

## Summary of Press Conference Comments Made by Makoto Yagi, FEPC Chairman, on May 23

Thank you for taking the time to be here. Today, I would like to say a few words on the following three topics: supply and demand outlook for electricity for this summer and a request for saving electricity, the financial results of the power companies for FY 2013, and our views on the revision of the Electricity Business Act, which is currently being discussed in the Diet.

### 1. Supply and Demand Outlook for Electricity This Summer and Request to Save Electricity

First, I would like to say a few words on the supply and demand outlook for electricity this summer and request for saving electricity.

On April 17, each electric power company reported to the Minister of Economy, Trade and Industry its supply and demand outlook for electricity this summer. Following the review by the Electricity Supply and Demand Verification Subcommittee, on May 16 last week, the government finalized the supply-demand measures for this summer. Accordingly, a request will be made to save electricity, but without numerical targets, in the areas of the nine electric power companies excluding Okinawa on business days between July 1 and September 30. We apologize to everyone in the country for the inconvenience and trouble this will cause, and ask for their cooperation in cutting back on electricity.

This summer, the supply-demand situation is expected to be tight particularly for the entire central and west Japan, as the prospects for restarting the nuclear power stations remain unclear and also due to the trouble at J-Power's Mitsuura Unit No.2. Under such circumstances, the electric power companies are expected to be able to just secure a reserve margin of at least 3% thanks to their efforts to build as much supply capacity as possible, including restarting those plants that had been shut down, bringing forward the scheduled start of new thermal power plants and adjusting the interval between periodic inspections of thermal power plants, in addition to, for this summer, by interchanging electricity between the power companies of east and west Japan.

While a reserve margin of 3% is the minimum level needed to ensure a stable supply, under the current situation of continuing to take emergency plans which depend heavily on thermal power plants, the margin is virtually non-existent, considering risks such as sudden fluctuations in demand due to high temperature and unplanned outages of thermal power plants.

Despite the tight situation, in order to fulfill our mission of providing a stable supply, the power companies will strengthen their efforts on both the supply and demand sides. The efforts will

include thorough maintenance of the power generation facilities by performing, as requested by the government, an overall inspection of thermal power plants, and building up reserve supply capacity by offering a tariff discount to customers who agree to have their power turned off when an electricity shortage is imminent.

## 2. Financial Results of the Power Companies for FY 2013

Next, I would like to summarize the financial results of the power companies for FY 2013.

At the end of last month, the ten power companies announced their financial results for FY 2013. As announced earlier, the fuel cost marked a record high for the third consecutive year since the earthquake disaster, rising to 7.7 trillion yen from 7 trillion yen in FY 2012. This is more than double the level in FY 2010 which was 3.6 trillion yen, and accordingly, the ratio of fuel cost in the overall running cost soared from 20 to 40%. Consequently, six power companies ran a current account deficit for FY 2013, with five of them posting losses for the third consecutive year. The losses are continuing to drastically erode the capital reserves of the power companies, making the business situation extremely precarious.

[The reference document](#) shows the electricity output of each power source for FY 2013.

The ratio of nuclear power was even lower than the record low of FY 2012 at 1.0%, as all nuclear power plants remained shut down after Ohi Units 3 and 4 went into periodic inspection in September last year. In contrast, thermal power marked 88.3% of the energy mix, matching the record high of FY 2012, due to the increase in the use of LNG and coal.

Despite the unprecedented difficulty of the current business environment, the power companies will continue to make utmost efforts to improve the efficiency of our businesses and to reduce costs. However, we continue to believe that nuclear power is essential not only for ensuring the supply of electricity but also for maintaining electricity tariffs at reasonable levels and mitigating the burden on the public. We will continue to respond sincerely to the compliance reviews by the Nuclear Regulation Authority, and make utmost efforts to gain the understanding of the hosting communities and the people of Japan, so that the nuclear power plants can be restarted as soon as possible.

Further, to ensure the safety of nuclear power plants, we think it is important to make continuous, voluntary efforts for improving safety, and to do so, it is necessary to face up to the risks of nuclear power. Specifically, we are currently considering industry-wide measures and company-specific measures. We will review the measures, taking into consideration the recommendations made by the government working group on voluntary safety improvement, and announce the industry-wide

measures at this press conference as soon as they are finalized. The company-specific measures will be announced by each company.

### 3. Our Views on the Revision of the Electricity Business Act

Next, I would like to say a few words on our views on the revision of the Electricity Business Act.

The revision of the Electricity Business Act, which is the second phase of the reforms of the electric power system headed for full deregulation of electricity retailing, was approved at the Lower House plenary session, and is due to be deliberated in the Upper House. On May 9, I had the opportunity to express [our opinions](#) on behalf of the power companies.

As I said at the Diet, full deregulation will offer free choice to customers, and we will work hard to be chosen by the customers such as by broadening the tariff options. At the same time, there are quite a number of aspects of the deregulation that require careful and detailed planning, including building a mechanism for ensuring supply capacities that can meet the demand in the future. We ask the relevant parties to steadily develop the detailed design of such system, with which we are prepared to continue to cooperate.

