

Activity Report of the Electricity and Gas Market  
Surveillance Commission  
(From April 2023 to March 2024)

June 2024  
Electricity and Gas Market Surveillance Commission

Pursuant to Article 66-16 of the Electricity Business Act (Act No. 170 of 1964), the Electricity and Gas Market Surveillance Commission hereby releases a report on its administrative operations carried out during the period from April 1, 2023, to March 31, 2024.

June 26, 2024

Electricity and Gas Market Surveillance Commission  
Akihiko Yokoyama, Ph.D, Chairman

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## Introduction: Organizational Structure of the Electricity and Gas Market Surveillance Commission

In accordance with the Act for Partial Revision of the Electricity Business Act (Act No. 47 of 2015, hereinafter referred to as the “Third Revising Act”), the Electricity Market Surveillance Commission was established on September 1, 2015. This new regulatory organization, directly subordinated to the Minister of Economy, Trade and Industry (METI), was granted a high degree of independence and specialized expertise. Its establishment aimed to enhance the monitoring of electricity transactions and ensure fair trading practices in the electricity market as part of the Electricity System Reform. On April 1, 2016, responsibilities related to the gas business and heat supply business operations were added, leading to the organization being renamed the Electricity and Gas Market Surveillance Commission (hereinafter referred to as "the Commission" for both the Electricity Market Surveillance Commission and the Electricity and Gas Market Surveillance Commission).

The Commission comprises one chairperson and four commissioners, all appointed by the METI Minister. These individuals have specialized knowledge and experience in law, economics, finance, or engineering, enabling them to make impartial and neutral judgments in the execution of their duties. The chairperson and members are required to exercise their authority independently.

The term of office for the chairperson and commissioners is three years, as stipulated in Article 66-8 of the Electricity Business Act. The most recent term renewal took place at the end of August 2021, and the chairperson and commissioners serving as of March 31, 2024, are as follows:

### List of commissioners

#### Chairperson:

Akihiko Yokoyama, Ph.D      Professor Emeritus, the University of Tokyo

#### Commissioners:

Yumiko Iwafune, Ph.D      Professor, Institute of Industrial Science, the University of Tokyo

Kaeko Kitamoto      Certified Public Accountant

Kuninobu Takeda, Ph.D      Professor, Department of Law and Political Science, Graduate School of Law and Politics, Osaka University

Masanori Maruo,      Managing Director, SMBC Nikko Securities Inc.

## Chapter 1. Initiatives for Retail and Wholesale Electricity Transactions

### 1.1. Examination of registration applications for electricity retail and retail service

[Overview of this section]

- As a result of the examination conducted for registrations of electricity retail and retail service, the number of registrations was 729 for electricity retail and 35 for retail service as of the end of March 2024.

When the METI Minister intends to register an electricity retail and a retail service by a registered specified electricity transmission and distribution utility, the Minister shall consult the Commission for its opinion. Upon receiving such a request, the Commission examines whether the applicant meets the requirements or falls under the grounds for refusal as stipulated in the Electricity Business Act (e.g., from the perspective of protecting the interests of electricity users). The Commission then submits its findings to the METI Minister. As a result of these examinations, 32 new registrations for electricity retail were processed. However, taking into 24 discontinuations and other changes, the total number of registrations as of the end of March 2024 stood at 729. As for retail service, there were four new registrations and no terminations, resulting in a total of 35 registrations as of the end of March 2024.

### 1.2. Publication of Electricity Transaction Reports

[Overview of this section]

- The Commission collected information necessary for monitoring electricity retail transactions from electricity utilities and other entities and published the findings on a monthly basis.

Under the provisions of the Electricity-Related Reporting Regulations (Order of the Ministry of International Trade and Industry No. 54 of 1965), the Commission periodically receives reports from electricity utilities and the Japan Electric Power eXchange (JEPX) on information necessary for the monitoring of electricity retail transactions. Among the reported data, certain information, such as the electricity sales volume, was published monthly.

### 1.3. Responding to various types of inquiries

[Overview of this section]

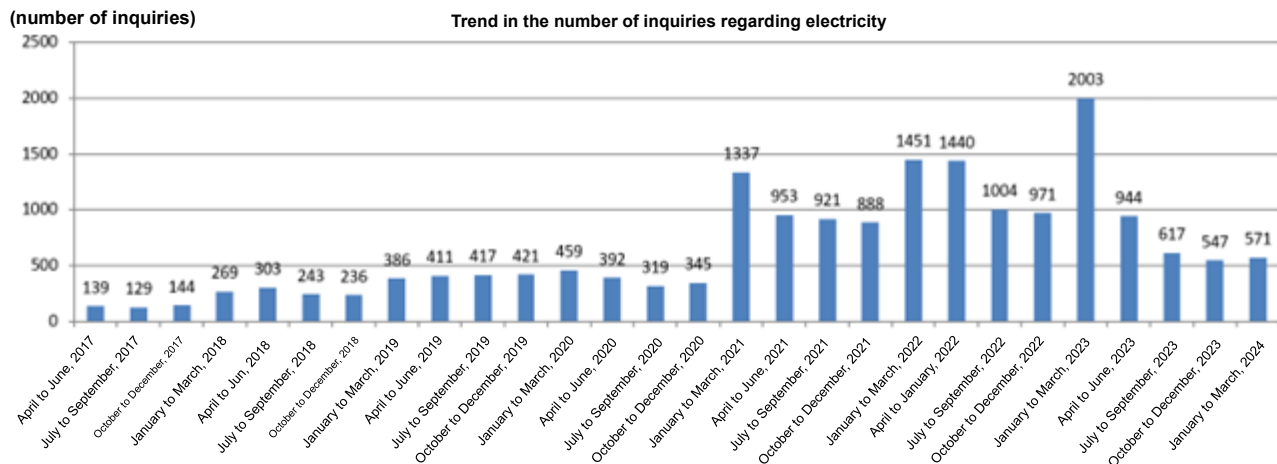
- A consultation service (information desk) was established to provide advice to consumers on issues such as disputes related to retail service contracts. The service also accepted reports of legal violations by businesses and provided appropriate guidance as necessary.

The Commission established a consultation service, responding to inquiries from electricity consumers and other stakeholders by providing answers to questions and offering advice. From April 2023 to March 2024, the number of inquiries handled totaled 2,679.

When reports of inappropriate sales activities or other concerns were received, the Commission verified the facts and, where necessary, issued guidance to the relevant electricity retailers.

Additionally, in May 2023, the Commission issued an alert jointly with the Consumer Affairs Agency (CAA) regarding improper solicitation practices in the electricity market. In March 2024, the Commission provided consumers with precautionary information about signing electricity and gas contracts via the Ministry of Economy, Trade and Industry (METI)'s X account (formerly Twitter).

○Trend in the number of inquiries received by the consultation service (electricity)



#### 1.4. Monitoring of retail transactions

[Overview of this section]

- The Commission provided guidance to utilities engaging in problematic practices under the Electricity Business Act with regard to the retail sales of electricity.
- As part of its key initiatives to monitor retail transactions, the Commission provided guidance to electricity retailers and conducted the focused retail market monitoring as outlined below.

In April 2016, entry into the electricity retail business was fully liberalized, allowing all consumers, including households, to freely choose their electricity provider and pricing plans. Under these circumstances, the Commission has been working to ensure fair practices in retail electricity transactions. Guided by the *Guidelines for Electricity Retail Business*, the Commission monitors the business activities of utilities, including the provision of information to consumers and the form and content of contracts, and provides guidance to utilities engaging in practices that violate the Electricity Business Act.

Between April 2023 and March 2024, the Commission carried out guidance and oversight activities. Specific examples are as follows:

##### (1) Recommendations to the METI Minister

On March 30, 2023, the Fair Trade Commission issued cease-and-desist orders and surcharge payment orders to five companies—Chubu Electric Power, Chubu Electric Power Miraiz, Chugoku Electric Power, Kyushu Electric Power, and Kyuden Mirai Energy. These orders were based on the grounds that these companies, along with Kansai Electric Power (KEPCO), had engaged in activities violating Article 3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Antimonopoly Act).

In connection with this case, on June 19 of the same year, the Commission recommended to the METI Minister that a business improvement order be issued to the five companies—Kansai Electric Power, Chubu Electric Power Miraiz, Chugoku Electric Power, Kyushu Electric Power, and Kyuden Mirai Energy—pursuant to the authority granted under Article 66-13, paragraph 1 of the Electricity Business Act. In response, on July 14 of the same year, the METI Minister issued a business improvement order to the five companies under the provisions of the Electricity Business Act. The order mandated that the companies: refrain from exchanging information with other former general electricity utilities or similar entities regarding electricity rates or business policies within each other's operational areas; develop and implement an improvement plan to prevent recurrence; and publicly disclose the causes of the incident while taking strict disciplinary action against those involved.

On July 28 and August 10 of the same year, the utilities subject to the business improvement order submitted their improvement plans. Following this, the Commission designated the subsequent one-year period, starting in August of the same year, as an intensive improvement period. During this period, the Commission conducted follow-up reviews of each utility's efforts. These follow-up reviews include interviews with the presidents of each utility and hearings on the progress of their improvement plans.

## (2) Business improvement recommendations

Grandata Corporation, an electricity retailer, implemented changes to its electricity retail service contracts, including modifications to the calculation method for fuel cost adjustment, effective May 1, 2022. Prior to these changes, the company notified approximately 230,000 customers who had agreed to receive electronic documentation through methods such as mobile phone short message services. However, the content of these notifications was insufficient to adequately explain the details of the contractual changes.

Additionally, for these contract changes, the company failed to provide written documentation to approximately 340,000 customers as required under the Electricity Business Act. Furthermore, Grandata Corporation implemented changes to its electricity retail service contracts, including a recalculation of the fuel cost adjustment amount, effective December 1, 2022. Prior to the contract changes, it again used mobile phone short message services and similar methods to notify approximately 150,000 customers who had agreed to receive electronic documentation. However, the content of these notifications was insufficient to adequately explain the details of the contractual changes.

Additionally, subcontractors of Grandata provided information that potentially misled customers during solicitation of electricity retail service contracts. For example, they used websites featuring advertising banners with wording that closely resembled the names of other electricity retailers. This suggests that Grandata's guidance and supervision of its subcontractors were inadequate.

Therefore, the Commission issued a business improvement recommendation to Grandata Corporation under the authority of the Electricity Business Act, requiring the following actions:

- (1) Take necessary measures to improve the methods of explanation provided to consumers and strengthen internal organizational structures;
- (2) Take necessary measures to identify and rectify potential causes that could result in the failure to provide mandatory post-contract documentation, including enhancements to internal organizational structures;
- (3) Take necessary measures to prevent the dissemination of information that may mislead consumers regarding the supplier of electricity retail services, electricity rates, and their calculation methods. These measures should include improvements to internal systems, enhanced guidance and supervision of subcontractors, and better methods of information dissemination.
- (4) Inform consumers who have entered into a retail electricity supply contract with the company of the measures implemented in accordance with (1) through (3) above; and



- (5) Submit a written report to the Electricity and Gas Market Surveillance Commission detailing the measures implemented in accordance with (1) through (4) above.

(3) Examples of guidance

(1) Guidance to Company A, an electricity retailer (August 2023)

Between approximately April 2022 to January 2023, Company A disseminated misleading advertisements on its website and other platforms, suggesting that its specific rate plans were consistently less expensive than those offered under the general provisions for specified retail service, despite instances where this was not the case. Such actions, which direct consumers to its own services, may cause consumers to make decisions based on misperceptions and may also undermine fair competition among electricity retailers.

In response, the Commission directed Company A to implement necessary remedial measures to uphold the integrity of electricity transactions and protect consumer interests.

(2) Guidance to Company B, an electricity retailer (October 2023)

Between approximately December 2022 to April 2023, Company B provided misleading information during solicitations for retail service contracts. Despite not being commissioned or designated by any former general electricity utility to sell electricity, Company B made statements to consumers implying that it was authorized or affiliated with such a utility. Such information, which directs consumers to its own services, may cause consumers to make decisions based on misperceptions and may also undermine fair competition among electricity retailers.

Additionally, between approximately November 2021 to October 2023, Company B displayed its power generation mix on its website in a manner that suggested its electricity possessed environmental value, despite not utilizing the required non-fossil certificates. Such representations could mislead consumers into believing that the electricity sold by the company had environmental value, potentially causing confusion among consumers and distorting competitive conditions among utilities.

In response, the Commission directed Company B to implement necessary remedial measures to uphold the integrity of electricity transactions and protect consumer interests.

(4) Examples of report collection

On March 4, 2024, the Japan Fair Trade Commission issued a cease-and-desist order and a surcharge payment order to Chubu Electric Power Miraiz Co., Inc. and a surcharge payment order to Chubu Electric Power Co., Inc. These actions were based on findings that Chubu Electric Power Co., Inc., Chubu Electric Power Miraiz Co., Inc., and Toho Gas Co., Ltd. had engaged in conduct violating Article 3 of the Antimonopoly Act concerning urban gas for large-scale consumers. Additionally, the Commission issued warnings to Chubu Electric Power Miraiz Co., Inc. and Toho Gas Co. Ltd., stating that Chubu Electric Power Co., Inc. and Toho Gas Co., Ltd. had potentially violated Article 3 of the Antimonopoly Act regarding retail service pricing for residential urban gas (including bundled discounts for urban gas and electricity) and electricity purchase prices after the expiration of the purchase period under the FIT system. Furthermore, the Commission issued additional warnings to Chubu Electric Power Miraiz Co., Inc. and Cenergy Co., stating that Chubu Electric Power Co., Inc., Chubu Electric Power Miraiz Co., Inc., Cenergy Co., and Toho Gas Co., Ltd. had potentially

violated Article 3 of the Antimonopoly Act in connection with the supply of LNG.

Among the aforementioned cases, with regard to the warning concerning pricing for the retail service of residential urban gas (including discounts for a set contract of urban gas and electricity) and the warning concerning the purchase price of electricity after the expiration of the purchase period of electricity under the FIT system, the Commission collected reports on the same day from Chubu Electric Power Miraiz Co., Inc. and Toho Gas Co. under the provisions of the Electricity Business Act.

Additionally, a total of nine reports were collected for the monitoring of electricity retail transactions, including the above-mentioned cases (see Reference 3 for the number of other reports collected).

#### (5) Focused retail market monitoring

To ensure fair competition in the retail market, the Commission launched the “focused retail market monitoring” initiative in September 2019. This initiative includes hearings with electricity retailers and other relevant entities regarding retail contracts that fall below a certain price level to verify contract details and evaluate the competitive conditions of the retail market. The findings of these surveys are published approximately twice a year.

