

Statement on Ensuring Diversity of Renewable Energy Options

JCLP calls for further reform of the electricity market so that consumers can procure renewable energy economically and promptly.

The Japan Climate Leaders' Partnership (JCLP) is working in the field of renewable energy in order to overcome the climate crisis, achieve a rapid transition to a decarbonized society, and ensure that the 1.5°C target is met.

For consumers to be able to accelerate renewable energy procurement, expansion of renewable energy is encouraged in a more economical and expeditious manner. Consumers procure renewable energy through the renewable energy menus offered by retail electricity suppliers and corporate PPAs¹ with power generators, etc. In order to expand consumers' procurement of renewable energy, we request that the overall health of the electricity market is maintained, the market environment is improved to promote the expansion of renewable energy, and the diversification of new renewable energy options are vigorously promoted, and would like to express our opinion as follows.

Recognition of issues as consumers:

1. JCLP is concerned that the price competition that has been promoted by the full liberalization of electricity retailing is stagnating and that the diverse options for renewable energy could be reduced.

The Japanese government has been promoting the full liberalization of retail and power generation and further securing the neutrality of the transmission and distribution sectors through legal separation and other measures in its power system reforms to expand the choices of consumers². Since full liberalization in 2016, it has been observed that new retail electricity providers have entered the market³, competition has been stimulated, and new services, including renewable energy, have been enhanced⁴. We recognize that promoting competition and enhancing new services are an important part of efforts to make renewable energy a main source of power as soon as possible.

On the other hand, the recent surge in international natural gas prices has caused wholesale electricity market prices in Japan to soar, forcing many retail electricity providers to stop accepting new applications or to withdraw from the business⁵. This has caused some consumers who have taken the initiative to shift to renewable energy procurement to face difficulties as electricity refugees who are unable to continue contracting with retail electricity providers⁶. Under these circumstances, there is concern that retail operators entering the market will be unable to hedge risks and will be forced to withdraw due to market conditions that do not ensure fair trading, leading to a stagnant competitive environment and a reduction in the variety of renewable energy options available to consumers.

2. The new renewable energy option, virtual PPA, is difficult to implement due to regulatory and institutional challenges.

As a means of decarbonization, corporate PPAs with additionality are recognized as an important renewable energy procurement method and are increasingly being introduced, especially in Europe and the United States⁷. In addition, the recent surge in wholesale electricity market prices has increased interest in corporate PPAs in Japan,

which are unaffected by resource prices. In particular, consumers have high expectations for virtual PPAs⁸ that have fewer geographical restrictions and greater freedom of choice in retail contracts⁹.

There are some regulatory and institutional issues regarding this virtual PPA, such as the fact that it may be subject to regulation under the Commodity Derivatives Transaction Act¹⁰ and that direct consumer trading of some non-fossil certificates may not be allowed¹¹. In order to promote renewable energy more quickly, we hope that the environment will be improved in Japan to enable a variety of corporate PPAs.

Opinions on ensuring diversity of renewable energy options:

1. In order to procure renewable energy economically and promptly, we seek to develop a market environment that allows us to enjoy a variety of options.

We recognize that the mechanism for hedging transactions will be further improved through the development of an environment for risk hedging transactions that is currently under consideration within the government¹². On the other hand, it will take time for the market for such hedging transactions to mature, and we hope that transitional measures will be taken to ensure that electricity consumers will not have difficulty procuring renewable energy, even at this time when the rapid spread of renewable energy is required.

Specifically, we call for the development of a market environment where a fair competitive environment among electricity retailers is established and consumers can enjoy a variety of options to procure renewable energy economically and promptly. This can be realized through measures such as de-coupling of the major Electric Power Company's retail business from the same group's generation business¹³ and ensuring its non-discriminatory wholesale electricity trading both internally and externally¹⁴.

2. JCLP seeks to create an environment that facilitates the establishment of virtual PPA schemes.

In order to promote virtual PPAs in Japan, it is necessary to create an environment that encourages the efforts of renewable energy consumers. Specifically, we request that the following measures be taken.

● Deregulation of the Commodity Derivatives Transaction Act:

Virtual PPAs may be subject to regulation under the Commodity Derivatives Transaction Act for general contracts. On the other hand, it is difficult for general consumers who do not specialize in derivatives trading to meet the requirements as commodity derivatives business operators or specified OTC commodity derivatives traders. Virtual PPAs can be an important tool for promoting renewable energy, including for SMEs¹⁵. Considering that the promotion of renewable energy in Japan is the main intention and that virtual PPAs are a means for consumers to stably procure renewable energy, we request deregulation so that virtual PPAs are not subject to the Commodity Derivatives Transaction Act to reduce the operational and financial burden on consumers and realize a wide range of utilization of virtual PPAs.

