

Executive summary (for “Wholesale and retail electricity markets in Japan: Results of market revitalization measures and prospects for the current reform” by Kenta Ofuji and Naoki Tatsumi)

The authors presents in this article an overview of the latest revitalization measures for Japan's wholesale and retail electricity markets. After reviewing the status of the liquidity of and new entrants into the wholesale and retail electric power markets, this study focuses on two political measures taken so far to revitalize these markets - the thermal power bidding system, and the regular backup and the partial supply system. It further discusses their achievements and challenges. Finally, regarding the ongoing reform, we present an overview of the Electricity System Reform that has formulated after the Great East Japan Earthquake in 2011.

The key findings include the following: although Japan's wholesale electricity market mainly comprises bilateral transactions, their liquidity has gradually increased over the years. The volume of power exchange transactions remains low, at less than 1% of the retail market sales volume, for all of Japan. However, due to the cooperation of incumbent power companies, the turnover in the day-ahead spot exchange market has significantly increased. In the retail market, the shifting of demand from the incumbent power companies toward new power suppliers (power producers and suppliers, or PPS) has steadily progressed; the market share of PPS reached 5% in 2014. Since late 2015, various types of retail business entrants and new services have been proposed in anticipation of the Electricity System Reform.

The thermal power bidding system has succeeded in lowering the incumbent companies' power procurement costs and, at the same time, is spurring competition to develop new power sources. The regular backup and the partial supply system has improved the liquidity and diversification of bilateral contracts. At the same time, PPS have acquired demand away from the incumbent power companies. However, because this system is transient and represents asymmetric regulations to promote the growth of PPS, it is likely to become obsolete in the long term and should be integrated into market transactions.

In April 2015, the Organization for Cross-regional Coordination of Transmission Operators (OCCTO) was established as part of Phase 1 of the Electricity System Reform. Subsequently, plans were developed to fully deregulate the retail market (in 2016) and to legally unbundle the transmission and distribution sectors and abolish retail rate regulations (targeted for 2020). Trading of futures and real time commodities will also become possible for the first time in the country's power industry history. In parallel with the system reform in the country's gas sector, preparations are advancing to establish new regulatory bodies to oversee the trading of both fuels. Readers of this article will be updated with the latest development and the current deregulation and competition status in the Japanese power market.