

Management Policy towards Restoration

November 7, 2012
Tokyo Electric Power Company

1. Our Basic Stance

- The board of directors has created Management Policy towards Restoration for FY2013/14 based on the following points:

(1) As the Japanese people have provided TEPCO, a party to the Fukushima nuclear power station accident, the opportunity to continue its business operations via the injection of public funds and allowed the company to increase its electricity rates, addressing the accident remains our top priority. Hence, our new mission can be summed up in the following:

“Fulfill responsibility for the accident, ensure the highest global standards of security and achieve a stable electric power supply in a competitive environment”

We will regain societal trust by discarding old ways and moving forward towards our mission as a new and completely transformed company.

- (2) In light of sweeping electricity system reforms to promote competition and expand consumer choices, we will be flexible and proactive in the implementation of corporate reforms that will allow us to maintain our long-term competitive edge as well as meet our responsibilities in dealing with the accident.
- (3) While leaving no stone unturned in fully implementing our mission, we will also be frank in expressing our concerns in order to receive national support and the cooperation of other parties involved so that we will be able to overcome present financial risks that are too steep for us to overcome singlehandedly.

2. The Current Crisis

1) Taking appropriate measures against the Fukushima nuclear power station accident

- The vast area affected, the amount of damage and the amount of money required for restoration from the Fukushima accident is a “National Challenge”.

(1) The total compensation for those afflicted by the accident and decontamination costs in high-dose regions may exceed ¥5 trillion of the government compensation bonds issued under the act per Nuclear Damage Liability Facilitation Fund Law. Some anticipate that similar additional costs will be incurred for decontamination of low-dose regions and intermediate storage in the future.

(2) As for the costs concerning the decommissioning of the reactors, we have already allocated approximately ¥1 trillion. For additional development and research, although we expect the government to take the lead, the total costs incurred, including removal of fuel debris and final disposal may be staggering and potentially far exceed available reserves.
- Although we will exercise the utmost in patience and perseverance and devote all of our energy and resources towards compensating the afflicted and decommissioning the reactors, the anticipated costs due to the smooth restoration of the current disaster area could possibly reach levels that would be excessive for any one company to handle singlehandedly.

2) A Changing Business Environment and Decline in Overall Company Strength

- We are experiencing changes in the business environment, which were not assumed in the “Comprehensive Special Business Plan” released in May.

(1) The Japanese government has established a basic policy for the full deregulation of the electricity market this summer with the details to be decided at the end of this year. Hence, properly addressing the changes that will come about due to this deregulation in the next few years is also now an urgent priority for us.

(2) The various discussions on future energy composition or nuclear energy policy are hampering attempts by electric power companies to forecast the restarting of nuclear plants.

- Meanwhile, our overall strength is declining rapidly due to a drain in both capital and human resource reserves. If our financial burden swells due to compensation payouts, decontamination and decommissioning of the reactors at the current pace and we are unable to properly respond to changes in the business environment such as those brought about by deregulation this will result in the failure to develop a future vision that will accelerate the decrease of company morale.

3. Selection of the company structure

1) Risks if actions are taken under the current single system

- Under Nuclear Damage Liability Facilitation Fund Law, if the cost of compensation and decontamination increases, the funding granted through the issuing of government compensation bonds will also increase. If funding to decommission the reactors becomes necessary, the agency may be able to support us financially.
- The amount to be contributed by the overall power industry in the framework under the Nuclear Damage Liability Facilitation Fund Law totals ¥5 trillion. It is extremely difficult to request that other electric power companies greatly increase their portion of the voluntary burden to be shared during the deregulation process.
- Assuming that under the current single framework we will continue to bear this huge burden, which will increase, our corporate structure may be transformed into either of the following:

(1) “A corporation dedicated to handling the accident for an extremely long period of time” (provided that the amount of government compensation bonds totals ¥10 trillion)

For example, if the government compensation bond limit is raised to double the original amount (¥5 trillion), TEPCO will become “a corporation dedicated to the accident” that exists solely for the purpose of paying out huge compensations for an extremely long period. If this happens, in order to secure finances to deal with the enormous financial burden, we would be forced to fight to maintain a monopoly over the current region, and reject the idea of electric power deregulation. This will prevent us from raising funds from private financial institutes and force us to rely on government funds for all business activities.

- (2) “A public electricity corporation” (If the amount of public capital is increased to several times the current total.)

