

Interviews with Group Company Presidents

Naomi Hirose, President **Tokyo Electric Power Company Holdings, Incorporated**



Q What is TEPCO Holdings' policy as the stockholding company?

A The transition to a Holding Company System enables us to more flexibly and swiftly adapt to changes in the operating environment. Under this structure, the stockholding company, the core operating companies and all other TEPCO Group members will rally their strengths to fulfill their responsibilities regarding the Fukushima nuclear power accident. In addition, we intend to execute even more drastic reforms aimed at ensuring that we will prevail amid the ever-intensifying market competition engulfing the energy industry. To this end, TEPCO Holdings will take the primary role in Fukushima-related compensation, decommissioning and revitalization operations while helping Group members realize greater operational efficiency and competitiveness through the formulation of business strategies and the optimal allocation of management resources.

Q Please tell us your future plans regarding Fukushima-related compensation and revitalization operations, two of the initiatives TEPCO Holdings is responsible for.

A To help restore those affected by the accident to normal daily life and restart their businesses in the shortest time possible, we will continue to work to accelerate the revitalization of Fukushima through the payment of compensation. We will also continue to provide follow-up services targeting non-claimants. Standing shoulder to shoulder with the people forced to leave their homes, we are committed to ensuring that every last person is compensated. Moreover, we will spare no effort to cooperate with the national and local governments as well as to participate in public-private initiatives to help reconstruct local industrial platforms. Helping realize the earliest possible revitalization of Fukushima is our foremost goal.

Q What future initiatives regarding the decommissioning of the Fukushima Daiichi Nuclear Power Station do you have planned?

A We have made progress in the implementation of contaminated water countermeasures. We are now shifting our focus to the removal of fuel—the most crucial process in decommissioning—and are presently conducting surveys to determine the status of the nuclear debris. As for the removal of fuels from spent fuel pool, such work as the removal of rubble and decontamination is continually under way as is the installation of fuel removal equipment. As for the removal of nuclear debris, we will conduct ongoing interior surveys of the reactor containment vessels while discussing the removal procedures to be adopted. We will also reinforce our operational foundation to best support this long-run decommissioning project by, for example, nurturing human resources and improving working environments, both of which are essential to ensuring smooth and safe operations.

Q Could you tell us about safety countermeasures undertaken at the Kashiwazaki-Kariwa Nuclear Power Station?

A The Nuclear Regulation Authority has been conducting an examination to assess the facility's status of compliance with regard to new regulatory standards. We are sincerely striving to fulfill requirements under these standards while further enhancing safety measures. In addition, we disclose the status of countermeasures undertaken at this facility via public relations activities and presentation meetings to which local residents are invited, with the Niigata Headquarters serving as a primary communications hub. The headquarters also spearheads overall nuclear power safety initiatives to ensure local people's peace of mind.

Q What is the Company's stance on shareholder returns?

A TEPCO Holdings believes that fulfilling the expectations of its shareholders and investors through business expansion and dividend payments is essential. It is my sincere regret, however, that we have had to continue the non-payment of dividends.

To rectify this situation, we will steadily implement the New Comprehensive Special Business Plan. If the progress of our management effort is acknowledged by the Nuclear Damage Compensation and Decommissioning Facilitation Corporation in the upcoming assessment scheduled for early 2020s, we will restart dividend payments or the retirement of treasury stock to reward our shareholders and investors.

We sincerely ask for their understanding of and cooperation with our operations.

Toshihiro Sano, President **TEPCO Fuel & Power, Incorporated**



We will become a world-leading thermal power generation facility operator while pursuing global expansion through new business creation.

Q As the head of an operating company specializing in fuel and thermal power generation business, the core of the electric power business, please share with us your vision of the future.

A Today, conditions in the market surrounding our thermal power generation business are getting ever more uncertain as competing power generation facilities come on line, renewable energy gains popularity, GHG emission regulations tighten, and, most recently, oil prices plummet. In this environment, TEPCO Fuel & Power is determined to compete with and prevail over utilities around the world. To this end, we are executing decisive operational reforms encompassing the entire value chain, from upstream investment and fuel procurement through power generation, thereby enhancing our corporate value.

