

Advisory

# *Naftogaz of Ukraine*

## *Presentation of the Gas Transmission System Operator Unbundling Roadmap 2018-2020*


19 September 2018



**pwc**

# *For the past one and a half year, Naftogaz of Ukraine has been conducting numerous projects supporting unbundling process*

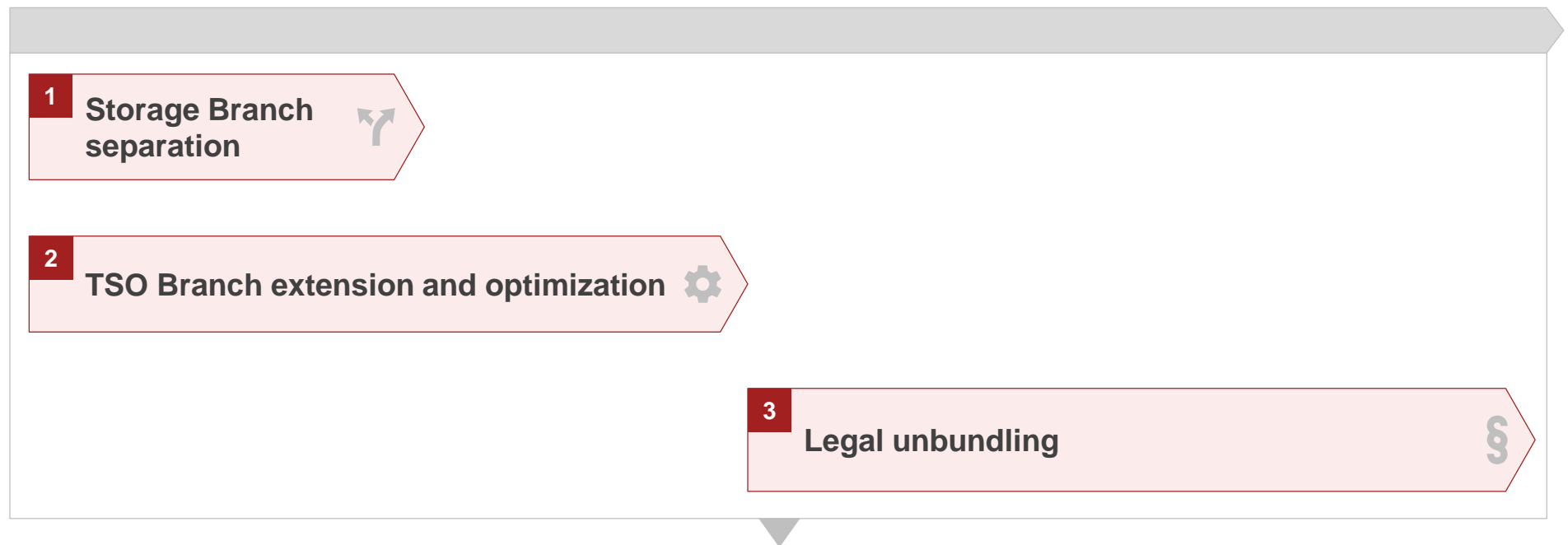
## List of projects

Name	Advisor	Time	Scope	Key outcome
1 <b>Naftogaz Unbundling Project Management</b>		06.2017 – 02.2018	To facilitate the efficient and timely unbundling of gas transmission activity of Naftogaz of Ukraine	✓ Branch TSO created in 11.2017
2 <b>Ukrainian Gas TSO Target Operating Model</b>	 	08.2017 – 07.2018	To prepare a business and structural plan and a target operating model based on European best practices	✓ Preparation of TOM for the future TSO of Ukrainian GTS
3 <b>Comprehensive study of Underground Gas Storage Facilities in Ukraine</b>	  	07.2017 – ongoing	To run independent technical review of existing assets and define optimal storages portfolio together with implementation roadmap	✓ Comprehensive study on UGS facilities in Ukraine
4 <b>Support in unbundling process implementation</b>		07.2018 – ongoing	To support NAK in unbundling process implementation through pilot function optimization and strategic business plan <b>Development of the action plan for TSO extension and separation.</b>	✓ Strategic Business Plan, investment planning function transferred to TSO Branch; ✓ Action plan for TSO extension and separation

