

# Electricity and Gas Market Surveillance Commission

## September, 2017

# What is the Electricity and Gas Market Surveillance Commission?

- An organization to **strengthen the monitoring function of the market** in accordance with the full retail liberalization of the electricity and gas markets.
- Founded in September 2015 as an organization that reports directly to the Minister of Economy, Trade and Industry (gas, etc. added in April 2016)

## Strict Monitoring of Transactions

### ① Monitoring for improper actions

(Gathering reports, on-site inspections, etc.)

→ Provide recommendations to business operators as necessary

Examples of improper actions:

- Harm to consumers, hindering new entrants, insider trading or market manipulation
- Actions which hinder the neutrality of the transmission operators

### ② Examination of fees, etc.

Examples:

- Examination of transmission tariffs and transitional retail tariffs
- Examination of retail operator registration

## Recommendation of New Rules, etc.

### ① Creating rules to promote competition and protect consumers

→ Make proposals of new rules to the Minister of Economy, Trade and Industry as necessary

Examples:

- The production of various guidelines
- The formulation of detailed systems for electricity and gas reform
- Assessing the state of competition and deliberating policies to activate the market

### ② Public relations & consumer protection initiatives

Examples:

- Informing consumers and operators, providing consultation
- Cooperating with the National Consumer Affairs Center of Japan, etc.

# Organization of the Commission and Executive Bureau

- The commission is composed of a chairman and four commissioners.
- Experts, such as a lawyer and a certified public accountant, are proactively appointed.

Minister of Economy,  
Trade and Industry

## Electricity and Gas Market Surveillance Commission

Chairman Tatsuo Hatta [**Economics**]  
Osaka University, Professor Emeritus  
Asian Growth Research Institute, President

Commissioners Ryuichi Inagaki [**Law**]  
Ryuichi Inagaki Law Office, Lawyer

Yasuhiro Hayashi [**Engineering**]  
Waseda University Graduate School, Professor

Masanori Maruo [**Finance**]  
SMBC Nikko Securities Inc., Managing Director

Emiko Minowa [**Accounting**]  
Deloitte Touche Tohmatsu LLC., Partner  
Certified Public Accountant

Executive bureau  
(Approx. 70 members)

METI Office  
(Annex building third floor)

Directors of  
Regional Bureaus  
of Economy, Trade,  
and Industry  
(Regional Bureaus)

\* Entrusted with the affairs  
of the commission

Electricity and Gas Market  
Surveillance Offices  
(Approx. 60 members)

# Achievements thus far (As of September 30, 2017)

## 1. Strict Monitoring of Transactions

### ① **Monitoring for improper actions**

Cases which led to a recommendation:

- Jun. 2016: TEPCO Power Grid, Inc.  
(Late notification of the amount of electricity used to retail electricity operators)
- Nov. 2016: TEPCO Energy Partner, Inc.  
(Inappropriate bidding actions on the Japan Electric Power Exchange)

### ② **Examination of fees, etc.**

- Examination of transmission tariffs and transitional retail tariffs
- Examination of retail operator registration (Electricity: 421 companies, Gas, : 50 companies)

## 2. Recommendation of New Rules, etc.

### ① **Creating rules to promote competition and protect consumers**

Rules proposed to the Minister of Economy, Trade and Industry

- Principals regarding the electricity and gas retail businesses
- Principals regarding appropriate electricity and gas transactions
- Philosophy regarding the surveillance of public procurement of adjustment power by general power transmission operators
- Principals regarding the operation of bidding for new thermal power sources Etc.

