

Proposals for the electricity market from competition policy <Summary>

"Policy on Regulatory and Institutional Reform in the Energy Sector"

The cabinet decision (April 3, 2012)

This decision instructed the JFTC to comprehend and analyze issues of current state of competition in the electricity market, then to discuss the results from what they learned, while taking the progress of the discussions made by the METI into account, and to draw conclusion on the JFTC view from the standpoint of competition policy in light of the current situation that

- (i) "the General Electricity Utilities have the market power, and the PPSs face difficulties in increasing their market share" and
- (ii) "there has been no competition among the General Electricity Utilities beyond their respective service areas, and large-scale users cannot purchase electricity in a single contract covering the entire country."

Points of view

- (1) Whether purposes of regulations are reasonable in the light of the policy requirements, and whether regulations are kept to a minimum to achieve their intended purposes.
- (2) Whether contents and methods of regulations are designed to be able to reasonably achieve their intended purposes in the light of enterprises' incentives.
- (3) If characteristics of the electricity market and enterprises' behavior based on the said characteristics prevent free and effective competition, there should be measures to solve such problems.

Major "Current State and Problems" (Survey Results)

Retail sector

- PPSs aggregately have only about 3.5% market share (In the deregulated sector as of Fiscal Year 2010). Their market share for industrial use was much smaller than that for business use.
- During years of operations as regional monopolies with supply obligations, the General Electricity Utilities have built facilities and customer support systems in such a way as to optimize their services within their respective service areas. Thus, they have no incentive to expand their business outside their respective service areas.
- The limits on the capacity of interconnected lines and frequency converters (FCs) between different areas require electricity utilities to establish power plants within the same areas where users are located. That raises the cost of providing electricity to users outside their respective service areas.
- The number of users who use high-voltage power is large while business scale of these users is small, which raise the cost of operations and customer care for these users.

Generation/wholesale sector

- More than 70% of electricity generated in Japan is provided by the General Electricity Utilities. On the other hand, PPSs procure only less than 10% of their electricity from the General Electricity Utilities and the electric power exchange. For PPSs, Non-Utility Power Producers etc. are the primary sources of electricity. In addition, PPSs rely heavily on power plants that incur high variable costs.
- PPSs have difficulty in building power plants that incur lower variable costs.
- Non-Utility Power Producers etc., including public organizations, provide electricity to the General Electricity Utilities based on long-term supply contracts. They prefer long-term contracts because the depreciation period for their power plants is also long-term.
- The General Electricity Utilities have no incentive to provide electricity to PPSs through the electric power exchange or by other means because they are in direct competition with PPSs in the retail sector.
- PPSs are unable to rely on the electric power exchange as a source of electricity due to its poor liquidity.

Transmission and distribution sector

- The method for calculating transmission fees is regulated. In addition, the General Electricity Utilities are required to separate the accounting of their transmission and distribution units from that of other units. Even so, from outside of the General Electricity Utilities, it appears that the General Electricity Utilities have incentives to disadvantageously treat PPSs through setting excessively high transmission fee on PPSs.
- The General Electricity Utilities do not keep track of actual amount of imbalance caused by their own retail units. For accounting purposes, a certain fixed amount is used in calculating their imbalance fees.

The JFTC's views from the standpoint of competition policy

Consideration for Enterprises' incentives

- Independent of the General Electricity Utilities' retail units from generation/wholesale units
- Securing accessibility and neutrality etc. of the General Electricity Utilities' transmission and distribution units

Securing appropriate terms and conditions for the use of facilities and services provided by the monopolistic suppliers

- Certain regulations concerning the level of transmission fees are necessary
- Securing impartiality in assigning payments involved with imbalance between the General Electricity Utilities and new market entrants

Infrastructure improvements

- Some regulatory interventions and regulations to encourage strengthening of interconnected lines and FCs are necessary.
- Revitalization of the electric power exchange, etc.

Bargaining power disparity in retail sectors

- Multiple small-lot users' collective negotiations with electricity utilities
- Measures against a rise in the retail price (drawing up and disclosures of default-service provisions), etc.

Strict enforcement of the Antimonopoly Act against violations

- The JFTC will continue to strictly enforce the Antimonopoly Act, for example, in the case where separated generation/wholesale units treat the competitors of their group retail units in a discriminatory manner etc.

Miscellaneous

- Special arrangements concerning supply for users in remote islands or mountainous areas
- Review of some privileges for public utilities given to the General Electricity Utilities
- Opening access to electricity generated by power plants owned by public organizations

* The ways forward the electricity business system should be and the ways to progress the system reform will be articulated, considering relevant policy requirements such as balancing supply with demand and environment protection.