**Input to the presentation**

# *Unbundling action plan is divided into 3 stages which will allow to reach a final goal – formal legal unbundling*

## Unbundling roadmap



Organizational separation at all levels



Adjustment to comply with EU standards



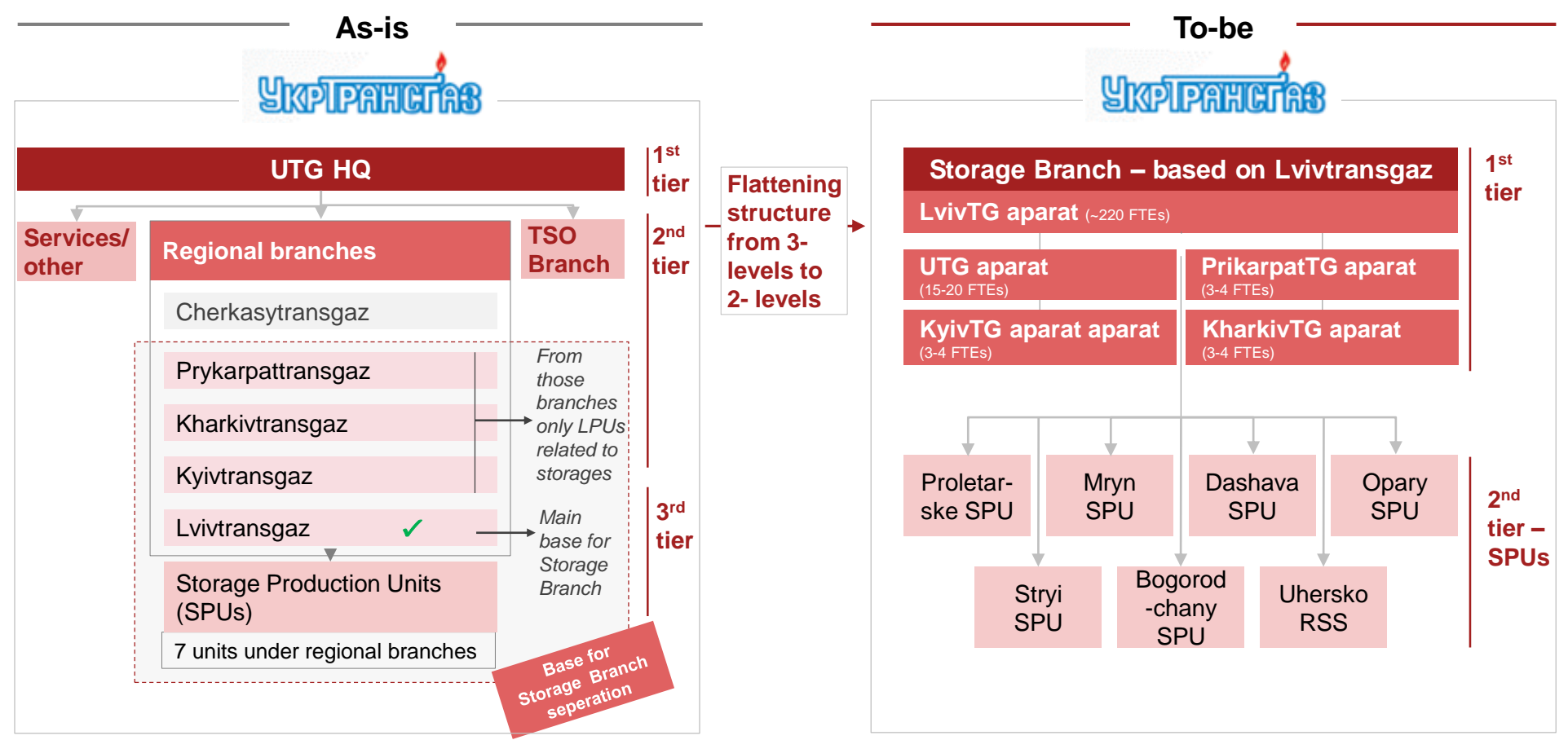
Cost and process optimization



Formal legal unbundling

