クラヴィス・エナジー・パートナーズ合同会社
CLAVIS ENERGY PARTNERS LLC

July 30 (Wed), 2025

# CLAVIS
# POINT OF VIEW ("POV") Vol.14

Tel: +8150 (5578) 3660
Email: info@clavisenergy.com
Website: www.clavisenergy.com/home

## "Just the Way You Were?"

## Japan's Power Market and the Limits of Structural Reform

**Summary**

Japan's power sector liberalization has taken the form of symbolic regulatory actions more than real transformation. While rules keep changing and multiply, market structure and policy priorities remain deeply aligned with legacy interests. International entrants face a shifting regulatory terrain, and true competition remains constrained by institutional design and historical inertia.



### 1. Never-Ending Rule Changes: Now Targeting Procurement Stability

- As reported on the front page of Nikkei, Japan's Ministry of Economy, Trade and Industry (METI) is now moving to require electricity retailers to secure mid to long-term procurement contracts. Retailers would be obliged to pre-secure 50% of their projected electricity demand three years in advance. The official rationale is to reduce price volatility and reinforce supply security.
- While prudent on paper, this marks yet another top-down regulatory measure that narrows operational flexibility. It would disproportionately burden smaller suppliers lacking the financial capacity for forward contracts. The result? A quiet consolidation of the market under the banner of stability - fewer players, less diversity, and diminished dynamism.
- This exemplifies Japan's regulatory approach: continual adjustments that privilege stability over genuine liberalization, with each rule quietly reinforcing the incumbents' position.


CLAVIS ENERGY PARTNERS LLC
Expert Office Shinagawa, Area Shinagawa 13F
Konan 1-Chome 9-36, Minato-Ku
Tokyo 108-0075, Japan
Tel +8150 (5578) 3660 Email info@clavisenergy.com

## 2. Regulatory Flux: Stability Over Competition?

- Even as Japan officially liberalizes its electricity market, over 80% of its generation assets remain in the hands of legacy giants i.e. formerly electric power companies or EPCOs. That’s not just market structure - it’s market destiny.
- The government's renewed support for extended nuclear lifespans, restarts, and LNG-centric supply planning reinforces this orientation. Instead of letting competition shape the energy future, Japan continues to define its power sector through policy - quasi vertically aligned, consensus-managed, and resistant to market-led innovation.
- In this context, liberalization tends to function more as a series of symbolic regulatory actions - symbolic and institutionally visible - rather than driving real industry transformation through market-based deregulation.

## 3. Lessons from Oil Deregulation: A Historical Perspective

- Drawing from being over two decades within the energy industry, we witnessed a strikingly similar trajectory in Japan’s oil sector between the late 1990s and mid-2010s. Regulatory liberalization and market opening initially promised dynamism.
- In the early 2000s, physical spot and futures markets for oil products emerged and expanded rapidly, attracting a broad range of both domestic and foreign players including large energy companies, trading firms and financial institutions. The market then reflected genuine openness and competition.
- Yet as the Supply Structure Advancement Act came into force, refining capacity declined, major refiners consolidated hence physical spot supply declined. As a result, active spot trading diminished, so as the futures/financial trading and the international players exited.
- Ultimately, this gave way to a supply-driven industry structure - marked by consolidation among traditional oil companies and a steady reduction in refining capacity. Profitability improved, not through competition, but through rationalization and alignment with state-led policy objectives. The liberalization wave had delivered structural retrenchment, not a sustainable market.
- A similar arc “may” now be playing out in electricity.

## 4. Implications for Market Entrants and Global Investors

- For foreign entrants and investors evaluating the deregulation of Japan’s retail electricity sector, the landscape presents a paradox: liberalization that sounds progressive in official language but behaves like quiet consolidation in practice.
- While incumbents anticipate and adapt to these frequent, unpredictable shifts new players, both domestic and foreign ones, may face strategic uncertainty and narrowing opportunity.
- The market may be open in form, but in function, it remains somewhat constrained.


CLAVIS ENERGY PARTNERS LLC
Expert Office Shinagawa, Area Shinagawa 13F
Konan 1-Chome 9-36, Minato-Ku
Tokyo 108-0075, Japan
Tel +8150 (5578) 3660 Email info@clavisenergy.com

**5. Looking Forward: From Symbolic Actions to Structural Change**

- If Japan is to move beyond ongoing symbolic regulatory actions toward true structural transformation, several key shifts are necessary - keeping in mind that even in the United States, liberalization is not universally applied:

I. Institutionalize transparent rule-making with measurable timelines.
   - ✓ Long-term investment requires predictable frameworks, not ad hoc policy shifts.

II. Clearly define the boundary between regulated and deregulated sectors, and ensure consumers have visible, meaningful choices.
   - ✓ Ambiguity around roles and responsibilities clouds both competition and trust.

III. Ensure generation and retail operate under genuine market-based dynamics within the deregulated space.
   - ✓ These businesses must be subject to commercial risk - not sheltered through capacity payments or informal arrangements.

IV. Unbundle transmission and distribution from generation and retail, and operate network functions independently.
   - ✓ Without structural and operational independence, neutrality and access fairness remain theoretical.

Unless these structural reforms are enacted, Japan's electricity market will likely remain stable, policy-controlled, and symbolic in its liberalization - an industry that looks "quasi" transformed.

CLAVIS ENERGY PARTNERS LLC


CLAVIS ENERGY PARTNERS LLC
Expert Office Shinagawa, Area Shinagawa 13F
Konan 1-Chome 9-36, Minato-Ku
Tokyo 108-0075, Japan
Tel +8150 (5578) 3660 Email info@clavisenergy.com