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Japan Energy Newsletter

**Japan Electric Power
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Table of Contents

1	<i>Japan’s Government Reached New Decisions on Power Supply and Demand Policies in FY 2022</i>	1
1.1	Power Supply Measures	1
1.2	Power Demand Measures.....	2
1.3	Structural Reform Measures	2
2	<i>The Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism Prepared a Draft Public Procurement Rule on Offshore Wind Power Generation</i>	1
2.1	Background	1
2.2	Draft Public Procurement Rules	2

1 Japan's Government Reached New Decisions on Power Supply and Demand Policies in FY 2022

Amid an ongoing tight power supply, Japan's government held an Electricity Supply and Demand Meeting on June 7, 2022. The meeting, which was chaired by the Chief Cabinet Secretary and composed entirely of ministers, made new decisions on Japan's power supply and demand policies for Fiscal Year (FY) 2022. On the supply side, in addition to the public power procurement, Japan will consider issuing power supply orders to utilities in accordance with the Electricity Business Act. On the demand side, Japan will undertake nationwide power-saving efforts for the first time since FY 2003. The government will also address several key areas for structural reform, including securing backup power sources in the capacity market, increasing the level of public involvement in fuel procurement for liquefied natural gas (LNG), and implementing measures to promote new energy investment.

The utilization rate of thermal power plants has been declining because of recent growth in renewable energy. In addition, some thermal power plants have had to suspend operations due to damage caused by the March 2022 Fukushima Earthquake. Under these circumstances, Japan will not be able to maintain a reserve margin of 3.1% in three areas—Tohoku, Tokyo, and Chubu--during the summer season. Furthermore, it will not have a margin of 3% in seven areas from Tokyo to Kyushu during the winter season. In particular, the situation in the Tokyo area is severe. Because there has been an increase of remote workers during the pandemic, electricity demand has grown in many areas over the past two years. The Russian invasion of Ukraine has also led to energy supply issues, such as a price spike for LNG, and drastic changes to Japan's power procurement activities in the international energy market, such as the LNG supply from Russia. To address these power supply issues, the Japanese government has decided on the measures described below.^{1 2}

1.1 Power Supply Measures

- **Public power supply procurement (kW-based Public Procurement)**
 - Japan will launch a kW-based Public Procurement to compensate the start-up cost of idle power plants. Power transmission and distribution companies are also soliciting a total of 1200GW for this summer.
- **Additional fuel procurement solicitation (kWh-based Public Procurement)**
 - Japan will launch a kWh-based public procurement for additional fuel procurement. Power transmission and distribution companies are also soliciting a total of 1 TWh for this summer.
- **Preventing unplanned shutdowns of power plants**
 - In order to prevent unplanned outages at power plants, Japan will request that utilities carefully manage their power plant safety and secure the necessary fuel for power generation.
- **Maximizing the use of non-fossil energy sources**

¹ https://www.kantei.go.jp/jp/singi/electricity_supply/20220609/gaiyou.pdf

² https://www.kantei.go.jp/jp/singi/electricity_supply/20220609/siryoku.pdf

- To maximize the operation of renewable energy power sources, Japan will carefully maintain its renewable energy-related equipment. It will also maximize the use of nuclear power in line with safety guidelines.
- **Ensuring stable supply by issuing supply orders**
 - Japan is likely to face an extremely tight power supply in winter 2022. If the power supply is considerably affected by unstable fuel procurement, the government will issue a supply order to utilities based on the Electricity Business Act to secure a stable power supply.

1.2 Power Demand Measures

- **Power and energy saving campaign**
 - Japan will undertake a wide variety of energy-saving campaigns to educate residents on considering their energy consumption behaviors. It will also incentivize industry members to upgrade their energy-saving equipment and devices.
- **Establishing a power saving mechanism**
 - In coordination with industry and local governments, Japan will develop power saving measures and procedures and establish an energy emergency coordination system.
- **Promoting the adoption of a demand response program**
 - Japan will aim to expand a demand response (DR) program through electricity retailers and promote DR contracts in the industry.
- **Enhancing the process of power saving notification**
 - When power supply is expected to be tight, Japan will release a preliminary power saving notice to the public two days in advance and issue a power supply warning one day in advance.
- **Examining a usage restriction ordinance and preparing for rolling blackouts as a safety net**
 - Japan will review its current power emergency preparedness and improve power emergency measures. Emergency measures include the issuance of power usage restrictions based on the Electricity Business Act, and ensuring the smooth activation of rolling blackouts when a large-scale power outage is unavoidable.