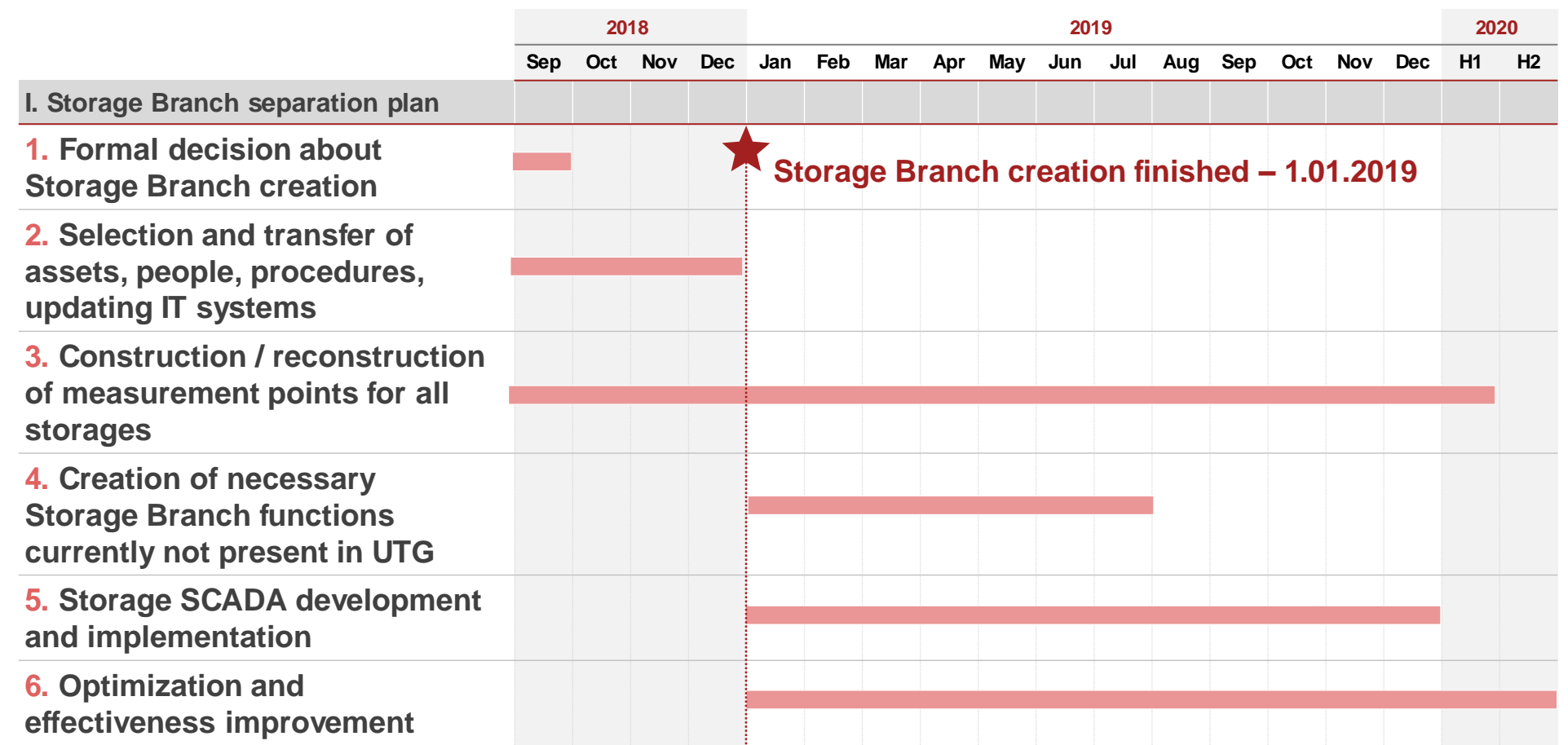
# Separation of Storage Branch is planned to be based on Lvivtransgaz regional branch and includes also flattening of management structure

## Storage Branch separation plan



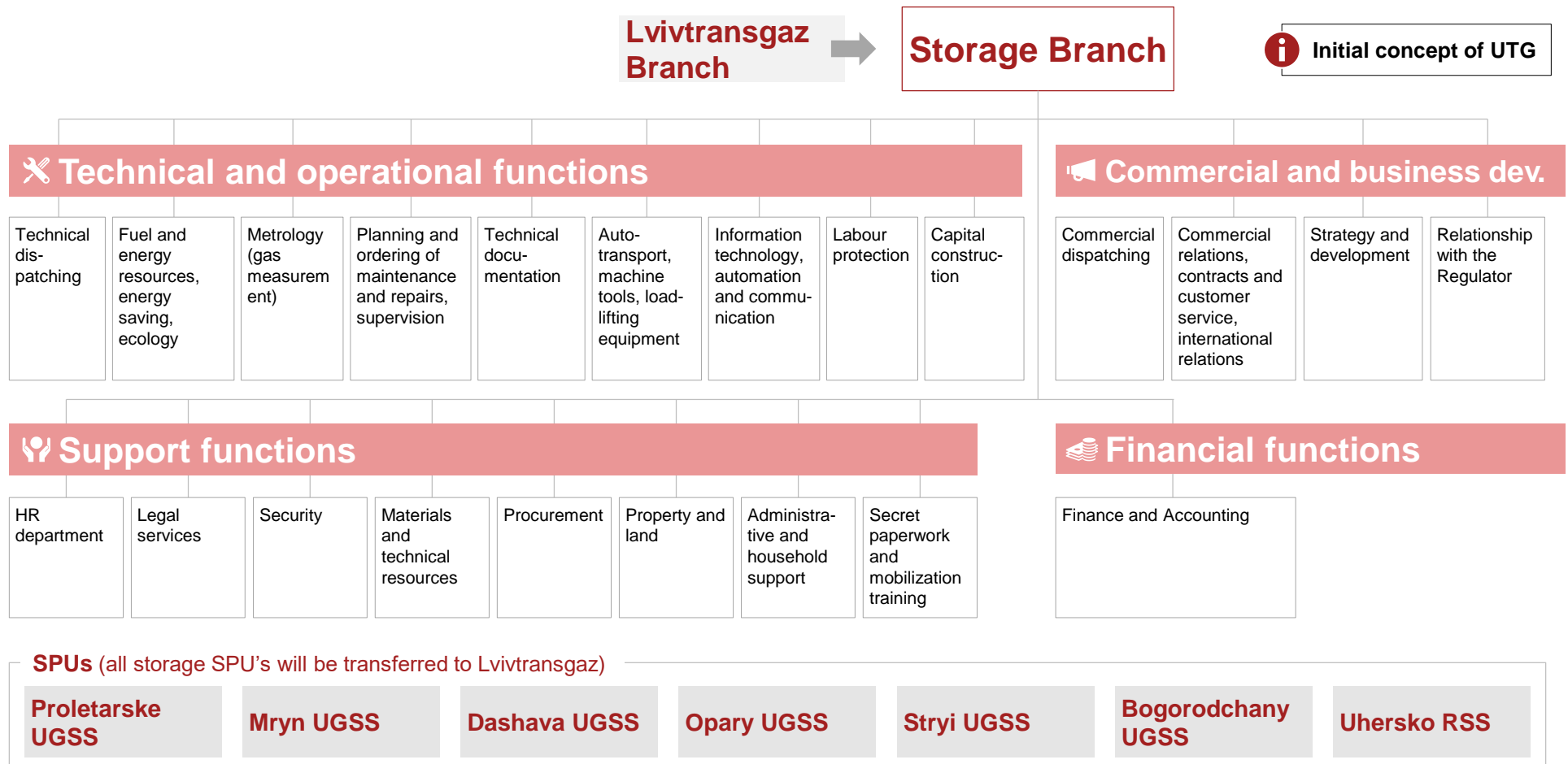
# Full separation of transmission and storage functions within UTG is planned to be performed till beginning of 2019

