

Summary of Press Conference Comments Made by Satoru Katsuno, FEPC Chairman,

on April 19, 2019

I am Satoru Katsuno, Chairman of the Federation of Electric Power Companies.

Today, I will talk about “entering the fourth year of the liberalization of the electricity market,” “proposal from the meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy”, and “this summer’s demand and supply outlook”.

<Entering the fourth year of the liberalization of the electricity market>

First, I will share my thoughts on reaching the fourth year following the full liberalization of the electricity market.

The first of this month marks the fourth year of the full liberalization of electricity retail sales.

Competition is growing tougher—the share that power producers and suppliers (PPS) have in the Japanese market has expanded to 14.8% on an amount of electricity sold basis and competition across conventional utility supply areas is intensifying.

As the liberalization of gas retail sales also enters its third year, I see collaborations across industry borders and have a renewed appreciation for the competition heating up across types of energy.

Last year’s natural disasters—heavy rainfall, typhoons to earthquakes—caused wide-ranging and long-term outages. Given this reality, the importance of providing stable electricity is being revisited. Committees in the government and in the Organization for Cross-regional Coordination of Transmission Operators (OCCTO) are discussing how to increase the resilience of electricity infrastructure.

Moreover, 2019 is the year to wrap-up preparations for the smooth legal unbundling of the transmission and distribution divisions to be implemented in April 2020. Each utility will need to steadily build the necessary organizational structures to prepare for the unbundling while continuing to provide power in a stable manner as they have been under the existing integrated system.

Even as the environment surrounding the electricity business continues to change drastically, our basic mission of providing stable and affordable electricity safely remains unchanged.

We will continue to do our utmost to balance challenging the competition and providing electricity stably.

Meanwhile, the government's Expert Panel on Special Electricity Rates as a Transitional Measure is discussing the need for the elimination of special household electricity rates currently implemented as a transitional measure. These special rates are currently scheduled to be eliminated in March 2020 as the third stage in electricity system reform.

We, the utilities, from the start of the electricity retail liberalization in 2000, have been working autonomously to honor the intent of the liberalization of the retail electricity sales—we have been continuously providing permanent backup supply for power producers and suppliers (PPS) and selling all excess supply capacity at the Japan Electric Power Exchange.

In addition, a baseload power exchange is planned to be established this fiscal year to ensure that power producers and suppliers (PPS) have easy access to baseload power.

Multiple retailers that provide diverse rate plans and services currently exist in the household electricity retail market. In what is colloquially known as the “low voltage”

market in Japan, 22.7% of customers have switched electricity contracts (as of December 2018, on a contract basis) and options for customers seem to be steadily increasing.

In deciding on the necessity of eliminating of special rates as a transitional measure, I want the Panel make a comprehensive decision based not only on securing sufficient competitive pressure but also based on the current state of the consumer and ensuring the sustainability of competition.

< Meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy >

Next, I would like to talk about the proposal from the meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy.

The proposal from the meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy was published on April 2.

I would like to express my deepest respects to the involved parties including the experts on the panel who have been working tirelessly to compile the proposal.

The proposal outlines an ambitious vision to realize a zero-carbon society as early as possible in the latter half of this century. The proposal expanded on the necessity of having a variety of energy options in the long-term including renewable energy and nuclear power generation, as well as on the importance of a balanced energy policy from the standpoint of S+3E to reach the vision.

The proposal presented courses of action in tackling with full force the challenges facing each power source. This includes building a transmission and distribution grid and developing storage batteries to deal with the unstable nature of renewable energy, developing and deploying CCS and CCU to deal with the decarbonization of thermal power generation, as well as implementing additional initiatives to secure safety in nuclear power generation.

All parties will need to comprehensively address the long-term growth strategy based on the Paris Agreement for Japan to grow its economy and society while reducing greenhouse gas emissions.

Based on the proposal, the government will presumably start formulating a long-term strategy. I hope that the strategy will be fair and balanced, taking into consideration its impact on the economy and the burden imposed on the people so that the industry, the Japanese people, and all parties involved can work on the strategy with a sense of conviction.

We, the member companies of Federation of Electric Power Companies, will continue to run PDCA cycles as the Electric Power Council for a Low Carbon Society to promote effective initiatives for the reductions in CO2 emissions.

We will also work on restarting nuclear power plants with safety as the basic premise and increase introduction of renewable energy, while actively building a next-generational network system to change the people's lives and the economic system through Society5.0.

<This summer's supply and demand outlook>

Finally, I will address this summer's supply and demand outlook.

The Organization for Cross-regional Coordination of Transmission Operators (OCCTO) compiled this summer's supply and demand outlook based on reports from the general electricity transmission and distribution companies.

The forecast shows that the necessary reserve capacity for stable supply can be secured for all areas this summer.

However, this forecast considers the effects of customers' cooperation for power savings on the demand side and the heavy reliance on thermal power, including the

continuous use of aging thermal power plants, on the supply side.

We will continue to do our utmost on both the supply and demand side, preparing for potential increases in demand due to hot weather and the potential reduction in supply capacity due to equipment failure.

This also led us to re-acknowledge the large role nuclear power plays as a baseload power that stabilizes electricity supply and demand.

We will incessantly pursue increased safety in nuclear power plants as a nuclear power industry and embody best practices while conforming to the new regulatory requirements.

We will continue to communicate appropriately the risks of nuclear power generation. We will communicate with the society as a whole through the Atomic Energy Association (ATENA) and as a nuclear power industry to recover the trust of society including the trust of siting region communities.

This will conclude my segment today.

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