Further, to ensure that the reforms of the electric power system are effective, we proposed two issues that need to be resolved before full deregulation is implemented: the improvement of the supply-demand situation, and the improvement of the nuclear power business environment. These issues need to be discussed carefully as they are also mentioned in the supplementary resolution as issues to be considered in implementing the law.

Regarding the first issue, the improvement of the supply-demand situation, we think that full deregulation, even if implemented, is not likely to promote competition due to the lack of available power capacity, if the nuclear power plants continue to remain shut down and the supply-demand remains as tight as it is now. We will continue to make utmost efforts so that the plants can be restarted as soon as possible. At the same time, we ask the relevant parties to fully consider whether full deregulation would indeed be viable under the present supply-demand situation before deciding when to implement it.

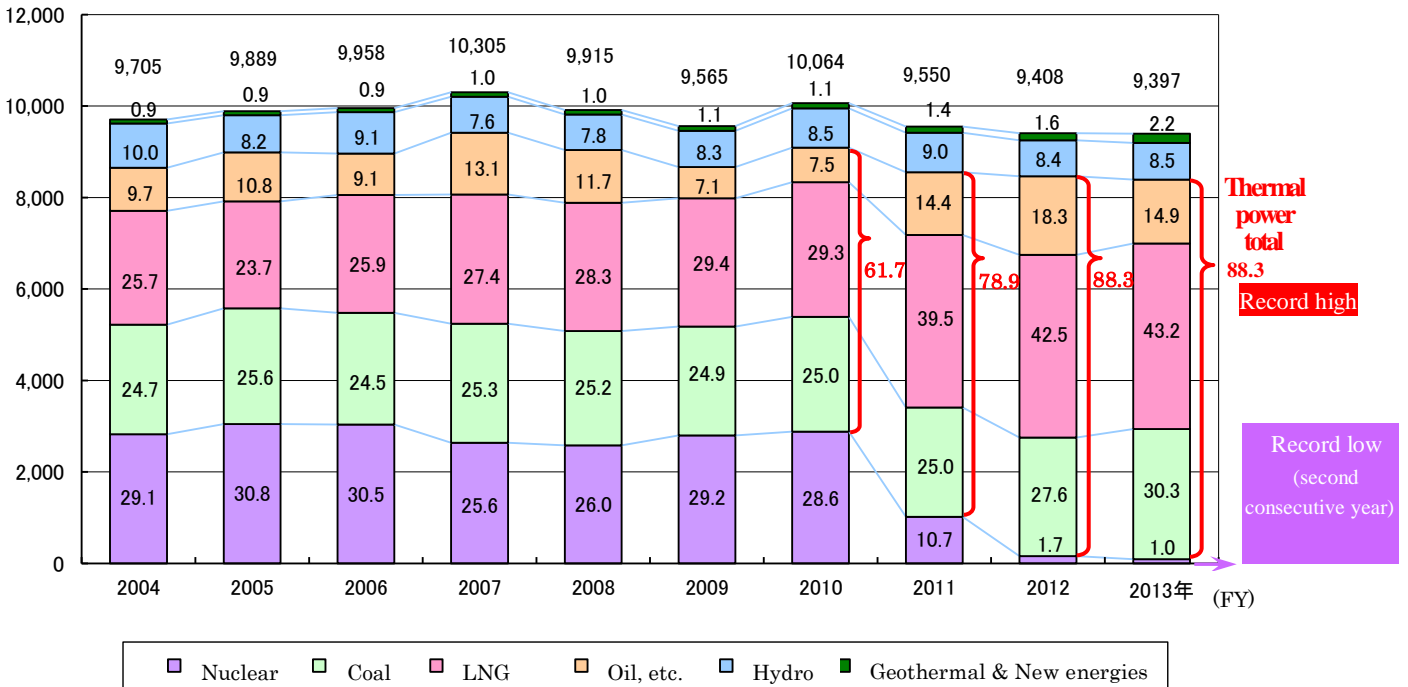
Regarding the second issue, the improvement of the nuclear power business environment, to be able to use nuclear power as an important baseload power source, we think it is critical to build an environment in which private power companies can plan their businesses with foresight even under an increasingly competitive environment. Thus, before implementing full deregulation, we ask the

relevant parties to discuss the new role of private operation under government policy, and clarify the roles and responsibilities to be fulfilled by the government and the power companies, so that the nuclear power business, including the nuclear fuel cycle, can continue to operate stably on a long-term basis.

This is all for today. Thank you for your kind attention.