Q In July 2016, JERA Co., Inc., a joint venture of TEPCO Fuel & Power and Chubu Electric Power Co., Inc., took over the two parent companies' upstream assets, including fuel procurement, as well as their overseas IPP businesses. What do you expect from JERA?

A We are witnessing considerable changes in the domestic and overseas energy industries. For example, the full liberalization of the electricity retail market in April 2016 has placed domestic utilities under ever increasing pressure to supply electricity and gas at internationally competitive

rates. Meanwhile, oil prices have been fluctuating wildly since early 2016. Moreover, the adoption of the Paris Agreement at COP21 has prompted members of the international community to take concrete action in line with this new global warming countermeasure framework for 2020 and beyond. As an electric power company, we are acutely aware of our obligation to minimize GHG emissions.

Given these factors, we are looking to JERA to become a supplier of constant and stable energy with internationally superior cost competitiveness. JERA's success will redound positively on the corporate value of TEPCO Fuel & Power and Chubu Electric Power. Although JERA may face a difficult road as it simultaneously strives toward securing a stable electricity supply, superior economic efficiency and environment friendliness, I am confident that it is capable of overcoming all of these challenges.

Q What are your thoughts about the possible integration of the existing thermal power generation operations into JERA?

A To prevail in the increasingly competitive global energy market, we must optimize the management of our entire supply chain, which encompasses such upstream assets as fuel procurement operations to downstream assets like thermal power generation operations. I believe this is the best possible way to enhance our competitiveness. We will carefully assess the results of the alliance with Chubu Electric Power and then make our best effort to reach decision by spring 2017.

Q Exhaustive rationalization is now being implemented at your thermal power generation facilities. Can you tell us about any future initiatives?

A We have launched a "value up" project to become a world-leading operator of thermal power generation facilities and to promote our global expansion through new business creation. The project is also intended to double our productivity and expand the scope of our business operations. Furthermore, we will leverage insights and extra resources gained from our current operational reforms to boost such initiatives as power generation facility replacement in Japan and the development of new businesses targeting growth fields overseas. We will also strive to further reduce GHG emissions by enhancing the efficiency of our facilities. In these ways, we will simultaneously lower power generation costs, increase operational profitability and tighten compliance with environmental regulations.

Toshiro Takebe, President **TEPCO Power Grid, Incorporated**



Striving to achieve the most competitive wheeling cost in Japan, we will enhance customer convenience through the development of a more sophisticated transmission and distribution network.

Q What role do you think TEPCO Power Grid, Incorporated is expected to play in society as a transmission and distribution operator?

A With the nation's population declining and energy-saving technologies steadily advancing, domestic electricity demand will remain stagnant in the medium to long term. Accordingly, wheeling revenues are expected to decrease. What is more, despite the changing composition of energy sources due to such factors as the growing popularity of renewable energy, utilities are still required to maintain robust transmission and distribution networks that meet high stability and quality standards.

Accordingly, we acted quickly as a pioneer of reforms in the domestic electricity industry, unbundling our power generation and transmission assets when the full liberalization of the electricity retail market came into effect. We are now looking to simultaneously achieve lower wheeling costs and a stable electricity supply. At the same time, we are determined to expand our operations and secure greater profit. Given these factors, I believe TEPCO Power Grid needs to execute decisive reforms employing unconventional perspectives.

Q What concrete initiatives are you undertaking to accomplish these goals?

A We will carry out a quantitative evaluation of risk associated with aging facilities to secure a stable electricity supply

and the safety of the general public. This initiative will help us maximize the cost-benefit performance of refurbishment and replacement work and improve the reliability of facilities over the long term. Our overarching goal is to maintain a highly reliable supply structure second to none in the world. We will also implement initiatives to improve overall operations, including back office functions, aiming to double productivity while establishing a nimbler labor-saving operating structure. Furthermore, we will adopt sophisticated and rationalized maintenance techniques employing IoT and other digitization technologies while pushing forward with cost reductions through the optimization of our value chain. In addition, efforts are now under way to introduce a next generation transmission and distribution control system. These are but a few examples of our efforts to strengthen our business foundation and to realize the most competitive wheeling costs in Japan.

Q Please give us some more details on your initiatives to develop transmission and distribution network.

