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29 July 2016

## **Tokyo Gas Applies for Authorization of “Transmission Service Agreement”**

Corporate Communications Dept.

Tokyo Gas Co., Ltd.

Tokyo Gas Co., Ltd. (Head office: Minato-ku, Tokyo; President: Mr. Michiaki Hirose, “Tokyo Gas” ) has submitted an application to the Minister of Economy, Trade and Industry for authorization of “transmission service agreement” (hereinafter referred to as “Agreement” ) prescribed in Article 48 Paragraph 1 of the Gas Business Act (5th revision), pursuant to Article 18 Paragraph 1 of this Act<sup>\*1</sup>.

The “Agreement” is provisions which prescribe the tariffs and other supply conditions in cases where businesses newly participating in gas sales and other gas retailers aside from Tokyo Gas use the gas pipelines and facilities of Tokyo Gas. The present transmission service agreement has been revised to reflect the revisions of various laws toward the full liberalization of the gas retail market to be implemented on April 2017 as well as the contents of deliberations at national councils<sup>\*2</sup>.

The main contents of the revisions are as follows.

### **1. Establishment of new transmission service tariff (“Standard Transmission Service Tariffs”)**

To date, transmission service tariffs have not been set for customers receiving gas supply with an annual consumption volume of less than 100,000m<sup>3</sup> per year. Transmission service tariffs for small-volume customers are now being established because they will also become subject to liberalization with the full liberalization of the retail gas market from April 2017.

In addition, Transmission service tariffs for large-volume<sup>\*3</sup> customers receiving gas supply are revised to reflect the revisions of the items of costs in estimating the transmission service tariff.

### **2. Establishment of discount tariff (“Optional Agreement”)**

At the same time, for the customers of using the gas pipeline facilities effectively, for example, that installed the co-generation system, the “Optional Agreement” that discount from the “Standard Transmission Service Tariffs” are now being established.

Under the application, the transmission service tariff is an average of ¥21.89 per m<sup>3</sup> (in the supply area, “Tokyo district etc.”)

The “transmission service agreement” for which the application for authorization was submitted today is scheduled to be implemented from 1 April 2017, following authorization by the Ministry of Economic, Trade and Industry.

\*1 supplementary Provisions of the Act on Partial Revision to the Electricity Business Act, Etc. (enacted on June 24, 2015).

\*2 National councils include the Gas System Reform Subcommittee of the Strategic Policy Committee of the Advisory Committee for Natural Resources and Energy.

\*3 By the end of March, 2017, it will become possible for customers with an annual consumption volume of 100,000m<sup>3</sup> (46MJ) or more to conclude contracts through large-volume supply.

In the areas where Tokyo Gas supplies 45MJ gas ( “Tokyo district etc.” and “Gunma district etc. “), the volume will be 102,223m<sup>3</sup> or more, and in the areas where Tokyo Gas supplies 38.51166MJ gas ( “Yotsukaido 12A district” ), the volume will be 106,630m<sup>3</sup> or more.

## ■ Tariff table

### 1. Standard transmission service tariff(Type1) [tax-exclusive]

					Tokyo District etc. (45MJ)	Gunma District etc. (45MJ)	Yotsukaidou12A District (38.51166MJ)	
Type1	A	Tokyo District etc.:0m <sup>3</sup> ~20m <sup>3</sup> Gunma District etc.:0m <sup>3</sup> ~24m <sup>3</sup> Yotsukaidou12A District:0m <sup>3</sup> ~20m <sup>3</sup>	Fixed tariff	Standing	¥/contract /month	103.50	103.50	103.50
			Unit tariff		¥/m <sup>3</sup>	57.20	99.87	89.61
	B	Tokyo District etc.:20m <sup>3</sup> ~80m <sup>3</sup> Gunma District etc.:24m <sup>3</sup> ~500m <sup>3</sup> Yotsukaidou12A District:20m <sup>3</sup> ~200m <sup>3</sup>	Fixed tariff	Standing	¥/contract /month	144.10	1,001.40	721.10
			Unit tariff		¥/m <sup>3</sup>	55.17	62.46	58.73
	C	Tokyo District etc.:80m <sup>3</sup> ~200m <sup>3</sup> Gunma District etc.:500m <sup>3</sup> ~ Yotsukaidou12A District:200m <sup>3</sup> ~	Fixed tariff	Standing	¥/contract /month	952.10	5,881.40	2,639.10
			Unit tariff		¥/m <sup>3</sup>	45.07	52.70	49.14
	D	Tokyo District etc.:200m <sup>3</sup> ~500m <sup>3</sup>	Fixed tariff	Standing	¥/contract /month	1,462.10	—	—
			Unit tariff		¥/m <sup>3</sup>	42.52	—	—
	E	Tokyo District etc.:500m <sup>3</sup> ~800m <sup>3</sup>	Fixed tariff	Standing	¥/contract /month	4,862.10	—	—
			Unit tariff		¥/m <sup>3</sup>	35.72	—	—
	F	Tokyo District etc.:800m <sup>3</sup> ~	Fixed tariff	Standing	¥/contract /month	9,622.10	—	—
			Unit tariff		¥/m <sup>3</sup>	29.77	—	—

