

Entering New Fields—Toward Becoming a Diversified Energy Services Company

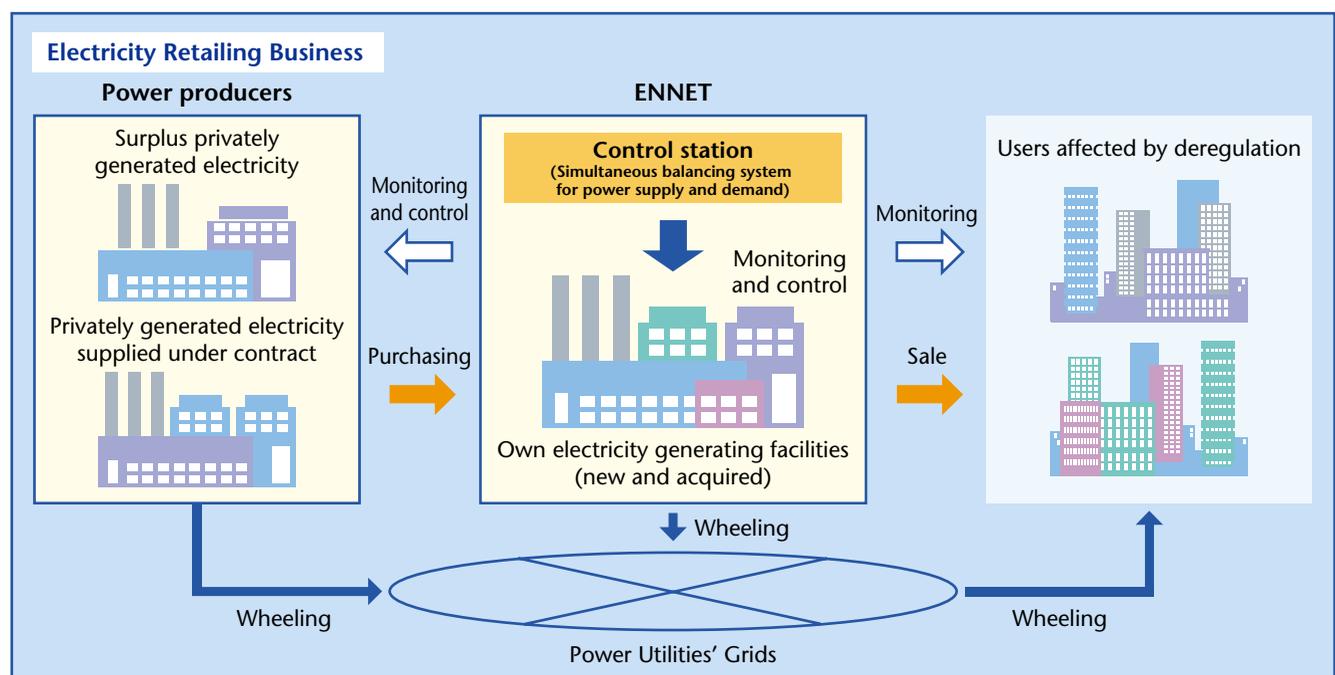
The Japanese energy sector has crossed the threshold into a new era. Liberalization of the energy market, spurred by deregulation, has removed the borders demarcating the territories of electricity and gas companies. In addition, players from other industries are joining the fray. The sector is starting to take on a different look altogether. In response, Tokyo Gas is developing various businesses in the greater Tokyo area, where energy demand is huge. The company sees deregulation as an excellent business opportunity, which it is determined to take advantage of by entering into new businesses, particularly in the electricity domain. This resolve is representative of Tokyo Gas' drive to transform itself into a diversified energy services company with natural gas at its core.