● Further liberalization of non-fossil certificate trading:

The system is being revised to allow direct trading of non-FIT non-fossil certificates by consumers starting this fiscal year, which is necessary for the spread of corporate PPAs¹⁶. In revising the system, we request that direct trading of non-fossil certificates be made possible for a wide range of power sources. In particular, we request that consumers directly trade non-fossil certificates of power sources utilizing the FIP system. We also call for further relaxation of the rules for the trading of non-fossil certificates so that various corporate PPA schemes can be realized through the ingenuity of companies in the electricity market.

Reference

- 1 Also called a power purchase agreement. A system whereby consumers directly conclude medium- to long-term contracts with power generation companies to purchase electricity.
- 2 Agency for Natural Resources and Energy, "[Electric Power System Reform](#)" (November 2020)
- 3 According to the Agency for Natural Resources and Energy's "[List of Registered Retail Electricity Providers](#)" (June 24, 2022), there are 738 registered companies.
- 4 Agency for Natural Resources and Energy, "The [Sixth Basic Energy Plan](#)" (October 22, 2021)
- 5 According to Teikoku Databank's "[Survey of New Electric Power Companies' Business Withdrawal Trends](#) (June 2022)," 104 companies, or more than 10% of new electric power companies, went bankrupt, closed their businesses, or suspended or withdrew from power business contracts.
- 6 Some JCLP member companies and RE100 participating companies have actually become "electricity refugees" and their business operations have been affected. The number of final guaranteed supply cases reported by the [Subcommittee on Electricity and Gas Basic Policy](#) of the Agency for Natural Resources and Energy (June 30, 2022) was 14,000.
- 7 Bloomberg NEF, "[Corporate Clean Energy Buying Tops 30 GW Mark in Record Year](#)" (January 31, 2022).
- 8 Japan Climate Leaders Partnership, "[Opinion on Diversification of Non-FIT Renewable Energy Options in Japan](#)" (May 2021)
- 9 Murata Manufacturing Company, Ltd. "[Agreement on a Framework for Collaboration to Achieve a Carbon Neutral Society](#)" (June 24, 2022), Sumitomo Mitsui Banking Corporation "[Introduction of Renewable Energy through Off-site Corporate PPA](#)" (June 1, 2022), Green × Digital Consortium, "[Opinion for Expanding the Renewable Energy Procurement Market in Japan](#)" (March 2022), and other initiatives and requests from consumers for the implementation of virtual PPAs are becoming more active.
- 10 According to the Ministry of the Environment's "[About Off-Site Corporate PPAs](#)" (March 2022), virtual PPAs are equivalent to commodity futures trading and may fall under derivative (financial derivative) contracts, as organized. If it falls under the Commodity Derivatives Transaction Act, an application for [Commodity Derivatives Business Operators](#) Business License or a notification regarding [Specified OTC CoSpecified OTC Commodity Derivatives Traders](#) is required.
- 11 Agency for Natural Resources and Energy, "[Working Group to Study the System](#)" (February 17, 2022).
- 12 The Agency for Natural Resources and Energy's "[Study Group on Wholesale Electricity Market, Supply-Demand Adjustment Market, and Supply-Demand Operation](#)" (June 20, 2022) states that it is necessary to consider more concrete measures and ways forward for long-term relative wholesale electricity contracts, forward transactions, and futures transactions. The study group's findings will be reported to the Electricity and Gas Basic Policy Subcommittee.
- 13 Cabinet Office, "[Task Force for Comprehensive Review of Regulations, etc. Concerning Renewable Energy, etc.](#)" (June 20, 2022); American Chamber of Commerce in Japan, "[Proposals for Regulation of the Wholesale Electricity Market in Japan](#)," March 2021.
- 14 Cabinet Office, "[Task Force for Comprehensive Review of Regulations, etc. Concerning Renewable Energy, etc.](#)" (June 20, 2022).
- 15 RE-Source Platform, "[Introduction to Corporate Sourcing of Renewable Electricity in Europe](#)" (January 2020).
- 16 According to the Agency for Natural Resources and Energy's "[Working Group to Study the System](#)" (June 22, 2022), the secretariat proposed a policy to permit direct consumer trading of non-fossil certificates for FIP power sources, which will be discussed again at the next meeting.