

# **Competitive Landscape After Three Years Of Japan's City-Gas Market Full Retail Competition**

Daisuke Masago<sup>1</sup>

## **1.Intoroduction**

More than three years have passed since Japan's city-gas retail market for all the market segments was opened for competition on 1 April 2017. In the city-gas retail market, competition for gas customers has intensified as new entrants, led by electric power companies, have set new pricing menus, improving services, and implemented business alliances between companies. This paper studies supplier-switching<sup>2</sup> trends, regional topics, and future trends in the Japan's city-gas market full retail competition, with reference to the electric power market, which is also an energy business utilizing infrastructure network, where retail competition was introduced one year ahead of the city-gas market. When the third set of recommendations by Advisory Board on Regulatory Reforms under the Cabinet Office was concluded in June 2018, it was widely recognized that the liberalization of the electric power market had progressed rather smoothly with the gas market left behind. In that sense, it is important to observe the latest developments in the two markets closely.

## **2.Numbers of Customer Switching**

About 3.43 million retail customers have applied to switch their city-gas providers as of the end of March 2020, increasing by 63.3% or 1.33 million customers in one year.<sup>3</sup> More than four years have passed since Japan's electric-power retail market for all the market segments was opened for competition on 1 April 2016, one year ahead of the country's city-gas market full retail competition. Retail customers of 15.75 million have applied to switch their electric-power providers as of the end of March 2020, increasing by 39.5% or 4.46 million customers in one year.<sup>4</sup>

Figure 1 shows numbers of residential retail customers that new entrants have acquired, in each region. Osaka Gas acquired more than 300,000 electric power customers from Kansai Electric Power, during the first year of the electric retail liberalization. Kansai Electric Power acquired a little less than 400,000 city-gas customers from Osaka Gas in one year, in the city-gas retail liberalization that started the following year. Since then, the two companies have competed fiercely for customers in the Kinki region. Meanwhile, as CD

---

<sup>1</sup> Researcher, Gas Group, Fossil Energy and International Cooperation Unit. Advised by Hiroshi Hashimoto, Head of Gas Group

<sup>2</sup> Numbers of customers who have changed their retail gas suppliers in different regions in the country

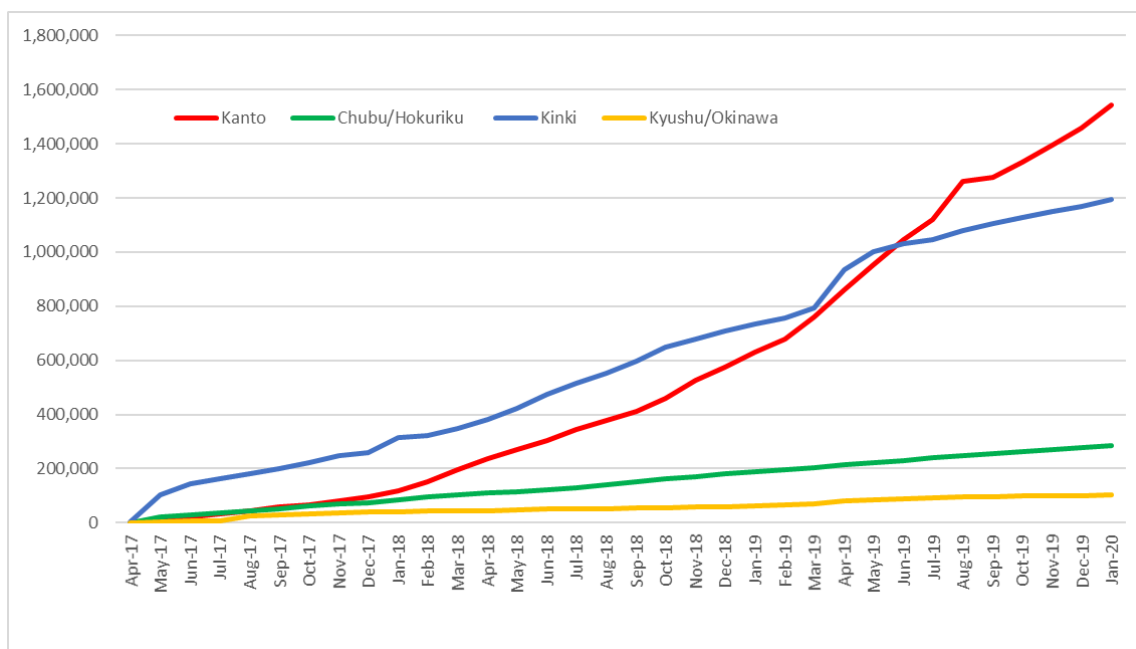
<sup>3</sup> The Agency for Natural Resources

<sup>4</sup> the Organization for Cross-Regional Coordination of Transmission

Energy Direct Company - established by Osaka Gas and Chubu Electric Power - and TEPCO Energy Partner entered the city-gas retail business in the Kanto region. As a result, the number of city-gas switching customers in the region increased and exceeded that in the Kinki region in June 2019.

