

Executive Summary

Electricity market reform in Japan after Fukushima

Mika Goto and Toshiyuki Sueyoshi

Since the Fukushima Daiichi nuclear power plant disaster in March of 2011 (the “Fukushima accident”), the Japanese government faced an urgent need to review its energy policy and reform its energy industries. The accident revealed many problems regarding the current electricity supply system and raised awareness of risks associated with nuclear power generation. Such a recognition accelerated discussions on promoting electricity market reform. The reform process was slow in Japan before the Fukushima accident mainly due to a strong opposition from incumbent electric power companies, but the situation changed drastically after the Fukushima accident. In the new environment, a three-stage plan for the reform process was promptly advanced and the related laws passed the Diet. Therefore, although the reform is at the beginning of a series of changes, it is expected to continue toward the third stage of legal unbundling of the network sector scheduled for 2020. In addition, the discussions of the reform had the unintended consequence of provoking forward momentum of a fundamental aspect of Japan’s economic growth strategy through the electricity market reform under the so-called “Abenomics”. As has been observed in the generation sector, full retail liberalization may open up new business opportunities in the retail market. After April 1, 2016, a huge market of 84.2 million consumers, with JPY 7.5 trillion (approximately USD 62.5 billion) in sales, will be liberalized in Japan. The change is expected to stimulate new investments in renewable generation and distributed power generation, the establishment of smart communities, and the proliferation of smart meters. Anticipating new retail competition, many companies, including companies in numerous industries besides energy generation, are preparing for business partnerships with electricity retail to obtain a competitive edge. Such trend gives us expectation for consumers’ benefit from the market reform. In achieving a steady progress of the reform, Japan needs to shift the industrial structure from traditional regulation to a truly functional market. It is important for Japan to maintain flexibility in such new adaptive challenges to the environment change. The three-stage approach as well as flexibility of the reform policy should allow Japan to catch up with the progress made by the US and Europe because their successes and challenges provide Japan with valuable learning

opportunities. However, there are still remaining concerns about the Japanese reform from a perspective of balancing between competition and energy security. In Japan, where more than 90% of primary energy is imported from abroad, markets must deliver large-scale and efficient procurement of fuel and power generation capacities to be considered successful. We have not seen solid developments on these issues so far, although there is some industrial reorganization in this direction.