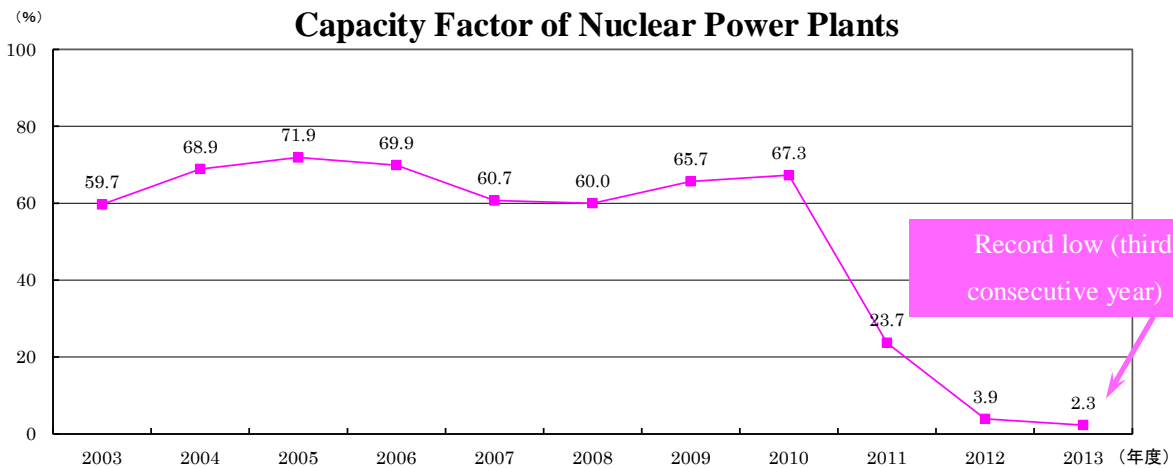
### Proportion of Power Sources in the Generation Mix

(100 million kWh)



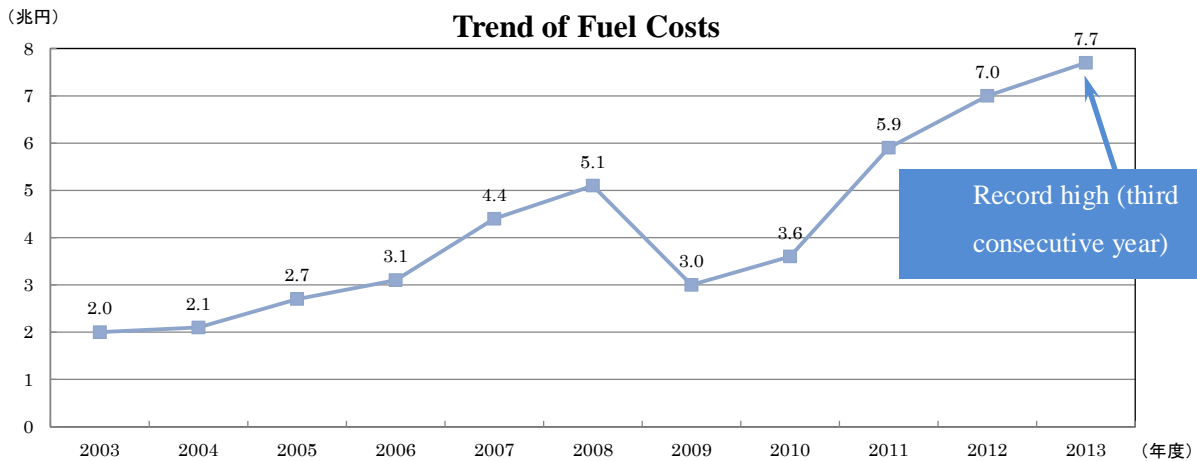
(Note) Total for the ten utilities; includes electricity interchange from other utilities. Oil, etc. includes LPG and other gases. The figures in the graph are percentages (%), and may not add up to 100% due to rounding.

### Capacity Factor of Nuclear Power Plants



Includes the Japan Electric Power Company.

### Trend of Fuel Costs



(Note) Total for the ten utilities.

May 9, 2014

Makoto Yagi, Chairman, FEPC

## **Views on the Revision of the Electricity Business Act (Phase 2)**

- Regarding full retail deregulation, which is the second phase of the reforms of the electric power system, the general electric utilities **will work actively so that the reforms are truly beneficial for the users.**
- At the same time, in introducing full retail deregulation, it is necessary to build a robust mechanism for **ensuring supply capacities that can meet the national electricity demand in the future.**
- Further, to ensure that the reforms are effective, we ask the relevant parties to **consider the following two issues and take measures as needed before implementing the full retail deregulation and advancing with the reforms.**

### **(Issue to be resolved (1) Improving the supply demand situation)**

- **Sufficient supply capacity and stable supply-demand situation are prerequisites for the full deregulation to be effective,** and at least the ongoing emergency supply-demand situation must be resolved.

### **(Issue to be resolved (2) Improving the nuclear power business environment)**

- To be able to use nuclear power as an important baseload power source strictly premised on safety, **it is critical to consider the new role of private operation under government policy, and to take necessary measures, to ensure that the nuclear power business can continue to operate stably on a long-term basis** even under an increasingly competitive environment.