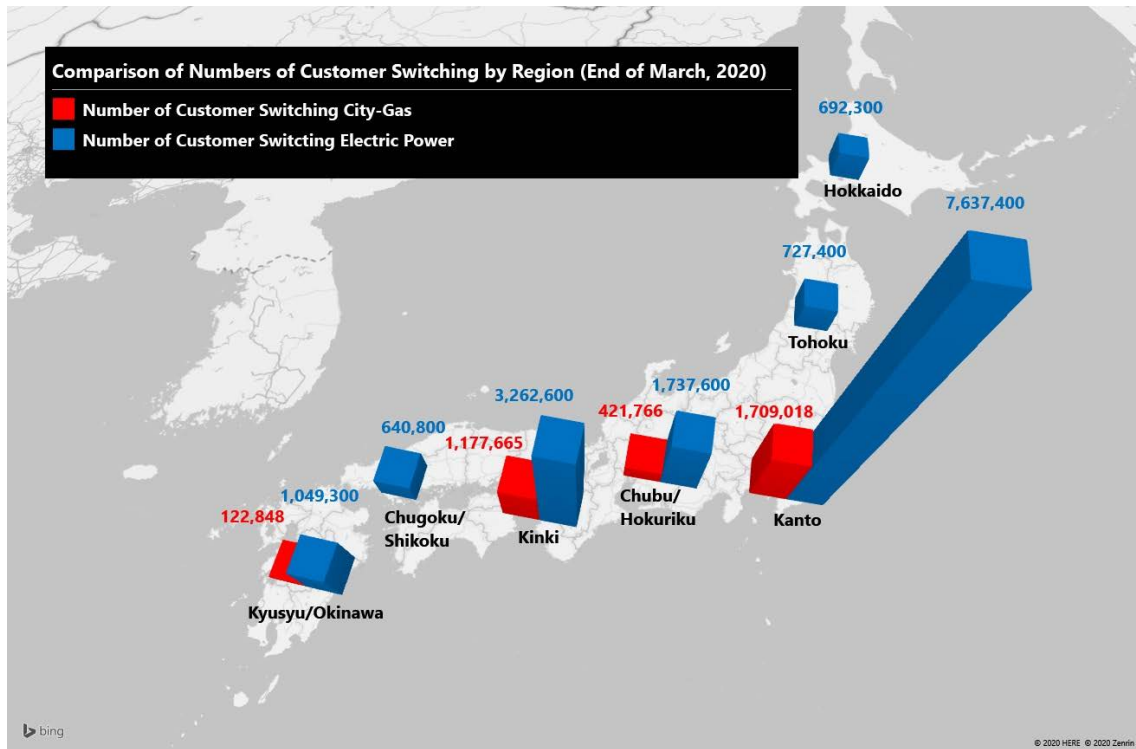
Figure 2 shows numbers of retail customer switchings in the city-gas and electric power markets by geographic region. While customer switchings in the city-gas retail markets have happened only in the Kanto. Chubu/Hokuriku, Kinki and Kyusyu/Okinawa regions, customer switchings in the electric power markets have been observed in all regions in the country. It is difficult for new players to enter those market where city-gas distribution pipeline networks have not been well established and densely connected, alternative gas supply sources are not easily found, or retail customers have been tightly captured by incumbent suppliers recently through improved service programs - including reduced prices of combined provisions of electric-power and city-gas supply and better customer loyalty award programs.

**Figure 1 Numbers of City-Gas Residential Customers Secured by New Entrants**



(Source) Compiled by the authors based on materials provided by the Electricity and Gas Market Surveillance Commission

