HOW MUCH
the “cheap” gas for households
has actually cost
Cost of gas for households
(incl. gas used in centralized heat production for households)
2006-2015, $bn

*volume of Ukrainian gas used for needs of households multiplied by the difference between the weighted-average price of imported gas and the price paid by Naftogaz for Ukrainian gas. Naftogaz challenges in SCC the price of gas imported from Russia in 2010-2015
Who covered the cost
of gas used for needs of households in 2006-2015, $bn

- Gas cost paid by Naftogaz:
  - Not paid for Ukrainian gas: 5.9
  - Paid for Ukrainian gas: 25.2
  - Paid for imported gas: 25.2

- Sources of funding:
  - Hidden subsidies: $33.4bn
    - Covered by consumers:
      - Direct subsidies to households: 4.7
      - Compensations for DHCs: 3.4
      - Taxes not received by UA budget: 4.8
      - Compensations and losses of Naftogaz: 10.9
    - Monetary subsidies: $20.2bn
      - Paid by households: 4.8

Total subsidies: $53.6bn
Losses caused by “cheap” gas policy are more than Naftogaz deficit

State budget spending to cover subsidies and compensations: $20bn

Additional state budget losses (forgone royalties): nearly $5bn

Losses of state-owned gas producers: nearly $29bn

Additional losses of Naftogaz (debt servicing costs): nearly $5bn

Total losses of almost $60bn over 10 years
Gas price adjustment in 2015: effect 1
Less consumption, less imports

**Reduction in consumption of gas for needs of households (estimate), bcm**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Without Price Adjustment</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>22.1</td>
<td>19.2</td>
<td>17.2</td>
</tr>
<tr>
<td>2015</td>
<td>2.0</td>
<td>0.9</td>
<td>0.9</td>
</tr>
</tbody>
</table>

- ATO, Crimea
- Weather, norms
- Saving
- Actual
Gas price adjustment in 2015: effect 2

Less state budget spending (reduction in subsidies), $bn

2015 without price adjustment

Actual 2015 savings:

$1.2bn total subsidies incl.

$0.7bn monetary subsidies

2015 actual

2015 market rates

5.0 Total subsidies

4.8

$2.3bn hidden subsidies

$1.8bn hidden subsidies

$2.0bn monetary subsidies

$2.7bn monetary subsidies

5.3

Paid by households

Compensations for DHCs

Compensations and losses of NAK

Direct subsidies to households

Not received by UA gas producers

Taxes not received by UA budget
Price adjustment in 2015: effect 3
More state budget revenues (more taxes)

Taxes paid by Naftogaz and Ukrgazvydobyvannya (UGV), $bn
Gas price adjustment in 2015

Net effect on state budget

State budget tax revenues from Naftogaz and UGV less monetary subsidies and compensations related to gas for households, $bn

-2.1
-0.3
0.3

Conservative assumption: >75% of households are covered by direct subsidies
Benefits from “cheap” gas for the average household

Assumptions

Heated area, sqm 90
Number of residents 4

Gas consumption norms
Heating, cubic m/sqm 3.6
Cooking and heating water, cubic m/resident 9

Estimated gas volume consumed per year, cubic m 2 700

Gas spending per year, UAH

<table>
<thead>
<tr>
<th></th>
<th>2015 without price adjustment</th>
<th>2015 actual</th>
<th>2015 market rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated gas volume</td>
<td>21 000</td>
<td>11 000</td>
<td>21 000</td>
</tr>
<tr>
<td>Consumed per year,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cubic m</td>
<td>4 800</td>
<td>4 800</td>
<td>4 800</td>
</tr>
</tbody>
</table>

Paid by the consumer

State support in the form of discounted gas*

State support in the form of direct subsidies**

*Granted to both wealthy and poor households
**Granted only to poor households
Benefits from “cheap” gas for the wealthy

**Assumptions**

- Heated area, sqm: 588
- Number of residents: 6
- **Gas consumption norms**
  - Heating, cubic m/1 sqm: 7
  - Cooking and heating water, cubic m/1 resident: 18
- Estimated gas volume consumed per year, cubic m: 30 108

**Gas spending per year, UAH**

- 2015 without price adjustment: 180 000
- 2015 actual: 110 000
- 2015 market rates: 80 000
- State support in the form of discounted gas: 210 000
- Paid by the consumer: 290 000
The wealthy benefit more from “cheap” gas

The more gas used – the more benefit received from the state budget

Before adjustment of prices in 2015

Benefit in the form of “cheap” gas

Benefit in the form of direct subsidies

Target state (market prices, direct subsidies)