## Schedule of Storage Branch separation plan (main tasks)



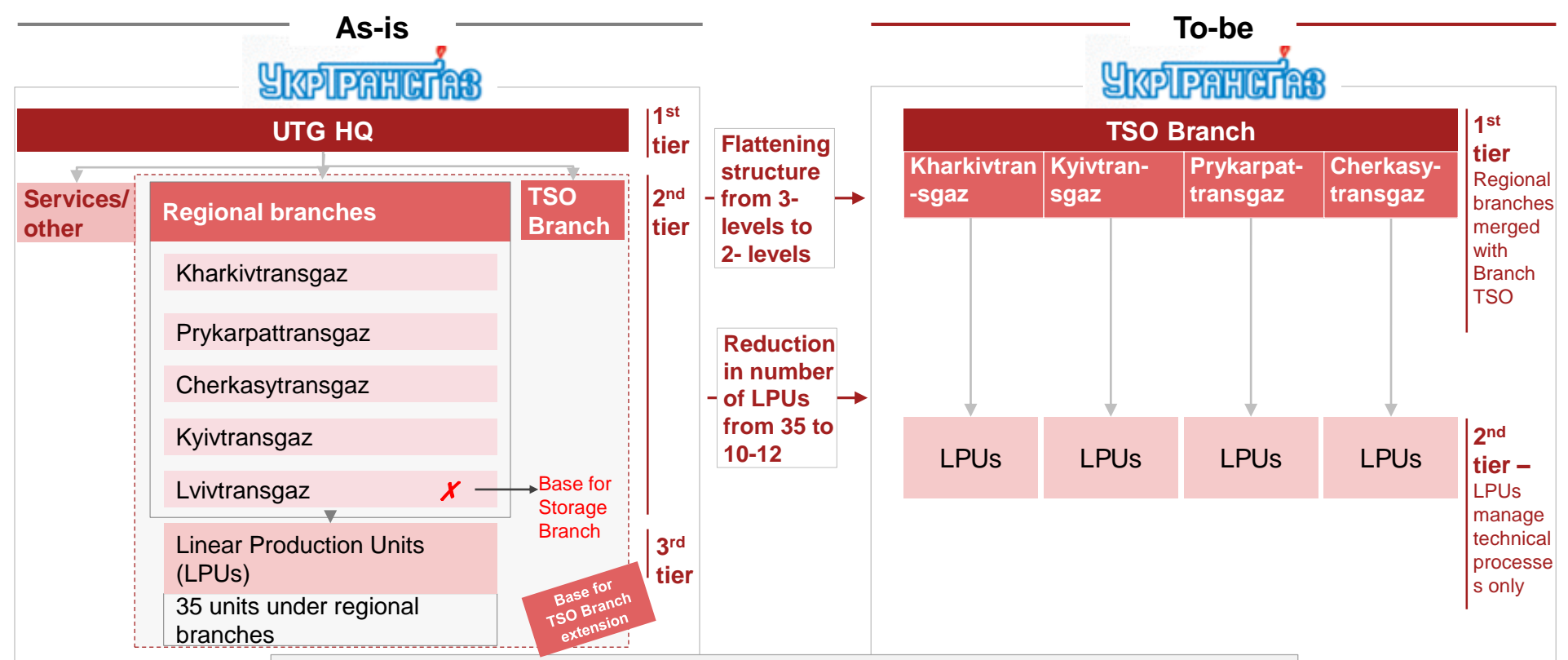
# Target structure of Storage Branch could be achieved at the beginning of 2019

