

Deregulation of Japan's Electric Power Industry

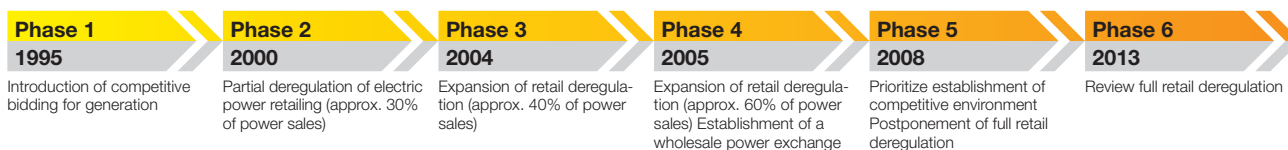
A Close Look at J-POWER

The deregulation of the electric power industry in Japan has created a new environment in which business enterprises other than electric power companies can participate in electricity wholesaling and retailing businesses.

In April 2005, the deregulation of the retail electricity sector was expanded to approximately 60% of the market and wholesale electricity transactions were commenced on the Japan Electric Power Exchange (JEPX).

Further reforms of the electric power industry have been under discussion since April 2007 by the Power Business Subcommittee of the Advisory Committee for Natural Resources and Energy. The subcommittee has decided to first implement industry reforms designed to establish a competitive environment within the existing scope of retail deregulation. Further expansion of retail deregulation is planned for review in 2013.

DEREGULATION OF JAPAN'S ELECTRIC POWER INDUSTRY



Rate Structure for Domestic Wholesale Electric Power Business

A Close Look at J-POWER

J-POWER calculates contract rates for the wholesale electric power business and its electric power transmission services on a fair assumed cost plus fair return on capital basis.

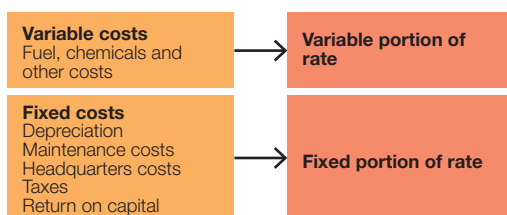
Individual rates are contracted with power companies and producers based on costs calculated by the plant or water system, for each type of plant. Our rate includes both a fixed and available portion.

Regarding contract rates for thermal power facilities, fuel costs and other variable costs comprise a high weighting of total costs, and maintenance and operating costs fluctuate greatly from year to year. We therefore adjust rates every two years (every year for the portion corresponding to coal costs if there are substantial price fluctuations). Variable costs such as fuel costs are incorporated into the variable portion of the rate, reflecting the amount of electricity supplied. Rates are also adjusted every quarter to offset the effects of actual fluctuations in fuel costs associated with exchange rates used in fuel procurement and with changes in heavy/light oil prices. The fixed portion of the rate consists of the fixed portion of expenses other than variable expenses. The fixed portion of the rate includes depreciation, return on capital, repair costs and other maintenance and operating costs. Unless otherwise impacted by an increase in

maintenance and operating costs or major investment in plant facilities, the fixed portion of the rate generally has been decreasing due to the progressive depreciation of facilities and reductions in expenses such as interest expense in recent years.

With regard to rates for hydroelectric power and transmission, substation facilities, depreciation, return on capital and other fixed costs comprise a large weighting of total costs, so contract rates are not subject to regular revision, which ensures long-term rate stability. Revisions may be conducted based on negotiations with electric power companies if substantial changes take place in economic conditions (interest rates, prices, etc.) or business conditions (deregulation, etc.). Contract rates for hydroelectric power facilities, excluding pumped storage, are comprised of a fixed portion of the rate, which accounts for approximately 80% of the contract rate and a variable portion of the rate reflecting the amount of electricity supplied, which accounts for the remaining approximately 20%. The 20% portion increases and decreases depending on water supply rates, but this does not have a substantial impact. Contract rates for pumped storage hydroelectric power and transmission are based entirely on the fixed portion of the rate.

THERMAL POWER



HYDROELECTRIC POWER AND TRANSMISSION/TRANSFORMATION

