

Features of Japan's City Gas Companies

Stable Business Structure and Customer Orientation

Mountainous terrain and lack of resources have had a major impact on the gas rate system and development of gas infrastructure in Japan. Most natural gas, the main resource for city gas, must be imported as liquid natural gas (LNG), and gas rates must cover the cost of liquefaction and regasification. Furthermore gas suppliers are responsible for ensuring safe use of gas at the customer's site, so rates must also include the cost of periodic inspections and safety measures at customers' premises—making prices generally higher than in Europe or North America. Deregulation of the electric power and gas industries in Japan has progressed since the 1990s to the point where annual contracted volumes of 100,000 m³ or more are now unregulated.

Deregulated Areas and Regulated Areas

In Japan's gas market, suppliers are limited to either city gas suppliers or community gas suppliers for a given district. Japan's city gas market is divided into regulated areas, such as small-volume customers, in which rates are set under the Gas Utility Industry Law, and deregulated areas, such as large-volume customers, in which consumers can freely choose their supplier.

REGULATED AREAS: In order to avoid overlapping investment in pipelines and the like, monopolistic supply is permitted for specified city gas companies within their supply districts. At the same time, supply obligations are imposed on those companies, and small-volume customers are protected by gas-rate and maintenance regulations.

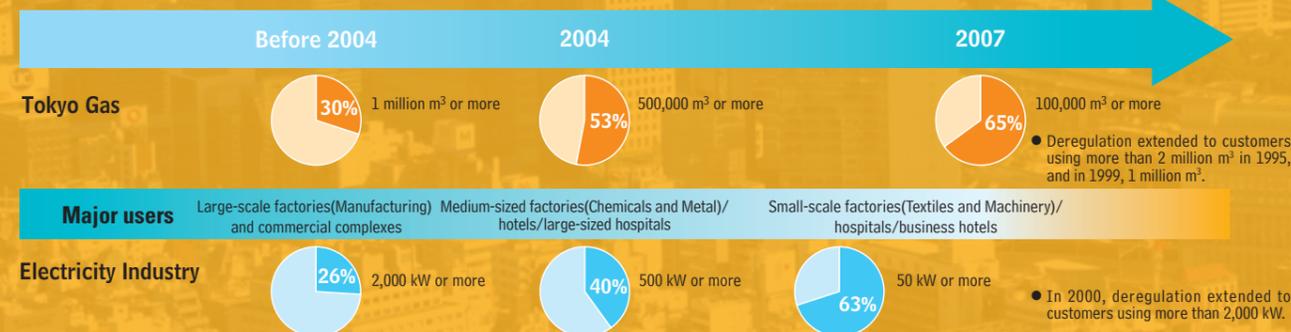
DEREGULATED AREAS: Only consumers with annual contracts for 100,000 m³ of gas or more are eligible to take part. Business entry into these areas is open to new entrants, such as large-volume gas suppliers or city gas suppliers outside their supply districts.

Unlike Europe and North America, Japan has no nationwide pipeline network. Each city gas supplier delivers and sells city gas through a pipeline network developed for its own service area.

Features of the Rate Structure

Many city gas companies import LNG as their source of natural gas, and gas resource costs can be influenced dramatically by trends in crude oil prices and exchange rates. To adjust gas rates automatically in line with fluctuations with gas resource costs, the gas rate adjustment system has been introduced. The system is intended to increase the transparency of gas companies' efforts to achieve more efficiency and to quickly reflect economic conditions in their rates. Under this system, the meter rate gas unit price is readjusted every three months based on the three-month average of the gas resource price from customer clearance statistics. Thanks to this system, the impact of fluctuations in crude oil prices and exchange rates on the revenue and expenditure of gas companies is neutral over the long term.

Deregulation Schedule



Gas Rate Adjustment System

