

Summary of Press Conference Comments Made by Satoru Katsuno,
FEPC Chairman, on March 17, 2017

I am Satoru Katsuno, Chairman of the FEPC.

Today, I would like to talk about two things: “thoughts on the discussion about the electric power system reform”, and “the full liberalization of retail gas and the implementation of the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electric Utilities”.

<Six years since the Great East Japan Earthquake>

First, I would like to say a word about the Great East Japan Earthquake.

March 11 marked six years since the Great East Japan Earthquake. I am truly sorry as a member of the electric power industry for many people that were affected by the accident at Fukushima Daiichi Nuclear Power Station, who are still going through much hardship and anxiety.

As for the restoration of Fukushima, a Cabinet decision was made last year on December 20 regarding the “basic policy for accelerating the restoration of Fukushima from the nuclear accident.” This policy added and reinforced necessary measures such as the lifting of evacuation orders and reinforcing initiatives for residents to return.

Under the firm determination of never allowing an accident like the one at Fukushima Daiichi Nuclear Power Station to recur, we, as nuclear power operators, have been taking on thorough safety measures, and exerting all our efforts to respond to the New Regulatory Requirements. As a result, ten of the twenty-six reactors that have applied to the conformity verification have received permission for design change in reactor installation license, of which four units have resumed commercial operation.

Furthermore, a steady progress is being made in responding to the inspection such as Ohi Power Station Units 3 & 4 entering the final stages of their inspection, and the design basis ground motion being established at the majority of the plants that are making the application.

As I have mentioned in the press conference last month, we will continue our initiatives for securing safety at a higher level that transcends regulatory boundaries, actively collaborating with external organizations along with responding appropriately to the New Regulatory Requirements.

1. Thoughts on the discussion about the electric power system reform

Now, I would like to talk about today’s first topic: “thoughts on the discussion about the electric power system reform”.

Regarding the electric power system reform that has been deliberated thus far, the full liberalization of retail electricity began last April, and the business entities are working hard to beat the rivals under this competitive environment.

Around the end of last year, deliberations have been made concerning solving issues of public interest under liberalization and stimulating competition in the “Policy Subcommittee for Completing the Electricity Systems

Reform”.

A direction was laid out so that by around 2020, integrated approaches will be introduced such as interrelated markets like the supply and demand adjustment market and the capacity market, and revision of the interconnected power system usage rules.

With that in mind, discussions have commenced at the first Regulation Deliberation Working Group which was held on the 6th this month, aimed to deliberate the details for organizing the new market.

The electric power system reform has three objectives: “securing a stable power supply”, “keeping electricity pricing as low as possible”, and “expanding choices for customers and business opportunities for business entities”.

In terms of “securing a stable power supply”, in order for the transmission operators, who do not have their own power source, to continue securing a stable supply at each area after the electricity generation and transmission sectors had been separated, it is important to securely and efficiently procure power that is required to adjust the supply and demand balance and regulating the frequency irrespective of power source holders through the supply and demand adjustment market.

Furthermore, in order to secure the necessary generation capacity including the said power source in the mid to long term under full liberalization, it is important to organize the capacity market that can provide an appropriate foresight to the investments of transmission operators through the market mechanism.

On the other hand, in terms of “keeping electricity pricing as low as possible” and “expanding choices for customers and business opportunities for business entities”, a “baseload power market” has been created as a measure for vitalizing competition, and the “non-fossil value trading market”, which aims for achieving the non-fossil power source procurement goals, is also under consideration. A fair and healthy market will be the basis upon forming these markets. In either case, it is important to form markets that consider the effects on the new entrants and the former general electric utilities that build power sources, and the incentives to maintain and upgrade the power sources. At the same time, the markets must be able to surely return the benefits from the transactions to the customers.

The formation of these markets is planned to coincide with the major change in regulation: the legal separation of the electricity generation and transmission sectors in FY2020. It will be a great challenge to form the markets so that they will stay healthy and function consistently. Considering the time it will take to develop the systems and learn to operate them, the schedule will be very tight.

As practitioners, we would like to continue taking an active role in the deliberation so the markets will be organized to secure the stable supply of electricity, including the market transactions that are already active, and so that the electric power system reform will truly bring benefits to the customers.

2. The full liberalization of retail gas and the implementation of the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electric Utilities

Next, I would like to talk about “The full liberalization of retail gas and the implementation of the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electric Utilities (the Act)”

As you may know, on April 1, full liberalization of retail gas will commence, along with the implementation of the

revised Act.

We electric power operators will be handling LNG, the raw material for city gas. We see the full liberalization of retail gas as an important cornerstone to develop into a comprehensive energy company, and four electricity utilities have expressed intent to enter the household retail gas market.

We believe that an environment was formed which considers new entrants to a certain degree, through measures such as detailed regulation design and formulating guidelines, and assessing wheeling charges.

We would like to sincerely face gas sales aiming to expand the customers' choices and maximizing profit upon grasping each company's situation or business strategies, and securing safety.

We would also like the government to continue notifying the public and explaining them about the full liberalization of retail gas which commences in April 1.

Nest, regarding the revised Act, this revision is a very important measure as it aims to "introduce renewable energy as much as possible while minimizing the burden of the people at the same time" by solving issues of the current regulation such as dealing with inactive projects and the rapid increase in surcharge by introducing a new certification system, setting pricing targets for each power source, and introducing a bidding system.

Each company is at its final stages in preparing for the implementation of the Act. We would like to continue our measures so the transition will be smooth, and also take appropriate measures so that sustainable renewable energy will flourish, reflecting the purport of the revision.

This will conclude my segment of the press conference today. Thank you very much.

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