##### (a) Background

In the conclusions of the Expert Meeting on Transitional Tariffs for Electricity (hereinafter referred to as “Expert Meeting on Transitional Tariffs”) on April 23, 2019, the “sustainability of the competitive environment” was identified as a key factor to consider when determining whether to lift the transitional measures on regulated retail electricity tariffs. It was noted that entities with market dominance in the wholesale market could provide unfair internal subsidies to their retail sectors. These subsidized retail sectors could then engage in practices such as predatory pricing, thereby distorting competition in the retail market and potentially maintaining or strengthening their market position as a result. Additionally, the following points were highlighted: (1) the most effective and feasible approach to preventing such unfair internal subsidies is to ensure non-discriminatory nature in internal and external transactions in an effective manner; and (2) when verifying whether “unfair internal subsidies” are being provided, it is necessary to monitor specific retail prices and accurately assess the situation to determine whether competition in the retail market is being distorted by practices such as predatory pricing.

Based on these recommendations, the 38th and 40th Specialized Meeting for Policy Design (held in May and July 2019, respectively) discussed the implementation method for focused retail market monitoring and related measures. Following these discussions, this initiative was launched in September 2019.

##### (b) Monitoring findings

For retail service contracts that started supplying electricity between July and December 2022, the surveys concluded that there were no problematic cases, such as pricing set below variable costs. The findings of the survey were reported and publicly disclosed at the 86th Specialized Meeting for Policy Design held in June 2023.

For retail service contracts that started supplying electricity between January and June 2023, the surveys concluded that there were no problematic cases, such as pricing set below variable costs. The findings of the surveys were reported and publicly disclosed at the 91st Specialized Meeting for Policy Design held in November 2023. Furthermore, the survey confirmed that the number of awarded public tender cases during the monitoring period was significantly lower than that during the same period in the previous year. To investigate the reasons for this decline, the Commission conducted a questionnaire survey among the monitored utilities. The survey result indicated that a shortage of supply capacity and increased procurement costs due to soaring fuel and market prices were possible factors, and that many utilities are planning to

resume or increase their participation in public tenders in the future. These findings were reported at the Specialized Meeting.

(6) Proposals for institutional measures related to electricity retail

In order to protect consumers and reduce social burdens amid an increase in the withdrawal of electricity retailers, the Specialized Meeting for Policy Design has been discussing and compiling necessary measures since July 2022. These measures include a mechanism for self-checks and periodic reporting on the status of business operations (risk check) at three stages: the start of electricity retail, after business commencement, and upon business withdrawing. They also include an appropriate notification period at the time of business withdrawal.

In light of the business improvement recommendations issued to electricity retailers in June 2023, the 87th Specialized Meeting for Policy Design, held in July of the same year, discussed measures to clarify insufficient information provision during contract changes as “problematic practices” in the *Guidelines for Electricity Retail Business*. The meeting also considered specific examples of such conduct. Furthermore, the Commission has been addressing cases where electricity retailers fail to appropriately display information, such as the power generation mix and related matters, as well as the usage status of non-fossil certificates, in accordance with the *Guidelines for Electricity Retail Business*. This includes identifying issues and pointing them out to the retailers. On the other hand, the descriptions in the *Guidelines for Electricity Retail Business* regarding the power generation mix and related matters, as well as the usage status of non-fossil certificates cover a wide range of topics and may not be easily understood, particularly concerning key points requiring special attention. In response, at the 92nd Specialized Meeting for Policy Design held in December of the same year, the Commission discussed the possibility of revising the *Guidelines for Electricity Retail Business* to improve their structure and readability.

Based on these considerations, the Commission submitted a proposal to the METI Minister in February 2024, recommending the following necessary institutional measures. (For details, see Reference 4.)

The contents of the proposal are as follows:

- Matters related to periodic reports under the Electricity-Related Reporting Regulations

The Electricity-Related Reporting Regulations shall be amended to require electricity retailers to submit periodic reports on the “operation status of risk management system” and the “overview of funds” as part of the electricity transaction reports listed in Item 7 of the Table in Article 2 of the Regulations.
- Matters related to actions for providing clear and accurate information to consumers

The following actions shall be taken with regard to the *Guidelines for Electricity Retail Business* and the *Guidelines for Gas Retail Business*.

  - Clearly state that insufficient explanations provided not only when entering into new retail service contracts but also when attempting to modify existing retail service contracts constitute “problematic practices.”
  - Specify that, for example, the following cases fall under “problematic practices” when attempting to modify a retail service contract:
    - When notifying consumers of contract modifications via methods such as e-mail or mobile phone short message service (SMS), if the e-mail or SMS contains no specific details about the modifications and only includes a link to the utility's website or similar resource.
    - Even if the email or SMS briefly describes the contract modifications and includes a link to the utility's website or similar resource, if the linked webpage or resource does not provide specific details or relevant documentation regarding the modifications.
- Matters related to the appropriate disclosure of information on the power generation mix and related matters, as well as the usage status of non-fossil certificates

Revise Section 1 (3) of the *Guidelines for Electricity Retail Business*, titled “Appropriate method of disclosing information on the power generation mix and related matters, as well as the usage status of

non-fossil certificates" to include the following items:

- Include an organizational chart showing the overall framework for displaying information on power generation mix and related matters, as well as the usage status of non-fossil certificates;
- Separate and clearly distinguish the descriptions of “problematic practices” and “desirable practices,” which are currently mixed within the text; and
- Consolidate examples of information disclosure practices related to the power generation mix and related matters, as well as the usage status of non-fossil fuel certificates, into a single section.

#### 1.5. Examination of regulated retail electricity tariffs subject to transitional measures

[Overview of this section]

- Based on the examination findings of applications submitted by seven equivalent electricity retailers to amend the general provisions for specified retail service, the Commission compiled a draft assessment policy, and submitted its opinion to the METI Minister.
- With regard to the notification of changes to the “revenue projection” under the Revenue Cap System for ten equivalent electricity retailers, and the notification of changes to the general provisions for specified retail service in connection with the introduction of generation charge (G-Charge), the Commission has informed the METI Minister that it has no objection to the content of the notification, based on the findings of its review.
- Taking into account consultation with the CAA on regulated electricity tariffs, the Commission decided to assess the impact of inappropriate cases in the application for approval of changes to regulated electricity tariffs. Additionally, it designates FY2023-2025 as an “intensive improvement period” to monitor and follow up on each utility’s initiatives aimed at improving procurement efficiency.

##### (1) Examination of regulated electricity tariffs

In November 2022 and January 2023, seven equivalent electricity retailers (Hokkaido Electric Power Co., Inc., Tohoku Electric Power Co., Inc., TEPCO Energy Partner, Inc., Hokuriku Electric Power Co., Chugoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc., and Okinawa Electric Power Co., Inc.) submitted applications to the METI Minister for approval to amend the general provisions for specified retail service (hereinafter referred to as the “Application”). In response, in December 2022 and January 2023, the METI Minister requested the Commission’s opinion on the Application.

In response to a request for opinions from the METI Minister, the Commission rigorously and meticulously examined the content of the Application during the 28th to 43rd Expert Meetings on the Rate System, held 16 times between December 2022 and April 2023. The examination was conducted in accordance with the *Guidelines for Examining Rates Stipulated in the General Provisions for Specified Retail Service for Equivalent Electricity Retailers* (established in April 2016) to assess the appropriateness of the Application. In April 2023, the Commission compiled a draft assessment policy for the Application and submitted its opinion to the METI Minister.

Subsequently, following consultations between the METI and the CAA, the assessment policy regarding the Application was approved at the *Ministerial Conference on Price Matters* held on May 16, 2023. Based on this approval, the seven equivalent electricity retailers submitted an amendment related to the Application (hereinafter referred to as the “Amendment”) to the METI Minister. In turn, the Minister requested the Commission’s opinions on the Amendment.

In response to a request for opinions from the METI Minister, the Commission confirmed at the 45th Expert

Meeting on the Rate System (May 2023) that the Amendment was made in accordance with the assessment policy, and subsequently informed the Minister that it had no objection to the approval of the Amendment.

In January 2024, approval was granted for changes to the general provisions for wheeling services to reflect changes in the “revenue projection” of general electricity transmission and distribution utilities under the Revenue Cap System, as well as changes associated with the introduction of generation charges (G-Charges). These revisions included the establishment of G-Charge unit prices and the revision of demand-side wheeling charge unit prices. Subsequently, in February 2024, to address variations in demand-side wheeling charges and fluctuations in the cost of regulated charges associated with the introduction of G-Charges, ten equivalent electricity retailers (Hokkaido Electric Power Co., Inc., Tohoku Electric Power Co., Inc., TEPCO Energy Partner, Inc., Chubu Electric Power Miraiz Co., Inc., Hokuriku Electric Power Co., Kansai Electric Power Co., Inc., Chugoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc., Kyushu Electric Power Co., Inc., and Okinawa Electric Power Co., Inc.) submitted notifications of changes to their general provisions for specified retail service (hereinafter referred to as the "Notification") to the METI Minister. In response, in February 2024, the METI Minister requested the Commission to provide its voluntary opinions on the Notification.

In response to a request for voluntary opinions from the METI Minister, the Commission verified the content of the Notification at the 54th Expert Meeting on the Rate System (held in February 2024) against the Examination Criteria Concerning Ruling by the METI Minister Based on the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act and Related Laws (Notice No. 12, March 25, 2016), Sections 2 (5) and (13). In light of these findings, in February 2024, the Commission informed the METI Minister that it had no objection to the contents of the Notification.

## (2) Actions to be taken in light of the examination of regulated electricity tariffs

The application for approval of changes to regulated electricity tariffs submitted by the seven equivalent electricity retailers mentioned in (1) above was rigorously and meticulously examined from a neutral, objective, and professional perspective at the Expert Meeting on the Rate System. Subsequently, consultations were held with the CAA during the process to approve the Application. As a result of these consultations, it was decided to assess the impact of inappropriate cases and to follow up on efforts to improve procurement practices.

Regarding the impact assessment of inappropriate cases, the Commission discussed the verification policy at the 46th and 47th Expert Meetings on the Rate System (held in July and September 2023, respectively) and reported the verification findings at the 48th Expert Meeting on the Rate System (held in October 2023).

First, with regard to the unauthorized viewing case, although Kansai Electric Power Co., Inc. was the company that utilized the information for its sales activities, it was excluded from the scope of the current impact assessment because the company has not revised its rates. On the other hand, among the major electric power companies involved in the cartel case, Chugoku Electric Power Co., Inc. recently revised its rates. Accordingly, the Commission decided to conduct an impact assessment on the company.

Specifically, the verification proceeded as follows: (1) A quantitative verification was conducted to determine the extent to which electricity rates may have remained high due to the cartel case; and (2) Based on the findings of the quantitative verification in (1), the Commission examined whether procurement costs had remained high, incorporating a micro-level perspective into the analysis. For (1), it was likely, as a result of Kansai Electric Power Co., Inc.'s withdrawal from the Chugoku region, that special high-voltage and high-voltage electricity rates at Chugoku Electric Power Co., Inc. remained elevated. Given the possibility that elevated electricity rates contributed to persistently high procurement costs, the Commission conducted various verifications for (2) from a micro-level perspective, using both qualitative and quantitative approaches, to assess the procurement costs at Chugoku Electric Power Co., Inc.

The verification confirmed that, during the period when the cartel was recognized, proposals had been made to relax cost reduction rate targets and that certain procured items exhibited increased costs. Further detailed

verification of the background behind these events revealed that they were influenced by factors such as rising labor costs due to labor shortages and global economic trends. Based on the findings of the verification, no cases were identified within its scope where procurement costs were presumably increased as a result of inappropriate practices. However, given the limited rate of competitive bidding across the electricity industry, it was deemed extremely important to further improve procurement efficiency. Accordingly, the Commission has designated the next three years (FY2023 to FY2025) as an “intensive improvement period.” During this period, the Commission will develop an appropriate competitive environment and encourage the incorporation of expertise from fields beyond electricity sector. Furthermore, the Commission will require each utility to formulate a roadmap for improving procurement efficiency. Additionally, the Commission Secretariat will rigorously and meticulously review the status of roadmap development and the progress of specific initiatives outlined in the roadmap, with the participation of the CAA. The findings from these reviews will be reported to the Expert Meeting on the Rate System and subsequently made public.

Regarding the development of a roadmap for improving procurement efficiency, the seven major electric power companies provided interim reports on the progress of roadmap development at the 53rd Expert Meeting on the Rate System (held in January 2024). The Commission Secretariat also reported on the status of follow-up activities.

#### 1.6. Audits of equivalent electricity retailers

[Overview of this section]

- The Commission audited the operations and accounting practices of equivalent electricity retailers. Of the ten target utilities, necessary guidance was provided to one utility.

When the electricity retail market was fully liberalized in April 2016, regulated tariffs (transitional tariffs) for low-voltage retail rates (e.g., households) were maintained for the former general electricity utilities as a transitional measure.

Pursuant to Article 21 of the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act and Related Laws (Act No. 72 of 2014, hereinafter referred to as the "Revision Act"), the Commission conducted audits of ten equivalent electricity retailers subject to transitional tariff regulations.

As a result of the FY2022 audit, no issues were identified that warranted recommendations to equivalent electricity retailers under Article 25-6 of the Supplementary Provisions of the Revising Act, nor recommendations to the METI Minister under Article 25-7 of the Supplementary Provisions of the same Act. However, necessary guidance was provided to one utility (see Reference 5 for details). These findings were reported at the 458th Commission Meeting held in August 2023.

#### 1.7. Ex-post facto evaluation after the conclusion of the cost calculation period for the regulated retail electricity tariffs subject to transitional measures

[Overview of this section]

- The Commission conducted an ex-post facto evaluation following the conclusion of the cost calculation period for the regulated retail electricity tariffs subject to transitional measures. Based on the findings, the Commission confirmed that none of the three target utilities required an order to submit an application for approval to amend their tariffs. This conclusion was reported to the METI Minister as an opinion.

With regard to the regulated retail electricity tariffs subject to transitional measures under the Supplementary Provisions of the Revising Act, the Commission conducts an ex-post facto evaluation annually after the conclusion of the cost calculation period to determine whether profit margins are excessively high. The Commission shares the findings with METI and publicly discloses the assessment findings.