### 2. Standard transmission service tariff(Type2) [tax-exclusive]

					Tokyo District etc. (45MJ)	Gunma District etc. (45MJ)	Yotsukaidou12A District (38.51166MJ)	
Type2	No.3	Fixed tariff	Standing	¥/contract /month	43,070.00	46,100.00	24,170.00	
			Flow rate	¥/m <sup>3</sup> /month	675.00	719.74	159.00	
		Unit tariff	Winter	¥/m <sup>3</sup>	4.62	23.88	6.00	
			Other seasons	¥/m <sup>3</sup>	3.85	19.90	5.00	
		No.2	Fixed tariff	Standing	¥/contract /month	105,840.00	79,600.00	—
				Flow rate	¥/m <sup>3</sup> /month	675.00	719.74	—
	Unit tariff		Winter	¥/m <sup>3</sup>	2.94	23.04	—	
			Other seasons	¥/m <sup>3</sup>	2.45	19.20	—	
	No.1	Fixed tariff	Standing	¥/contract /month	227,570.00	141,600.00	—	
			Flow rate	¥/m <sup>3</sup> /month	675.00	719.74	—	
		Unit tariff	Winter	¥/m <sup>3</sup>	2.16	22.68	—	
			Other seasons	¥/m <sup>3</sup>	1.80	18.90	—	
Amount added for low pressure		Additional unit tariff		¥/m <sup>3</sup>	1.97	3.13	—	

### 3. Optional Agreement [tax-exclusive]

					Tokyo District etc. (45MJ)	Gunma District etc. (45MJ)	Yotsukaidou12A District (38.51166MJ)
Type1	Discount for small type cogeneration system package	Discount	¥/m <sup>3</sup>	3.50	3.50	3.00	
		Discount upper limit	¥/month	700.00	700.00	700.00	
	Discount for cogeneration system only	Discount	¥/m <sup>4</sup>	6.50	—	—	
		Discount upper limit	¥/month	16,000.00	—	—	
Type2	No.3 No.2 No.1	Discount for cogeneration system only	Discount	¥/m <sup>5</sup>	2.00	—	—
		Discount upper limit	¥/month	300,000.00	—	—	

## Outline of the “Transmission Service Agreement”

### 1. Preconditions for estimating the tariff for Transmission Service

Period for the calculation	Gas volume	Rate of fair return
FY2017~FY2019	13.5 BCM	2.18%

(note) ・The gas volume is estimated based on the Supply Plan.

・The ratio of fair return is calculated subject to the relevant law.

### 2. The costs taking into account at the estimation of the tariff

- ・As the estimation, we take into account the costs for required check, maintenance, repairs and replacements for the gas transmission facilities to secure stable and safe gas supply and the amortization expense for the construction for new pipelines to meet the increasing demand.
- ・We also estimate the costs taking into account the reflection of Gas Market Reform including the required costs for the sales activities contributing to the installation of new pipelines for new customers and the operation to keep our gas supply stable.
- ・At the same time, we also take into account the impact of the assumed cost saving including the promotion to seek competing bids for the purchases of maximally. As the result, the amounts of the costs were estimated 295.9 billion yen as the costs in the supply area of “Tokyo district etc.” (the average of 3 years (FY2017 to 2019)).

【Contents (Tokyo district etc.)】

(Unit: 100 million yen)

		Estimated cost (application)	reference
Network cost subject to yardstick assessment		1,057	Total of Personnel expenses, General expenses (except for “cost related to facilities” and “taxes and dues”) and General and administrative expenses
Cost related to facilities	Depreciation & amortization	919	
	Repair costs	321	
	Loss on retirement of property, plant and equipment	186	
Fair return		139	
Taxes and dues		327	
Other expenses・Allowable profit		-87	
Cost for supply and demand adjustment		30	Total of cost for adjustment and transfer
Cost for market research and development		68	Total of cost for market research and market development
Total		2,959	

## <Reference>

### (1) Network cost breakdown list subject to yardstick assessment

(Total amount for 3 years from FY2017 to FY2019 in Tokyo, Gunma and Yotsukaidou12A districts)

Network cost subject to yardstick assessment	item	Amount (Unit: thousand yen)
	Operating expenses	Personnel expenses
Electricity charges		964,861
Water charges		372,866
Gas charges		576,483
Expendable costs		36,282,127
Freightage expenses		414,770
Transportation expenses		1,441,735
Communication expenses		1,561,224
Insurance expenses		56,383
Rent		17,162,636
Consignment costs		86,107,667
Experiment and research expenses		2,207,529
Education expenses		412,032
Inventory shortage		14,712
Write-offs		0
Miscellaneous expenses	3,907,806	
General and administrative expenses	75,622,945	
total	320,153,100	

### (2) Unit labor cost for gas pipeline section

Annual unit labor cost for gas pipeline section (calculated value)	¥ 7.45 million per person
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### (3) Expansion of Competitive bidding

- We will improve the efficiency of equipment and labor procurement with the target of competitive bidding rates for 30% by 2019.