

Thank you for taking the time to be here. This is the first press conference for 2013. Today, I would like to say a few words on the challenges facing the electricity industry in 2013.

1. Summary of 2012 and the goals for 2013

Let me first summarize the year 2012. Last year, determined to avoid a repetition of the Fukushima Daiichi accident, the electric power companies implemented various safety measures and widely informed the public of such efforts in order to win their understanding and to regain their confidence in the electricity business.

However, with no clear prospects for restarting any of the nuclear power plants in Japan, the power companies are barely meeting the demand for electricity even with the cooperation of users in saving electricity and efforts by the power companies to secure additional supply capacity.

Further, due to the worsening finances of the electric power companies caused by the soaring cost of thermal power fuel, some power companies are taking the tough decision to apply for or are considering raising electricity tariffs. It is with great reluctance that we must ask our customers to bear this burden.

We will continue to make utmost efforts on both the supply and demand sides, while also improving the efficiency of our business.

Under such circumstances, we are determined to put our business back on track and make a fresh start this year in order to fulfill our most important mission of “providing high quality electricity to customers in a stable manner as inexpensively as possible”.

To do so, the most important challenge is to make an industry-wide effort to “ensure the safety of nuclear power plants and to restart them”. It is also essential that discussions on the energy policy proceed steadily at the national level.

In the following sections, I would like to explain our stance on these two challenges.

2. Efforts for ensuring the safety of and restarting the nuclear power plants

First, I would like to explain our efforts for ensuring the safety of the nuclear power plants and restarting them.

Nuclear power plays an essential role in securing a stable supply of electricity, holding down electricity tariffs to reduce the financial burden on the public, and dealing with global environmental issues. We would like to restart, as early as possible, those plants that have been proven to be safe.

The electric power companies have rapidly implemented extensive emergency safety measures to strengthen the redundancy and diversity of power sources and cooling function since immediately after the accident, to ensure that all nuclear plants remain safe even in the event of an earthquake and tsunami equivalent to the one that hit the Fukushima Daiichi power station. We are also voluntarily taking continuous measures to enhance the effectiveness of safety measures such as installing air-cooled emergency power generators, and to improve the safety and reliability of nuclear power such as installing filtered vents and raising the height of tidal embankments.

Under such circumstances, the expert team of the Nuclear Regulation Authority recently produced a draft outline of the new safety standards. Further, last week, a hearing of electric utilities on the draft outline was held, where we expressed our opinions from a technical standpoint based on the knowledge and data that we have gathered through our operational experience, in order to achieve the common goal of ensuring safety, which both the regulators and the power companies share. We hope that both the regulators and the regulated parties can continue to engage in constructive discussions through such opportunities as public comments.

As mentioned earlier, we have been implementing various safety measures over time, but we are also aware that there is no end to efforts for ensuring safety, and that the most important point is to make ongoing efforts. For those safety improvement measures that need to be taken immediately, we shall continue to implement them without waiting for the new safety standards to take effect.

Regarding the issue of the fractured zone in the nuclear plant premises, that is being discussed in the expert team, we hope that a careful decision will be made after thorough discussions on a scientific and technological basis by taking into consideration the data provided by the electric power companies and the results of additional investigations currently ongoing

3. Discussions on energy policy

Next, I would like to say a few words on the discussions on energy policy.

Energy policy is a core policy of a nation which affects the lives of the people and economic activities, and thus should remain consistent over the long term without fluctuating. We hope that realistic discussions will be held under the new administration to pave the way for revising the “Innovative Strategy for Energy and the Environment” formulated under the DPJ administration, which aims to eliminate nuclear power by the 2030s.

Based on the view that it is important for Japan, which has limited energy resources, to promote the “S+3E’s policy”, we will continue to pursue an optimum energy mix consisting of “nuclear power based on thorough safety measures”, “high-efficiency thermal power”, “renewable energies”, and “demand-side measures such as energy conservation”.

We also believe that the nuclear fuel cycle is an important policy for Japan in order to use energy resources efficiently and to reduce radioactive waste. Japan Nuclear Fuel Limited is successfully conducting vitrification tests which are the final step in completing the Rokkasho

Reprocessing Plant scheduled for October 2013, and will continue to work with safety as the overriding priority.

The electric power companies have actively cooperated with the detailed reviews for reforming the electric power system in order to select the system that truly benefits the users. At the expert committee meeting held on the 21st this week, which mainly discussed the neutral operation of the power transmission and distribution department, we expressed our opinions once again. The attachments include the document that was handed out at the meeting that day.

