

Recommendations Made by the FTC Since 1997

○ **Issues related to deregulation and competition policy in the electricity industry (Study Group on Government Regulations and Competition Policy, April 1997)**

Issue	Summary
Deregulation of the retail sector	Deregulation in the retail sector would be a way to promote competition between the General Electricity Utilities and new market entrants, including enterprises that operate their own power-generation facilities. In order to do so, wheeling services for retailers must be institutionalized to make transmission lines accessible to all market participants under the fair conditions with proper payments. Furthermore, in principle, the retail sector can be fully deregulated, and the distribution networks can, be made accessible to all on an equal basis.
Review of the efficiency of vertical integration of the generation, transmission, and distribution units	While deregulation and establishment of competitive conditions are promoted in the generation, transmission, and distribution sectors, the effectiveness of such changes should be examined. The efficiency of the current system, under which the generation, transmission, and distribution units are vertically integrated, should also be assessed. Changes should be proposed depending on the outcome of these studies.

○ **Issues related to competition policy in the electricity industry (Study Group on Government Regulations and Competition Policy, November 1999)**

Issue	Summary
The scope of deregulation	The scope of deregulation should be considered in light of the progress of competition promotion resulting from the current deregulation, the maintaining of universal services, and the ability to technically manage the broadened electricity systems. The goal is to eventually provide benefits of deregulation to all users.
Wholesale electricity market	When expanding the scope of deregulation, the creation of a competitive wholesale market accessible to a variety of enterprises should be considered. It is expected that such a wholesale market will emerge on its own once the retail sector is deregulated. If not, the introduction of a pool market is a possibility. In doing so, examples of industry reform in other countries should be examined. Public interests and the stability of the electricity system should not be compromised.
Transmission units	It is extremely important that transmission services remain independent and neutral to ensure fair competition conditions between the General Electricity Utilities and new market entrants. Under the current deregulation, the General Electricity Utilities are given some discretion as

	to how they plan to insure their transmission units' neutrality. However, competition would escalate between the General Electricity Utilities and new market entrants once the scope of deregulation expands. Transmission units would then come under stronger pressure to ensure neutrality and make their operations more transparent.
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○ **Deregulation and competition policy in the public-utility industry (Study Group on Government Regulations and Competition Policy, January 2001)**

Issue	Summary
Introduction of a mechanism that guarantees new market entry	To encourage more new market entrants into the public-utility industry, it is important to lay the groundwork to allow for the creation of a market itself in which effective competition takes place. In the electricity industry, for example, it is possible to broaden the area of deregulation, which is currently limited to the market for large-scale uses of special high-voltage electricity, to the market for high-voltage electricity. Therefore, measures to ensure neutrality of the General Electricity Utilities' transmission services, as well as the introduction of a pool market accessible to new market entrants, should be considered.
Securing fair competition between new market entrants and existing enterprises	New market entrants would not freely and fairly compete with existing enterprises unless necessary competition conditions are in place to create a level playing field. In order to secure such conditions, it is important to create a basis for effective competition. For example, the monopolistic units of the General Electricity Utilities should be prohibited from subsidizing their operations in the deregulated market. It is also important that operators of transmission and distribution networks maintain the independence.
The organizational structure of existing monopolistic enterprises	Firewalls should definitely be created for operators of transmission and distribution networks to maintain the neutrality. In addition, an independent organization should be appointed to oversee the system with a transparent method and ensure that the firewalls are not breached. It is important that necessary measures are implemented when improvements are required. If this method is not sufficient to secure neutrality, the very organizational structure of the existing monopolistic enterprises that operate the networks should be examined. For example, the operation unit of the transmission and distribution networks could functionally be unbundled from the General Electricity Utilities in order to be managed by independent organizations without a change of the ownership of the said networks. It is also possible to organizationally unbundle and create new enterprises.

○ **Improvement of environment for the promotion of competition in the electricity industry
(Study Group on Government Regulations and Competition Policy, June 2002)**

Issue	Summary
Review of a system of interchanging electricity among electricity utilities through the Central Electric Power Council	If the scope of deregulation is expanded, it would be inappropriate to maintain a system in which electricity utilities interchange excess electricity to one another. The system must be reviewed, and abolished if necessary.
Efficient and fair use of interconnected lines	Much of the capacity of interconnected lines is taken up by the practice of the General Electricity Utilities interchanging electricity to one another in times of need. Measures must be taken to prevent such transactions from disrupting efficient and fair use of the interconnected lines.
Establishment of an electric power exchange	To promote competition in the generation and retail sectors, it is necessary to establish a pool market (an electric power exchange). Such a market would allow new market entrants and enterprises that operate their own power-generation facilities to freely engage in real-time trading, next-day contract trading, forward trading, and various other deals. By doing so, the said enterprises would be able to expand their supply destination of excess electricity, and it would become easier for new market entrants to procure such electricity.
Measures to promote widespread competition	The current payment structure for wheeling services needs a radical revision, while considering efficiency of wheeling services. The General Electricity utilities' practice of charging electricity providers a surcharge when electricity is delivered beyond their service areas may have to be abolished. For discussing these issues, Germany's wheeling services, as well as the European Union's efforts to provide electricity across borders, could be studied.
Resolution of the General Electricity Utilities' unfair advantage in obtaining information on transactions	If the General Electricity Utilities continue to operate the electricity system, measures must be taken to ensure that the transmission units do not share information on transactions with the General Electricity Utilities' other units. At the same time, the General Electricity Utilities should share information, such as users' pattern of electricity demand and requirements for obtaining wheeling services, with new market entrants.
Transparency of the operation of the electricity system	Information concerning the operation of the electricity system, such as operating conditions and rules, should be available to the public. Measures must be taken to make the operation transparent. If the General Electricity Utilities operate the networks, in addition to the above measures, they