A We will work to complete the installation of smart meters in every customer household or business base by fiscal 2020. Also, we will boost the capacity of our transmission lines in anticipation of growing demand for renewable energy. By doing so, we will secure a more robust platform that enables us to assist in popularizing clean energy. We will also reinforce transmission facilities connecting the Tokyo metropolitan area and the Chubu area as a part of initiatives to step up collaboration between regional electric power companies, which have until now been inhibited by a frequency gap between eastern and western Japan. In sum, we will establish a more sophisticated transmission and distribution network beyond the previous boundaries of our service areas, thereby improving customer convenience.

Q TEPCO Power Grid aims to return to the bond market in fiscal 2016. How is your initiative to help achieve this?

A Because of the crucial role it is playing in supplying stable electricity to the Tokyo metropolitan area, TEPCO Power Grid has been licensed to use the comprehensive cost method in accordance with electricity rate-related regulations. This allows TEPCO Power Grid to maintain a stable cash flow balance backed by wheeling revenues from sales to such electricity retailers as TEPCO Energy Partner, Incorporated.

We will engage in IR activities aimed at facilitating investors' understanding of the aforementioned business structure. Even though the specific conditions for bond issuance depend on our fund raising needs and as such remain a topic for discussion, we will determine the optimal issuance method based on the latest bond market environment.

Tomoaki Kobayakawa, President **TEPCO Energy Partner, Incorporated**



Vying to be a winner in a fiercely competitive market, we are transforming ourselves into a comprehensive provider of energy related-services.

Q TEPCO Energy Partner is at the frontlines of electricity retailing and will be significantly affected by the recent full liberalization and resulting changes in the business environment. What is your strategy for prevailing against the competition?

A Since the full liberalization, a number of companies have entered the electricity retail market—some of them from totally different industrial sectors—and they are now presenting themselves as our new rivals. We have positioned the Kanto area, which will soon plunge into a period of harsh competition, as a strategic market region from which we aim to earn considerable profit.

To this end, we are focusing all our resources on enhancing customer value. We are going beyond the scope of a conventional electricity retailer by proposing efficient energy solutions optimized to meet customer needs.

Q What does it mean to go beyond the scope of a conventional electricity retailer? Could you tell me what services are involved?

A By drawing on alliances with external partners, we will deliver a variety of products to customers nationwide, with the aim of becoming the preeminent provider of one-stop energy related-services.

For example, with an eye to the upcoming full liberalization of the utility gas retail market in April 2017, we will

expand our gas sales through direct marketing and develop bundled services that include gas and electricity.

In addition to these two key offerings, we will enhance our lineup of newly introduced services, including the installation, operation and maintenance of energy related-facilities and provision of other comprehensive energy solutions. Moreover, we are looking into using technologies related to “big data” and the Internet of Things as well as our expertise in energy-saving solutions to elevate our position as a market frontrunner and innovator offering value-added services and capable of ensuring the safety, security and comfort of customers.

Q How will you expand your gas marketing operations?

A TEPCO Energy Partner sees its gas business as a potential growth driver. Accordingly, we intend to devote the management resources needed to increase both sales and profitability, thereby making the gas business a significant contributor to our corporate value. In anticipation of the full liberalization of the gas retail market, discussions are now under way to introduce various service plans, including for general household and other low-volume users. We also expect to be able to offer gas with an unadjusted calorific value to industrial complexes at reduced rates while introducing other wholesale plans targeting local marketing areas. In particular, we will target large-scale industrial customers, a customer group that has already benefited from partial market liberalization. In these ways, we will decisively take on the challenge of becoming the gas supplier of choice for customers in all market segments.

Q What challenges do you expect to face in connection with the expansion in the scope of services you offer?

A In addition to strengthening our sales capabilities, we must gain the trust of customers. To do so, we will nurture human resources who support our ability to provide the aforementioned services and our ongoing pursuit of new value creation. We are determined to transform ourselves from a mere electricity provider into a comprehensive provider of energy related-services; this is what will ensure that we prevail over the competition. As a TEPCO Group company that engages with individual consumers, we are also committed to fulfilling our responsibilities regarding the revitalization of Fukushima. Accordingly, we will take on and overcome whatever challenges that may come our way.