Electricity and Heat Supply in Roppongi Redevelopment Area

Tokyo Gas is making steady progress with a new retail electricity business that will supply heat and electricity for a redevelopment area in Roppongi, a thriving part of central Tokyo. The Roppongi redevelopment project is one of the largest of its kind in Japan, and is attracting considerable attention because it will be the first in a major Japanese city to embrace a retail electricity business. Operations are being carried out by Roppongi Energy Services Co., Ltd., which was jointly established by Tokyo Gas and Mori Building Co., Ltd. This operation will use a large-scale cogeneration system to generate electricity, and will provide heating and cooling by effectively using the exhaust heat from electricity generation. The use of natural gas supplied by Tokyo Gas for generating electricity makes the system ideal from two perspectives: energy conservation and environmental preservation. Moreover, the system could be used to provide electricity in the event of an emergency, such as a natural disaster. System construction is progressing toward a scheduled start up date in the spring of 2003. Redevelopment projects similar to Roppongi are being planned and Tokyo Gas intends to capture these projects, thereby promoting the efficient use of energy.

Expanding Operations by Advancing Into Electricity Retailing

In April 2001, operations commenced at ENNET Corporation, which was established by Tokyo Gas, NTT Facilities Inc. and Osaka Gas Co., Ltd. to develop an electricity retailing business. These three parties bring energy procurement and supply





*< Roppongi Redevelopment Project >
This project to redevelop a district of Roppongi, Tokyo, will comprise a broad range of facilities, including offices, housing, hotels, theaters and a broadcasting center. Tokyo Gas will supply the electricity and heating for this district through Roppongi Energy Services Co., Ltd.*

capabilities as well as related operational expertise and information technologies to the joint venture. ENNET will capitalize on these synergies to create a business model that will be highly valued in the energy supply marketplace. Electricity will be procured from generating facilities owned by the partners and from Independent Power Producers (IPPs). ENNET will play a key role in assisting customers in the rationalization of their overall energy costs.

In June 2001, Tokyo Gas established Tokyo Gas Bay Power Co., Ltd., a wholly owned subsidiary, to construct a 100,000 kW-class power plant within the grounds of our Sodegaura LNG Terminal to generate electricity for sale to ENNET. The plant is scheduled to come on line in the fall of 2003. The use of company-owned facilities will facilitate the efficient investment of capital, thereby making possible the generation and supply of electricity at competitive prices. Electricity will also be produced at other facilities. One is a 21,000kW power plant owned by ENNET in Ibaraki Prefecture that started operations in July 2001. Furthermore, plans are in hand to purchase electricity from E-Square Co., Ltd., a joint venture established by ENNET and Ebara Corporation, starting in April 2003.

Department Created to Spearhead New Business Drive

Revisions to the Electricity Utility Industry Law have liberalized electricity retailing to large-volume customers. Targeting this strategic area, Tokyo Gas has unified related operations within the company under the newly created Energy Solution Business Dept., which was established in January 2001. The Energy Solution Business Dept. integrates electricity generation and energy service operations, from business planning to operations and management. In this capacity, it is overseeing the operations of ENNET and the supply of heat and electricity in the Roppongi redevelopment area.

Tokyo Gas expects to encounter stiff competition as it enters the electricity marketplace. However, Tokyo Gas has garnered in-depth knowledge of the energy industry, refined its engineering capabilities and developed powerful sales capabilities through its gas operations. Deregulation is creating opportunities for Tokyo Gas to tap these strengths to expand its scope of business to encompass power generation and wholesaling, as well as retailing.

In energy service operations, Tokyo Gas is preparing to use gas cogeneration systems with various exhaust heat recovery devices, gas-fired absorption chillers/heaters and other innovative proposals to provide comprehensive solution packages to meet customers' energy requirements. Such packages will include consultation, financing, engineering, procurement, construction, operation assistance and maintenance of the facilities at a customer's site. In addition, various business mechanisms will be employed to reduce total energy consumption and costs. These range from energy-related Private Finance Initiatives (PFIs)—public works supplying electricity and heat by leveraging capital and expertise contributed by the private sector—to an Energy Service Company (ESCO) and an Energy Service Provider (ESP) business format. Tokyo Gas intends to tap its sophisticated expertise to develop businesses in fields extending from gas, electricity and heat to energy conservation, including emission rights trading.