	should be required by law to strictly unbundle the accounting of the networks from that of other units. These accounts should be audited by certified accountants.
Promotion of distribution over a wide area	If the scope of deregulation is greatly expanded, there may be a conflict of interest between the General Electricity Utilities and the extended electricity distribution. Fair and proper measures should be considered for the expansion and operation of interconnected lines that connect the General Electricity Utilities' service areas. Currently, these networks are used mostly for mutual interchange among the General Electricity Utilities and wholesale transactions. However, new market entrants should be allowed to have equal access to the networks, and the cost of the network operation should be fairly burdened by all participants.
Operation of the electricity system	The neutrality and transparency of the transmission and distribution networks could theoretically be maintained by unbundling their accounting from the rest of the General Electricity Utilities, by controlling the flow of information, and by implementing stricter regulations. However, these measures may not be practical because regulatory oversight can be too costly. Therefore, in order to ensure that conditions for effective competition are in place before full deregulation takes place, the operation of transmission and distribution networks may have to be completely unbundled from the rest of the General Electricity Utilities.
Establishment of a supervisory organization for ensuring neutrality of operation of the electricity system	To maintain the effectiveness of the measures for ensuring the neutrality of transmission and distribution networks, regulations and oversight of the electricity system operation are necessary. Because oversight of transmission and distribution networks requires expertise, network operation could be supervised by an organization similar to the Federal Energy Regulatory Commission of the United States.

○ **Competition in electricity market and issues concerned (FTC, June 2006)**

Issue	Summary
More electricity to be supplied in order to increase trading at the electric power exchange	For users to have more options, not only the General Electricity Utilities in the area but also other retailers should be given easy access to electricity sources. If generators that have been providing electricity to the General Electricity Utilities seek to terminate contracts and start supplying electricity to PPSs or the electric power exchange, the General Electricity Utilities should not prevent the generators from doing so unless there are justifiable reasons, such as concerns about supply disruptions.
Strengthening	The electric power exchange plans to release trading statistics that could be

oversight of the electric power exchange	conveniently used as indicators and to bolster its efforts in order to provide quantitative data analysis. It is expected that these and other efforts of the exchange will make trading fair and reliable.
Improving information disclosure of the electric power exchange	The electric power exchange is seeking to improve its information disclosure. To increase the credibility of its trade, it is desirable that the exchange emulates its counterparts in the European Union and start disclosing contract prices and volumes several times a day. Also, the exchange should disclose bid curves to its members to promote trade participation by increasing credibility and predictability. It should also disclose bid curves to the public because it would make transactions and price formulations subject to public scrutiny, resulting in the improvement of the transparency of the market.
Improvement of capacities of interconnected lines	When the market is divided due to constraints of capacity of interconnected lines, the exchange executes contracts by settlement of trade accounts within each area. A gap in prices between the markets is regarded as income for the exchange. Discussion on the use of the income generated by the gap is to take place within the exchange. However, as this income is a kind of congestion fee, it should be used to expand the capacity of congested interconnection, which will contribute to wider transaction of electricity. It is inappropriate to use such income as simply compensation for the operation of the exchange.
Issues related to transmission fees	The current prior notification system, which allows the General Electricity Utilities to determine their transmission fees and notify the authorities of these fees afterward, should be reviewed and improved if it turns out that the system is not functioning properly. Then, if it is considered to be necessary in order to increase credibility, the General Electricity Utilities should be required to seek regulatory approval when determining transmission fees. The establishment of a system in which an independent entity examines how these fees are determined should also be considered.
Issues involving obligation of balancing rule and supply–demand imbalance payments	The current obligation of balancing rule and supply–demand imbalance payments should be reviewed. These requirements could be modified to be reasonable in light of the purpose of securing the stability of the electricity system. Changes may be necessary to promote competition in the market.
Issues to be considered in discussing full deregulation	Discussion of full deregulation will begin in fiscal 2007. The discussion, from the standpoint of competition policy, should take into consideration user protection and the creation of a level playing field for new market entrants.