In February 2024, in response to a request for opinions from the METI Minister, at the 54th Expert Meeting on the Rate System (held in February 2024), the Commission conducted evaluation and verification regarding three equivalent electricity retailers—Chubu Electric Power Miraiz Co., Inc., Kansai Electric Power Co., Inc., Inc. and Kyushu Electric Power Co., Inc.—whose cost calculation periods had expired. These assessments were carried out in accordance with Section 2 (6)(v) of the *Examination Criteria Concerning Ruling by the Minister of Economy, Trade and Industry Based on the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act and Related Laws* (Notice No. 12, March 25, 2016; hereinafter referred to as the "Examination Criteria"). The findings of these evaluations were compiled accordingly.

In Step 1 of the Examination Criteria (criteria based on electric utility profit margins), two companies—Chubu Electric Power Miraiz Co., Inc. and Kyushu Electric Power Co., Inc.—were identified as having a three-year average profit margin that exceeded the ten-year average profit margin of the ten target companies. In Step 2 of the Examination Criteria (criteria based on cumulative excess profits and criteria based on income and expenditures in the liberalized sector), Kyushu Electric Power Co., Inc. was the only utility whose cumulative excess profits at the end of FY2022 were below the specified threshold but whose balance in the liberalized sector showed a deficit for two consecutive years. In Step 3 (administrative evaluation) of the Examination Criteria, an examination of Kyushu Electric Power Co., Inc.'s retained earnings and shareholder dividend trends revealed no evidence of excessive retained earnings or shareholder dividends. Based on the above, the Commission conducted evaluations using the Examination Criteria for the three equivalent electricity retailers that had not implemented tariff revisions following the conclusion of their cost calculation periods. The findings indicated that none of the utilities required further consideration for issuing an order to apply for tariff revision approval.

In light of these findings, the Commission informed the METI Minister that no utilities were identified as requiring an application for tariff reduction approval.

#### 1.8. Monitoring of wholesale transactions

[Overview of this section]

- Through monitoring of the spot market, it was discovered that Kansai Electric Power Co., Inc. had engaged in excessive purchase tenders, resulting in a significant increase in contracted prices. Consequently, a business improvement recommendation was issued to the company. Additionally, several instances of erroneous bidding were confirmed, and written business improvement guidance was provided to utilities that were found to have particularly serious issues.
- To further enhance the transparency in the wholesale electricity market, including the spot market, the Commission proposed revising the guidelines and amending the ministerial ordinance to disclose generation performance data by unit and time slot. Subsequently, the public release of generation performance data by unit and by time slot began in March 2024.
- Monitoring of the base-load market auctions for FY2023 revealed instances where the incorporation of fuel price fluctuation risks was not consistent with the calculation method specified in the guidelines. Consequently, business improvement guidance was issued to two major power producers. Furthermore, it was clarified that, in principle, fuel prices based on fuel futures prices will be considered reasonable for auctions from FY2024 onward, and will be monitored accordingly.

To ensure fair electricity transactions, the Commission monitored and analyzed transaction activities in the wholesale electricity market and provided guidance or took other necessary actions when any problematic practice was identified.

The Commission also prepared and published quarterly electricity market monitoring reports, which analyzed and verified, on a fixed-point basis, the voluntary initiatives of former general electricity utilities and JERA Co., Inc., as well as the state of competition in the electricity market. (Refer to the key indicators in the report for October to December 2023).

#### ○ Key indicators in the report for October to December 2023

			Contents of this report	Same period in the previous year	Reference	Fiscal Year 2021		
			October to December 2023	October to December 2022	(April 2022 to March 2023)	(April 2021 to March 2022)		
Wholesale electricity exchange	Proportion relative to the electricity sales volume <sup>*3</sup>		31.1%	43.1% (#34.6%)	40.1%	39.9%		
	Spot market	Bid	Sell bid volume compared to the same period in the previous year	0.9 times (*51.1 times)	1.0 times	1.0 times	1.0 time	
			Purchase bid volume compared to the same period in the previous year	0.8 times (*51.0 time)	0.9 times	0.9 times	1.1 times	
		Contract	Contracted volume	57.1 billion kWh	79.3 billion kWh	318.5 billion kWh	327.2 billion kWh	
				Contracted volume compared to the same period in the previous year	0.7 times (*0.9 times)	1.0 times	1.0 times	1.0 time
				Average contracted price (System price)	12.6 yen/kWh	23.2 yen/kWh	20.4 yen/kWh	13.5 yen/kWh
		East-west market segmentation incidence rate	48.8%	35.8%	34.9%	32.1%		
	Intraday market	Contract	Contracted volume	1.28 billion kWh	1.12 billion kWh	4.94 billion kWh	4.18 billion kWh	
			Average contracted price	13.2 yen/kWh	26.3 yen/kWh	22.9 yen/kWh	14.5 yen/kWh	
	Forward market	Contract	Contracted volume	0kWh	0.009 billion kWh	0.017 billion kWh	0.047 billion kWh	
Futures market <sup>*4</sup>		Contracted volume	6.14 billion kWh	2.75 billion kWh	—	—		
OTC transaction		Amount supplied outside the group	9.25 billion kWh	13.77 billion kWh	56.43 billion kWh	51.71 billion kWh		
Retail market (Reference) <sup>*1</sup>	Electricity sales volume		187.6 billion kWh <sup>*2</sup>	186.4 billion kWh <sup>*2</sup>	805.4 billion kWh	832.1 billion kWh		
	Power producers and suppliers	Electricity sales volume	30.7 billion kWh	34.2 billion kWh	154.6 billion kWh	178.6 billion kWh		
			Electricity sales volume compared to the same period in the previous year	0.9 times	0.8 times	0.9 times	1.2 times	
			Share of power producers and suppliers	17.0% (as of December)	18.7% (as of December)	—	—	

\*1: Source: Electricity Transaction Reports

\*2: In the Electricity Transaction Reports, to avoid imposing excessive burdens on utilities during data aggregation, it is allowed to record the electricity sales volume and the sales amount as the results for month N based on the performance from the meter reading date of month N-1 to the day before the meter reading date of month N. Since the majority of companies report performance up to their respective meter reading dates, these figures may not correspond precisely to the actual demand for month N.

\*3: The proportion relative to the electricity sales volume represents the average value for the specified period.

\*4: Added from this period's report. (Based on publicly available data from the JEPX and EEX websites)

\*5: A comparison based on the bid volume of former general electricity utilities during the same period in the previous year, excluding gross bidding corresponding to their own demand. The gross bidding volume was calculated based on the survey findings regarding the high-price buyback rates of gross bidding from former general electricity utilities.

(In this case, the former general electricity utilities refer to Hokkaido Electric Power, Tohoku Electric Power, TEPCO Energy Partners, Chubu Electric Power, Kansai Electric Power, Chugoku Electric Power, Shikoku Electric Power, and Kyushu Electric Power.)

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Source: Prepared by the Commission Secretariat based on materials submitted by the Secretariat at the 95th Specialized Meeting for Policy Design (held in March 2024)

#### (1) Monitoring of the spot market

In light of the significant increase in spot market prices during the winter of FY2020, the importance of enhancing transparency in the wholesale electricity market was highlighted, particularly regarding the disclosure of generation-related information and the clarification of market manipulation. It was deemed necessary to clarify the issue of selling bids at prices based on the marginal cost of the entire amount of surplus electricity, which had been positioned as a voluntary initiative by former general electricity utilities and JERA in accordance with the *Guidelines for Appropriate Electricity Transactions*. Based on this, discussions were held at the 66th Specialized Meeting for Policy Design (October 2021), the 67th Specialized Meeting for Policy Design (November 2021), the 72nd Specialized Meeting for Policy Design (April 2022), and the 73rd Specialized Meeting for Policy Design. It was concluded that it is desirable for utilities participating in the spot market to sell surplus electricity at marginal cost-based prices and that such behavior does not constitute market manipulation, defined as “executing or refraining from executing transactions with the intent of causing significant impact on market prices.” For entities likely to hold significant market power, this practice was deemed especially critical. It was also discussed that the marginal cost in this context could include the additional fuel procurement cost meeting certain criteria, as well as future electricity transaction prices. These



details were clarified in the revised *Guidelines for Appropriate Electricity Transactions* issued on November 14, 2022.

In light of these rules, the Commission conducts daily monitoring to ensure that no unfair transactions are being carried out in bidding activities on the JEPX spot market. Specifically, based on the verification of the electricity spot market price surge during the winter of FY2020, the Commission requests data from former general electricity utilities and JERA Co., Inc. to demonstrate that they are offering the entire available amount for bidding in the market whenever the electricity spot market price exceeds 30 yen/kWh. The findings of these verifications are promptly published on the Commission's website. Through such monitoring, the Commission confirmed multiple instances of erroneous bidding and failures to disclose insider information in a timely manner. The Commission demanded that these utilities that led to such events conduct fact-finding surveys and implement thorough measures to prevent recurrence. In particular, in September 2023, it was discovered that KEPCO had repeatedly submitted bids that deviated from its originally intended volumes. An investigation revealed that, based on certain estimates, spot market contracted prices in some time blocks increased by approximately 30 yen/kWh as a result. Considering KEPCO's significant negligence and the substantial impact on the market, the Commission issued a business improvement recommendation. KEPCO was required to promptly formulate and implement a plan to take the necessary measures to prevent recurrence and to report the results. Additionally, the Commission issued written business improvement guidance to those utilities that failed to deliver the entire surplus amount due to erroneous bidding, requiring each utility to ensure thorough measures to prevent recurrence.

Additionally to the above, efforts to further improve transparency in the wholesale electricity market, including the spot market, were discussed at the 73rd Specialized Meeting for Policy Design (held on May 31, 2022). It was agreed to aim for the generation performance data by unit and by time slot at the earliest possible date in FY2023, considering the time required for system upgrades by general electricity transmission and distribution utilities and the Organization for Cross-Regional Coordination of Transmission Operators (OCCTO). In November 2022, the *Guidelines for Appropriate Electricity Transactions* were revised to designate the publication of such information by power producers as a "desirable practice." Furthermore, in April 2023, the *Concept of Publication of Grid Information* was revised to include provisions requiring general electricity transmission and distribution utilities and OCCTO to aggregate and publish a list of such information.

Additionally, regarding the publication of generation performance data, it recognized that publishing such data on their own websites or providing it to OCCTO by general electricity transmission and distribution utilities could potentially fall under the prohibited actions outlined in Article 23, paragraph 1, item 1 of the Electricity Business Act and the Guidelines, specifically "unauthorized use and provision of information obtained through wheeling services or electricity balancing supply operations." Therefore, at the 85th Specialized Meeting for Policy Design (held in May 2023), discussions were held to classify generation performance data as information exempt from the "prohibition of unauthorized use or provision." This was further deliberated at the 449th Commission Meeting (held in June 2023). Based on these discussions and pursuant to Article 66-14, paragraph 1 of the Electricity Business Act., the Commission proposed the following to the METI Minister in June 2023. Subsequently, the relevant ministerial ordinance was revised in October 2023.

- Amend Article 33-6-2 of the Ordinance for Enforcement of the Electricity Business Act to include, as "information unlikely to impair the proper competitive relationship among electricity suppliers," data related to the amount of electricity supplied to power generation and other facilities by general transmission and distribution utilities for electricity balancing supply purposes. This provision applies only to information utilized or provided for publication with the consent of the entities maintaining and operating such power generation facilities.

In addition to these amendments to ministerial ordinances and the completion of necessary system modifications by general electricity transmission and distribution utilities and OCCTO, the Commission began publishing generation performance data by unit and by time slot in March 2024.

## (2) Monitoring of the base-load market

The base-load market, established within JEPX, was introduced in FY2019 to provide retailers newly

entering into the retail electricity business under electricity deregulation with access to base-load power sources under conditions comparable to those of former general electricity utilities. This initiative aims to create a level playing field for access to base-load power sources among electricity retailers and to promote competition in the retail market.

The *Base-Load Market Guidelines* (hereinafter referred to as the "Guidelines") stipulate that, in line with the objectives of the base-load market, "large-scale power producers," such as general electricity utilities and other relevant entities in each area, should supply the market with the volume calculated by the Agency for Natural Resources and Energy (mandatory supply volume) at a price not exceeding the average generation cost of base-load sources (hereinafter referred to as the "Maximum Supply Price"). If the procurement price for base-load power supply in the retail sector of large-scale power producers is unreasonably lower than the supply price, the objectives of the base-load market may not be fulfilled.

The Commission monitored the details of transactions related to auctions conducted in FY2023 to determine whether appropriate volumes and prices were supplied in the year preceding the delivery year in the base-load market. Ex-post monitoring was also conducted for the base-load market in FY2021, which was delivered in FY2022, to assess whether the deviations between projected and actual generation costs and volumes were reasonable in the year following the delivery year.

Monitoring of transactions conducted prior to the delivery year confirmed that the electricity supplied by large-scale power producers met the mandatory supply volumes specified in the Guidelines for every auction round.

On the other hand, regarding the incorporation of fuel price fluctuation risks into the Maximum Supply Price, two large-scale utilities were found to have engaged in bidding behaviors that, while not explicitly violating the Guidelines, could undermine the purpose of the system. Furthermore, for one of the utilities, it was confirmed that its method of estimating the Maximum Supply Price did not align with the calculation method prescribed in the Guidelines. Additionally, five large-scale power producers were found to have made errors in calculating the Maximum Supply Price. Based on these findings, the Commission confirmed that during the first auction in FY2023, one utility had miscalculated the Maximum Supply Price due to errors in fuel cost estimation, which affected the transaction findings. During the third auction in FY2023, the Commission confirmed that one utility's method of estimating the fuel price fluctuation risks did not comply with the calculation method stipulated in the Guidelines. Furthermore, multiple instances of calculation errors in determining the Maximum Supply Price were identified for the same utility. The Commission issued business improvement guidance to these utilities, requiring corrective actions to prevent recurrence.

Issues arising from the significant discretion afforded to large-scale power producers in the calculation of fuel costs became evident starting in FY2022. Although the system was revised for the FY2023 auction, including the introduction of transactions that allow for post-auction adjustments of fuel costs, challenges persisted. Specifically, it was confirmed that some utilities employed methods for calculating price fluctuation risks incorporated into the Maximum Supply Price that could not be deemed reasonable, while concerns about effective hoarding of supply remained unresolved in certain cases. In light of these findings, at the 94th Specialized Meeting for Policy Design (held in February 2024) and the 95th Specialized Meeting for Policy Design (held in March 2024), it was decided that, for auctions from FY2024 onward, fuel prices based on fuel futures prices will, in principle, be regarded as reasonable and monitored accordingly.

In the monitoring conducted in the year following the delivery year, no points were identified indicating a lack of reasonableness in the deviations between projections and actual findings for the FY2021 auction (for delivery in FY2022) from a monitoring perspective.

