

Summary of Press Conference Comments Made by Kingo Hayashi, FEPC Chairman
on September 20, 2024

I am Kingo Hayashi, Chairman of the Federation of Electric Power Companies (FEPC).

I have two topics to address today:

1) important issues in the revision of the Strategic Energy Plan, and 2) strengthening our efforts to achieve the new completion goal for Japan Nuclear Fuel Limited's Reprocessing Plant.

The first topic is about the important issues in the revision of the Strategic Energy Plan. Discussions on the revision are shifting into high gear, and hearings are being conducted on various parties concerned. The FEPC has also been given opportunities from late August to early September to explain the industry's position in various government review meetings. In the May press conference, I talked broadly about the industry's thoughts on the revision of the Strategic Energy Plan. Today, I'd like to focus on our position in regards to the important issues that I covered in the recent review meetings.

First, I want to look at nuclear power. Considering the high possibility of electricity demand continuing to grow, we must pursue every possibility, without eliminating any option, to balance electricity security with GX in the future.

One realistic and effective solution is the effective use of nuclear power.

To continue to operate the nuclear power business in the long term in this liberalized market environment which will include building, expanding and replacing plants, predictability on business continuity needs to be secured. In the next Strategic Energy Plan, we want the government to reassess the value of nuclear power and clarify the position of nuclear power. With this in mind, the government needs to set concrete

nuclear power development and construction targets to secure nuclear power at the necessary scale taking into account future electricity demand, as well as to help nuclear operators and manufacturers who are in charge of the supply chain secure talent and technologies.

At the same time, nuclear power is facing various challenges including a reduction in predictability of investment and cost collection after liberalization, and worsening in the funding environment. Against a backdrop, we need to develop a mechanism to continually collect costs, secure business profitability, and a develop financing environment that incentivizes investment.

We also believe there should be discussions on the division of roles among the public and private sectors in the backend business, which has a very long-time horizon, and review the Act on Contract for Indemnification of Nuclear Damage Compensation, which assumes no fault and unlimited liability, unheard of in other countries.

Only after having solved these challenges and secured business predictability can the safe and stable operation of nuclear power be realized. These measures will increase the value of the 3Es, 'energy security', 'environment', and 'economic efficiency', and help nuclear power generation contribute significantly to the people's daily lives and the industrial competitiveness of Japan.

Next, I want to talk about thermal power. Thermal power generation plays an important role in not only securing necessary supply capacity and balancing capacity for electricity security but also for expanding renewable power. First, these roles that thermal power plants play needs to be clarified.

In addition, a stable supply of resources needs to be secured to use thermal power appropriately, for securing kWh. Currently, response measures based on an understanding of this challenge, such as the strategic management of excess LNG, are ongoing. I believe this is a big step forward but that we also require concrete

measures to secure long-term contracts for fuel and government-led measures to actively secure fuel in order to ensure electricity security in the future.

Of course, as utilities, we will work on phasing out inefficient thermal power plants and the decarbonization of thermal power generation in the long term, but in the short term, we believe it is in the interest of the nation to position thermal power as a transition power source and state as national policy Japan's intent to maintain it at a certain scale, while also working steadily on developing technologies such as hydrogen, ammonia and CCS.

I also want to touch on cost burdens. In realizing carbon neutrality, the costs of decarbonization cannot be avoided and will need to be borne. The GX Implementation Committee has indicated that the private and public sector will invest over 150 trillion yen over the next 10 years in GX. In addition, international treaties on carbon neutrality will need to be followed while at the same time helping the people prosper by strengthening Japan's industrial competitiveness and achieving economic growth.

One method being explored to achieve these goals is a system to encourage emissions reduction through growth-oriented carbon pricing. Emissions trading and paid auctions are being studied in this discussion, but these schemes also need to be designed considering the effect on the people's livelihoods, for example, the effect on business activities and securing predictability in investment.

In the WG on Carbon Pricing to Realize GX held on September 3, the FEPC presented three opinions.

The first is on designing a carbon pricing system that aligns with promoting electrification. The costs of GX must be borne widely by society and by the Japanese people, in part to encourage behavioral change among the public. Current phase 2 discussions have also indicated the policy of securing fairness among companies and industries.

And in phase 3 to follow, most of the burden of carbon pricing, to be introduced as a source of funding for redeeming GX transition bonds, is expected to be covered by the paid auctions for generating operators. Hoisting the burden disproportionately on certain operators may hinder the spread of electrification and negatively affect decarbonization overall. As such, future phase 2 discussions need to consider designing the system taking into account fairness and predictability in business, looking toward phase 3.

The second opinion is about organizing the relationships with existing policies, or consistency. The electricity business is governed by many systems with different and overlapping effects and objectives, such as the obligation to meet the non-fossil power source ratio under the Sophisticated Methods of Energy Supply Structures Act, thermal power generation efficiency benchmark indicator in the Act on the Rational Use of Energy, and carbon pricing to be introduced later on. We believe that these systems including those that are already in effect need to be organized to form a coherent system overall.

The third opinion is about fostering understanding for the increased burden that comes with GX. GX is a drastic transformation that will change the state of energy and the economy, as well as our lives. We cannot look away from the reality that it will accompany large increases in costs. We believe that government taking the lead in fostering understanding among the Japanese people about the benefits that customers will receive through GX, and the accompanying burden will increase the effectiveness of GX.

This concludes my overview of the industry's stance based on what we explained in the recent Committee meeting. As the review of the Strategic Energy Plan enters a critical phase, we as operators who will be implementing the plan on the field will continue to cooperate fully with the discussions.

Next, I want to talk about strengthening our efforts to achieve the new completion goal for the Japan Nuclear Fuel Limited's Reprocessing Plant.

As we've announced earlier, Japan Nuclear Fuel Limited ("JNFL") has changed its Reprocessing Plant target completion date. Yesterday, JNFL also announced that it will be strengthening its structure. We at the FEPC, view this change of target completion date seriously and will further strengthen efforts to support the JNFL in the early completion of its plants.

The FEPC has been strengthening our support for JNFL's efforts to pass the review from the technical and management sides as well as by sending utilities' expert personnel through the Cycle Promotion Task Force established in September 2022. We believe this has produced some results, as seen in the progress made in recent reviews. We will continue to use this system and mechanism to provide as much support as possible.

In addition to this, we will increase management involvement in JNFL. As seen in the section circled in red above the sketch, FEPC directors, or in most occasions, the Vice Chairman as the head of the full-time directors at FEPC, will participate as an observer in JNFL management meetings. By checking on the progress of reviews and construction work, we will be strengthening communication with JNFL management and directly guiding and advising them.

As I mentioned in the first topic, nuclear power generation needs to be used as an important power source as a resource-poor country aiming to become carbon neutral by 2050. In this context, the nuclear fuel cycle is very important to enable stable operation of nuclear power, effective use of resources, and reducing the volume of waste. We will continue to support JNFL's initiatives as an industry putting our best on the issue, with safety as the top priority.

This concludes my remarks for today.

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