### ② **Public relations & consumer protection initiatives**

- Explanatory meetings held for consumers and business operators nationwide (approximately 230)
- Press releases on consultation examples (12 times)

## 3. Record of committees, etc. held

(From September 2015)

	Meeting Name	Times Held
	Electricity and Gas Market Surveillance Commission	1 0 9
	Meeting for System Design	2 2
	Working Group to Consider the Nature of Power Grid Maintenance and Operating Expenses	7
	Meeting for Fee Examination	2 5
	Meeting for Thermal Power Source Bidding	4

# Key Current Initiatives

## 1. Strict Monitoring of Transactions

### (1) Monitoring for improper actions

- Continue to strictly deal with operators suspected of improper business actions, unfair actions by major operators, etc.
- Implement yearly operator inspections

### (2) Post-assessment of fees, etc.

- Follow-up annually with transmission tariffs, transitional retail tariffs, etc. (including initiatives to increase management efficiency by the operators)
- Carry out examinations when applications for change are received.

## 3. Deepening of international cooperation

- Promote exchange and knowledge sharing with the regulatory institutions, etc. of other countries.
- Hold APER (Asia Pacific Energy Regulatory Forum) in Tokyo in the second half of 2018

## 2. Recommendation of New Rules, etc.

### (1) Review the transmission tariff system to maintain the power transmission grid and constrain operating expenses

- While the reduction in power demand, and the increase in fluctuating power sources such as renewable energy, have reduced the utilization efficiency of power transmission equipment. Furthermore the time has come for a large-scale renewal of equipment.
- Accordingly, with a view to prevent an increase of transmission tariffs in the future, and promote the rationalization of systematic use, considerations are being made for power generation operators to assume a portion of the transmission tariff, raising the proportion of the basic fee, etc.  
(\* In cooperation with the considerations of the planned advancement of renewable energy by ANRE)

### (2) Activation of the market

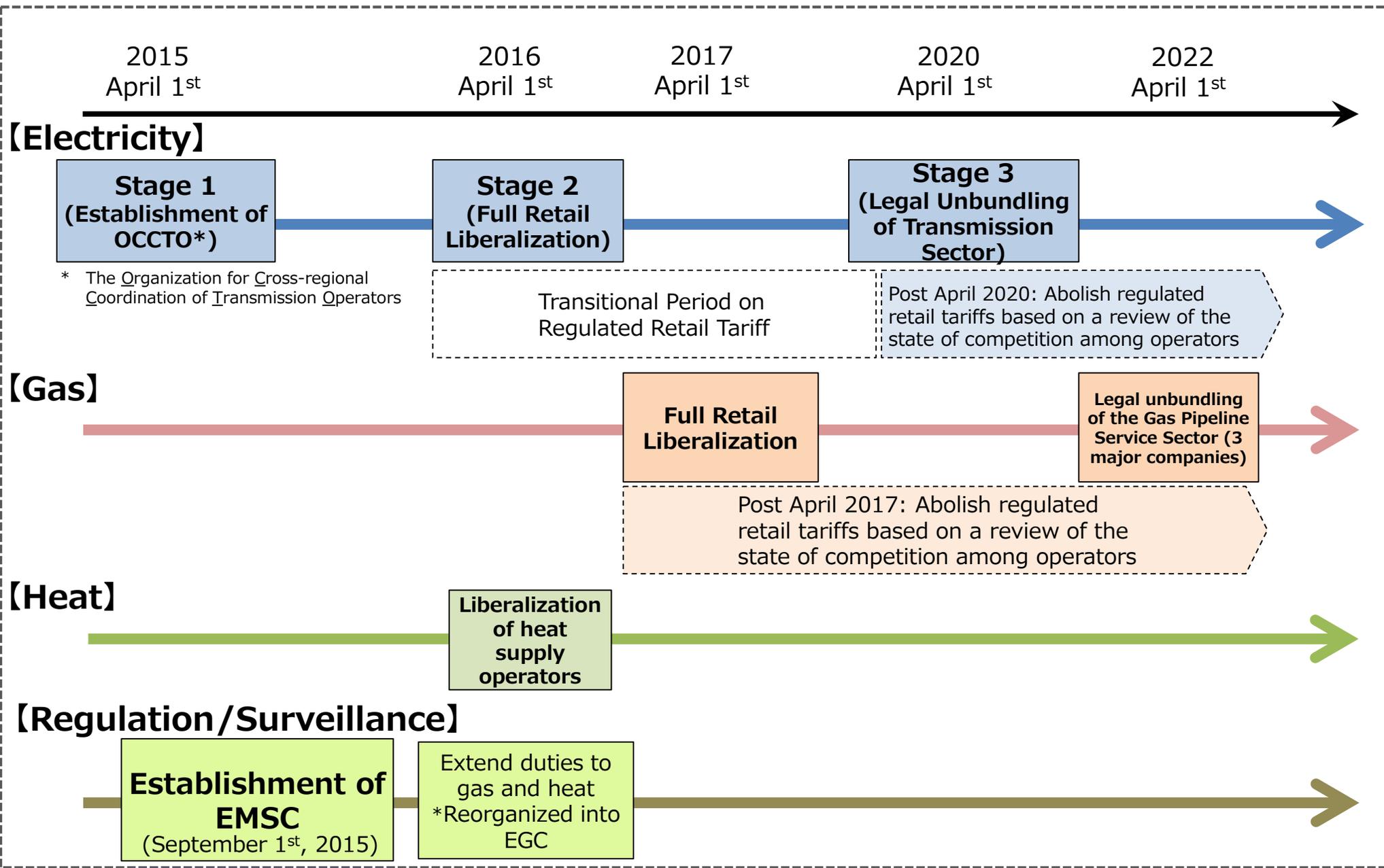
- Strengthen initiatives for former general electricity operators to provide excess power to the Japan Electric Power Exchange, and marketize in-company transactions.
- Public procurement of adjustment power by general power transmission operators.