### (3) Monitoring of the capacity market main auction

The capacity market was established within the Organization for Cross-Regional Coordination of Transmission Operators (hereinafter referred to as the "OCCTO") to enhance the predictability of investment recovery for power producers, secure the necessary balancing capacity for transitioning renewable energy to a

primary power source, and address mid- to long-term supply capacity shortages. In the main auction of the capacity market, if business operators with market dominance (hereinafter referred to as “market- dominant business operators”) fail to bid their capacity without justifiable reason or submit bids for volumes below the expected capacity (hereinafter referred to as “withholding”), or bid at prices that unreasonably exceed the amount required to recover costs from the capacity market to maintain power supply (hereinafter referred to as “price fixing”), it may result in contracted prices higher than those that would otherwise be formed. Such outcomes increase the capacity contribution fees paid by electricity retailers and, in turn, may harm the interests of electricity users.

From this perspective, the Commission monitors withholding and price fixing by market-dominant utilities in accordance with the *Guidelines for Bidding in the Capacity Market* (hereinafter referred to as the “Capacity Market Guidelines”). For the FY2023 main auction conducted in October 2023 (target fiscal year for actual demand and supply: FY2027), the Commission conducted both pre-auction monitoring, prior to the start of the bid submission period, and post-auction monitoring, after the conclusion of the bid submission period, to evaluate whether any problematic practice had occurred.

- Monitoring for withholding: In accordance with the Capacity Market Guidelines, the Commission requested a list of power sources that were identified as potentially engaging in withholding, along with explanations for their inclusion and supporting documentation. The Commission reviewed this information to assess its reasonableness.
- Monitoring for price fixing: Based on the Capacity Market Guidelines, the Commission reviewed power sources subject to monitoring to determine whether bids were submitted at appropriate prices in compliance with the Capacity Market Guidelines. To this end, the Commission requested detailed explanations of the cost calculation method and the basis for the calculation of labor costs, repair costs, and other components constituting the bid price, and verified the provided information.

As a result, the Commission confirmed that some business operators had made calculation errors that could lead to contracted prices exceeding those that would otherwise be established. The Commission required these operators to correct the errors and submit bids reflecting the revised prices. Since similar calculation errors were also identified in the FY2022 main auction, the Commission instructed the operators involved to implement measures to prevent recurrence and ensure the effective execution of those measures. Furthermore, the Commission submitted a report on the monitoring findings to the Working Group for System Review, which operates under the Advisory Committee for Natural Resources and Energy.

#### (4) Monitoring of the non-fossil value trading market (market for achieving advanced obligation)

The *Act on the Promotion of Use of Non-fossil Energy Sources and Effective Use of Fossil Energy Materials by Energy Suppliers* (Act No. 72 of 2009) (hereinafter referred to as the “Advanced Energy Utilization Act”) requires electricity retailers to increase the proportion of non-fossil energy sources in their electricity procurement to 44% or more by FY2030. However, the wholesale electricity exchange does not differentiate between non-fossil and fossil power sources, thereby obscuring the value of non-fossil power sources. Consequently, the exchange cannot be effectively utilized as a means to increase the proportion of non-fossil power sources. As a result, new market entrants, who tend to rely more heavily on exchange transactions, face limitations in their ability to procure non-fossil power sources, creating challenges in achieving the targets set forth under the *Advanced Energy Utilization Act*.

The non-fossil value trading market was established to address these circumstances by enabling the explicit recognition and trading of non-fossil value. Its objectives include supporting electricity retailers in achieving their non-fossil power source procurement targets, expanding choices for consumers, and contributing to reducing the national burden under the FIT system.

In response to the growing demand for renewable energy value among consumers, the non-fossil value trading market was divided into two distinct markets beginning in FY2021: the “renewable energy value trading market” and the “market for achieving obligations under the Advanced Energy Utilization Act.”

As a result of the review of the non-fossil value trading market system conducted during this separation, the certificates available for purchase by electricity retailers to achieve the targets under the Advanced Energy

Utilization Act were limited to *Non-FIT Non-Fossil Certificates* handled in the market for achieving obligations under the Advanced Energy Utilization Act. Since the majority of power sources from which Non-FIT Non-Fossil Certificates are derived consist of nuclear power and large hydroelectric power, and former general electricity utilities account for most of the sellers, concerns were raised within the Working Group for System Review that the bidding behavior of former general electricity utilities would strongly affect the price formation of Non-FIT Non-Fossil Certificates.

In light of these circumstances and with the aim of ensuring fairness in transactions and transparency in price formation for Non-FIT Non-Fossil Certificates, the Commission monitors transactions involving Non-FIT Non-Fossil Certificates conducted by former general electricity utilities and Electric Power Development Co., Ltd. (J-Power). This monitoring is conducted based on the *Fifth Interim Summary* (published in August 2021) of the Working Group for System Review. Specifically, the Commission monitored each auction held in the non-fossil value trading market (the market for achieving obligations under the Advanced Energy Utilization Act) during the fiscal year (August, November, February, and May) for any problematic practice, such as withholding and price fixing. Following the conclusion of the fourth auction (held in May), the Commission conducted a relative comparison of the following three price levels. If any significant deviations were identified, the Commission requested reasonable explanations from the relevant parties to assess whether the pricing practices were unjustified.

(a) Price level of each round of bids and bilateral contracts (for external transactions)

(a) Price level of each round of bids and bilateral contracts (for internal transactions)

(c) Price levels between relative transactions (for external and internal transactions)

As a result of the monitoring conducted in FY2023 (covering auctions from the third round of FY2022 to the second round of FY2023), no problematic cases were identified.

#### (5) Monitoring of inter-market price manipulation

The regulations of inter-market price manipulation were clarified in the *Guidelines for Appropriate Electricity Transactions*. Additionally, in May 2020, the European Energy Exchange (hereinafter referred to as "EEX") launched clearing services for Japan's electricity futures transactions.

Subsequently, the surge in spot prices during the winter of FY2020, along with other factors, raised expectations for increased utilization of electricity futures transactions. Moreover, new products have been introduced, including daily products on the EEX in June 2023 and weekly products on TOCOM in March 2024, contributing to an expansion of available trading options. Against this backdrop, the volume of electricity futures transactions and the number of trading participants have steadily increased. Notably, the trading volume on the EEX in FY2023 tripled compared to the previous fiscal year, with the proportion of electricity futures trading relative to spot market trading volume reaching approximately 11.7% for FY2023.

On the other hand, if actions were taken to manipulate spot market prices to gain an advantage in related markets such as the futures market, it could erode trust in the market. This erosion of trust may deter participants in the spot market from entering the futures market, ultimately hindering the revitalization and growth of electricity futures trading. Therefore, it has become even more critical for the Commission to monitor inter-market price manipulation in cooperation with the authorities responsible for overseeing commodity futures markets.

Currently, the Commission monitors inter-market price manipulation by utilizing futures transaction information provided by TOCOM and EEX. Additionally, for trading activities that cannot be captured through this system, the Commission collects reports on an ad hoc basis from electricity utilities engaged in such transactions.

## 1.9. Measures to prevent unfair internal subsidies between power generation and retail sectors

[Overview of this section]

- The commission conducted a focused review of the initiatives implemented by former general electricity utilities and JERA Co., Inc., aimed at ensuring the effectiveness of year-round contracts commencing in FY2023. These measures included: (1) the clarification of negotiation schedules; (2) the development and publication of a standard wholesale menu (model); and (3) the establishment of measures to block information exchange between power generation and retail sectors. The Commission verified the status of these initiatives and reported the findings. Additionally, an evaluation policy was formulated to promote non-discriminatory wholesaling practices, both internally and externally, under year-round contracts.

In the conclusions of the Expert Meeting on Transitional Tariffs, the “sustainability of the competitive environment” was identified as a key factor to consider when determining whether to lift the transitional measures on regulated retail electricity tariffs. It was noted that entities with market dominance in the wholesale market could provide unfair internal subsidies to their retail sectors. These subsidized retail sectors could then engage in practices such as predatory pricing, thereby distorting competition in the retail market and potentially maintaining or strengthening their market position as a result.

In discussions related to the *Second Interim Summary* of the Working Group for System Review, concerns were raised regarding the Non-FIT Non-Fossil Value Trading Market. Specifically, it was noted that former general electricity utilities might distort competition in the retail market by providing unfair internal subsidies from their generation sectors to their retail sectors for the revenue share of non-fossil certificates. Taking these concerns into account, the Commission discussed measures to prevent unfair internal subsidies by utilities with market dominance in the wholesale market. As a result, on July 1, 2020, the Commission requested the former general electricity utilities and JERA Co., Inc. to make commitments, based on the concept of maximizing profits from electricity generation, from a medium- to long-term perspective, to reasonably determine internal and external transaction terms within and outside their corporate groups, and to ensure non-discriminatory wholesale power transactions, both internally and externally. The Commission also requested that these utilities and JERA Co., Inc. report to the Commission on specific measures to ensure the implementation of their commitments.

Subsequently, by the end of July of the same year, all the former general electricity utilities and JERA Co., Inc. announced that they would fulfill these commitments, and also reported on specific measures to ensure their implementation. To confirm the status of these entities’ efforts to fulfill their commitments, the Commission reported the follow-up findings at the 62nd Specialized Meeting for Policy Design (held in June 2021), the 67th Specialized Meeting for Policy Design (held in November 2021), the 75th Specialized Meeting for Policy Design (held in July 2022), and the 79th Specialized Meeting for Policy Design (held in November 2022). These follow-ups included the submission and explanation of data regarding transaction unit prices and specific conditions for transactions conducted both within and outside their companies and corporate groups.

Based on the evaluation policy outlined during the 83rd Specialized Meeting for Policy Design (held in March 2023), the 86th Specialized Meeting for Policy Design (held in June 2023) conducted a review of the internal and external non-discriminatory nature of bilateral year-round contracts for FY2023 entered into by former general electricity utilities and JERA Co., Inc. As a result of this review, Hokkaido Electric Power and Okinawa Electric Power were evaluated as currently conducting non-discriminatory wholesale practices both internally and externally. (See Reference 6 for details.)

Additionally, at the 63rd Basic Policy Subcommittee on Electricity and Gas, Electricity and Gas Industry Committee of the Advisory Committee for Natural Resources and Energy (held in June 2023), discussions were conducted on the promotion of long-term wholesale transactions. Following the presentation of phased expansion framework for the promotion of long-term wholesale sales and the removal of conditions, the 89th Specialized Meeting for Policy Design (held in September of the same year) deliberated on the evaluation policy for the non-

discriminatory nature in internal and external transactions for long-term wholesale. (For details, refer to Reference 7.) Furthermore, this expert meeting deliberated on necessary measures to prevent unfair internal subsidies with regard to revenues and expenditures related to the capacity market and G-Charge of wheeling charges. First, with regard to the revenues related to the capacity market, it was concluded that the deduction method adopted by the former general electricity utilities and JERA Co., Inc. must be verified to ensure non-discriminatory practices in both internal and external transactions. Second, with regard to capacity contributions, it was determined that it is necessary to verify whether the retail sectors of the former general electricity utilities set the terms and prices of retail transactions with appropriate recognition of such costs. Finally, for G-Charges, as these costs are included in wholesale prices and constitute a part of the electricity procurement unit price for the retail sector, it was concluded that the non-discriminatory nature of wholesale transactions and retail pricing should continue to be followed-up as before. (See Reference 8 for details.)

At the 91st Specialized Meeting for Policy Design (held in November of the same year), an interim report was presented regarding the initiatives undertaken by the former general electricity utilities and JERA Co., Inc. concerning single-year and long-term wholesale transactions for FY2024 and beyond. The report highlighted that many utilities have established long-term wholesale standard menus and plan to conduct sales on non-discriminatory schedules for both internal and external transactions. This development was evaluated as a significant step forward. Additionally, during this Expert Meeting, deliberations were conducted regarding the future approach to follow-up measures, based on the direction provided by the Commission Secretariat at the Working Group for System Review held in October of the same year. This guidance emphasized the need to establish internal transaction prices for non-fossil certificates. It was concluded that internal transactions of non-fossil fuel certificates should be recognized as costs to be reflected in retail prices and that ongoing verification of this recognition is essential. (See Reference 9 for details.)

Furthermore, during the 93rd Specialized Meeting for Policy Design (held in January 2024), deliberations were conducted on the concept of off-site PPAs in internal and external non-discriminatory wholesale transactions. (See Reference 10 for details.)

The non-discriminatory nature of single-year and long-term bilateral contracts for FY2024 and beyond, both internally and externally, will be reviewed and evaluated based on the respective evaluation policies for single-year and long-term agreements. This process will also include an assessment of revenues and expenditures related to the capacity market, as well as internal transactions of non-fossil certificates. Deliberations on these matters are scheduled to take place at the Specialized Meeting for Policy Design during the first half of FY2024. Additionally, the Commission will continue to conduct regular follow-ups on the commitment-related initiatives undertaken by the former general electricity utilities and JERA Co., Inc., and will consider implementing any necessary measures.

## CHAPTER 2. Initiatives for Electricity Transmission and Distribution Sector

### 2.1. Monitoring of electricity transmission and distribution

[Overview of this section]

- Between April 1, 2023, and March 31, 2024, incidents of information leakage involving general electricity transmission and distribution utilities, as well as relevant equivalent electricity retailers, were identified. Following necessary investigations, the Commission published a report on these incidents and recommended that the METI Minister issue business improvement orders to certain involved utilities.
- Between April 1, 2023, and March 31, 2024, instances of miscalculation in proximity-based evaluation discounts for wheeling charges, as well as errors in imbalance charge calculations caused by data inaccuracies and other factors, were identified within general electricity transmission and distribution utilities. The Commission provided guidance to these utilities to ensure the steady implementation of measures aimed at preventing the recurrence of such cases.

To ensure appropriate electricity transactions, the Commission monitors the operational practices of general

electricity transmission and distribution utilities and provides guidance or take other necessary actions when inappropriate operation of general provisions for wheeling services or violations of conduct regulations are observed.

Since December 2022, the Commission has conducted investigations into the management of confidential information at general electricity transmission and distribution utilities. These investigations revealed that confidential information was accessible to employees of electricity retailers concerned and was actually viewed and used for business purposes at the following seven companies: Kansai Transmission and Distribution, Inc., Tohoku Electric Power Network Co., Inc., Kyushu Electric Power Transmission and Distribution, Co., Inc., Shikoku Electric Power Transmission & Distribution Company, Incorporated, Chubu Electric Power Grid Co, Inc., Chugoku Electric Power Transmission & Distribution Co., Inc., and Okinawa Electric Power Co., Inc.

