Deregulation of the Electric Power and Gas Markets

Meaning and Objectives of Electricity and Gas System Reforms and Schedule Milestones

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<tbody>
<tr>
<td>Pipeline business</td>
<td>2 million m³ or more Large-scale factories and hospitals</td>
<td>1 million m³ or more Manufacturers and large-scale commercial facilities</td>
<td>500,000 m³ or more Medium-scale factories, etc.</td>
<td>100,000 m³ or more Small factories, etc.</td>
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<tr>
<td>Retail business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Production business</td>
<td></td>
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Deregulation progress

Electricity schedule

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<tbody>
<tr>
<td>Deregulation progress</td>
<td>26%</td>
<td>40%</td>
<td>57%</td>
<td>53%</td>
<td>64%</td>
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Gas schedule

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<tbody>
<tr>
<td>Deregulation progress</td>
<td>49%</td>
<td>53%</td>
<td>57%</td>
<td>64%</td>
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Major issues in Gas System Reform

As a preparatory measure for full deregulation of the retail gas market, the regulatory authorities defined the gas industry as consisting of three types: pipeline business (general and dedicated); retail business; and production business. As a general gas business in the Greater Tokyo Area, Tokyo Gas has provided a one-stop service from production to supply and sales. However, after the full market deregulation, retail operators (new entrants) will be able to use the pipelines of Tokyo Gas, upon payment of usage rates, and to sell gas to small-scale users. The Tokyo Gas Group is preparing to address the full deregulation as a priority issue and to ensure that it remains the preferred choice of customers, by harnessing its unique strengths.

At present

Safety regulations

<table>
<thead>
<tr>
<th>Asset category</th>
<th>Safety responsibilities and responsible entity (Small-lot segment)</th>
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<tbody>
<tr>
<td>Site border</td>
<td>Emergency response</td>
</tr>
<tr>
<td>Business operator</td>
<td>Inner-pipe leakage testing</td>
</tr>
<tr>
<td>General gas operator</td>
<td>Gas appliance inspection, risk prevention publicity</td>
</tr>
<tr>
<td>User</td>
<td>Regular checking</td>
</tr>
<tr>
<td>User’s property site</td>
<td>Emergency safety</td>
</tr>
</tbody>
</table>

After the full deregulation

1. LNG terminal business (gas production business)
   - Notification system
   - Tokyo Gas, electric power companies, etc.

2. General gas pipeline business
   - License system
   - Tokyo Gas

3. Dedicated gas pipeline business
   - Notification system
   - Electric power companies, oil companies, etc.

4. Gas retail business
   - Registration system
   - Tokyo Gas and new entrants
Business Operators’ Major Roles

1. **LNG terminal business** (gas production business)
   - Ensure maintenance of LNG terminals and operate stable gas production
   - Maintain conveyance rate structure based on the full cost principle and ensure sufficient investment for safety
   - From the perspective of expanding the use of natural gas, general gas operators are encouraged to further extend a pipeline network. From a perspective to increase benefits of users (i.e., to lower conveyance service rates) through enhanced efficiency, the regulation providing for rates to be based on the full cost principle will be maintained for conveyance by general gas operators (such as Tokyo Gas).

2. **General gas pipeline operators**
   - Responsible for emergency safety of gas facilities and gas appliances
   - Responsible for regular inspection of gas facilities

3. **Gas retail operators**
   - Accountability to customers with regard to various conditions for retail sales, such as rates; cost burden; measurement method of consumption volume; calorific value, components, and pressure of gas; and maintenance responsibility.
   - Safety responsibility such as gas appliance inspection and publicity to make known prevention of risk occurrence
   - Gas supply capacity to sufficiently satisfy demand

Tokyo Gas Group’s Strengths

- **Stable and efficient terminal operation**
  The Tokyo Gas Group manages 4 LNG terminals in a stable and efficient manner, based on its abundant experience in managing LNG terminals and high-level LNG technology.

- **Stable and reliable management of gas pipeline network**
  By accelerating to take measures such as for aged gas pipes, the group aims at zero significant accidents and promotes more disaster-resilient safe supply of gas.

- **Expand optimal new infrastructure to improve supply capacity**
  The Group decided to construct the Ibaraki Trunk Line that connects the Ibaraki-Tochigi Trunk Line and Hitachi LNG Terminal with the Chiba-Kashima Line. Supply stability will be enhanced by having multiple pipeline networks.

- **Emergency safety measures**
  Around 600 safety experts are assigned in 49 bases to ensure safe, stable, affordable delivery of natural gas to approximately 11 million customers around the clock for 365 days.

- **Community-based sales structure**
  The Tokyo Gas Group has more than 200 outlets (owned by Tokyo Gas Lifeval, Enesta, and Enefit) in the Kanto Region and provide scrupulous services to respond to needs of customers.

- **Capacity to propose energy solutions**
  Optimal energy solutions that combine gas, electricity, and added-value are proposed to customers.

- **LNG procurement capability of 14 million tons per year (equivalent to approximately 15% of Japan’s procurement volume)**
  The Group is promoting more diversification in material suppliers, pricing benchmarks, sales destinations, and other areas and will continue to flexibly collaborate with domestic and overseas players in LNG joint procurement, accommodation, and sales.