### (3) Detailed design for legal unbundling

- Consider details of regulations on actions such as the concurrent posting of executives and employees among group companies after the legal unbundling of power transmission companies.
- Review the state of competition and consider the nature of market surveillance going forward towards the elimination of regulations on retail tariffs.

(Supplementary Materials)

# (Reference) Roadmap of the Ongoing Energy System Reform in Japan

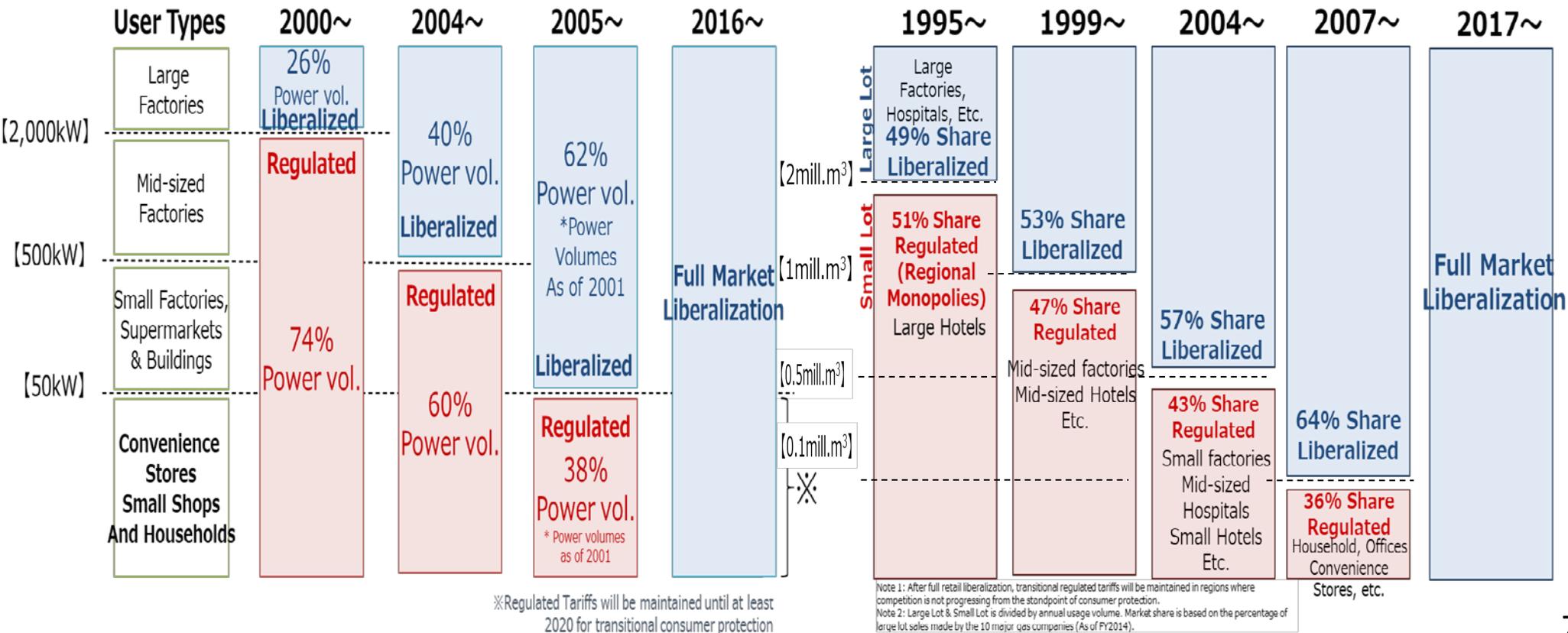


# (Appendix) Gradual Expansion of Retail Market Liberalization

- Retail market for gas has been gradually liberalized (new entrants) since 1995, electricity from 2000.
- Since April 2016 for electricity, April 2017 for gas, all purchasers, including ordinary households and convenience stores, became able to freely choose their power company and tariff selection.

Expansion of retail electric power liberalization

Expansion of retail gas liberalization



# (Appendix) The market developed through full retail liberalization

- Full retail liberalization has opened up an 8.1 trillion yen electricity market and 2.4 trillion yen gas market, both of which were previously supplied through monopolies.
- Nationwide, the 85 million small lot electricity contracts and 26 million small lot gas contracts for households and small shops now represent potential customers.

## Liberalized Sectors



## Electricity

**Electricity market liberalized before 2016**  
(Contracts: 50kW - 2,000kW)

Market scale	8.8 trillion yen
Contract count	790,000

## Gas

**Gas market liberalized before 2016**  
(Contracts: Over 100,000m<sup>3</sup> /per year)