After receiving a report from Kansai Transmission and Distribution, Inc. on December 23, 2022 regarding the leakage of customer information belonging to power producers and suppliers, the Commission requested all general electricity transmission and distribution utilities, as well as related electricity retailers, to investigate similar cases. Based on the reports submitted by these entities, the Commission collected information under the authority prescribed in Article 106, paragraph 3 of the Electricity Business Act, as delegated by Article 114, paragraph 1 of the Act, and conducted on-site inspections under the authority prescribed in Article 107, paragraph 2 of the Act, also delegated by Article 114, paragraph 1 of the Act. Furthermore, on February 3, 2023, the Commission established an information submission form to accept information from the public. Additionally, the Commission conducted interviews with the relevant parties through the Regional Bureaus of Economy, Trade and Industry, requested access logs for the Switching Support System to the OCCTO, and clarified the details of the case to take necessary actions.

The Commission's investigation revealed the following circumstances under which confidential information became accessible to related retail electricity utilities: (1) Shared systems between general electricity transmission and distribution utilities and related electricity retailers lacked proper masking or access controls; (2) Terminals installed based on outsourced emergency response operations during disasters and systems with access authority remained available during normal operations; (3) Information was provided to related electricity retailers through subcontractors working for both general electricity transmission and distribution utilities and related electricity retailers; (4) Information terminals used by general electricity transmission and distribution utilities were placed in locations accessible to employees of related electricity retailers due to inadequate management of information terminals; and (5) IDs and passwords for the system managed by general electricity transmission and distribution utilities were known to the employees of related electricity retailers. Furthermore, it was confirmed that certain related electricity retailers utilized the confidential information obtained through these means for proactive sales activities or to address customer applications and inquiries. The Commission concluded that such incidents have the potential to undermine fair competition among electricity utilities or create unfair operational conditions between them.

(1) Responses to general electricity transmission and distribution utilities and related electricity retailers in light of the incident

Considering the details, background, and nature of the legal violations related to this incident, the Commission recommended on March 31, 2023, that the METI Minister issue business improvement orders to a total of five companies: Kansai Transmission and Distribution, Inc., Kansai Electric Power Co., Inc., Kyushu Electric Power Transmission and Distribution, Co., Inc., Kyushu Electric Power Co., Inc., and Chugoku Electric Power Transmission & Distribution Co., Inc., pursuant to Article 66-13, paragraph 1 of the Electricity Business Act. In response to this, on April 17 of the same year, the METI Minister issued business improvement orders to the five companies pursuant to Article 2-17, paragraph 1, or Article 27, paragraph 1 of the Electricity Business Act. These orders required the companies to: (1) promptly terminate the shared use of information systems related to transmission and distribution information; (2) significantly strengthen internal controls to ensure compliance with conduct regulations; and (3) investigate and disclose the causes of the incident, and implement strict disciplinary measures and other necessary actions against those involved. On the same day, the Commission also issued business improvement recommendations under Article 66-12, paragraph 1 of the

Electricity Business Act to six companies: Tohoku Electric Power Network Co., Inc., Tohoku Electric Power Co., Inc., Chubu Electric Power Grid Co, Inc., Chubu Electric Power Miraiz Co., Inc., Chugoku Electric Power Co., Inc., and Shikoku Electric Power Co., Inc., instructing them to implement measures similar to those required of the five companies subject to the business improvement orders. Additionally, the Commission provided business improvement guidance to two companies: Shikoku Electric Power Transmission & Distribution Company, Incorporated and Okinawa Electric Power Co., Inc. Furthermore, while no inappropriate conduct under the Electricity Business Act was identified in the following six companies: Hokkaido Electric Power Network, Inc., Hokkaido Electric Power Co., Inc., Incorporated, TEPCO Power Grid, Inc., and TEPCO Energy Partner, Inc. Hokuriku Electric Power Transmission & Distribution Company, and Hokuriku Electric Power Co., the Commission recognized the gravity of this incident, which has raised serious concerns regarding the neutrality and fairness of general electricity transmission and distribution utilities. To prevent similar incidents, the Commission requested these six companies to implement measures equivalent to those required of the utilities responsible for the inappropriate conduct, specifically implementing the measures outlined in (1) and (2) above.

On May 12 of the same year, the utilities subject to business improvement orders, recommendations, and guidance (hereinafter referred to as “utility subject to rulings”) submitted their respective Business Improvement Plans. To verify the implementation status as well as the adequacy and effectiveness of the measures outlined in these plans, the Commission has designated a one-year period from the submission date of the plans as an intensive improvement period, during which the Commission would conduct monitoring. Specifically, the Commission has already undertaken the following activities: interviews with the presidents of utilities subject to rulings; on-site verifications of progress of measures at headquarters, branches, and sales offices; and interviews with employees. Furthermore, hearings have been conducted to assess the progress in establishing internal control systems and implementing physical segregation of systems.

As of April 17 of the same year, although no inappropriate behavior under the Electricity Business Act was observed at Hokuriku Electric Power Transmission & Distribution Company, subsequent comprehensive operational inspections conducted in response to the aforementioned request revealed that confidential information had been accessible within Hokuriku Electric Power Co. However, no evidence was found indicating inappropriate access to such information by Hokuriku Electric Power Co. In response to this, on December 19 of the same year, the Commission issued business improvement guidance to Hokuriku Electric Power Transmission & Distribution Company. The guidance required the company to ensure thorough implementation of recurrence prevention measures, promptly address any deficiencies identified in their response to the recent request, and provide updates on their corrective actions and implementation status as part of the Commission's ongoing monitoring efforts.

The Commission continues to monitor the implementation initiatives of utilities subject to rulings (including Hokuriku Electric Power Transmission & Distribution Company) through ongoing monitoring.

As with Hokuriku Electric Power Transmission & Distribution Company, TEPCO Power Grid, Inc. had not exhibited any inappropriate actions under the Electricity Business Act as of April 17 of the same year. However, subsequent audits conducted by the Commission on general electricity transmission and distribution utilities revealed deficiencies in access authority settings within a system used for aggregating customer interaction information. These deficiencies allowed information acquired through wheeling services—information prohibited from being disclosed by general electricity transmission and distribution utilities—to be accessible from Tokyo Electric Power Company Holdings, Incorporated, a holding company; TEPCO Renewable Power, Incorporated; a power producer; and TEPCO Energy Partner, Inc., an electricity retailer. In response to this, the Commission, on March 28, 2024, collected reports from TEPCO Power Grid, Inc.; Tokyo Electric Power Company Holdings, Incorporated; TEPCO Renewable Power, Incorporated; and TEPCO Energy Partner, Inc., Incorporated. This action was carried out under the authority delegated pursuant to Article 114, paragraph 1 of the Electricity Business Act, based on the provisions of Article 106, paragraph 3 of same Act. Based on the



findings from these reports, the Commission will implement necessary actions in the future.

## (2) Institutional measures to prevent recurrence of similar incidents

On June 29, 2023, as institutional measures to prevent the recurrence of similar incidents, the Commission recommended that the METI Minister incorporate the following actions into ministerial ordinances: (1) General electricity transmission and distribution utilities must promptly eliminate the shared use of information systems intended for the management of confidential information; (2) General electricity transmission and distribution utilities must establish management departments under their internal control systems and implement necessary measures to ensure the legal compliance of operational departments' activities; and (3) Related general electricity transmission and distribution utilities must not utilize confidential information in their business operations. (see Reference 11 for details)

Furthermore, on March 28, 2024, the Commission recommended that the METI Minister amend ministerial ordinances to ensure the effectiveness of the aforementioned institutional measures from a personnel management perspective. This recommendation proposed expanding the scope of business activities prohibited for employees of general electricity transmission and distribution utilities involved in designated transmission and distribution-related operations. Specifically, the prohibition would extend to positions responsible for managing contract information at execution sites for electricity retail sales operations, electricity transaction operations, and power generation development planning. (For details, refer to Reference 12.)

Between April 1, 2023, and March 31, 2024, instances of miscalculation in proximity-based evaluation discounts for wheeling charges, as well as errors in imbalance charge calculations caused by data inaccuracies and other factors, were identified within general electricity transmission and distribution utilities. This resulted in the need for recalculation and settlement to electricity retailers. The Commission provided guidance to ensure thorough implementation of measures to prevent the recurrence of such incidents.

## 2.2 Audits of general electricity transmission and distribution utilities and other relevant entities

[Overview of this section]

- Audits were conducted on the operations and accounting practices of general electricity transmission and distribution utilities, as well as electricity transmission utilities. The audits focused on key areas, including the "operation of general provisions," "balance of wheeling services," and "system development and related matters." Among the 13 targeted utilities, seven utilities were provided with necessary guidance.

The Commission conducted audits of 13 general electricity transmission and distribution utilities, as well as electricity transmission utilities (hereinafter referred to as "general electricity transmission and distribution utilities and other relevant entities"), pursuant to Article 105 of the Electricity Business Act.

In the FY2022 audit, the Commission focused on the following areas:

- At general electricity transmission and distribution utilities, incidents such as miscalculation of wheeling charges and prolonged unsettled construction contributions between electricity retailers and power producers occur annually in connection with their transmission and distribution operations. These operators have been implementing measures such as identifying root causes and devising preventive measures. In FY2021, similar issues, such as miscalculation related to wheeling charges and prolonged unsettled construction contributions, were reported. Therefore, in the FY2022 audit, the Commission continued to prioritize confirming the "operation of general provisions" from the perspective of recurrence prevention, including the implementation status of measures to prevent such issues.
- On December 28, 2020, amendments were made to the Regulations on Revenue and Expenditure Calculation for Electricity Business Wheeling Services, stipulating that increased expenditures resulting from inappropriate orders or contracts shall not be treated as allowable expenses in the calculation of excess profits related to wheeling charges. In response to this the revision, the Commission reviewed the FY2021 audit of the *Balance of Wheeling Services* to verify the presence of excess contract amounts (defined as amounts exceeding reasonable levels in cases where transparency or fairness was not ensured without valid justification in procurement or contractual procedures for delegation or outsourcing), as well as the investigation methods in the excess profit statement. As excess contract

amounts were identified during this audit, the FY2022 audit continued to prioritize verification of the existence of excessive contract amounts and related matters.

- In response to the information leakage incident involving general electricity transmission and distribution utilities, the FY2022 audit on “system development and related matters” placed an increased emphasis on auditing information management practices.

As a result of the FY2022 audit, no issues were identified that warranted recommendations to general electricity transmission and distribution utilities and other relevant entities under Article 66-12 of the Electricity Business Act, nor recommendations to the METI Minister under Article 66-13 of the same Act. However, necessary guidance was provided to seven utilities (see Reference 5 for details). These findings were reported at the 458th Commission Meeting held in August 2023.

### 2.3. Ex-post facto evaluation of financial status (transmission and distribution financial balance) of general electricity transmission and distribution utilities

[Overview of this section]

- An ex-post facto evaluation of the transmission and distribution financial balance of general electricity transmission and distribution utilities was conducted. For the 10 utilities evaluated, the Commission reported to the Minister that none of them needed to be ordered to apply for approval to amend their general provisions for wheeling services. The Commission also reviewed the initiatives undertaken by these utilities to enhance their management efficiency.

The business environment surrounding Japan's electric power grids is undergoing significant changes. While demand for electricity has been declining due to population decreases and progress in energy conservation, the need for grid interconnection is increasing with the expanded adoption of renewable energy. Additionally, there is a growing need to address the aging of electricity transmission and distribution facilities developed during economic growth.

To address these changes in the business environment and minimize future wheeling charges, general electricity transmission and distribution utilities are required to reduce costs to the greatest extent possible through improved management efficiency and other measures. Furthermore, they must undertake systematic and efficient capital investments to prepare for the expanded adoption of renewable energy and ensure a stable electricity supply in the future.

With the aforementioned concerns in mind, during the 491st Commission Meeting (February 2024), the 54th Expert Meeting on the Rate System (February 2024), and the 494th Commission Meeting (February 2024), the Commission, based on the opinions of the METI Minister, conducted an ex-post facto evaluation of financial status of general electricity transmission and distribution utilities for FY2022. This evaluation was intended to promote both lower wheeling charges and stable, high quality electricity supply. In light of these findings, the Commission reported to the METI Minister that it was not necessary to require the 10 general electricity transmission and distribution utilities in question to apply for approval to revise their general provisions for wheeling services. This determination was made in accordance with Article 2 (15) of the Examination Criteria Concerning Ruling by the METI Minister under the Electricity Business Act" as stipulated prior to the revisions introduced by the Official Instruction for Partial Revision of the Electricity Business Act based on the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act. This decision applies in cases where the previous practices remain applicable under the Supplementary Provisions (Notice No. 3, October 21, 2022) of the "Examination Criteria Concerning Ruling by the METI Minister under the Electricity Business Act" (Notice No. 16, May 29, 2000). (For details, refer to Appendix 13.)

### 2.4. Review on procurement of balancing capacity and monitoring of its operational status as well as securing more efficient procurement

[Overview of this section]

- Discussions and deliberations were held at forums such the Specialized Meeting for Policy Design regarding the public offering and procurement of balancing capacity in the balancing market. Based on these deliberations, a proposal was submitted to the METI Minister to revise the *Guidelines for the Balancing Market*.

- (1) The result of the open procurement of balancing capacity as well as supplemental supply capacity and related capacities (hereinafter referred to as “balancing capacity and related capacities”) and monitoring of its operational status

The open procurement of balancing capacity and related capacities by general electricity transmission and distribution utilities serves as a mechanism to achieve cost-efficient procurement of balancing capacity while increasing the overall balancing capacity in the electricity market through competition among power producers and other entities. However, at present, it cannot be said that a significant number of power sources capable of providing balancing capacity and related capacities are owned by entities other than former general electricity utilities. To improve this situation and promote competition, it is essential to conduct open procurement in a transparent manner and provide potential bidders with appropriate information. This approach would facilitate and encourage the participation of power generators and other relevant entities in the bidding process.

To this end, the Commission analyzed the findings of open procurements of balancing capacity and related capacities and monitored the bidding behavior of the former general electricity utilities for any problematic aspects.

The findings of the open procurement of balancing capacity and the monitoring of its operational status were reported to the Specialized Meeting for Policy Design. During this meeting, improvements and considerations were undertaken, including the identification and organization of issues related to the impact on other systems and existing contracts resulting from the specification of the kW and kWh capacity required for black start functionality starting from the 2028 public tender. Furthermore, the meeting addressed challenges concerning the selection methodology for successful bids in the supplemental supply capacity tenders.

