

# A Proposal for Near-Term Energy Policy

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## **1. Introduction**

After the Great East Japan Earthquake, electricity rates for industrial use increased by approximately 30 percent, thereby substantially affecting national livelihood and business operations. In fiscal year 2013, given the correction of the strong yen and rising energy prices, in addition to the suspension of operations at nuclear power plants, fossil fuel imports surged by approximately 10 trillion yen from fiscal year 2010 levels, and current account surplus has been on the decrease for three consecutive years. If the yen keeps weakening as it is now, positive developments in the economy will be inevitably hindered. Therefore, energy issues urgently need to be addressed with the highest priority. Hence, KEIDANREN proposes that the following measures be taken:

## **2. Accelerate the process for restarting nuclear power plants**

From the perspective of ensuring energy security and securing an economically efficient electric power supply, nuclear power is an exceptionally important energy source, and therefore, the Government should provide the general public with a lucid explanation of the necessity of nuclear power and promote efforts to create the conditions required for its continued utilization as an important base-load power source.

If nuclear power operations continue to be suspended, further increases in electricity rates will be inevitable, and the process for restarting nuclear power plants must thus be accelerated to the maximum extent possible, on the major premise that safety is ensured. Therefore, efforts should be made to improve the efficiency of reviews for safety as well as the predictability of what will be reviewed, by further increasing the personnel of the Nuclear Regulation Authority (NRA). The Government must also take all possible measures to ensure that it is fully prepared for disasters, as demanded by local areas hosting

nuclear facilities, and explicitly explain the need for restarting them. The business community is determined to have relevant operators and providers make untiring efforts to improve safety levels and to advocate the need for restarting nuclear power plants.

### **3. Fundamentally review the Carbon Tax**

The “Tax for Climate Change Mitigation (Carbon Tax)” has accelerated the surge in energy costs and has raised concerns that it may hinder economic growth. While rising fossil fuel consumption after the Great East Japan Earthquake has presumably generated more tax revenue than originally expected<sup>1</sup>, with regard to the Petroleum and Coal Tax as a whole, some revenue has been retained in the general account and has yet to be utilized for global warming countermeasures and some of what has been added to the Special Account for Energy Measures has been carried over to the following year. Therefore, questions have arisen concerning the necessity of taxation.

Technological development holds the key to balancing global warming prevention and economic growth. However, by not only depriving the businesses of the financing required for R&D activities but also encouraging the transfer of production bases to areas with relatively low energy efficiency levels, the Carbon Tax has, in some dimensions, undeniably contributed to the acceleration of global warming and the hollowing out of domestic industries.

Hence, the fundamental revision of the Carbon Tax, including its abolishment, is a pressing issue, and its use should not be expanded to forest sink measures or global warming countermeasures implemented by local governments. We are also opposed to the establishment of a new tax for forest sink measures.

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<sup>1</sup>Tax revenue has not been disclosed, and thus the significance of the policy cannot be verified. The lack of transparency is also a serious issue.

#### **4. Overhaul measures to introduce renewable energy**

Renewable energy is a vital energy source with extremely high potential in terms of energy security and preventing global warming.

With the introduction of the Feed-in Tariff (FIT) scheme for renewable energy, rapidly increasing amounts of renewable energy have been deployed. Should all approved facilities operate, renewable energy would account for approximately 20 percent of generated power in 2030, thereby achieving the target set out in the Strategic Energy Plan. This will be accompanied by higher levels of public burden, which is estimated to amount to 2 trillion 700 billion yen in surcharges alone, in the event that all approved facilities operate. Public burden will rise even more with the addition of grid enhancement costs.

Also, the majority of newly deployed renewable energy power plants are sourced by solar power, consequently hindering the promotion of other renewable energy sources, such as geothermal power, wind power and biomass.

The New and Renewable Energy Subcommittee, recently established under the Advisory Committee for Natural Resources and Energy, should conduct thorough deliberations on fundamentally overhauling the existing Act on Purchase of Renewable Energy Sourced Electricity by Electric Utilities, including a review of exemptions from surcharges, as well as implement measures adoptable without changing any provisions of the Act, such as those provided below, in order to correct the irrationality of the current FIT scheme and to limit public burden:

- 1) Review methods for collecting the cost data of power plant operators (obligate operators to submit receipts for equipments)
- 2) Review purchase prices every biannually.
- 3) Ensure appropriate purchase prices (consider the costs shouldered by

the most efficient operators and international equipment prices).