## Concept of storage system operator org structure (Storage Branch)



# Extension plan foresees merger of TSO Branch with Regional Branches as well as flattening of the management structure from 3 to 2 levels

## Key assumptions of TSO Branch extension plan



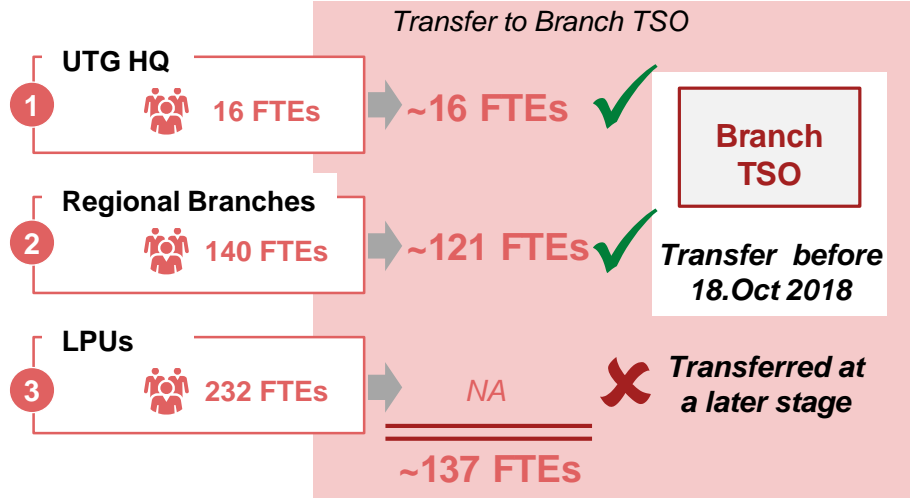
~ 137 FTEs transferred to TSO Branch in October 2018 (pilot project)  
 ~ 5 200 FTEs transferred to TSO Branch in June 2019  
 ~ 7 200 FTEs shall stay in UTG and should act as external service



# Pilot Project assumes creation of the new Network Development and Planning Department in Branch TSO and transfer of the function in October 2018

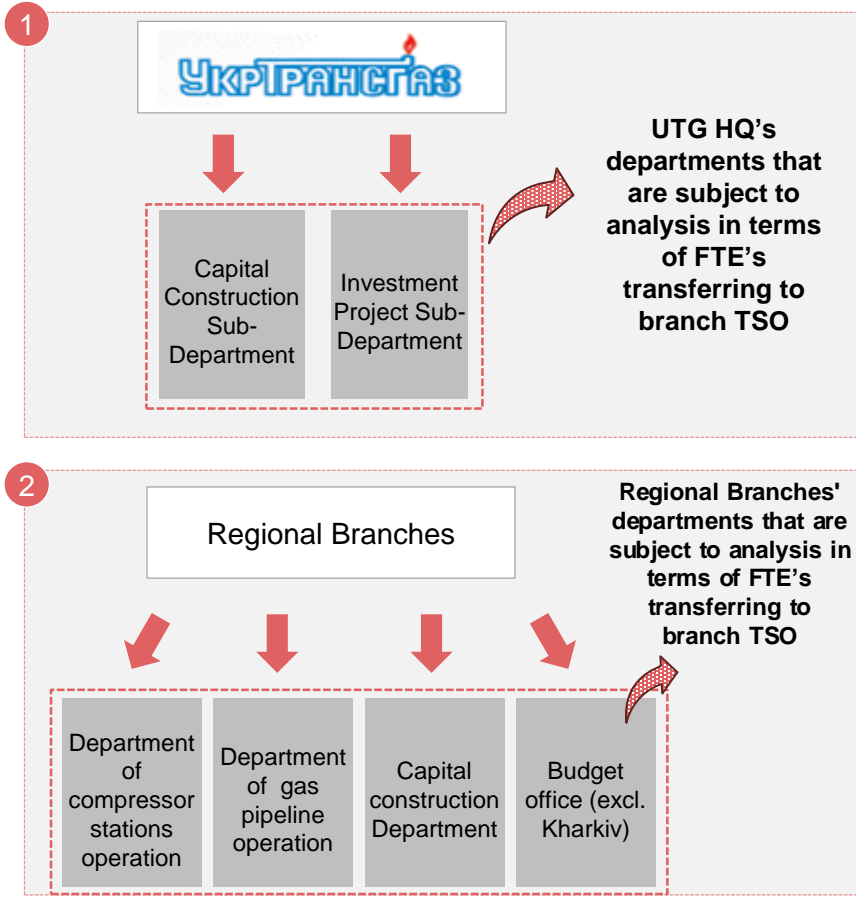
## Network Development employees transfer