- (2) Monitoring of the balancing market

When procuring the required balancing capacity for frequency control and supply-demand balancing within their electricity supply areas, general electricity transmission and distribution utilities must ensure that the necessary amount of balancing capacity is secured for actual operations. This must be done while avoiding preferential treatment of specific power sources and preventing excessive cost burdens.

From this perspective, open procurements for balancing capacity by general electricity transmission and distribution utilities have been implemented since 2016. Furthermore, based on the interim report of the Policy Subcommittee for the Thorough Implementation of Electricity System Reform, it was deemed appropriate to develop a detailed design of the balancing market and establish an environment where general electricity transmission and distribution utilities can procure and trade balancing capacity within the market.

Subsequently, the detailed design of the balancing market was advanced through discussions at the Working Group for System Review of the Agency for Natural Resources and Energy and the Commissions of the OCCTO. Started in FY2021, transactions for balancing capacity to address errors in forecasting renewable energy (tertiary balancing capacity (2)) were initiated. Furthermore, from FY2022, transactions for balancing capacity to address demand forecasting errors and other discrepancies arising after gate closure (tertiary balancing capacity (1)) were also implemented.

If competition in the balancing market is insufficient, monopolistic entities may exercise their market dominance by setting unreasonably high bid prices, thereby gaining undue profits. In February 2023, the Commission collected reports from the trading members of the balancing market related to the event to confirm the background and other aspects of these occurrences. This review was conducted in light of issues such as the shortfall in the contracted quantity of tertiary balancing capacity (1) compared to the solicitation target, as well as a period during which the proposed unit price remained significantly higher than that of the tertiary balancing capacity (2). The analysis findings of the reports submitted from trading members, as well as the issues identified, were discussed and reviewed during the 84th through 90th Specialized Meeting for Policy Design held between April and October 2023. In the context of a competitive market for balancing capacity ( $\Delta kW$ ), a price constituting rational behavior is defined as one satisfying the following condition: “ $\Delta kW$  price  $\leq$  lost profit (opportunity cost) of the relevant power sources + fixed amounts” The “fixed amount” is defined

as either 0.33 yen/ $\Delta$ kW per 30 minutes (referred to as Class A power source) or an amount determined through consultation with the Surveillance Commission Secretariat, provided it does not exceed a reasonable amount for fixed cost recovery (Class B power source).

In the balancing capacity (kWh) market, a price constituting rational behavior is defined as one satisfying the following conditions: “upward balancing kWh price  $\leq$  marginal cost of the relevant power sources + a fixed amount” and “downward balancing kWh price  $\geq$  marginal cost of the relevant power sources - a fixed amount.” The “fixed amount” was set at 10% of the marginal cost for both reserved and non-reserved power sources.

Based on this review, a proposal was submitted to the METI Minister in November 2023 to revise the *Guidelines for the Balancing Market* (see Reference 14 for details).

Furthermore, as some business operators expressed their desire to discuss a certain amount of Class B power supply, the Commission reviewed the proposal in detail and reported the review findings to the Specialized Meeting for Policy Design.

## 2.5. Monitoring of the operational status of the imbalance rate system

[Overview of this section]

- At the Specialized Meeting for Policy Design, the Commission conducted discussions regarding the unification of the compensating charge calculation index and reserve rate in the corrective imbalance rate, as well as the upper limit of the unit price of the corrective imbalance rate under tight supply-demand conditions.
- With regard to cases of miscalculated imbalance price rates by general electricity transmission and distribution utilities, the Commission instructed these utilities to implement measures to prevent recurrence diligently and to handle settlements with related business operators in good faith.

Under the simultaneous supply and demand balancing system, electricity retailers and power producers are required to formulate demand and generation plans for each 30-minute interval, dividing the day into 48 time slots. These imbalances between planned and actual values are adjusted using power sources procured by general electricity transmission and distribution utilities from power producers and other relevant entities through open procurement. (Procurement in the balancing market has started since FY2021.) The costs of this adjustment are recovered as imbalance charges from electricity retailers and power producers. In this way, imbalance charges serve as the settlement price for excess or deficient electricity in the actual demand supply while also forming the basis for price signals in wholesale electricity trading.

A new imbalance rate system has been in operation since FY2022, under which corrective imbalance rates are applied under tight supply-demand conditions. The corrective imbalance rate is calculated using the corrective rate calculation index. According to the *Imbalance Rate System from FY2022 Onward*, “the corrective price calculation index will be integrated with the reserve rate (wide-area reserve rate) of general electricity transmission and distribution utilities by FY2024.” To this end, discussions were held at the Specialized Meeting for Policy Design. It was confirmed that the calculation methodology for the wide-area reserve rate has been standardized among general electricity transmission and distribution utilities, and that the wide-area reserve rate has been used for social power conservation measures, such as supply-demand tightness warnings. Accordingly, the meeting concluded that it is desirable to use the wide-area reserve rate as the index for calculating the correction charge. In the event of a revision to the calculation methodology for the wide-area reserve rate, it was decided that whether such revision should be reflected in the corrective price calculation index will be reviewed on a case-by-case basis.

Regarding the upper limit of the unit price for the corrective imbalance rate under tight supply-demand conditions, a provisional measure was implemented for two years from FY2022 to FY2023, setting the rate at 200 yen/kWh. This provisional rate was determined based on the highest price observed in past intraday market transactions, which were deemed to have surged due to supply-demand factors. The principle was to revise this rate to 600 yen/kWh

following the conclusion of the provisional period. To address this, discussions were held at the Specialized Meeting for Policy Design. While maintaining the established direction of gradually raising the price in the future, considering the importance of DR development and promotion of response under tight supply-demand conditions, it was decided not to increase the rate from FY2024. This decision was influenced by the stable supply-demand situation observed during the summer of 2023 and anticipated major changes in the business environment for electricity retailers. It was further decided to continue discussions on the rate increase beyond FY2024.

With regard to incidents of miscalculated imbalance price rates by general electricity transmission and distribution utilities, the Commission provided guidance to these utilities to implement measures to prevent recurrence diligently and to handle settlements with related business operators in good faith.

## 2.6. Operation of Revenue Cap System, holding of Working Group for Transmission and Distribution Efficiency and Project Progress Monitoring, and actions for introduction of G-Charge

[Overview of this section]

- Concerning the Revenue Cap System introduced in FY2023, the Commission reviewed the applications submitted by general electricity transmission and distribution utilities for approval of changes in revenue projections (applications for midterm adjustment) and the general provisions for wheeling services. Additionally, to promote public awareness and understanding of the Revenue Cap System among general consumers, the Commission conducted public relations activities such as information dissemination through media outlets.
- The Working Group for Transmission and Distribution Efficiency and Project Progress Monitoring was held to discuss initiatives aimed at improving efficiency by sector and major equipment categories within general electricity transmission and distribution utilities.
- The detailed design for implementing G-Charges starting from FY2024 was outlined in the *Interim Summary on the Introduction of G-Charges*.

### (1) Operation of Revenue Cap System

In June 2020, the Energy Resiliency Act was enacted, introducing the Revenue Cap System, a new wheeling charge system, which became effective in FY2023. The Revenue Cap System involves the periodic approval of revenue caps and the setting of wheeling charges within those limits. During FY2022, the applications submitted by general electricity transmission and distribution utilities were subjected to rigorous examinations by the Agency for Natural Resources and Energy and the Commission. Following this review, the METI Minister granted approvals and took other necessary measures. Based on these approvals, new wheeling charges under the Revenue Cap System have been applied since April 2023.

Under the Revenue Cap System, applications for adjustments to revenue projections during the regulatory period (midterm adjustment) are permitted if they align with relevant ministerial ordinances and regulations. These applications may be made in cases where changes in energy policy or other external factors result in unforeseen increases or decreases in costs that could not have been anticipated during the calculation of revenue projections. Under such circumstances, in September 2023, pursuant to Article 17-2, paragraph 4 of the Electricity Business Act, general electricity transmission and distribution utilities submitted applications (application for midterm adjustment) to the METI Minister for approval of changes to revenue projections for the first regulatory period (FY2023-FY2027). Following a request for opinions from the METI Minister, the

Commission held discussions during the 48th and 49th Expert Meetings on the Rate System (conducted in October and November 2023, respectively) as well as the 471st and 476th Commission Meetings (held in the same months). Based on the findings of these discussions and the report submitted to the METI Minister, approval for changes to the revenue projections was granted by the METI Minister in November of the same year.

Subsequently, in December 2023, based on the approval of changes to the revenue projections for the first regulatory period and the need to review the G-Charge unit price and the demand-side wheeling charge unit price in preparation for the introduction of the G-Charge from FY2024, general electricity transmission and distribution utilities submitted applications to the METI Minister for approval of changes to the general provisions for wheeling services, pursuant to Article 18, paragraph 1 of the Electricity Business Act. Following a request for opinions from the METI Minister, the Commission conducted discussions during the 51st and 52nd Expert Meetings on the Rate System (held from December 2023 to January 2024) as well as the 479th, 481st, and 484th Commission Meetings (held during the same period). Based on the outcomes of these discussions and the subsequent report submitted to the METI Minister, the application for approval of changes to the general provisions for wheeling services was approved by the Minister in January 2024.

To enhance public awareness and foster a better understanding of the Revenue Cap System among general consumers, the Commission updated and expanded the content on its official website. Additionally, as part of its media-based information dissemination initiatives, the Commission published advertorial articles in newspapers (February 2024) and placed advertisements on portal websites and other online platforms (February to March 2024).

## (2) Holding of Working Group for Transmission and Distribution Efficiency and Project Progress Monitoring

With the introduction of the Revenue Cap System, general electricity transmission and distribution utilities are required to steadily implement business plans, including efficiency improvement plans. The successful implementation of these plans serves as a critical evaluation factor under this system. In January 2023, the Commission established the Working Group for Transmission and Distribution Efficiency and Project Progress Monitoring under the Expert Meeting on the Rate System to assess whether these utilities are making progress in improving management efficiency advancing their investment plans. During the first working group meeting held in May of the same year, key points for verifying the efficiency initiatives undertaken by general electricity transmission and distribution utilities were identified. Subsequently, during the second through fourth working group meetings, held from August of the same year through February 2024, discussions focused on efficiency initiatives categorized by sector and major equipment. Additionally, hearings were conducted with relevant companies involved in the development of electricity transmission and distribution networks.

## (3) Measures toward the introduction of G-Charges

Discussions on the introduction of G-Charges have been ongoing as a means to promote the efficient use of the grid and to ensure the efficient and reliable enhancement of grid capacity to accommodate the expansion of renewable energy deployment. The proposal involves requiring power producers, who are grid users along with consumers, to bear a portion of the costs necessary to maintain and expand transmission and distribution facilities, which are currently borne entirely by electricity retailers. These discussions aim to establish a more equitable cost-sharing framework.

The Commission advanced discussions to facilitate the smooth introduction of G-Charges. At the Subcommittee on Massive Introduction of Renewable Energy and Next-Generation Power Network of the Committee on Energy Efficiency and Renewable Energy / Electricity and Gas Industry Committee of the 47th General Energy Investigation Committee (December 2022), and other related meetings, it was determined as follows:

- For existing certified FIT/FIP projects (including those awarded through auctions held in the fiscal year prior to the introduction of G-Charges, as well as projects initiated under the Renewable Energy Sea Area Utilization Act before the end of FY2023), G-Charges would apply only after the completion of the procurement period;
- For new FIT/FIP projects, G-Charges would be factored into the calculation of procurement prices;

- For non-FIT and post-FIT projects, measures would be taken to promote innovative approaches by utilities (such as bilateral contracts) and to ensure the smooth transfer of costs; and
- Regarding kWh charges for pumped-storage generation and battery storage, these sources would be exempted from G-Charges in consideration of their burden when passing through such systems, to ensure fairness relative to other power sources. In February 2023, the Subcommittee on Electricity and Gas Basic Policy of the Electricity and Gas Industry Committee under the Advisory Committee for Natural Resources and Energy, concluded in its *Interim Report on the Future Direction of Electricity Policy* to introduce the G-Charge in FY2024.

Based on this policy, the Specialized Meeting for Policy Design compiled a detailed design for the introduction of G-Charges in April 2023. This was outlined in the *Interim Report on the Introduction of G-Charges* and submitted as a proposal to the METI Minister regarding the introduction and operation of G-Charges (see Reference 15 for details).

Subsequently, the ministerial ordinances were revised, and in December 2023, the general electricity transmission and distribution utilities submitted applications to the METI Minister for approval to revise the general provisions for wheeling services. This revision was necessitated by the requirement to establish the unit price for the G-Charge and related provisions. In these applications, it was proposed that approximately less than 10% of the wheeling charges would be recovered through G-Charges. Additionally, new measures, such as a discount system reflecting the impact of power sources on the cost of maintenance of electricity transmission and distribution facilities in the amount of charges. The METI Minister requested the Commission's opinion on these applications, which was subsequently reviewed by the Commission. Based on the report submitted to the Minister, the general provisions for wheeling services were approved by the Minister in January 2024.

## 2.7 Relationship between localized electricity demand growth and the transmission and distribution network

[Overview of this section]

- A study group was established, and discussions have commenced to identify issues and formulate measures for the transmission and distribution network to flexibly and smoothly accommodate localized increases in demand, such as those driven by data centers and electric vehicles (EVs).

### (1) Establishment of study groups

The electricity transmission and distribution network in Japan faces the following challenges: (1) expansion of renewable energy; (2) enhancement of resilience to disasters, and; (3) aging facilities. While the nation's overall electricity demand is projected to remain at current levels or potentially decline, demand is expected to increase locally due to the construction of new data centers and semiconductor factories and the installation of electric vehicle (EV) recharging facilities. If power cannot be supplied flexibly and smoothly to meet these localized increases in power demand, significant social and economic losses will be incurred. For power sources connected to the grid, the need for electricity transmission and distribution network reinforcement varies depending on the location, resulting in significant differences in the transmission costs associated with new connections.

For power generation facilities, the G-Charge mechanism incorporates a discount system for location guidance and other measures to encourage efficient use of the electricity transmission and distribution network. On the demand side, initiatives such as peak shifting and power saving have been implemented to reduce overall peak demand across the grid in response to the tight power supply and demand situation following the Great East Japan Earthquake. However, no measures have specifically addressed the impact of localized demand increases on the transmission and distribution network. To this end, the Study Group on Localized Electricity Demand Increases and Transmission and Distribution Networks was established. The study group has begun deliberations to identify and address the challenges and formulate measures for the transmission and distribution networks to flexibly and smoothly accommodate localized increases in demand.

