1349):

paragraph 1 shall have the following language:

"1. To establish, from 1 January 2007, natural gas maximum price levels for:

enterprises of communal heat energy, heat power plants, heat supply electric units and business subjects' boiler houses, in particular, block (module) boiler houses (in amounts used to provide heat and hot water supply services to the population, if such enterprises maintain separate equipment accounting for heat and hot water), including VAT, the duty to the approved natural gas tariff in the form of a price mark-up, tariffs for its transportation, distribution and supply as well as storage costs, provided the National Joint-Stock Company "Naftogaz Ukrainy" gets compensated from the state budget for the natural gas price differences at the level of UAH 686 for 1 thousand cubic meters;

institutions and organizations financed from the state and local budgets, industrial consumers and other business subjects, excluding VAT, the duty in addition to the approved natural gas tariff in the form of a price mark-up, tariffs for its transportation, distribution and supply as well as storage costs at the level of UAH 720 for 1 thousand cubic meters;

to add paragraph 8 to the Resolution with the following content:

"8. To recommend the National Commission on Regulation of Energy of Ukraine to establish, from 1 January 2007, in accordance with the procedure stipulated by law:

1) retail prices of natural gas that is used for needs of the population differentiated depending on the annual consumption volume with regard to such maximum price levels, provided the volume of consumed natural gas is:

up to 2,500 cubic meters per year – UAH 339 for 1 thousand cubic meters;

up to 6,000 cubic meters per year - UAH 480 for 1 thousand cubic meters;

up to 12,000 cubic meters per year - UAH 980 for 1 thousand cubic meters;

in excess of 12,000 cubic meters per year - UAH 1173 for 1 thousand cubic meters;

2) retail prices of natural gas that is used by the population in complex, including its use for heating, in particular, in apartments disconnected from the centralized heat supply system in blocks of apartments with regard to the maximum price level of UAH 686 for 1 thousand cubic meters."

5. In the Resolution of the Cabinet of Ministers of Ukraine of 11 October 2006 No. 1420 "On prices of natural gas used by communal heat energy companies to provide heating and hot water supply services to the population and implementation of socially-oriented differentiated prices of natural gas for the population " (Official Bulletin of Ukraine, 2006, No. 42, page 2800):

1) passage two of subparagraph 2 of paragraph 1 shall be deleted;

2) paragraph 2 shall be deleted;

3) paragraph 3 shall be deleted;

4) in paragraph 4:

passage two and the last passage shall be deleted;

in passage three the words "provided it is used to heat a dwelling, to heat water and cook meals" shall be deleted;

5) paragraph 6 shall be deleted;

6) in the text of the resolution, the word "wholesale" shall be deleted.