Our stance on the unbundling of electricity generation, transmission and distribution departments is that it is necessary to carefully prepare systems and rules that can compensate for any damage to the stability of electricity supply that has so far been maintained by the integrated operating structure comprising power generation, transmission and distribution.

Specifically, technical and practical discussions will continue to be necessary on how the power generation department and the transmission and distribution department should collaborate when a trouble occurs, and who should be responsible for securing the supply capacity from the short-term to the long-term, and how.

In addition to the worsening finances of the electric power companies due to the prolonged shutdown of the nuclear power stations, the uncertain position of nuclear power in the energy policy is making it even harder to assess the risk of the nuclear business. We therefore think it is extremely difficult to make any decision on revising the organizational structure at this time, as it would have a tremendous impact on corporate management.

Regarding the revision of the organizational structure, although most members of the committee were in favor of legal unbundling, there are still many issues that need to be considered before revising the organization, in order to select a system that truly benefits the users.

In finalizing the discussion, we hope that the committee will take into account the views of electric power companies who will be in charge of the actual operation of the grid, in preparing and verifying the conditions for the revision and steadily advancing the reforms.

2013 is an important year in which Japan is making a fresh start, led by the new administration, to address the many problems that the country is facing, including revitalizing the economy.

2013 is a crucial year for us as well. We will earnestly listen to the voices of our customers and the public, and will steadily work together and make progress toward solving the various problems that we are facing.

Federation of Electric Power Companies

January 21, 2013

Conclusion of the Discussions of the Expert Committee on Electric Power System Reforms

Since the basic policy was indicated last July, the general electric utilities have been conducting detailed studies based on the knowledge gained over the years to help select an electricity system that truly benefits the people.

In addition to expressing our opinions during the Committee meetings so far, we would once again like to express our views from an observer's standpoint now that the discussions are approaching the end. In concluding the discussions, we hope that the Committee will consider our proposals, since it is we who are working in the field and will continue to carry out the actual tasks.

1. Summary of the Discussions

- The general electric utilities have announced that they will positively consider the full deregulation of the retail segment, revitalization of the electricity wholesale market and the establishment of an organization responsible for the wide-area operation of the grid, sincerely considering the discussions in the Expert Committee.

The utilities are also jointly studying the countermeasures, appropriate organizational structure and costs for addressing the issues that will arise from the unbundling of the electricity transmission and distribution department, in preparation for any considerable increase in the share of PPSs and supply from outside the area in the future.

- With full deregulation, the obligation of the general electric utilities to supply electricity will be abolished. Accordingly, it is essential to ensure measures for securing supply capacity for the short to long term. However, whether the new measures will help fulfill the 3E policy including energy security in the mid to long term, and how to deal with the risks in power source development remain unclear and require further investigation. These factors must be addressed before deciding when to launch the new system.
- Regarding the organization for wide-area grid operation, it is necessary promptly to decide practical business matters such as governance so that the organization can be established quickly and can tackle the challenges associated with wide-area operation such as “wide-area adjustment of supply and demand in case of a supply shortage situation” and “increase in renewable electricity capacity”, as well as the need for “ensuring operational neutrality”.
- For the unbundling of the electricity transmission and distribution departments, it is essential to build systems and rules to ensure that the grid operator, the retail operators and power producers can collaborate not only in normal times but also in trouble situations and for coordinating activities among each other. It is also necessary to draw up detailed rules on the coordination between the power sources and the grid in trouble situations, and to verify whether those rules can guarantee smooth coordination as is being done presently.
- The evaluation of functional and legal unbundling so far indicates that, in general, the main advantage of legal unbundling is the ease of sharing information and ensuring security in trouble situations as the transmission and distribution facilities

are both owned and operated by a single organization, while the main advantage of functional unbundling is its superiority in wide-area operation, such as its effectiveness in adjusting supply and demand across the areas, which makes it more suitable for inter-area adjustment when large volumes of electricity with fluctuating output, such as renewable energies, are introduced. In addition, the execution of functional unbundling is expected to cost less than legal unbundling, and has less adverse financial effects as the unbundling takes place within each utility. We consider that it is still not the time to decide which direction to take in the future.

- As reforms of the electric power system cannot afford to fail, it is necessary to first start by preparing to establish an organization for wide-area operation, clarify the roles and responsibilities for enabling neutral and wide-area grid operation, and consider how to maintain reliability and supply capacity. Once these issues have been addressed, only then should the discussions on organizational structure for choosing between functional or legal unbundling be started.

