

Summary of Press Conference Comments Made by Kingo Hayashi, FEPC Chairman
on October 18, 2024

I am Kingo Hayashi of the Federation of Electric Power Companies of Japan (“FEPC”).

Today’s topic is the key points of discussion in the summary of the verification of the reform of the electric system.

The direction and key issues for the verification of the electricity system reform, which started in December 2023, were presented in a recent Strategic Policy Committee meeting. We want to reiterate our opinions, which we presented in the April press conference, on the key points of the summary of the verification as the electricity industry.

Looking back on the last ten years, the reform of the electricity system has led to some progress in expanding customer options and encouraging innovation among operators. However, it has revealed some unforeseen risks in the most important area of securing a stable supply, including the recent supply and demand crunches and concerns about the ability to secure enough supply capacity in the future.

The national government’s deliberation council examined the recent situation, heard from relevant people, and organized the challenges under the three pillars of the “power generation business,” “grid development and supply and demand balancing,” and the “retail business”.

The first issue is “advancing decarbonization in power generation assuming stable supply is secured.” As I’ve mentioned, the government has identified key issues such as the need to develop a business environment suited to securing supply capacity and decarbonization under increasing electricity demand, and the need to build a

mechanism to encourage necessary investments in power sources to balance stable supply and decarbonization. The Committee has also indicated the government will ramp up their active involvement in securing resources and fuel, which can be difficult for the private sector alone to address, as part of efforts to secure stable supply and energy security, all important points of discussion from the operator perspective.

The second issue is “developing a grid and guiding site selection for the efficient utilization of power resources, and building a flexible supply and demand mechanism.” The assumptions in the current master plan based on the 6th Strategic Energy Plan may need to be revised taking into account the deployment of power sources, the siting of large demand facilities that directly tie into industrial policy, and discussions in formulating the 7th Strategic Energy Plan. From a public burden perspective, the benefit by cost analysis, or B/C, will also need to be thoroughly discussed and explained to the public. The WG for the verification of the power generation costs have started discussions and have indicated the policy that they will prioritize integrated costs that include the costs of reinforcing the grid and other generation-associated costs, not just the cost of generation itself. Within this in mind, I believe the government needs to have comprehensive discussions including on how costs will be recovered.

Moving onto grid balancing, in the immediate future, we are facing challenges such as not having enough bids and unstable prices in the supply and demand adjustment market. Looking further ahead, discussions have also started on introducing a real-time market. A real-time market can be expected to reduce the cost of balancing as it will be able to handle both supply capacity and balancing capacity. But this will be a significant system change with large effects in market and power source operations. This requires careful and thorough deliberation, including adequate time for discussion, preparation, and trial runs to carefully verify the impact on the practical and working level considering the challenges current electricity trading markets faces.

The third challenge is “developing a retail business environment to supply

consumers electricity at a stable price through the market.” The deliberation council has identified many points of discussion in this area, but I would like to highlight two. The first is the discussions on system design to secure stable supply and to mitigate fluctuations in electricity prices.

The government’s deliberation council is discussing rules that require retail electric operators to run their businesses stably. Having these discussions to design a system is very important but having retail electric operators provide diverse services born out of the freedom to think outside of the box and is the reason the electricity market was liberalized in the first place. With this being the case, we believe the mechanism needs to be shaped through careful discussion to ensure that the creativity and actions of retail electric operators are not excessively restricted.

The second point I want to highlight is the handling of transitional fees. Transitional fees impede the timely revision of rates in situations where fuel costs suddenly spike beyond the upper limit of the fuel cost adjustment range, and has a large effect on the competitive environment and financial results of retail operators. We believe this is sufficient grounds for its removal, but if it were to remain, the system needs to be revised to allow for more flexibility such as the abolishment of the upper limit of the fuel cost adjustment.

At the same time, we must not forget to “protect our customers.” I hope government discussions will consider the role that transitional fee has played in the past, its impact on the competitive environment, as well as its current role, including the perspective of customer protection.

Electricity system reform up to now had focused on developing a competitive environment, but as the environment surrounding the electricity business changes rapidly, with interest in climate change increasing, renewable energy being deployed on a large scale, and fuel prices soaring on a global level, there is less predictability in the electricity business.

This kind of challenging environment for developing power sources in a planned manner makes maintaining a stable electricity supply structure in the long term while decarbonizing power sources difficult. Weaknesses in electricity supply could lead to disruptions and stagnation in the people's lives and in companies' economic activities.

To balance stable supply with stable electricity rates, Japan, as a country with a low energy self-sufficiency rate, will need to build a sustainable electricity system that divides roles and responsibilities appropriately among power generation operators, retail operators, and other players involved in supplying electricity.

This concludes my remarks for today.

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