As-Is location of employees involving in network development function



- The final number of FTEs that will be transferred will be clarified after confirmation of design of to-be processes

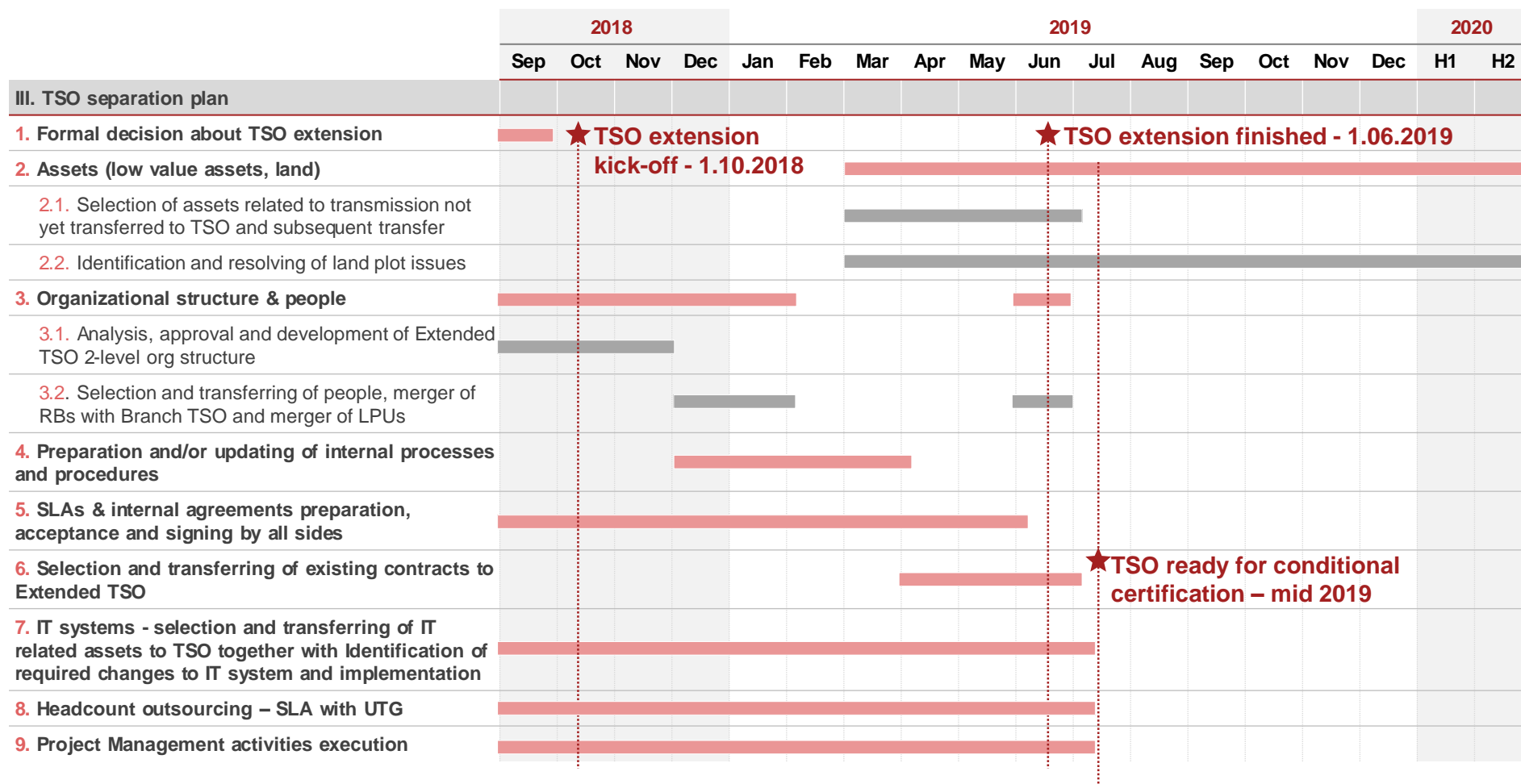
## Departments that are subject to analysis for FTE's transferring





# Creation of fully functional and certifiable extended TSO based on Branch TSO and Regional Branches is planned to be finished in mid 2019

