

Regulatory reform and competition in the gas industry

Haruki Takahashi
Senior Managing Director



The Japan Gas Association

Outline

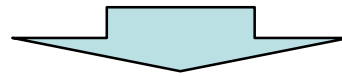
- Regulatory reform
 - Oil industry
 - Electric power industry
 - Gas industry
- Response of gas companies to regulatory reform
- Future regulatory reform in the gas industry and issues to be discussed



Regulatory reform in the energy sector

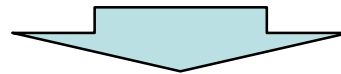
Back ground of regulatory reform in the 90's

- Global trend of deregulation
- Restriction of gas companies' activities by regulations
- High energy prices causing hollowing-out domestic industries



Regulatory reform

- Light-handed regulations
- Achieving free and fair markets

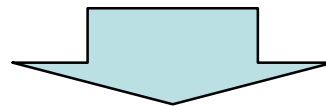


Lowering energy prices

Regulatory reform in the oil industry

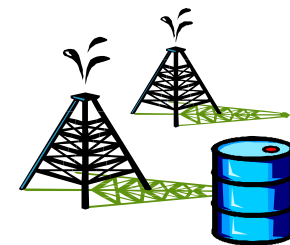
Regulatory reform in the oil industry

1986	Partial liberalization of imports
1996	Full liberalization of imports
2002	Abolishment of government control on refinement and supply

