Summary of Press Conference Comments Made by Kingo Hayashi, FEPC Chairman on April 19, 2024

I am Kingo Hayashi, Chairman of the Federation of Electric Power Companies (FEPC). Today is my first press conference as Chairman.
I'm looking forward to working with the Energy Press Club and the media.
Today, I would like to talk about two topics: 1) my resolutions as Chairman, and 2) the electric industry's view of electricity system reform verification.

<1. My resolutions as Chairman>

The first topic is my resolutions as Chairman.

As I mentioned in my speech when I assumed Chairmanship, the environment surrounding electricity and energy has been changing significantly over the last few years. Within Japan, as competition intensified with the liberalization of the electric power industry, challenges have come apparent. Notably, supply capacity shortages have become the norm due to delays in bringing nuclear power plants online, rapid deployment of renewables, and the exit of thermal power plants. Worldwide, as countries aim for decarbonization, there also have been issues with energy security, specifically with securing fuel due to geopolitical upheavals such as the Russian invasion of Ukraine.

The electricity industry has a large role to fill in time of change like these, and we are committed to leading the industry to fulfill the FEPC mission of "aiming for the sound development of the electricity business and thereby contributing to the development of Japan's economy and improving the people's lives."

This year will see a series of important events, particularly in energy policy, which underpins the foundation of Japan. Notably, the revision of the Strategic Energy Plan and verification of the electricity system reform will be being conducted at the same time. These discussions are critical in reaffirming current challenges and pursuing the

ideal state. As operators who will be implementing these measures, we are committed to fully cooperating with these discussions.

For utilities, in addition to securing stable supply in the short term, efforts to secure supply capacity for the future while aiming to decarbonize are critical. A key to achieving this will be maximizing the use of nuclear power generation. However, there are many other challenges that need to be overcome, from ensuring continued safe and stable operation of online power plants, restarting BWR plants, and advancing the backend business. The FEPC will address these challenges and continue to work on unending improvements in safety and promoting understanding.

Looking back on last year, we made progress in ensuring strict compliance with the Anti-Monopoly Act and developed structures and rules in response to the incident involving unauthorized viewing of customer information. We restructured the organization and started activities under this new structure this month. By grappling seriously with compliance as well as fulfilling our mission of providing stable supply, we aim to earn the trust of society.

This resource, electricity, is indispensable for the development of industry and for the lives of Japanese people—the true lifeblood of society. As FEPC Chairman, I with the utility Presidents are committed to rallying the industry to fulfill our missions of delivering this electricity stably and as affordably as possible to customers while realizing carbon neutrality at the same time. Our goal is to transform the electricity industry, that underpins all of Japan’s infrastructure, into an attractive industry.

<2. The electric industry’s view of electricity system reform verification >

Next, I will talk about the electric industry’s view of electricity system reform verification.

Japan’s electricity system reform is built on the three pillars of expanding consumer

choices, securing stable supply, and keeping prices low, on the assumption that each of the players involved in electricity supply would fulfill their roles and responsibilities. But as mentioned previously, new issues in terms of energy security and stable supply are surfacing:

1) Long-term demand projections beyond a 10-year horizon are lacking, and planned development of power sources has become difficult, 2) shortages in supply capacity have become common, and lack of balancing capacity are becoming a concern, 3) reduced business predictability as market liberalization drives short-term profitability, and 4) difficulties in procuring fuel with the push toward carbon neutrality and the geopolitical risks to energy.

We have a strong sense of crisis that if maintaining stable supply becomes difficult in the future in the midst of these challenges may lead to stagnation in people's livelihoods and the economic activities of companies. Necessary revisions must be made to the electricity system now to make it more resilient.

To address each of the four issues that have surfaced, we need to implement the following. For issue 1), we need to "estimate long-term demand and improve supply and demand management capabilities." With the push toward decarbonization to achieve carbon neutrality in 2050 and digitalization, electricity demand is expected to grow substantially in the future. Realistic and highly probable demand estimates must inform the securing of necessary supply capacity and power source configuration taking into account the lead times for construction. In short-term supply and demand management, the growth in renewables and storage batteries have made it difficult to get an overall view of the supply and demand structure. To maintain electricity quality, it is also important to have an accurate understanding of the supply and demand structure of the whole system including distributed power sources.

For issue 2), power sources must be diversified, for energy security and stable

supply, which will include nuclear power and existing thermal power.

The GX Promotion Strategy indicated a policy to maximally utilize nuclear power. The importance of nuclear power also needs to be stated in the Strategic Energy Plan to be revised this year ensuring nuclear power is secured at the necessary scale. This requires building, expanding, and replacing power plants in addition to restarting existing nuclear power plants. Crucially, a business environment needs to be built that supports recouping costs and financing to ensure investment predictability in nuclear power given its long time horizon.

Similarly, the government needs to state that thermal power has a role to play as a transition power source, and develop the necessary business environment for its use.

We have summarized these challenges related to developing a suitable business environment as “develop a cyclical investment environment” to address issue 3). To maintain stable supply, there needs to be a cyclical framework that covers the costs necessary to maintain and build power generation and transmission facilities and reinvests in the decarbonization of power sources. While some measures such as the establishment of the Long-term Decarbonization Power Source Auction are being implemented, improvements in systems to accommodate long-term uncertainties such as increases in rates and changes to the tax scheme are also needed. Through these measures, a business environment needs to be built where there is predictability in capital investment and sufficient profit margins to assure shareholders and financial institutions.

We also believe there needs to be a discussion on last resort service pricing, transition measures pricing, and the obligation to supply from the perspectives of fostering fair competition and protecting consumers. Especially with the current transition measures pricing scheme, fuel prices cannot be flexibly reflected onto consumer prices, hindering competition. This needs to be reviewed promptly with

consideration to the possibility for discontinuing this pricing scheme.

Finally, for issue 4), we must “secure stable resources and fuel.” Japan imports a majority of its resources from overseas. While generation operators are aiming to procure fuel stably through contract methods and supplier diversification as part of their energy security measures, we ask that the Japanese government or public organizations also actively secure resources and fuel. This may include securing international interests, upstream development, and securing excess fuel taking into mitigating the risk of supply disruption.

In addition, to secure predictability to realize stable supply, it is crucial to procure LNG stably in the long term. Expanding the operators’ options by designing systems that will encourage long-term bilateral contracts with retail operators for example, could also be an effective measure. We also look forward to the expansion of systems to encourage deployment of hydrogen and other energy carriers to achieve carbon neutrality as well as stable supply.

This concludes my comments today on the utilities’ view on the verification of electricity system reform. As mentioned previously, electricity is indispensable to the development of the industry and to the livelihoods of the people. To support Japan’s economy and the lives of the people, Japan needs to rebuild a sustainable electricity system that can continue to deliver electricity stably and as affordably as possible. As utilities who will be implementing these measures, we will do our best to cooperate with this verification.

This concludes my remarks for today.

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