## Schedule of TSO extension plan (main tasks)



# A new optimized TSO structure will be developed and equipped with all needed functions prior to legal unbundling in 2020

## Concept of target TSO structure

### Target TSO structure assumes that:

- ✓ 2 level structure will be developed
- ✓ All critical functions will be transferred or created within TSO HQ
- ✓ All decisions will be made at TSO
- ✓ FTEs will be mostly optimized
- ✓ Follows EU recommendations on TOM (WECOM)



### Unbundled TSO structure

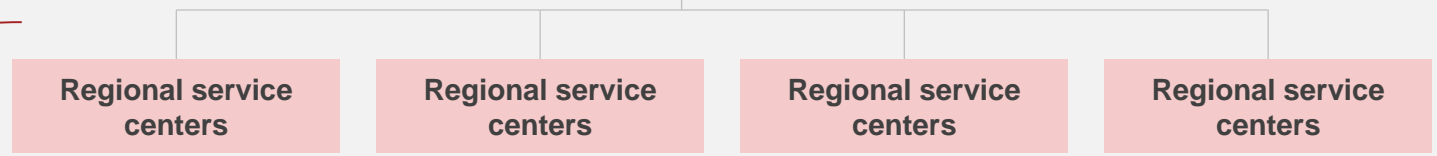


All critical functions within TSO HQ (centralized)