**Figure 2 Trends in Customer Switching**

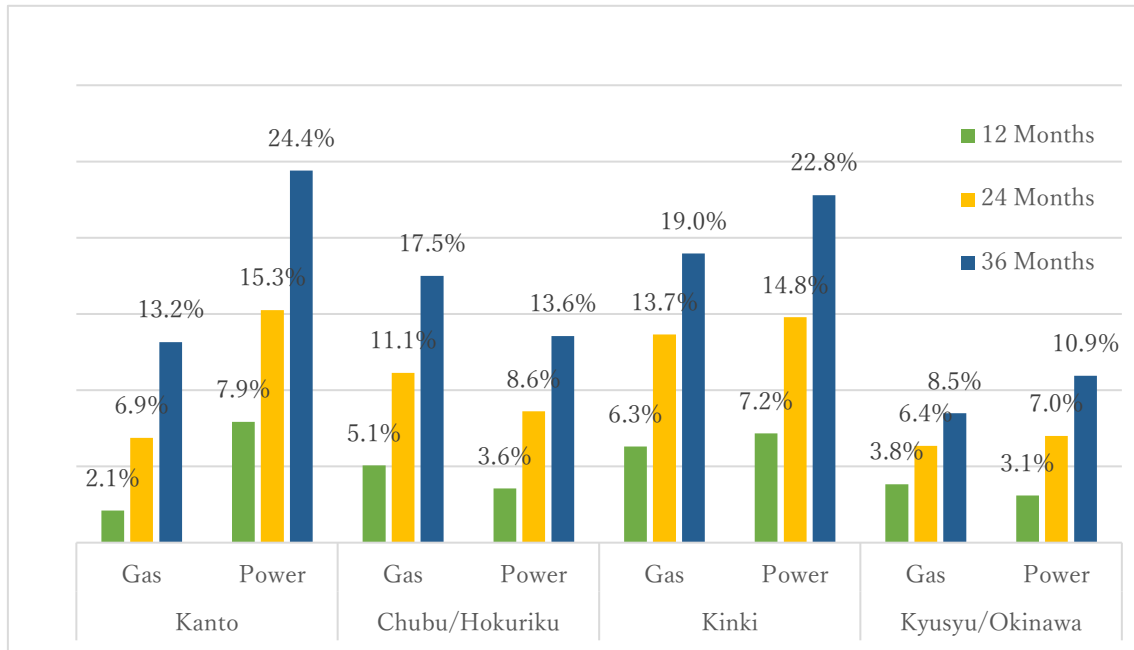


(Source) Compiled by the authors based on materials provided by the Agency for Natural Resources and the Organization for Cross-Regional Coordination of Transmission

### 3. Customer Switching Rates

When observing trends in the full retail market liberalization, it is useful to consider not only the cumulative number of switchings, but also the switching rate, which shows the rate of switching to the size of each market, as well as the differences in the period when the full liberalization of retailing was implemented. In addition to the different timings of the full retail liberalization of city-gas and electricity, there are differences in market sizes between regions and between city-gas and electric power.

**Figure 3 Customer Switching (Losing) Rates After 12, 24 and 36 months of City-Gas and Electric Power Retail Liberalization**



(Source) Compiled by the authors based on publicly available information

Figure 3 shows the city-gas and electric-power switching rates - in the four regions where customers have switched providers in both city-gas and electric-power markets - by year until three years after the start of respective retail liberalization<sup>5</sup>. After three years, the electric-power switching rates in the Kanto and Kinki regions were more than 20%. City-gas and electric-power switching rates were all more than 10%, except for the Kyusyu/Okinawa region. Except for the Chubu/Hokuriku region, the city-gas switching rates have been lower than electric-power switching rates for respective regions.

#### 4. Topics by Region

##### <Hokkaido>

Hokkaido Electric Power has lost about 690,000 residential electric-power customers, due to entry by Hokkaido Gas and other new entrants. In April 2020, Ichtaka Gas One, an LPG provider of the Saisan Group, started city-gas retail services for residential customers within the Hokkaido Gas service area, except for certain municipalities. Ichtaka Gas One makes use of the 'start-up wholesale' service<sup>6</sup> provided by Hokkaido Gas to supply

<sup>5</sup> Figures are from April 2016 to March 2019 for electric power and from April 2017 to March 2020 for city-gas

<sup>6</sup> The 'start-up wholesale' service is defined as a voluntary arrangement by the incumbent city-gas utility company to promote wholesale activities to make city-gas supply sources available to new entrants at

retail customers. As Ichitaka Gas One's city-gas pricing menu may not look very attractive as it is the same as that of Hokkaido Gas, the company tries to attract customers by offering bundled services of city-gas, kerosene and electric power with discount pricing. Meanwhile, Hokkaido Electric Power also announced at its FY 2019 financial presentation its plan to start city-gas retail services taking advantage of the 'start-up wholesale' service.

*<Tohoku>*

Tohoku Electric Power has lost about 730,000 residential electric-power customers. Tohoku Electric Power has already registered as a retail city-gas provider, although the company has not entered the retail city-gas market yet. In April 2020, the municipal city-gas business in Nikaho City, Akita Prefecture, was acquired by TOKAI Group, which is an LPG service company, and relaunched its city-gas business as Nikaho Gas. In addition, Tohoku Electric Power and Nikaho Gas started offering a bundled discount service of electric power and city-gas.

