



War, gas and Naftogaz's transformation agenda

Taking over as CEO during a time of war, Oleksiy Chernyshov is working to transform Naftogaz – Ukraine's state gas corporation – into a modern energy company. What is his vision for the future?

The full-scale war with Russia is well into its third year, but Oleksiy Chernyshov is, perhaps surprisingly, upbeat as he sits down for our interview. Just over a year into his tenure as CEO of Naftogaz, **business is booming** despite the conflict. Chernyshov has no illusions about the challenges he faces. “When you face a full-scale war and

aggression, you definitely have pressure,” he says, “[But] I came from the position of Minister for Regional Development of the Ukrainian government, which made me familiar with this kind of pressure.”

Results bear him out. **Domestic gas production** is up, with a 15-year high in producing wells. Underground storage systems hold 2.5bcm (billion cubic metres) of European gas at peak, debt obligations are being met and the company is taking steps to build trust with a new corporate governance regime. This is all the more significant considering the company's **size and market dominance within Ukraine**. It is the country's biggest state-owned energy company, controlling 75 per cent of Ukraine's gas production, supporting Combined Heat and Power (CHP) systems in regions close to the frontline, employing more than 100,000 workers and serving 12.4mn households.

Naftogaz also owns Europe's largest underground storage system (with 31bcm capacity for gas), and says it has attracted \$1.5bn worth of foreign gas into that storage during the war, recently restructured \$835mn of debt and contributed 10.6 per cent to the state budget in 2023.

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excuse

Yet Chernyshov believes that more can be achieved if the business makes changes. “We need reforms, and the war should not be an excuse,” he says. His first move after his appointment was to seek the prime minister's support in setting up a **supervisory board** to bolster trust, which Chernyshov describes as “extraordinary and super-professional”. Its constitution has helped build confidence domestically and internationally; the company has exited default, ramped up gas production, increased foreign gas storage volumes and begun to attract European traders.

Modernising, liberalising

Trust, reform, corporate governance and liberalisation are all building blocks for Chernyshov's vision of a modern energy company, which he says will be founded on "established OECD principles". This is important as Naftogaz seeks to be the standard bearer for transparency and corporate governance among Ukraine's state-owned enterprises. It will, Chernyshov promises, be well run and profit from its oil and gas exploration. Technology will be leveraged to foster green-energy projects: wind and solar, as well as biomethanol, hydrogen and biomass.

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Ukraine plans to reduce global GHG emissions by 65 per cent by 2030, although Chernyshov points out: "During the war we have to accumulate energy resources as much as possible by increasing gas production." Despite this, the company remains committed to pushing forward its **green energy agenda**. Naftogaz is currently working, with the support of the European Bank for Reconstruction and Development (EBRD), to implement alternative-energy projects, **with construction of two wind power plants** scheduled to begin next year.

Naftogaz has a number of ambitious plans for 2024. The first are to sustain domestic gas self-sufficiency, open up new export channels, push the decarbonisation agenda and attract more European traders. "Our business plan for this year is 4bcm," says Chernyshov. "We have seen that the traders are willing to take the risk and store significant volumes, even with **no war risk insurance** or guarantees in place."

Jack Sharples, a Senior Research Fellow at the Oxford Institute for Energy Studies, believes Naftogaz has what it takes. "An increase from 2.5bcm to 4bcm could be

realistic, particularly if filling EU storage to capacity by the start of winter becomes the new normal," he says. Although Ukraine has the storage capacity, the impact of the war overshadows all commercial dealings and operations – even as Chernyshov highlights that of the 2.5bcm volume stored in Ukraine, a large amount has been withdrawn without difficulty.

Additional protection in the form of war insurance is, he says, one of his priorities. "The support of the EU with additional war risk guarantees will be great, and it will drive storage levels much higher than 4bcm." International collaborations extend beyond storage. Naftogaz is partnering with oil services companies Halliburton and Baker Hughes to expand its horizontal drilling plans. Ramping up production, Chernyshov says, will require "modern technologies", if the company is to fulfil his ambition for it to become "Europe's power bank".



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As well as reforms, privatisation of parts of Naftogaz, including its distribution subsidiary, could be on the table, says Chernyshov, but only when the war is over, investment protection established and the energy market liberalised. "We should bring private equity, privatise major state-owned enterprises, liberalise the economy, make the state present only where it is needed and... not interfere," he says.

Sharples believes the transformation is on course. "Naftogaz aims to become an energy company that is integrated into the European gas market," he says. "It is declaring that it wants to be a transparent and reliable market participant you can do business with." However, **there are concerns** that while Chernyshov is preaching the gospel of reform, Naftogaz might be turning into a monopoly, with 27 regional and city gas-distribution companies recently integrated.

"Being a monopoly is not a sin," he argues. "You just have to avoid any cases of misconduct." Chernyshov points to the Ukrainian Energy Exchange, which is providing a transparent marketplace for Ukrainian energy companies unable to export their products on account of a wartime ban and urges them to keep up production. The exchange has enabled **Naftogaz to buy almost 1bcm of gas** from other Ukrainian

producers at competitive prices through an open procurement process that brings deals close to European TTF prices.

“My pure religion is markets and liberal economy,” Chernyshov says, as if to underline his free-market credibility and erase doubts about his vision for transforming Naftogaz and the wider Ukrainian economy. “I live with my wife and three kids in Kyiv. We want this country to be reformed and developed for the next generation.”

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