

Summary of Press Conference Comments Made by Kingo Hayashi, FEPC

Chairman on

February 14, 2025

I am Kingo Hayashi of the Federation of Electric Power Companies of Japan.

Today, I want to share our opinions on the summary draft of the electric system reform verification presented last month.

The electric system reform overhauled a vertically integrated system comprised of general electric operators into a system where each player involved in electricity supply fulfills their roles and responsibilities.

Its objective can be expressed into three pillars: securing stable supply, maximally suppressing electricity prices, and expanding the options available to demand and expanding opportunities for operators. The past ten years was very significant for expanding the options available to demand and broadening opportunities for operators.

On the other hand, nuclear power plants have not restarted as planned and an increasing number of thermal power plants have shut down or been decommissioned as availability fell due to the expansion of renewables and from aging facilities.

Predictability in operators' ability to recoup fixed costs have been low due to the expansion of the spot market and increase volatility in wholesale prices. This has made securing predictability in power source investments difficult for operators.

As challenges started to materialize, the government has implemented measures such as the establishment of the capacity market. However, the management

environment remains tough with utilities experiencing falling free cash flows as the business environment changes drastically because of liberalization.

Against this backdrop, Japan is facing serious challenges, such as the delays in constructing and replacing power sources at necessary scale, tightening of supply and demand, and concerns about insufficient supply capacity in the future. If investment predictability remains low, there is a pressing concern and sense of urgency that we may not be able to maintain stable supply which we prided ourselves on, that support the public's lives and economic growth.

It is our understanding that this reform verification has been conducted with all of this in mind. We believe the focus of this verification should be on going back to the basics and thinking about what an electricity system that can support the public's lives and economic growth should look like under a shared understanding that electricity demand is going to grow.

Even if there is uncertainty in the future, investments need to be made systematically in power sources and the transmission and distribution grid needs to be developed to supply the necessary power to maintain industries and livelihoods.

We understand this summary draft lays out a policy focusing on securing predictability for making necessary investments with these challenges in mind.

The role that the government needs to take in securing resources and fuel in emergencies and in normal times to ensure energy security and address the declining predictability in the amount of necessary fuel was clarified. It is meaningful that the government recognizes these challenges and has set out a policy of addressing them.

With this in mind, I want to highlight a few challenges that operators view as important.

First, in the power generation field, an environment needs to be developed that can accommodate the fluctuations in revenue and costs due to the changes in market environment throughout the business period in order to increase predictability in investment recovery. Measures such as revisions to the long-term decarbonized power source auction to increase its effectiveness need to be implemented. Also, a financing environment needs to be developed where the credit is enhanced by the public sector and loans are offered based on government credit.

Existing thermal power plants are still necessary to maximally deploy renewables and for stable supply in the meantime. It is critical that a mechanism be built for operators to maintain power sources even if availability falls. We believe systems and measures to maintain existing thermal power including modifying the capacity market to ensure cost can be recovered and to make the reserve power sources system easier to use will be necessary.

Secondly, in developing systems and managing supply and demand, systems need to be developed taking into consideration the deployment of power sources and the location promotion of large-scale demand facilities that are directly linked to industrial policies according to the Strategic Energy Plan and GX2040 vision. One example of these measures is the relaxation of certain requirements to ensure wholesale electricity is sold without differentiating between operators inside and outside the group.

Going forward, detailed design including for financing will be implemented to revise the master plan and strengthen interconnections. To minimize the public's burden, careful discussions will need to be had, taking into account integrated

costs, including the costs of strengthening necessary grid facilities, and B/C.

We ask that the government take the lead in thoroughly explaining the associated cost increases to the public.

On the supply and demand management front, the launch of a simultaneous market where supply capacity and balancing capacity is traded at the same time is being considered. We believe this will need to be examined carefully and thoroughly, and a sufficient preparation and trial period secured to test if it is actually effective.

Thirdly, regarding the retail business, some say transition prices is inhibiting competition and should be abolished in this liberalized market.

If they are to remain going forward, there needs to be prompt discussion on removing the upper limit for fuel cost adjustments, appropriately incorporating GX costs, and streamlining regulations including the review process.

Quickly identifying the key issues, including what last resort supply will look like once transitional measures are abolished will be critical in advancing discussions.

Finally, the verification summary laid out a policy of realizing stable supply by separating the roles of the market in three functions.

Of those three functions, there is a concern that the retail operators' overreliance on short-term markets in procuring power can lead to high electricity prices as fuel prices soar and threaten stable supply.

The identification of such issues is very important and detailed discussions are

forthcoming. We hope that the government will quickly develop an effective system that considers the roles of each market.

I have expressed my opinions on these important issues above. In terms of building power sources, there is no time to waste, especially when considering lead times. We hope that the government will promptly engage in concrete discussions of systems and implement effective policies to support the public's lives and economic growth over the future. Operators are also ready to actively contribute to realizing such policies.

Lastly, I would like to announce some personnel changes within the FEPC.

The Steering Committee today decided on the replacements for the part-time and full-time Vice Chairman and Director following their retirement.

We look forward to seeing you under a new leadership structure in April.

This concludes my remarks for today.

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