*<Kanto>*

Kanto is the region where the largest number of customers have switched their city-gas and electric-power retail providers. The consortium of TEPCO Energy Partner, Nippon Gas (Nicigas) and Tokyo Energy Alliance (TEA) announced that the total number of city-gas customers of city-gas operators in the country using the TEA platform had amounted to more than 2 million in March 2020. The platform has been adopted by about 30 companies in the Kanto, Kinki and Chubu regions. In addition, Nicigas alone has acquired 100,000 electric-power customers, making it one of the most notable companies in the Kanto area. In April 2020, CD Energy Direct, established by Chubu Electric Power and Osaka Gas, announced that it had received 200,000 applications for electric power and city-gas, including contracts with service providers. Meanwhile, Tokyo gas announced that it had acquired 2 million retail electric-power customers as of August 2019.

*<Chubu/Hokuriku>*

In the urban areas of the Chubu region, Toho Gas and Chubu Electric Power Miraiz are intensifying competition to acquire retail customers in the city-gas and electric-power markets. Toho Gas announced during its FY 2019 result presentation that it had acquired 330,000 electric-power customers by the end of March 2020. Meanwhile, Chubu Electric Power Miraiz has acquired more than 300,000 city-gas customers. Although Hokuriku

---

prices competitive enough against the incumbent retail services at specific market locations.

Electric Power has not entered the city-gas business, the company has tried to solidify its customer base by forming business alliances with several city-gas companies to provide combined offers of city-gas and electric power, and other service programs.

*<Kinki>*

Osaka Gas announced at the time of its FY 2019 reporting that it had acquired 1.32 million electric-power customers by the end of March 2020. Meanwhile, Kansai Electric Power announced at the time of its FY 2019 financial reporting that it had acquired 1.22 million city-gas customers by the end of March 2020. The two companies are still in fierce competition for customers, with new pricing menus and active campaigns.

*<Chugoku/Shikoku>*

Chugoku Electric Power has lost about 380,000 and Shikoku Electric Power has lost about 260,000 residential electric-power customers, respectively. However, the two companies have not entered the city-gas business. Also, city-gas companies in various areas have not entered the electric-power business. Hiroshima Gas is partnering with Chugoku Electric Power and Shikoku Gas is partnering with Shikoku Electric Power for customer-loyalty-reward programs, respectively, in an effort to secure customers by expanding services.

*<Kyusyu/Okinawa>*

Kyusyu Electric Power has lost about 1.01 million and Okinawa Electric Power has lost about 30,000 residential electric-power customers, respectively. Kyusyu Electric Power announced that it had acquired 110,000 residential city-gas customers as of September 2019. Meanwhile, Saibu Gas announced that it had acquired 100,000 residential electric-power customers as of July 2019. In Kagoshima Prefecture, Koa Gas, an LPG service company, started city-gas retail business in April 2020 for residential use within the Nihon Gas' service area. Koa Gas makes use of the 'start-up wholesale' service provided by Nihon Gas to supply retail customers. Koa Gas' website does not provide information on its pricing and service area.

## **5.Future Trends**

More than three years have passed since Japan's city-gas retail market for all the market, and the new entrants are appearing one after another in urban areas such as Kanto and Kinki, and competition for customer is getting fiercer by setting different pricing menus and improving services. In fact, as the number of switching cases and switching rate are increasing year by year and existing suppliers are also taking measures to improve services

to secure customers, so that many customers in these areas have benefited from the retail liberalization.

On the other hand, the number of switching cases is still zero in the Hokkaido, Tohoku and Chugoku/Shikoku regions as of the end of March 2020. However, new entrants are emerging in the city-gas retail services in Hokkaido and Kagoshima, taking advantage of the 'start-up wholesale' arrangement, which should be watched carefully. The 'start-up wholesale' service is defined as a voluntary arrangement by the incumbent city-gas utility company to promote wholesale activities to make city-gas supply sources available to new entrants at prices competitive enough against the incumbent retail services at specific market locations. But the arrangement is closely in line with the policy direction of the gas industry restructuring - securing stable city-gas supply services, keeping prices paid by consumers at the lowest possible level, providing diversified service programs and business opportunities, and expanding utilization of natural gas - especially helping new entrants into the city-gas retail business. The next question is whether other areas will see more cases of new entry with effective use of the 'start-up wholesale' arrangement, leading to fruits of the liberalization to be enjoyed by more and more customers in all regions.

Contact:report@tky.ieej.or.jp