

## Summary of Press Conference Comments Made by Makoto Yagi, FEPC Chairman, on February 15, 2013

Today, I would like to say a few words on the following two topics: our views on the conclusion of the electric power system reforms, and actions to be taken in response to the draft new safety regulatory requirements.

### 1. Our views on the conclusion of the electric power system reforms

First, I would like to explain our views on the conclusion of the electric power system reforms.

At the expert committee meeting held on February 8 last week, the future direction of the reforms was finalized. The attachments include the document that was handed out at the meeting that day.

So far, the electric power companies have actively cooperated with the detailed reviews to create an electric power system that truly benefits the users. We will continue to firmly hold that stance, and fully cooperate with the detailed reviews, in line with the purpose of the reforms.

In the discussions so far, we have consistently pointed out that the new system should be an optimum system that can keep supply stability compatible with a neutral competitive environment, while being in the best interest of Japanese citizens as the top priority.

For an operation running a huge infrastructure with the mission of stably distributing electricity, which is the lifeblood of society, the supply system is critical, and its revision must not fail. We have therefore been suggesting that the reforms should be advanced one step at a time, steadily clearing each phase, and carefully setting and verifying the conditions for their implementation.

With respect to individual issues, regarding the complete deregulation of the retail sector, we will actively try to broaden the alternatives and diversify the types of electricity tariffs, with due consideration to public aspects such as universal service.

Further, regarding “wide-area adjustment of supply and demand in case of a supply shortage” and “introduction of renewable energies”, we believe that it is important to launch as soon as possible an organization for wide-area grid operation as we have suggested, and discussions must be accelerated for establishing the organization.

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

Specifically, further technical and practical discussions will be needed on how the power generation

department and the transmission and distribution department should collaborate if a trouble occurs, and how to establish a structure in which necessary power sources can be steadily developed for a long time even amid free competition. In addition, careful verifications will also be needed for building a reliable frequency adjustment mechanism, which affects the quality of electricity.

Moreover, in addition to the tightening supply and demand situation and worsening finances of the electric power companies due to the prolonged shutdown of the nuclear power stations, the energy policy and the risks of nuclear power remain unclear. We think that making any decision on revising the organizational structure under such circumstances would have a tremendous impact on corporate management, and hence could affect the stable supply of electricity.

We will continue to fully cooperate with the reviews and verifications for building the mechanism and rules for ensuring a stable supply of electricity after unbundling, in line with the purpose of the reforms.

We believe, however, that for the benefit of the entire society, any decision on the form and timing of unbundling should be made only after the business environment has become clear, fully taking into account the prospects for restarting the nuclear power plants and the direction of the energy policy.

Thus, we ask that the above issues and concerns be thoroughly examined considering the views of experts and the electric power companies, and that changes are made flexibly if any problem is identified in the course of the examination.

Being in charge of actual operations, we will continue to strive to resolve any issues that may arise in the course of the detailed reviews, fully utilizing the knowledge we have acquired so far.

## 2. Actions to be taken in response to the draft outline of the new safety regulatory requirements.

I would now like to say a few words on the actions to be taken in response to the draft outline of the new safety regulatory requirements

The new safety regulatory requirements have been published in draft form and are currently open for public comments.

Two hearings of electric power companies were held last month, at which we expressed our views from a technical standpoint. To achieve the common goal of the regulators and the power companies of ensuring safety, we will continue to actively provide and explain the knowledge and data we have acquired through operations.

The electric power companies have taken various measures to improve safety, including rapidly

implementing extensive emergency safety measures to strengthen the redundancy and diversity of power sources and cooling function, and have taken voluntary and preemptive measures to deal with the thirty items that were pointed out by the former Nuclear and Industrial Safety Agency.

While some actions remain to be taken such as installing a filtered ventilation system, the power companies will thoroughly review the draft safety standards which were recently published, and consider what specific actions to take for each of their plants.

Regarding the measures that need to be taken for improving safety, we will continue to implement them without waiting for the new safety regulatory requirements to come into effect. Remembering that there is no end to ensuring safety, the electric power companies will continue to make utmost efforts and implement further safety measures, while of course fully meeting the new safety standards.

We will also diligently explain our efforts to the local residents and the public and gain their understanding, in order to restart the nuclear power stations as soon as possible.

This is all for today.

Thank you for your kind attention.

FEPC's handout for the 12th general meeting of the Expert Committee on Electric Power System Reforms, Advisory Committee for Natural Resources and Energy, held on February 8, 2013

February 8, 2013

Federation of Electric Power Companies

### **Finalization of the Report of the Expert Committee on Electric Power System Reforms**

The electric power companies have actively cooperated with the reviews toward creating an electric power system that truly benefits the users. We will continue to firmly hold that stance and fully cooperate with the detailed reviews, in line with the purpose of the reforms.

However, being in charge of actual operations, the electric power companies still have concerns over some parts of the report and find them difficult to implement; the following issues in particular need to be resolved through further examination, verification and improvement of the environment. We ask the Committee to consider the need for such efforts and the reality of the actual tasks, and to flexibly revise the report if any problems are identified.

#### **1. Ensuring the stability of electricity supply before moving forward**

Regarding the unbundling of electricity generation, transmission and distribution departments, further technical and practical discussions are needed 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.

In particular, regarding frequency control, careful tests must be repeated to check if the proposed frequency control mechanism, in which a retailer secures reserve capacity at least one hour before supply, and a grid operator uses that reserve capacity to adjust any imbalance during the actual supply stage, functions reliably, to prevent any compromise in the quality of electricity.

In addition, detailed rules for collaboration between the generators and distributors of electricity must be established and verified for consistency with the actual tasks, to ensure that electricity can be supplied stably not only at normal times but also in an emergency situation, such as the Great East Japan Earthquake.

Furthermore, regarding the measures to secure mid- to long-term supply capacity after complete liberalization, measures such as capacity market and bidding for power sources have been proposed, although no details have yet been drafted. We believe that discussions must be continued to determine whether it is possible to develop power sources reliably over the long term and in compliance with the S+3E policy under an environment of free competition.

The issues above are critical to the stable supply of electricity, though it is difficult to foresee how long it will take to examine and verify them. While the report states the timing of further neutralization of the transmission and distribution departments, this is difficult to achieve at present, and we ask that actions be taken considering the real situation.

Being in charge of actual operations, we will continue to strive to resolve any issues that may arise in the course of the detailed reviews in these reforms, fully utilizing the knowledge we have acquired so far.

## **2. Consideration for corporate management environment as a prerequisite for the reforms**

In addition to the current tight supply and demand situation and worsening finances of the electric power companies due to the prolonged shutdown of the nuclear power stations, the energy policy and the risks of nuclear power remain unclear. Making any decision on revising the organizational structure under such circumstances would have a tremendous impact on corporate management, and hence could affect the stable supply of electricity.

Amid the present management environment of the electric power companies, even merely announcing the form or timing of unbundling at this point could affect the funding of the companies. We believe that securing a stable funding environment for the power companies, including how to handle such announcements, should be another prerequisite for the reforms.

Based on the above, for the benefit of the entire society, we believe that any decision on the form and timing of unbundling should be made only after the business environment has become clear, taking into account the progress in restarting the nuclear power plants and dealing with nuclear business risks, and the direction of the energy policy.

The revision of the electric power system must not fail. To prevent the revisions, including the unbundling, from adversely affecting economic activity and people's lives, we ask that the technical and corporate management issues described above be thoroughly examined, taking into account the views of experts and the electric power companies, and that changes be made flexibly if any problem is identified in the course of the examination.