

Gas Business Regulations

1. Overview of Gas Business Regulations

- General gas utilities are granted the right to establish regional monopolies within their service area but are subject to regulation under the Gas Business Act in order to protect user interests.
- As part of the move toward deregulation, regulations under the Gas Business Act have been lessened for large-scale users, defined as those that purchase 100,000 m³ or more a year, whereas users that purchase less than 100,000 m³ a year remain fully regulated.

The Gas Business Act imposes restrictions on gas utilities in several areas. Significant restrictions can be categorized as follows.

1 Gas Rates (Scope of Restrictions)

- The Act states that “The rates consist of fair costs incurred as a result of efficient management and fair profits. (Article 17, paragraph (2), item (i)),” and rates must undergo inspection by the Ministry of Economy, Trade and Industry.
- The production costs required to supply gas to customers and the costs required to fulfill safety responsibilities are considered necessary costs for gas utilities, and these costs may therefore be factored into gas rates to within an appropriate extent.
- In regard to profits, capital costs related to facilities necessary to operate a gas business, based on profit figures calculated using the total of shareholder capital cost and debt cost, may be factored into gas rates to within an appropriate extent. This provision is

meant to allow gas utilities to operate their business in an appropriate manner.

- Approval from the Ministry of Economy, Trade and Industry is required to raise rates, but lowering rates only requires notification to be submitted.

2 Obligation to Supply (Scope of Restrictions)

- In exchange for receiving monopoly rights within their city gas supply area, gas utilities are required by principle to supply to any user upon request. Moreover, once supply has been commenced, the utility may not cease supply without justifiable grounds.

3 Safety Responsibilities

- Gas utilities are responsible for ensuring the safety of gas facilities, including users’ assets. “Gas facilities” refers to all facilities installed for the purpose of supplying gas as well as auxiliary facilities and includes gas generating facilities, pipelines, gas meters, and gas taps. Gas utilities are required to maintain all gas facilities at levels safe for operation.
- If gas utilities manufacture their own gas facilities, they are required to ensure that these facilities conform to technical standards. Gas utilities are also obligated to inform users with regard to potential dangers that could arise from gas usage and conduct inspections to assess conformity to technical standards of certain gas facilities.

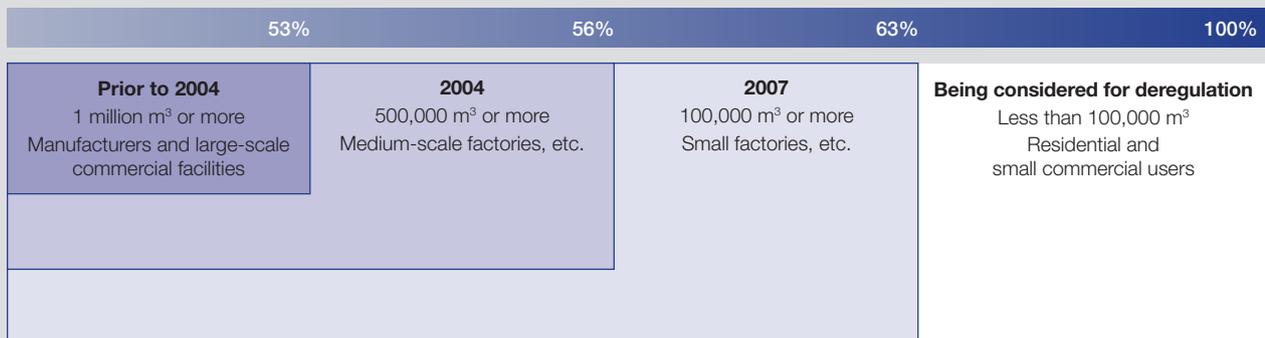
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Gas Business Act and Deregulation Trends

Gas utilities operate their business in accordance with the Gas Business Act. The scope of deregulation under the Act has gradually been expanded. Initially, only large-scale users that purchase 1 million m³ or more a year were subject to deregulation.

However, this hurdle has been reduced, and now users that purchase 100,000 m³ or more a year are subject to deregulation. Moreover, discussions are under way to examine the possibility of fully deregulating residential sales.

Scope of Deregulation



Regulated areas

2. Gas System Reform

1 Our Stance

Gas system reform will result in intensified competition. Conversely, these revisions will give gas utilities more independence and autonomy. Even should the market become fully deregulated, we believe that this situation will represent a significant opportunity for Tokyo Gas to grow by responding to customer needs. We are confident in the Company's success in this endeavor due to the following strengths, which are not found among the competition.

1. Relationship with more than 11 million customers
2. Advanced energy solution technologies provided as a leader in the field of natural gas
3. Robust infrastructure centered on the Tokyo metropolitan area, including LNG terminals and pipeline facilities

2 Overview of Gas System Reform

In November 2013, discussions regarding the possibility of gas system reform commenced at a commission meeting held by the Ministry of Economy, Trade and Industry. While specific frameworks are still being formulated, hearings have been held with various gas utilities, and the expansion of the scope of deregulation in the retail market is being discussed, with full deregulation proposed as a possible option.

3. Electricity System Reform

1 Our Stance

Electricity system reform represents a substantial business opportunity for Tokyo Gas. Our ability to take advantage of this opportunity is largely due to three strengths: our superior LNG procurement capabilities; our LNG terminals, pipelines, and other infrastructure; and our competitive power sources—namely, our natural gas-fired thermal power plants that employ highly efficient combined cycle generation methods. By leveraging these strengths, we will advance boldly into the electricity market as soon as the system revisions allow.

2 Overview of Electricity System Reform

Electricity system reform is being instituted with the aim of ensuring a stable supply of power, reducing electricity rates, and providing users with a wider range of options.

Specifically, revisions are slated to proceed based on the following schedule.

- Phase 1 (scheduled tentatively for 2015): Establishment of an organization for operations of wide-area electrical grids
- Phase 2 (scheduled tentatively for 2016): full deregulation of the retail market
- Phase 3 (scheduled tentatively for 2018–2020): Separation of power transmission and distribution networks and abolition of retail rate regulations