An additional injection of several trillion yen of public capital to address the huge cost burden substantially prevents the possibility for us to change our present public management status, thereby forcing us to rely on national credibility for our business capital. This will result in the creation of an extremely distorted structure, in which the largest power provider in Japan, holding a one-third share of the Japanese electricity market, becomes “a public electricity corporation”, while Japan is pursuing full deregulation of the same market.

2) The Ideal Company Structure

- From a global perspective, the electricity business is undoubtedly the backbone of industry that affects future economic growth. To ensure a new stable electricity supply, including low-priced resources, address renewable energy and promote energy savings amid fiercer competition due to deregulation, it is crucial for us to transform ourselves into a dynamic electric power provider capable of competing with global market players by capitalizing on the Fukushima experience and establishing technology that will ensure a stable power supply.

- In light of the deregulation coming in a few years, if we choose to become “a dedicated Accident Management Corporation” or “a public electricity corporation”, the decline in human resources will undoubtedly accelerate. These circumstances will make it impossible for us to respond to deregulation as an energy operator and to the needs of people and consumers and fulfill our specific social responsibilities, such as providing compensation and decommissioning the reactors.
- TEPCO has chosen to quickly return itself to a dynamic private company; capable of raising funds and making investment decisions autonomously based on market principles in a competitive environment, thereby retaining its management base, such as technological and human resources, and continuously fulfilling its obligations. To achieve this end, in addition to full-scale management efforts, we will also request that the government promptly consider establishing a new support framework to handle the huge amount of financial risk that exceeds the limit under the Nuclear Damage Liability Facilitation Fund Law and the cost of decommissioning of the reactors. If all goes well, next spring, we would like to request that the parties involved create a new comprehensive plan by additionally incorporating measures to address the changes that will bring about a new business environment and the results of a series of considerations by the government in the current Comprehensive Special Business Plan.

4. Reforms for this and next years

- As a party to the accident, TEPCO’s main priority is fulfilling its responsibilities for the accident.
- To achieve this end, we will maximize our investments in both human and technological resources as part of our commitment to compensation, decontamination and regional support; assuming the government will consider new support measures to cover costs that would be excessive for any one company or industry to bear.
- We will focus on implementing the following reforms during the period covered by the Management Policy towards Restoration:
 - I: Fulfilling our responsibility for the Fukushima Nuclear Accidents
 - 1) Formation of a decommissioning framework for the Fukushima Daiichi NPS by concentrating domestic and overseas expert wisdom
 - 2) Deepening the efforts towards Fukushima’s revitalization
 - II: Securing the world’s highest level safety
 - 1) Nuclear reform
 - 2) Construction of disaster prevention and business continuation frameworks, which are not defeated by the crisis such as the Great Earthquake
 - III: Financial base building to fulfill our responsibility
 - 1) Cost reduction for survival
 - 2) Thorough cost management by subdivided organization unit
 - IV: Building a revenue base of new-born TEPCO
 - 1) Management reform bringing the HD company system into perspective
 - 2) Revenue base building toward restoration
 - 3) Operational reforms (human affairs, accounting, target setting and publication)

[Reference] The Assumed Fund Contribution Amount Expected to be Made to the Nuclear Damage Liability Facilitation Fund

Single-year payment (Example)	(Remark)
General fund contribution (Financial source: Rate costs) ¥163 billion (Based on actual payment made in 2012)	Calculated by subtracting the “Average actual costs of shareholders’ Equity” from the “Average Actual Profits of Nuclear Operators” over the past decade. Increasing fund contributions is difficult unless rate costs are increased by revising electricity rates.
Special fund contribution (Financial source: Disposable profit) ¥50 billion (Presumed from the normal business profit level)	Assuming that all profits, excluding the internal reserve of about ¥50 billion/year, which is the minimum amount required for us to return to the bond market, are appropriated to the special fund contribution, interest payments, and corporate income tax, without dividend distribution.
Total ¥213 billion	

Total burden charge paid by 2035:

Approx. ¥5 trillion

(¥213 billion × 23 years required)

* The actual payment made by a nuclear operator is determined by the Nuclear Damage Liability Facilitation Fund for each year, with reference to its revenue and expenditures lest the payment should adversely affect the stable electricity supply or smooth operation of reactors, or significantly increase the burden of users of the nuclear operator.

* The general fund contribution represents the total payments made by all nuclear operators (electric power companies).