4) End the period set for special measures to ensure higher returns, as provided by law (abolish measures to set internal rates of return (IRR) 1-2 percent above normal levels).

5) Ensure appropriate procedures for applying “minor changes to facility” (require new applications for change of owner, etc.).

6) Ensure appropriate timing for determining purchase prices for power generated at plants such as solar power plants with shorter lead times and declining equipment costs. (determine the purchase price when operations are initiated).

## **5. Implement measures to support efforts to reduce energy costs**

Challenged with ever-increasing energy costs, companies have been making self-reliant efforts to lower costs, but such efforts have their limits. Therefore, from the perspective that measures to support companies in installing energy-saving and energy-creating equipment require enhancement as national policy, KEIDANREN conducted a survey among member companies on necessary measures for corporate energy cost reductions. Concerned parties are asked to promptly address the key responses provided below:

### **(1) Subsidies**

The following measures should be implemented in relation to existing programs, including “subsidies for supporting business operators intending to rationalize their energy use,” in the light of enhanced user-friendliness.

- Extend the period allowed from recruitment to the deadline of applications and from the decision on grants to the end of a project.
- Provide multiple opportunities during the year for single-year projects to apply for subsidies (applications were accepted only during June to July this year)
- Relax requirements for project operations during the late months of the former fiscal year and the early month of the new fiscal year (February-

April) in a multi-year project.

(2) Policy-based financing

The Japan Finance Corporation (JFC)'s Environment and Energy Measures Loans should be revised as follows:

- Expand the range of eligible companies (open the program to major companies, as it is currently limited to small- and medium-sized enterprises).
- Take a more flexible approach in determining loan amounts, such as granting loans in accordance with investment amounts.
- Simplify application procedures.

(3) Tax system

The following measures should be implemented:

- Extend the green investment tax deduction period.
- Simplify automobile-related taxes and reduce related burdens.

## **6. Electricity system reform**

The stable and economically efficient supply of good quality electricity is essential for national livelihood and business operations. The detailed design of the electricity system reform, which is under debate in the Government, will serve as a basis for Japan's future electric power supply scheme. However, the following concerns persist.

Most countries have experienced increases in electric power prices instead of price reductions as a result of market deregulation. Challenged with a shortage of energy supply as well as the consequences of relying on imported resources which include resource prices that are easily affected by overseas situations, Japan embraces higher concerns regarding potential electric power price increases induced by the electricity system reform.

In terms of stable supply, power plants, such as nuclear power plants, which require large investment, as well as peak load plants and backup plants for renewable energy, which are likely to have low operating rates, risk not being able to secure financing, as operators make power plant investment decisions based on their potential profitability. Ongoing discussions hold that such issues

could be addressed by employing capacity mechanisms or an open bidding procurement method for projects to construct or maintain power plants. An electric power system that actually ensures stable supply must be established.

Furthermore, in the third phase of the system reform, which involves the legal unbundling of the electricity generation, transmission, and distribution sectors; and the abolishment of regulations regarding retail prices, power generation operators may be challenged with obstacles in the smooth procurement of financing. The institutional separation of power generation, transmission and distribution, and retail sales may also complicate securing a stable power supply in the face of an emergency, such as a natural disaster. These concerns should also be completely eliminated.

## **7. Conclusion**

The stable supply of efficiently priced energy is essential for improving national livelihood and achieving sustainable economic growth. In addition to our near-term challenges, described herein, we must address other critical issues such as determining the future energy mix and establishing a greenhouse gas emission reduction target.

Given Japan's dependency on other countries for a majority of its energy resources, Japan is required to endeavor to improve energy efficiency levels and to maintain a diversity of energy options. Nuclear power, in particular, can contribute to the resolution of climate change issues on a global scale, as it does not emit CO<sub>2</sub> in the process of generating electric power.

The business community is determined to continue its efforts in energy saving and low-carbonization, while ensuring compatibility with economic operations, through the consistent promotion of Keidanren's Commitment to a Low Carbon Society. The Government should promptly formulate an energy mix



that appropriately balances securing a stable energy supply, economic efficiency and environmental suitability, on the major premise that safety is ensured (S+3E). Furthermore, given the goal to reach agreement on a new post-2020 climate change framework at the COP21 meeting to be held in Paris at the end of next year, Japan's greenhouse gas reduction target should be determined based on the energy mix.