## CHAPTER 3. Initiatives for Retail and Wholesale Gas Transactions

### 3.1. Examination of applications for gas retail business registration

[Overview of this section]

- Following the review of registration applications for gas retail business, the total number of registered entities reached 1,347 as of the end of March 2024.

When the METI Minister intends to register a gas retail business, the Minister shall consult the Commission for its opinion. Upon receiving such a request, the Commission examines whether the applicant meets the requirements or falls under the grounds for refusal as stipulated in the Gas Business Act (e.g., from the perspective of protecting the interests of gas users). The Commission then submits its findings to the METI Minister. As a result of these examinations, the number of registrations as of the end of March 2024 was 1,347.

### 3.2 Publication of gas transaction reports

[Overview of this section]

- Information necessary to monitor retail gas transactions was collected from gas utilities and the findings were published monthly.

The Commission periodically receives reports from gas utilities on the information required to monitor gas retail transactions, in accordance with the Gas-Related Reporting Regulations (Order of the METI No. 16 of 2017). For certain reported information, such as gas sales volumes, the findings were published monthly.

### 3.3. Responding to various inquiries

[Overview of this section]

- A consultation service (information desk) was established to provide advice to consumers on issues such as disputes related to retail service contracts. The service also accepted reports of legal violations by businesses and provided appropriate guidance as necessary.

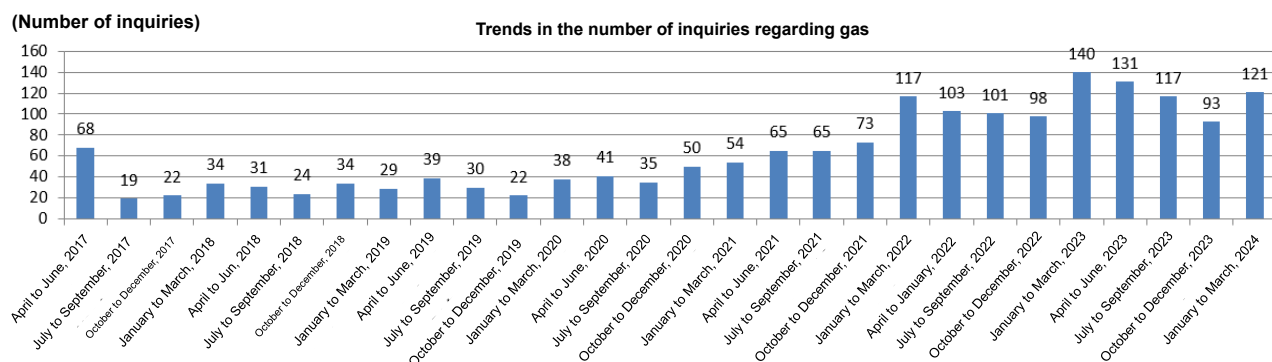
The Commission established a consultation service to address inquiries from gas consumers and other stakeholders, providing answers to questions and offering advice. Between April 2023 and March 2024 was 462, the number of inquiries received.

In cases where inappropriate sales practices or related issues were identified through these consultations, the Commission verified the facts and, when necessary, provided guidance to gas retailers.

Additionally, in May 2023, the Commission, in collaboration with CAA, issued an alert highlighting examples of gas sales practices. In March 2024, the Company provided information to consumers by utilizing the METI's X (formerly Twitter) to inform them of precautions to take before signing electricity and gas contracts.

- Trends in the number of inquiries received by the consultation service (gas)





### 3.4. Monitoring of retail transactions

[Overview of this section]

- The Commission provided guidance or took other actions to utilities engaged in any problematic practices that violate the Gas Business Act with regard to gas retail sales.

In April 2017, entry into the gas retail business was fully liberalized, allowing all consumers, including households, to freely choose their gas providers and pricing plans. Under these circumstances, the Commission has been monitoring and ensuring the proper conduct of retail gas transactions. In accordance with the *Guidelines for Gas Retail Business*, the Commission has provided guidance to utilities engaged in practices deemed problematic under the Gas Business Act. These efforts have included ensuring appropriate information disclosure to consumers and addressing issues related to the form and content of contracts.

Between April 2023 and March 2024, the Commission carried out guidance and oversight activities. Specific examples are as follows:

#### (1) Examples of guidance

From approximately October 2020 to December 2021, Company A, a gas retailer, was found to have engaged in misleading advertising practices. Specifically, the company promoted its services by suggesting that consumers would save money simply by switching their gas retail supply contract to Company A. However, the advertised savings were contingent upon a point-based reward system that could only be earned if specific conditions were met. This created a false impression for consumers, implying that the monetary equivalent of the reward points would automatically translate into savings. Such misleading information, which directs consumers to its own services, may cause consumers to make decisions based on misperceptions and may also undermine fair competition among gas retailers.

In response, the Commission issued guidance to Company A, instructing it to implement the necessary corrective measures to uphold the integrity of gas transactions and protect consumer interests.

#### (2) Examples of report collection

On March 4, 2024, the Japan Fair Trade Commission issued a cease-and-desist order and a surcharge payment order to Chubu Electric Power Miraiz Co., Inc. and a surcharge payment order to Chubu Electric Power Co., Inc. These actions were based on findings that Chubu Electric Power Co., Inc., Chubu Electric Power Miraiz Co., Inc., and Toho Gas Co., Ltd. had engaged in conduct violating Article 3 of the Antimonopoly Act concerning urban gas for large-scale consumers. Additionally, the Commission issued warnings to Chubu

Electric Power Miraiz Co., Inc. and Toho Gas Co. Ltd., stating that Chubu Electric Power Co., Inc. and Toho Gas Co., Ltd. had potentially violated Article 3 of the Antimonopoly Act regarding retail service pricing for residential urban gas (including bundled discounts for urban gas and electricity) and electricity purchase prices after the expiration of the purchase period under the FIT system. Furthermore, the Commission issued additional warnings to Chubu Electric Power Miraiz Co., Inc. and Cenergy Co., stating that Chubu Electric Power Co., Inc., Chubu Electric Power Miraiz Co., Inc., Cenergy Co., and Toho Gas Co., Ltd. had potentially violated Article 3 of the Antimonopoly Act in connection with the supply of LNG.

Among the aforementioned cases, concerning the cease-and-desist orders related to urban gas for large-scale consumers, as well as the warnings regarding retail service pricing for residential urban gas (including bundled discounts for urban gas and electricity), and LNG supply, the Commission, on the same day, collected reports from Chubu Electric Power Miraiz Co., Inc., Toho Gas Co. Ltd., and Cenergy Co. under the Gas Business Act.

Additionally, the Commission collected reports on the monitoring of gas retail transactions in a total of 12 cases, including the aforementioned cases (see Reference 3 for details of other cases).

### (3) Proposals for institutional measures related to gas retail business

In connection with the issuance of a business improvement order by the METI Minister on July 14, 2023, to five former general electricity utilities, the Commission requested reports from all former general electricity utilities regarding “the status of their business expansion outside their service areas to date” and “issues recognized as obstacles to future expansion outside their service areas.” These matters were reviewed during the Specialized Meeting for Policy Design held in September and October of the same year, with a focus on business activities and power procurement.

Following these discussions, in February 2024, a proposal was submitted to the METI Minister outlining necessary institutional measures for the gas retail business. Specifically, to prevent the registration procedures for gas retail business from hindering business activities, it was proposed that certain cases should be exempted from the requirements for amendment registration and instead be handled through notifications. For instance, such exemptions could apply when gas supply capacity is increased in line with the increase in maximum gas demand, or when no obstacles to conducting the gas business are identified. These measures aim to ensure the smooth operation of gas businesses without disruptions. (See Reference 4 for details).

## 3.5 . Audits of deemed gas retailers formerly conducting general gas utility services

[Overview of this section]

- The Commission audited the operations and accounting practices of deemed gas retailers formerly conducting general gas utility services. Among the four utilities audited, no cases were identified that warranted recommendations or necessary guidance to the businesses.

When the gas retail market was fully liberalized in April 2017, regulated retail tariffs (transitional tariffs) were retained in areas where competition was deemed insufficient.

Pursuant to Article 45-2 of the Gas Business Act prior to its revision by Article 5 of the Supplementary Provisions, which remains in force under Article 22, paragraph 4 of the same provisions of the Act for Partial Revision of the Electricity Business Act (Act No. 47 of 2015, hereinafter referred to as the “Revising Act”), the Commission

conducted audits of four deemed gas retailers formerly conducting general gas utility services subject to the transitional tariff regulation.

As a result of the FY2022 audit, no issues were identified that warranted recommendations to the deemed gas retailers formerly conducting general gas utility services under Article 37, paragraph 1 of the Supplementary Provisions of the Revising Act, nor recommendations to the METI Minister under Article 38, paragraph 1 of the Supplementary Provisions of the Revising Act (see Reference 16 for details). These findings were reported at the 458th Commission Meeting held in August 2023.

### 3.6. Ex-post facto evaluations following the conclusion of the cost calculation period for regulated retail gas tariff subject to transitional measures

[Overview of this section]

- The Commission conducted an ex-post facto evaluation following the conclusion of the cost calculation period for the regulated retail gas tariffs subject to transitional measures. Based on the findings, the Commission confirmed that none of the four target utilities required an order to submit an application for approval to amend their tariffs. This conclusion was reported to the METI Minister as an opinion.
- As a result of the special ex-post monitoring of gas, no utilities were identified as warranting written guidance between April 2023 and March 2024.

#### (1) Ex-post facto evaluations following the conclusion of the cost calculation period for regulated retail gas tariff subject to transitional measures

With regard to the regulated retail gas tariffs subject to transitional measures under the Supplementary Provisions of the Revising Act, the Commission conducts an ex-post facto evaluation annually after the conclusion of the cost calculation period to determine whether profit margins are excessively high. The Commission shares the findings with METI and publicly discloses the assessment findings.

In November 2023, in response to a request for opinions from the METI Minister and the Director-General of the Bureau of Economy, Trade and Industry, at the 50th Expert Meeting on the Rate System (November 2023), the Commission conducted evaluation and verification regarding three deemed gas retailers formerly conducting general gas utility services—Toho Gas Co. Ltd., Limited, Nihon Gas Company, Limited and Nankai Gas Company, Limited—whose cost calculation period had expired. These assessments were carried out in accordance with Section 2 (8) (iv) of the *Examination Criteria Concerning Ruling by the Minister of Economy, Trade and Industry Based on the Supplementary Provisions of the Act for Partial Revision of the Electricity Business Act and Related Laws (Notice No. 5, March 29, 2017; hereinafter referred to as the “Examination Criteria”)*. The findings of these evaluations were compiled accordingly.

In Step 1 of the Examination Criteria (criteria based on gas utility profit margins), one company—Nankai Gas Co., Inc.—was identified as having a three-year average profit margin that exceeded the ten-year average profit margin of the four target companies. In Step 2 of the Examination Criteria (criteria based on cumulative excess profits and criteria based on income and expenditures in the liberalized sector), Nankai Gas Co., Inc.’s cumulative excess profits at the end of FY2022 were below the specified threshold, and its revenue and expenditures in the liberalized sector had not been in deficit for the past two consecutive years. Based on the

above, the Commission conducted evaluations using the Examination Criteria for the three deemed gas retailers formerly conducting general gas utility services that had not implemented tariff revisions following the conclusion of their cost calculation periods. The findings indicated that none of the utilities required further consideration for issuing an order to apply for tariff revision approval.

In light of these findings, the Commission informed the METI Minister and the Director-General of the Bureau of Economy, Trade and Industry that no utilities were identified as requiring an application for tariff reduction approval.

## (2) Special ex-post monitoring of gas retail rates

At the 29th meeting of the Subcommission on Gas System Reform under the Strategic Policy Committee of the Advisory Committee for Natural Resources and Energy (February 2016), it was decided that special ex-post monitoring would be conducted for gas retailers not subject to transitional measures for regulated retail gas tariffs or for which such measures have been lifted. Specifically, for utilities with a city gas or simplified gas usage rate exceeding 50% within their former supply areas, gas tariff levels in these areas (calculated based on the monthly gas consumption of a standard household) will be monitored for three years to prevent unreasonable increases in gas retail rates.

Based on this decision, the Commission regularly receives reports on the standard household retail rates of these utilities and verifies the status of rate revisions. As a result, no utilities were identified as warranting written guidance between April 2023 and March 2024.

## 3.7. Follow-up on wholesale gas commitments

[Overview of this section]

- Based on the findings of follow-up assessments with the three major gas companies regarding compliance with their commitments, the Commission requested these utilities to take appropriate action.

Following the full liberalization of gas retail market in April 2017, it became a general principle that gas retailers are free to set their own rates. However, to protect the interests of consumers, retail rate regulations remained in place as a transitional measure in service areas designated by the METI Minister as being particularly important (designated former service areas).

In August 2020, it was confirmed that Tokyo Gas Co., Ltd., Osaka Gas Co., Ltd., and Toho Gas Co. Ltd. (hereinafter referred to as the “three major companies”) had partially met the criteria for lifting the transitional tariff regulations. Based on this, in November of the same year, the METI Minister requested the Commission's opinion on removing the designation of the former designated service areas for retail service by the three major companies.

After deliberations, the Commission determined that removing the designation of the former designated service areas for retail service by the three major companies would require the them to make the following commitments: When requested by other utilities to undertake gas manufacturing operations (including specific processes such as calorific value adjustment and odorization, hereinafter the same), such requests shall be accepted unless there are justifiable reasons, such as a lack of available capacity. In particular, if a utility that has already entered into an outsourcing contract for gas production wishes to continue its operations, it shall do so unless there are compelling reasons to the contrary.

When the Commission receives a request for wholesale gas supply from another utility, it will comply unless there is a reason, such as insufficient supply capacity, preventing it from doing so.

- With regard to “start-up wholesale,” in light of the purpose of the program—which was launched to support new entrants by creating an environment where urban gas can be procured at a price level that ensures competitiveness

with the retail business of the deemed gas retailers formerly conducting general gas utility services—the Commission will actively work to enhance its utilization outcomes. In setting the wholesale price, the price shall be individually negotiated between the wholesale utility and the service-using utility, within the maximum wholesale price calculated by deducting certain expenses from the lowest retail price in the standard menu of deemed gas retailers formerly conducting general gas utility services. These negotiations shall be conducted in good faith upon request from other utilities.

