

Regulation under the Act on the Sophistication of Energy Supply Structures

The Act on the Sophistication of Energy Supply Structures¹ (the “Act”) was enacted to address Japan’s structural dependence on fossil fuels imported from overseas and, at the same time, to reduce the environmental burden associated with the use of fossil fuels. This Act applies to energy supply business operators that supply electricity, gas, oil, and other energy sources, and requires such operators to expand the use of non-fossil energy sources and to promote the effective use of fossil energy materials.

Below is an outline of the regulatory framework under the Act.

1. Business Operators Subject to the Act

- The business operators subject to the Act are “energy supply business operators”, defined as follows:
 - i. (i) electricity retailer, (ii) general electricity transmission and distribution utility, and (iii) registered specified electricity transmission and distribution utility under the Electricity Business Act;
 - ii. heat supply operator under the Heat Supply Business Act; and
 - iii. fuel product supply business operators that supply fuel products (such as petroleum products and natural gas products) manufactured from fossil energy materials.
- Among energy supply business operators, those who the promotion of the use of non-fossil energy sources is particularly necessary are referred to as “Specified Energy Supply Business Operators” and “Specified Fuel Product Supply Business Operators”, which are defined as follows:
 - i. “Specified Energy Supply Business Operators” means
 - A) business operators engaged in (i) electricity retail, (ii) general electricity transmission and distribution, or (iii) specified electricity transmission and distribution under the Electricity Business Act;
 - B) business operators engaged in (i) gas retail or (ii) general gas pipeline service business under the Gas Business Act that manufacture and supply combustible natural gas products; and
 - C) business operators engaged in the manufacture and supply of volatile oil.

¹ The official name of this Act is the “Act on the Promotion of the Use of Non-fossil Energy Sources and the Effective Use of Fossil Energy Materials by Energy Suppliers”.

- ii. “Specified Fuel Product Supply Business Operators” means
 - A) gas utility under the Gas Business Act that manufactures and supplies combustible natural gas products using combustible natural gas (limited to liquefied natural gas) as a raw material; and
 - B) business operators engaged in the manufacture and supply of volatile oil, kerosene, diesel, or heavy oil.

2. Basic Policy

- The “Basic Policy on the Promotion of the Use of Non-fossil Energy Sources and the Effective Use of Fossil Energy Materials” (the “Basic Policy”) stipulates the measures to be taken by energy supply business operators to promote the use of non-fossil energy sources². Upon conducting their businesses, energy supply business operators must endeavor to promote the use of non-fossil energy sources while keeping in mind on the Basic Policy. The Basic Policy includes various contents, but the following provisions entailing the specific numerical target are important.
 - ✓ Electricity business operators: The non-fossil power source ratio (the percentage of electricity from non-fossil power sources³ in the total retail electricity supply) becomes 44% or more in fiscal year 2030.
 - ✓ Gas business operators: In fiscal year 2030, inject into pipelines synthetic methane or biogas equivalent to 1% of the gas retail supply volume , and within a range reasonably possible under efficient management of each gas business operator, procure and inject synthetic methane or biogas equivalent to 5% of the gas retail supply volume.

3. Obligations of Specified Energy Supply Business Operators

- The Government of Japan has published the criteria for judgment that set forth the measures to be taken to attain the environmentally compatible use of energy sources and the effective use of fossil energy materials for each business category of Specified Energy Supply Business Operators and Specified Fuel Product Supply Business Operators (collectively, the “Criteria for Judgment”). In the Criteria for Judgment, the numerical targets prescribed in the Basic Policy

² “Non-fossil energy sources” means energy sources, other than fossil fuels (such as crude oil, liquefied petroleum gas, natural gas, and coal), that can be used as energy sources for electricity, heat, or fuel products.

³ “Non-fossil power sources” means power sources that use non-fossil energy sources.

are also described, and the Criteria for Judgment also specifies in more concrete terms the measures to be implemented by relevant business operators.

- In addition, the Government of Japan may, considering the compliance with the matters set out in the Criteria for Judgment, provide necessary guidance and advice to Specified Energy Supply Business Operators and Specified Fuel Product Supply Business Operators.

4. Regulation of Business Operators Above a Certain Scale

- Specified Energy Supply Business Operators and Specified Fuel Product Supply Business Operators above a certain scale - such as electricity business operators with an annual supply volume of 500 million kWh or more and gas business operators that manufacture and supply 90 billion megajoules or more of combustible natural gas - must prepare plans to achieve the numerical targets set forth in the Criteria for Judgment. If the operational status of such business operators is significantly inadequate in light of the Criteria for Judgment, the Minister of Economy, Trade and Industry may recommend that necessary measures be taken, and, if no improvement is seen, issuance of orders or application of penalties is available.
- In addition, the Government of Japan annually notifies electricity business operators with an annual supply volume of 500 million kWh or more of the non-fossil power source ratio to be achieved by each operator, and publishes the results of the achievement status, etc. after evaluation.

5. Practical Implications

- To achieve the target of the non-fossil power source ratio of 44% or more in fiscal year 2030, the Government of Japan established the non-fossil value trading market enabling all electricity retailers to procure, on a fair basis, electricity derived from non-fossil power sources. As a result, even electricity retailers that do not own non-fossil power sources by themselves can improve their non-fossil power source ratios by purchasing non-fossil certificates, and the use of this market has been expanding year by year.

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*We provide legal advice for foreign companies on a daily basis to help them conduct appropriate business activities in Japan and realize their legal rights. If you have any questions regarding the matters described in this article, please feel free to contact us at

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