Meanwhile, concerns over the neutrality of the transmission and distribution department could be addressed by resolving any doubts on the neutrality by building an appropriate mechanism that would control the involvement of the wide-area grid operator in the activities concerning the usage of the grid, such as investigating the possibility of official connection into the power grid and the stoppage of work.

Considerations regarding the form of organization (examples)

- Functional unbundling

Rules and the allocation of roles between the branch offices of the wide-area grid operator and the facility owners that would allow efficient work execution and rapid response to accidents

- Legal unbundling behavior regulation

Acceptable regulations on conduct which allow an environment that would enable existing power companies to continue to make necessary investments, and are not excessively onerous on financial and personnel matters

- Costs for functional and legal bundling

For estimating the costs, it would be necessary to apply the rules for supply stability (such as the balancing rule), which will be set up in the future for the unbundling, to the design of hardware such as the operation system. It would also be necessary to develop several scenarios combining various patterns of increase in personnel and the length of time required for the migration of organization and tasks associated with the unbundling and reallocation of activities, and to perform further reviews based on an analysis of the detailed work allocation and the regulations on conduct of each scenario.

2. Direction of reforms of the electric power system

- As mentioned earlier, the electric power companies have been contributing to the discussions on system reform from the standpoint of actual operation. However, the situation surrounding the companies has become severer since the announcement of the basic policy in July, due to the delay in restarting the nuclear power plants and announcement of the “zero nuclear” policy that have resulted in a tight supply-demand situation and weaker management power, and the associated

worsening finances.

- Under the current situation, it is not only difficult to achieve the true goal of the electric power system reforms, which is “to maximize the benefits of the customers by promoting healthy competition while promoting investment by electric power companies, and as a result, to strengthen the energy platform of Japan”, but also the stable and inexpensive supply of electricity could be affected in the near-term. We consider that the current situation is an emergency that could threaten the very continuation of the electricity business.
- Under such circumstances, most general utilities are running a current account deficit, and despite making utmost efforts to cut costs, are forced to consider raising electricity tariffs. Thus, regarding functional and legal unbundling that would incur vast costs, we think it is necessary to make the decision after evaluating and considering other means of enhancing the neutrality of the transmission and distribution department, and to make sure that the decision is acceptable to society.
- Also, we ask the Committee to understand that it is extremely difficult in terms of management to make a decision now on unbundling, which could destabilize corporate management even further, since the future risks of the nuclear power business (such as non-operation, unlimited liability, backend, stranded costs) remain unknown.
- It is difficult for us to make decisions on new investments to develop power sources while the direction of the energy mix remains unclear. Further, changing the supply system while the prospects for ensuring supply capacity remain uncertain, specifically, whether new construction, expansion and replacement of nuclear power plants and the construction of new coal-fired thermal plants will be possible, and how to secure power sources for adjustment in case of an increase in renewable energy capacity, would raise further concerns over the stability of electricity supply.
- In Japan, whose energy supply structure is fragile, realistic reforms of the electric power system must be considered and executed based on long-term energy and nuclear policies, and as a package that will ensure electricity is supplied inexpensively in a stable manner and with high quality for the future.
- We believe that it is necessary to first devise measures to ensure supply stability after full deregulation and then to establish an organization in charge of wide-area network operators, and to verify their status of implementation before making decisions on the next step.

3. Conclusion

- In accordance with the direction of the discussions so far, the electric power companies will continue to make utmost efforts to achieve both neutrality and supply stability. However, we believe that much consideration is still needed on the form of unbundling of the electricity generation department and the transmission and distribution department.

Further, a major revision of business structure like this one would have a significant impact not only on the management of power companies but also on the electricity market, financial market and the overall economy.

The electric power companies will make utmost efforts to establish an organization for wide-area grid operation to resolve any questions on the neutrality of the system. We would like to take the next step after confirming and verifying the effects of these measures, and to make any subsequent decisions after fully assessing the

progress of restarting nuclear power plants, addressing nuclear business risks, and clarifying the future direction of the energy policy and the outlook for the electricity business.

With the management power of the electric power companies weakening and the risks of the nuclear business still unclear, making the decision for unbundling and announcing its timing now could trigger uncertainty in the financial markets, and result in further negative impacts on financing. We hope that these factors will be taken into consideration and that the opinions of the electric power companies will be reflected in the conclusions of the Committee discussions planned for the next meeting onwards.