In January 2021, the Commission reported to the METI Minister regarding the matters that need to be addressed by the three major companies—Tokyo Gas Co., Ltd., Osaka Gas Co., Ltd., and Toho Gas Co. Ltd.—to lift the transitional tariff regulation. As a result of the above discussions, the three major companies submitted their commitments in February of the same year. In October of the same year, the transitional tariff regulations for these companies were lifted. (With regard to Toho Gas Co., Ltd., it was decided that the decision on whether to lift the transitional tariff regulation would be made after the results of the investigation by the Japan Fair Trade Commission concerning gas and related transactions have been clarified.)

The Commission conducts annual follow-ups to ensure that the commitments of the three major companies are being upheld. In FY2022, the Commission monitored wholesale transaction negotiations to verify that appropriate measures were being taken. Based on the findings, if any cases of suspected commitment violations were identified, the Commission requested the utilities to take corrective actions in wholesale transaction negotiations.

## CHAPTER 4. Initiatives for Gas Pipeline Sector

### 4.1 Monitoring of general gas pipeline business and specific gas pipeline business

[Overview of this section]

- In the operational performance of general gas pipeline utilities and specified gas pipeline utilities during the period from April 1, 2023, to March 31, 2024, no cases warranted business improvement recommendations.

To ensure proper gas transactions, the Commission monitors business operations of general gas pipeline utilities and specified gas pipeline utilities. It provides guidance or takes necessary actions when inappropriate operations related to the general provisions for wheeling services are observed.

In the operational performance of general gas pipeline utilities and specified gas pipeline utilities during the period from April 1, 2023, to March 31, 2024, no cases warranted business improvement recommendations.

### 4.2 Audits of general gas pipeline utilities and other relevant entities

[Overview of this section]

- The Commission audited the operations and accounting practices of general gas pipeline utilities, specified gas pipeline utilities, and manufacturers of gas equipment. The Commission conducted a focused review of “balance of wheeling services” and “prohibited acts and system development and related matters for wheeling services.” As a result, necessary guidance was provided to 69 out of the 257 target utilities.

Pursuant to Article 170 of the Gas Business Act, the Commission conducted audits of general gas pipeline utilities, specified gas pipeline utilities, and manufacturers of gas equipment (hereinafter referred to as “general gas pipeline utilities and other relevant entities”). The Commission conducted audits of 257 companies.

In the FY2022 audit, the Commission focused on the following areas:

- In the FY2021 audit, the number of identified issues decreased compared to the previous year. However, there were still 80 identified issues involving errors, such as allocation calculation mistakes caused by a lack of understanding of ministerial ordinances or simple errors, observed across both businesses under the jurisdiction of the Ministry and local bureaus. Based on these findings, the Commission continued to focus on the “balance of wheeling services” in the FY2022 audit, specifically verifying whether errors, such as allocation calculation mistakes related to the balance of wheeling services, were present.
- As of April 2022, general gas pipeline utilities of a certain scale or larger were required to undergo corporate separation. Additionally, all general gas pipeline utilities and specified gas pipeline utilities were required to establish organizational arrangements and implement measures in compliance with conduct regulations. Furthermore, with the prohibition of actions such as parent companies or related entities requiring discriminatory treatment by general gas pipeline utilities and specified gas pipeline utilities, the Commission conducted focused reviews on “prohibited activities and organizational arrangements related to transmission and distribution services” to ensure these measures were being appropriately implemented.

As a result of the FY2022 audit, no issues were identified that warranted recommendations to general gas pipeline utilities and other relevant entities under Article 178, paragraph 1 of the Gas Business Act, nor recommendations to the METI Minister under Article 179, paragraph 1 of the same Act. However, necessary guidance was provided to 69 utilities (see Reference 16 for details). These findings were reported at the 458th Commission Meeting held in August 2023.

#### 4.3. Ex-post facto evaluation of gas pipeline utilities financial status and other related matters

[Overview of this section]

- The Commission conducted ex-post facto evaluations of gas pipeline utilities' transmission and distribution financial balance for FY2022 and confirmed that, for the two companies, the cumulative excess profits as of the end of FY2022 exceeded a specified threshold, which serves as the criterion for issuing a change order. For seven utilities, the Commission confirmed that the deviation between the assumed unit price and the actual unit price as of the end of FY2022 exceeded -5%, which serves as the criterion for issuing a change order. Furthermore, the Commission conducted additional analysis and evaluation of utilities that exceeded the prescribed standards, including an examination of the details of their rate revision notifications.

General gas pipeline utilities and specified gas pipeline utilities (excluding those approved by the METI Minister as not requiring the establishment of general provisions for wheeling services; hereinafter referred to as “gas pipeline utilities” in this section) are required to prepare and disclose a transmission and distribution financial balance sheet for each fiscal year. If the cumulative excess profit exceeds a certain threshold or if the deviation rate exceeds -5%, the METI Minister may issue an order to apply for a reduction in wheeling charges. Therefore, on November 1, 2023, the METI Minister and the Director-Generals of Bureau of Economy, Trade and Industry submitted a request for comments to the Commission regarding the confirmation of the financial status of gas pipeline utilities for FY2022. Based on this, the Commission conducted an ex-post facto evaluation (stock management and flow management) in accordance with laws and regulations, as well as additional analysis and evaluation at the Expert Meeting on the Rate System, and compiled the findings in February 2024.

As a result, for two of the 147 utilities subject to the ex-post facto evaluation (ENEOS LNG Service Co., Ltd. and Otsu City), the cumulative excess profits as of the end of FY2022 exceeded a specified threshold, which serves

as the standard for issuing a change order. Additionally, for seven utilities—Yuri-Honjo City, Tokai Gas Corporation (Shimonita area), Uonuma City, Tatebayashi Gas Co., Ltd., Fukuyama Gas Co., Ltd., Yamaguchi Gohdoh Gas Co., Ltd., and Chikugo Gas Pipeline Service Provider Co., Ltd., the deviation rate between assumed and actual unit prices at the end of FY2022 exceeded -5%, which is the threshold for triggering a change order. Of these utilities, with the exception of Fukuyama Gas Co., Ltd., which provided a reasonable explanation regarding the appropriateness of maintaining the current rate levels under the general provisions for wheeling services and where the rate of deviation between the assumed and actual unit prices as of the end of FY2022 exceeded -5%, the threshold for issuing a change order, the Commission provided the METI Minister and the Director-General of the Bureau of Economy, Trade and Industry with its opinion. The Commission stated that it would be appropriate for the Minister and the Director-Generals of the Bureau of Economy, Trade and Industry to issue a change order if the notification of the revision of the general provisions for wheeling services is not submitted by the due date. For utilities with a due date of January 1, 2023, for rate revision, the Commission confirmed that the notification of the revision of wheeling charges was submitted.

With regard to the utilities that submitted rate revision notifications during FY2022, additional analysis and evaluation of the notifications and related information were conducted at the Expert Meeting on the Rate System. Kansai Electric Power Co., Inc. reported that it had identified errors in its gas transmission and distribution financial balance reports for FY 2019 through FY 2022.

Although the utility's rate revision notification details were not deemed inappropriate at the Expert Meeting on the Rate System held on February 19, 2024, the Commission decided to consider a separate response to the errors in the gas transmission and distribution financial balance report (see Reference 17 for details).

## CHAPTER 5. Initiatives for Heat Supply Business

[Overview of this section]

- As of the end of March 2024, the number of registered heat supply utilities stood at 74, covering 135 areas.
- Applications for approval to amend the heat supply regulations for designated former service areas were submitted to the METI Minister by three utilities across three service areas. After conducting a review, the Commission submitted a report to the Minister as an opinion.

### (1) Examination for registration of heat supply utilities

When the METI Minister intends to register a heat supply utility, the Minister is required to consult the Commission for its opinion. Upon receiving such a request for its opinion from the METI Minister, the Commission examines whether the applicant meets the requirements or falls under the grounds for refusal of registration as stipulated in the Heat Supply Business Act (e.g., from the perspective of ensuring convenience of daily life or business activities of persons who receive heat supply). The Commission then submits its findings to the METI Minister. As of the end of March 31, 2024, the number of registrations was 74 (135 regions).

### (2) Designation of heat supply areas in designated former service areas

Of the service areas supplied by the heat supply operators listed above, the METI Minister has designated 13 utilities and 17 supply areas as having a particularly high need to protect the interests of persons who receive heat supply in the service areas due to reasons such as the difficulty for such persons in these areas to select alternative heat source equipment. To increase or revise heat rates in such service areas, the METI

Minister is required to approve the revision of the heat supply regulations for the designated former service areas. In FY2023, applications for approval to amend the heat supply regulations for designated former service areas were submitted to the METI Minister by three utilities across three service areas in the context of soaring energy prices and other factors. After reviewing each application, the Commission submitted a report to the Minister in accordance with the assessment policy as an opinion.

## CHAPTER 6. Publicity, Dispute Resolution and Other Related Matters

### 6.1. Public relations and consumer relations

[Overview of this section]

- The Commission actively promoted and publicized the deregulation through its website and other channels. Additionally, to enhance consumer protection, the Commission published case studies highlighting issues reported by consumers along with advice on how to address them.

Even after the full liberalization of the electricity retail market, it remains essential for consumers to have access to accurate information, enabling them to avoid potential disputes and make appropriate choices that align with their individual needs.

With this understanding, the Commission has been actively promoting and publicizing the liberalization through its website and other channels.

As mentioned earlier, the Commission's consultation service offers advice to consumers on issues related to concluding retail service contracts and other matters. The total number of inquiries received from April 2023 to March 2024 was 3,141 for both electricity and gas.

### 6.2. International initiatives

[Overview of this section]

- Through participation in international conferences and similar events, the Commission collaborated with overseas energy regulatory agencies to exchange opinions and gather information.

The Commission collaborates with overseas energy regulatory agencies to actively gather information on global energy markets and regulatory systems.

Between April 2023 and March 2024, the Commission participated in international conferences such as the World Forum on Energy Regulation (WFER), Electricity Security Advisory Board (ESAB), Singapore International Energy Week (SIEW), and Asia-Pacific Energy Regulatory Forum (APER). These engagements focused on themes such as the competitiveness and sustainability of electricity markets during the energy transition. The Commission presented Japan's initiatives, gathered insights on the efforts of overseas energy regulatory agencies, and engaged in discussions and exchanges of views.

### 6.3 Dispute resolution

[Overview of this section]

- One application for mediation was received; however, it was not carried out. No applications for



arbitration or complaints were submitted.

#### (1) Mediation and arbitration

Under the provisions of the Electricity Business Act, the Commission shall, upon receipt of an application for mediation or arbitration regarding contracts related to electricity transactions, act accordingly unless the purpose of the application is deemed unjustified or otherwise inappropriate.

Similarly, under the provisions of the Gas Business Act and the Heat Supply Business Law, the Commission is authorized to mediate and arbitrate contracts related to gas transactions and wholesale heat supply, among other matters.

Dispute resolution is primarily conducted by mediation and arbitration commissioners. Mediation and arbitration commissioners are appointed on a case-by-case basis from among the members of the Commission and other officials designated in advance by the Commission (pursuant to Article 35, paragraph 3 and Article 36, paragraph 3 of the Electricity Business Act). The candidates for Mediation and Arbitration Commissioners as of March 31, 2024 are as follows:

#### Commissioners:

Yumiko Iwafune	Professor, Institute of Industrial Science, the University of Tokyo
Kaeko Kitamoto	Certified Public Accountant
Kuninobu Takeda, Ph.D	Professor, Department of Law and Political Science, Graduate School of Law and Politics, Osaka University
Masanori Maruo	Managing Director, SMBC Nikko Securities Inc.

#### Special Commissioners:

Ryuichi Inagaki	Attorney at Law, Ryuichi Inagaki Law Office
Yuka Kobayashi	Senior Manager, KPMG AZSA LLC
Ryoichi Komiyama	Professor, Graduate School of Engineering, the University of Tokyo
Makoto Tanaka, Ph.D	Professor, National Graduate Institute for Policy Studies
Kayo Nishikawa, Ph.D	Professor, International Graduate School of Social Sciences, Yokohama National University
Yasuhiro Hayashi, Ph.D	Professor, Graduate School of Advanced Science and Engineering, Waseda University

Between April 2023 and March 2024, the Commission received one application for mediation. This case was not mediated because the Commission received a notice from the other party that it would not accept mediation.

#### 6.4. Verification for the Electricity and Gas Market Surveillance Commission

[Overview of this section]

- The verification regarding the Electricity and Gas Market Surveillance Commission was initiated.

In August 2020, the Commission established the Expert Meeting on the Review of the Electricity and Gas Market Surveillance Commission, comprising experts, in response to the revelation of the money and goods acceptance issue involving the then Kansai Electric Power Co., Inc., and the changing circumstances surrounding the Commission as the electricity and gas system reforms progressed. The Expert Group reviewed the Commission's initiatives and achievements to date (hereinafter referred to as the “Previous Review”) and compiled the results in November of the same year.

In light of significant developments since the previous review, including the disclosure of information leaks and cartel cases involving major electric utilities, changes in various electricity markets (such as the introduction of capacity markets and balancing markets), and other factors, the operational environment surrounding the Commission has undergone substantial changes. Additionally, the Implementation Plan for Regulatory Reform, approved by the Cabinet in June 2023, explicitly emphasizes the strengthening of the Commission's monitoring functions. Considering these factors, the Commission has decided to conduct a review with a view to establishing medium-term policies for identifying key issues to address and developing plans to enhance the Commission's monitoring functions. These measures are aimed at ensuring the Commission can fulfill its expected roles appropriately and promptly.

Verification was conducted during Commission meetings, with the first verification held at the 495th Commission meeting in February 2024, and the second verification held at the 502nd Commission meeting in March 2024. To ensure neutrality and impartiality, the Secretariat conducted preliminary interviews with experts and practitioners related to each theme of the verification, and the Commission discussed the findings from these interviews. Additionally, some experts and practitioners delivered presentations on the Commission's initiatives and future policies during the verification sessions.

This review is scheduled to continue in FY2024, covering areas such as the electricity transmission and distribution sector and the gas sector.

[Regarding items to be verified]

Electricity:

- Monitoring, examination, and institutional reform in light of the full deregulation of retailing
- Ensuring fairness and promoting transactions in the wholesale electricity market and related markets
- Monitoring, examination, and institutional reform in the fields related to electric electricity transmission and distribution

Gas:

- Monitoring, examination, and institutional reform in light of full retail liberalization (including heat supply)
- Ensuring fairness and promoting transactions in gas wholesaling and related matters
- Monitoring, examination, and institutional reform in the conduit-related sector