1.3 Structural Reform Measures

- **Ensuring the steady operation of the capacity market and a backup power supply in case of disasters**
 - Japan plans to start operating its capacity market in FY 2024. In order to address unexpected tight power supply situations, Japan will consider establishing a framework to maintain idle power plants so that those plants can generate additional power within a certain period of time if needed.
- **Strengthening fuel procurement and management**

- Japan will focus on its LNG fuel supply system and will consider approaches to strengthening the government's involvement in energy procurement.
- **Formulating new investment promotion measures**
 - Japan is reviewing a new investment policy that can secure long-term fixed investments in decarbonized power sources while also considering investments in some thermal power sources to meet current energy needs. The policy is expected to be introduced in FY 2023.
- **The development of distributed energy resources, including pumped storage hydropower, battery storage, and hydrogen**
 - Japan aims to improve the flexibility of regional power transmission by advancing the development of distributed energy resources, including pumped storage hydropower, battery storage, hydrogen, and combined heat and power (cogeneration).

2 The Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism Prepared a Draft Public Procurement Rule on Offshore Wind Power Generation

On June 23, 2022, the Ministry of Economy, Trade, and Industry (METI) and the Ministry of Land, Infrastructure, Transport, and Tourism (MLIT) announced that they have collaboratively prepared new draft public procurement rules to promote offshore wind power development.

The proposed rules are designed to prevent a single bidder from winning all of the projects in multiple development areas. The rules also seek to give a higher valuation to bidders that can operate offshore wind power generation at an early stage and encourage more businesses to participate in offshore wind power development.

2.1 Background

Japan has pledged to make renewable energy the country's main power source to decarbonize by 2050 and is therefore seeking to facilitate the widespread use of offshore wind power generation. There are many advantages to offshore wind power generation, including 24-hour stable operation, larger output than onshore wind power generation, less land usage, and less noise pollution. However, the early adoption of offshore wind power generation is facing two key challenges: higher costs and relatively low business participation.

In accordance with the Act on Promoting the Utilization of Sea Areas for the Development of Marine Renewable Energy Power Generation Facilities, METI and MLIT have responded to the above challenges by promoting the development of offshore renewable energy power generation facilities in the following areas.

- Noshiro City, Mitane Town, and off the coast of Oga City in Akita Prefecture
- Off the coast of Yurihonjo City, Akita Prefecture
- Off the coast of Choshi City, Chiba Prefecture.

METI and MLIT announced on December 24, 2021, that they had selected the winning bidders for the rights to move forward on offshore wind energy development in these areas. A Mitsubishi Corporation-led consortium was selected as the single bidder for all of the available development areas because it offered a power supply price of about 0.086 to 0.12 USD/1 kWh, which was much cheaper than other bidders.³

In light of the Russian invasion of Ukraine, METI and MLIT have emphasized that an early start to operations is crucial for ensuring energy security. Critics have also pointed out that Japan needs to adjust its procurement mechanisms to encourage various companies to participate in bidding on offshore wind power projects.

