

Deregulation of the Gas and Electric Industries

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. Large-scale users with an annual gas consumption of 100,000 m³ or more fall within the scope of deregulation. Users with an annual gas consumption of less than 100,000 m³ are subject to regulation. Details of typical regulations are presented briefly as follows.

1 Rate Regulations

- The Act states that “The rates consist of fair costs incurred as a result of efficient management and fair profits,” 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.

Overview of electricity and gas system reforms and the main schedule for revising the Business Act

Revision of the Business Act is designed to provide users with an enhanced degree of freedom with respect to their choice of energy, suppress energy rates, and secure a safe and stable supply of energy thereby increasing benefits to consumers by creating a comprehensive energy market through integrated reform in the energy field.

The proposal to revise the Business Act was approved by Japan’s Cabinet in March 2015 and enacted at an ordinary session of the Diet in June 2015.

	Electricity															
2015	April Establishment of an organization for operating wide-area electrical grids															
2016	<p>April Full deregulation of the retail market</p> <table border="1"> <thead> <tr> <th>Period</th> <th>Percentage</th> <th>Power Consumption / User Type</th> </tr> </thead> <tbody> <tr> <td>Prior to 2004</td> <td>26%</td> <td>2,000kW or more Large-scale factory, other</td> </tr> <tr> <td>2004</td> <td>40%</td> <td>500kW or more Medium-scale factories, etc.</td> </tr> <tr> <td>2005</td> <td>62%</td> <td>50kW or more Small factories, etc.</td> </tr> <tr> <td>2016~</td> <td>100%</td> <td>Less than 50kW Residential and small commercial users</td> </tr> </tbody> </table>	Period	Percentage	Power Consumption / User Type	Prior to 2004	26%	2,000kW or more Large-scale factory, other	2004	40%	500kW or more Medium-scale factories, etc.	2005	62%	50kW or more Small factories, etc.	2016~	100%	Less than 50kW Residential and small commercial users
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2022																

Our Stance

Tokyo Gas has positioned electricity system reform as a significant opportunity to expand its business. Utilizing the following inherent strengths, the Company will take up the challenge of growing its power generation business.

- ① Our superior LNG procurement capabilities
- ② Our competitive power sources namely, our natural gas-fired thermal power plants that employ highly efficient combined cycle generation methods, and
- ③ Frequent opportunities to meet directly with customers.

2 Obligation to Supply

- 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.

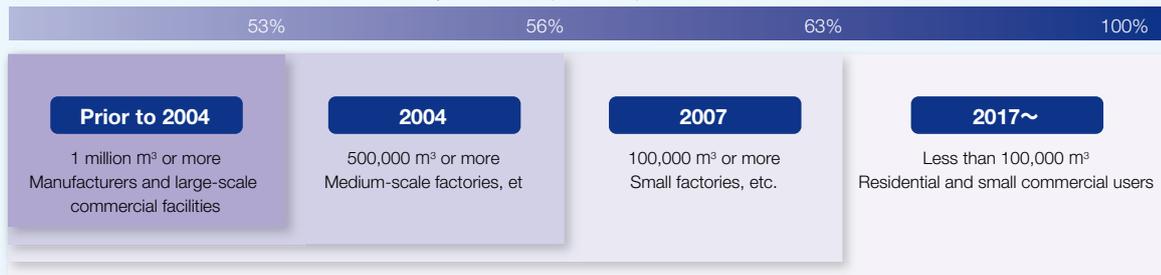
Gas

2015

2016

Full deregulation of the retail market

Effective date of full liberalization of Gas retail market is set by the government ordinance in less than two years and six months from the issued day of the revised law (June 24, 2015).



2017

2020

April Legal separation of the gas pipeline network

2022

Against the backdrop of a fiercely competitive gas business environment attributable to full retail deregulation, the independence and autonomy of management is expected to rise. Under these circumstances, Tokyo Gas is harnessing the following unique attributes to take all appropriate measures from each of the strategic, financial, and IT system perspectives to address full deregulation as a priority issue and ensure that it remains the preferred choice of customers.

- 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