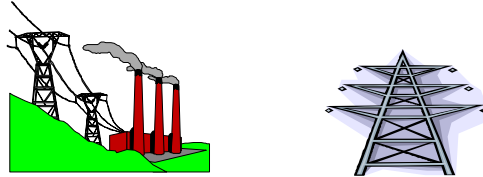


Response of oil companies

- Integration of refinery plants
- Rationalization of supply chain



Regulatory reform in the electric power industry



1995

Wholesale electric power by IPPs

2000

2 MW or more

Rules of retail wheeling service

2004

500 kW or more

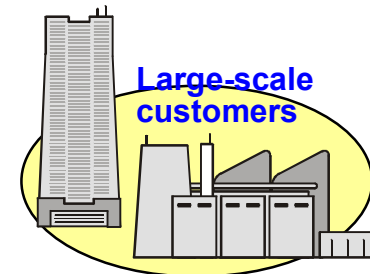
Share of new entrants; 2%

2005

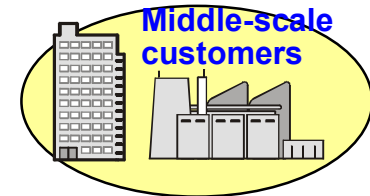
50 kW or more

To be discussed

Below 50kW



Large-scale customers



Middle-scale customers



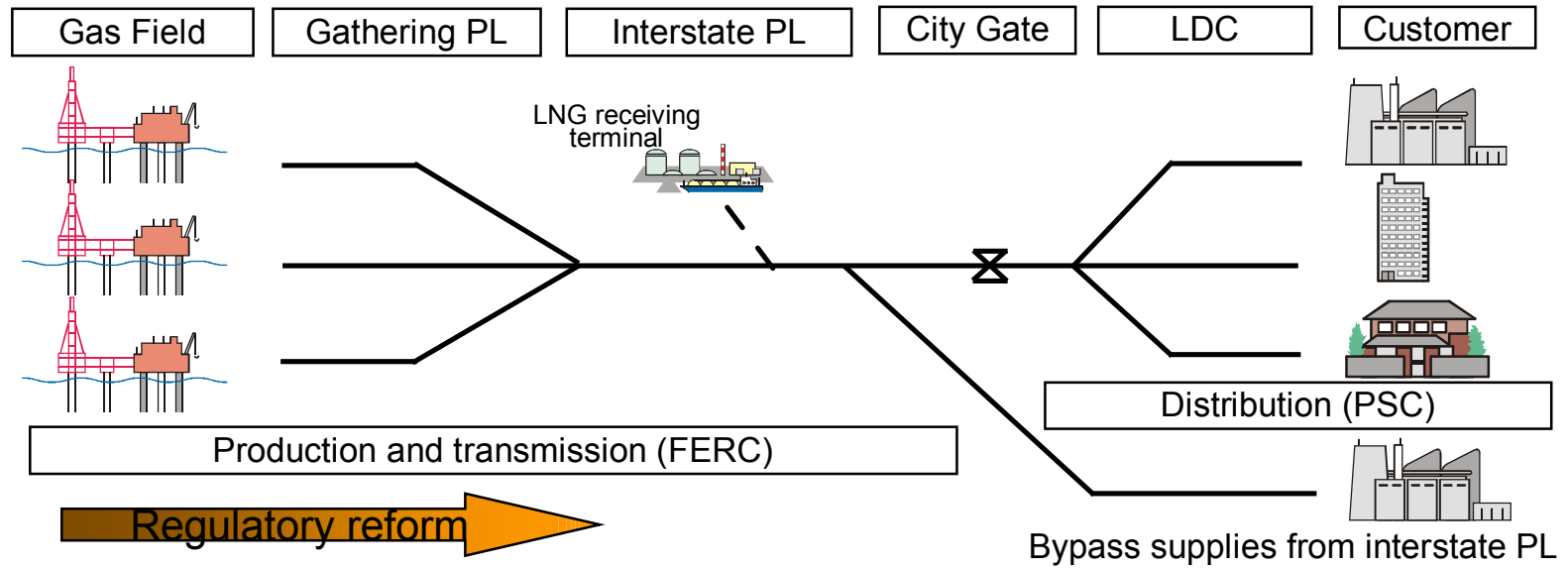
Small-scale customers



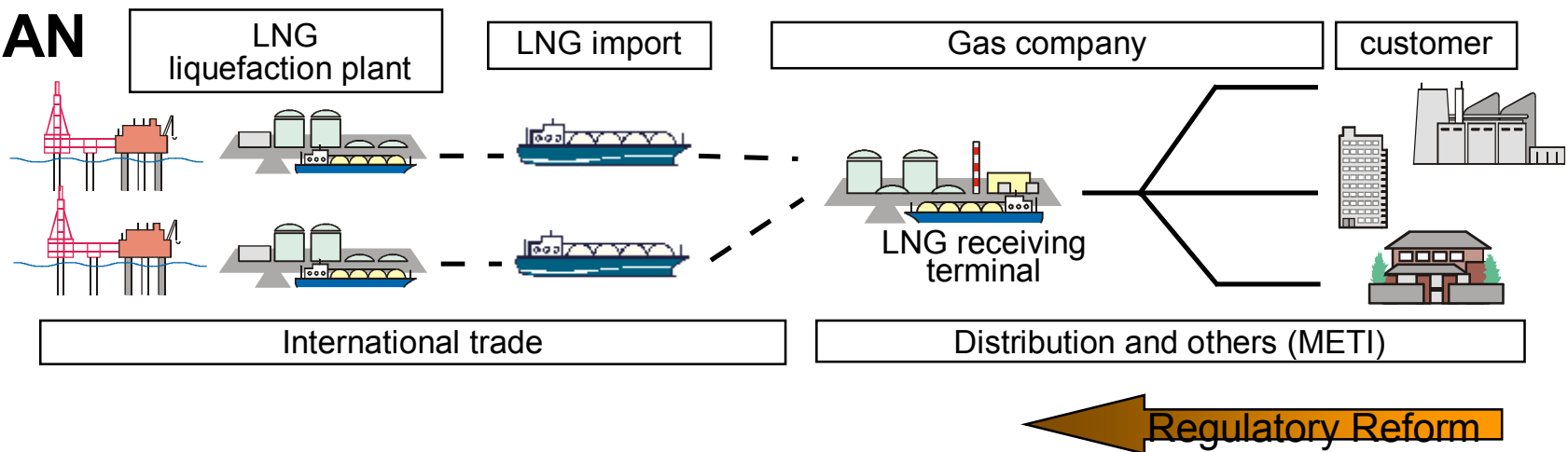
Small-scale customers including residential use

Natural gas chain

US



JAPAN



Characteristics of Japan's gas industry

- No nationwide trunk line
- Major gas companies; LNG importer and distributor
- Wider range of safety responsibility
- No combination utility
- METI; Sole regulator

Regulatory reform in the gas industry

Deregulation started from large-volume customers.

1995

2 million m³ (70.7mmcf) or more p.a.

1999

1 million m³ (35.3mmcf) or more p.a.

2004

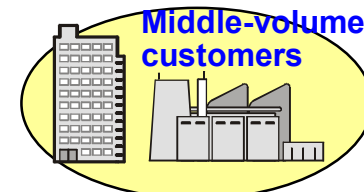
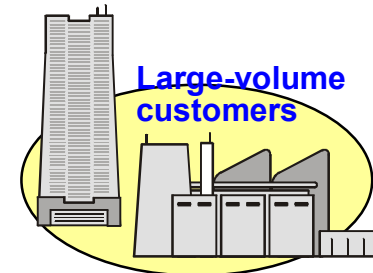
0.5 million m³ (17.7mmcf) or more p.a.

2007

0.1 million m³ (3.5mmcf) or more p.a.

*To be
discussed
in 2006*

Below 0.1 million m³ (3.5mmcf) p.a.



Response of gas companies to regulatory reform

Regulatory reform

Gas industry

- Market liberalization (70.7mmcf p.a. → 17.7mmcf p.a.)
(2 million m³ p.a. → 0.5 million m³ p.a.)
- Transportation service
(Major 4 companies → all companies)
- Code of conduct

Other energies

Intensified competition

- Gas company vs. electric power company, other gas company, etc
- Gas vs. electricity, oil, etc

Response of gas companies

- Revision of gas tariffs
- Expanding of service to customers (ESCO, etc)

Future regulatory reform in the gas industry

- 0.1 million m³ (3.5mmcf p.a.) or more in 2007
- Discussion on liberalization of residential market (below 0.1 million m³ p.a.) in 2006
- Issues of liberalization in residential market
 - Safety for customers
 - Last resort
- Bypass competition

What we need in order to be chosen by customers

- Customer service
- R&D
(distribution, appliances, etc)
- Cost reduction