Market scale	1.7 trillion yen
Contract count	11,000

## Regulated before 2016



**Electricity market liberalized after 2016**  
(Contracts: Up to 50kW)

Market scale	8.1 trillion yen
Contract count	
Regular households	77.32 million
Small shops, offices	7.3 million

**Gas market liberalized after 2016**  
(Contracts: Up to 100,000m<sup>3</sup> /per year)

Market scale	2.4 trillion yen
Contract count	
Regular households	24.68 million
Small shops, offices	1.21 million

# (Appendix) Initiatives in Primary Countries Leading Electrical Power Liberalization

- European countries and the U.S. have advanced the reform of the electrical power system through trial and error starting from the latter half of the 1990s.
- While Japan has started later, it has the advantage of leveraging the experiences of other countries.



Germany



UK



France



U.S.



Japan

Retail Market Liberalization

Full liberalization  
In 1998

Full liberalization  
In 1999

Full liberalization  
In 2007

Differs from  
State to State  
(Fully liberalized in 15  
states and the District of  
Columbia)

Full liberalization  
In 2016

Legal Unbundling

2000

1990

2005

Differs from  
State to State  
(Unbundled in states with  
full liberalization)

2020

Regulatory Authority

1998  
Gas and Electricity  
Agency  
(BnetZA)

2000  
Gas and Electric  
Markets Authority  
(GEMA)

2000  
Regulatory  
Commission of  
Energy  
(CRE)

1977  
Federal Energy  
Regulatory  
Commission  
(FERC)

2015  
Electricity Market  
Surveillance  
Commission (EMSC)  
\* Renamed to  
Electricity and Gas  
Market Surveillance  
Commission (EGC)