Regional branches within TSO HQ

RSCs (not filias) based on reduced number of LPUs

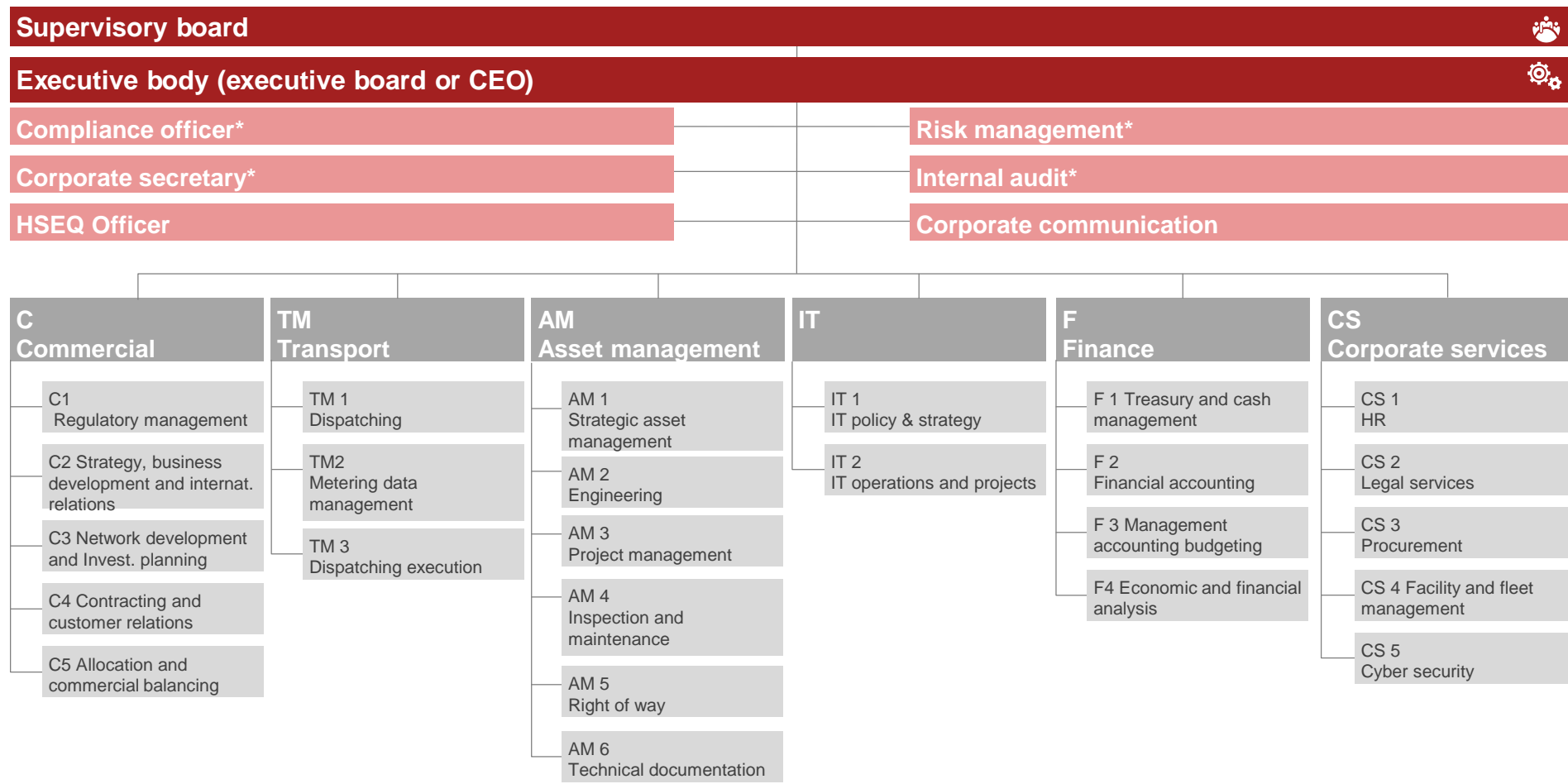


# Unbundled TSO structure will centralize functions, so far scattered, improving operational efficiency of the entity



Wagner, Elbling & Company  
Management Advisors

## Target TSO organizational structure according to WECOM's TOM – HQ

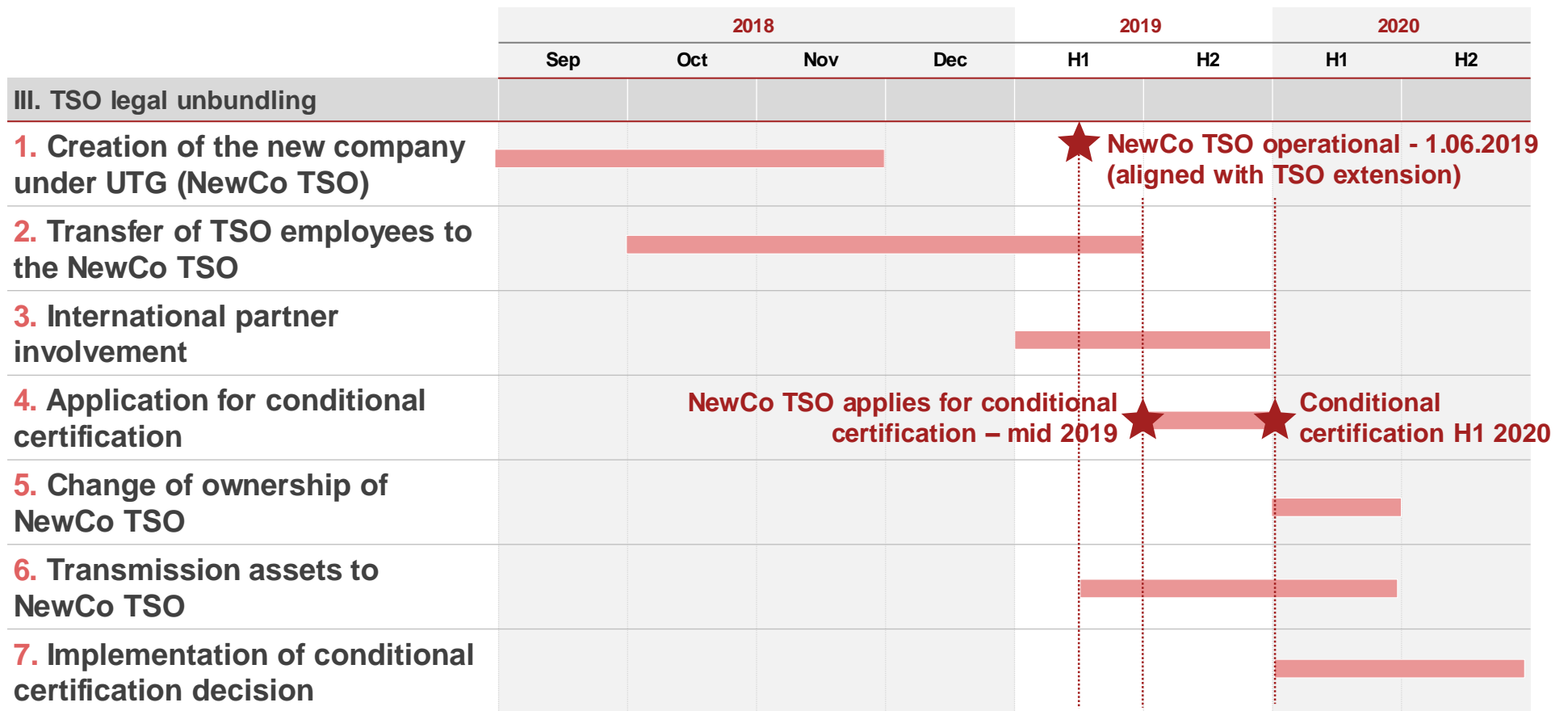


\* Reporting either to the supervisory board or the executive body

# TSO legal unbundling plan assumes TSO readiness for certification in mid-2019, while conditional certification is expected in H1 2020

**i** High-level roadmap – work in progress

## Schedule of TSO legal unbundling (main tasks)



*Thank you!*



**pwc**