³ <https://www.meti.go.jp/press/2021/12/20211224006/20211224006.pdf>

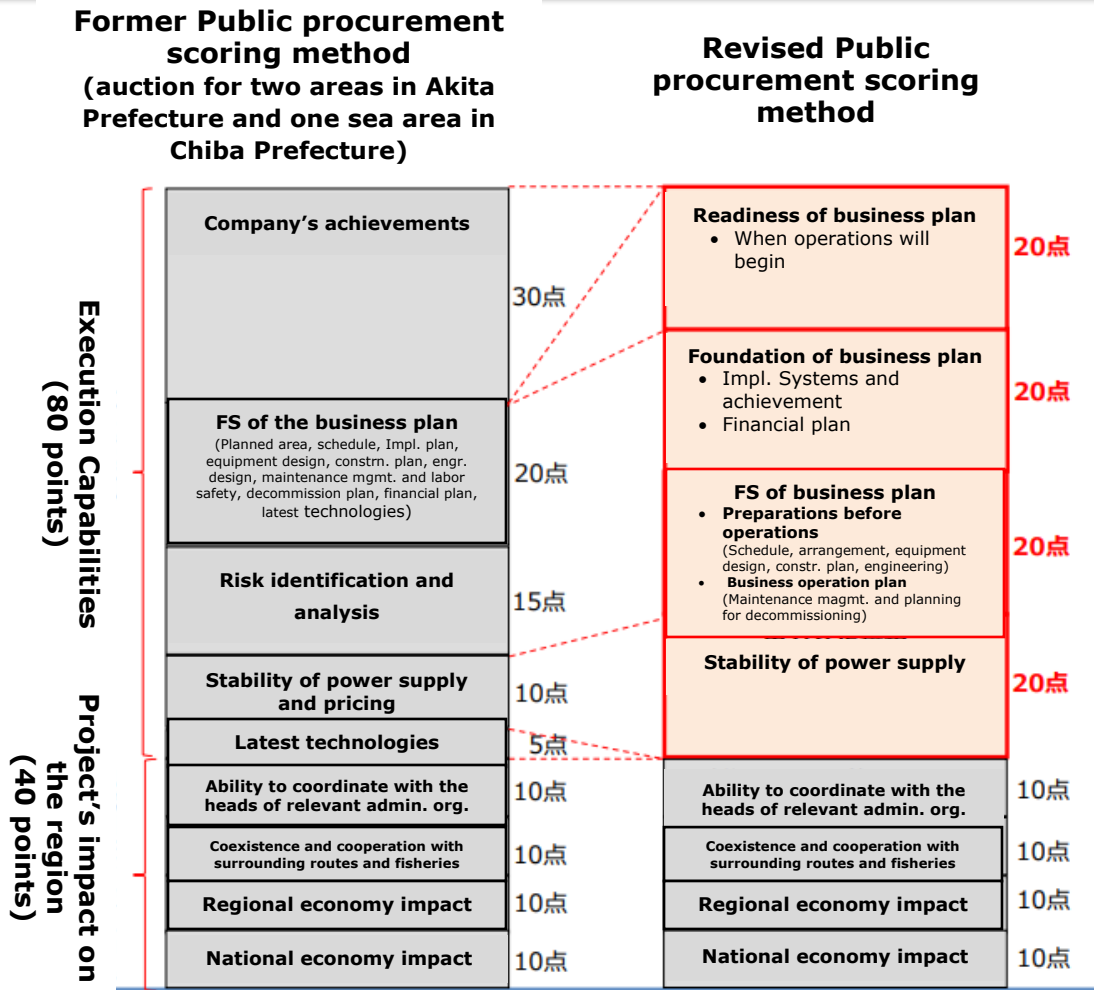
2.2 Draft Public Procurement Rules

To address procurement issues, on June 23, 2022, METI and MLIT proposed new rules for public procurement based on the Act on Promoting the Utilization of Sea Areas for the Development of Marine Renewable Energy Power Generation Facilities.

Under the new bidder selection system, the agencies will utilize a scoring system to evaluate and quantify the score based on certain requirements. The maximum score of the revised tender evaluation method remains 120 points. METI and MLIT have proposed to adjust the scoring ratio for the section on project execution capabilities. Originally, this section included achievements (30 points), the feasibility of the business plan (20 points), risk analysis (15 points), the stability of the power supply (10 points), and the latest technologies (5 points). Under the new system, the tender evaluation method underscores the feasibility of the business plan and prioritizes the readiness of the business plan (20 points) to expedite the introduction of offshore wind power generation.⁴

4

https://www.meti.go.jp/shingikai/enecho/denryoku_gas/saisei_kano/yojo_furyoku/pdf/014_01_00.pdf



Source: METI and MLIT

The rules propose an upper limit of power capacity for bidders. For instance, when there are bids in multiple sea areas at the same time, the upper limit of successful bids per participant will be a total of 1 GW.