

Improvements to National Systems and Rules For Corporate Renewable Energy Procurement

Many companies are now utilizing renewable energy to advance decarbonizing their operations. Expanding renewable energy use has become essential not only for contributing to climate change mitigation but also for enhancing corporate competitiveness, including relationships with business partners. As initiatives gain momentum within Japan, various challenges are emerging. Many of them are related to national systems and regulations. Addressing these challenges early will accelerate corporate decarbonization. Based on feedback from 24 companies actively pursuing renewable energy use, we propose improvements to systems and regulations concerning four particularly critical areas.

[Areas for improvement]

1. Enhance the usability of Non-Fossil Certificates.
→ [extension of valid period, change of purchase methods.](#)
2. Reduce the costs of offsite PPAs (Power Purchase Agreements).
→ [exemption from Renewable Energy Surcharge.](#)
3. Expand power sources other than solar.
→ [sustainability criteria for hydro and biomass, subsidies for the purchase of offshore wind power](#)
4. Make the FIP (Feed-in Premium) system easier to utilize.
→ [streamlining the certification process, simplifying the premium calculation.](#)

* The background of improvement areas and the details of recommendations will be explained on the following pages.

[Companies contributing to recommendations development]

Amazon Web Services, Askul, Daiwa House Industry, Google, Hulic, Kao, Kirin Holdings, Konica Minolta, LY Corporation, Marui Group, Mitsubishi Estate, MUFG Bank, Murata Manufacturing, Panasonic Operational Excellence, Ricoh, Seiko Epson, Sekisui House, Seven & i Holdings, Sony Group, Tokyu Land and others (listed in alphabetical order).

* Secretariat: Renewable Energy Institute (compilation of recommendations)

[Background of improvement areas, Details of recommendations]

1. Enhance the usability of Non-Fossil Certificates (NFCs).

● **Challenge 1: [Certificates are valid only within the fiscal year.](#)**

NFCs are issued annually and must be used within the fiscal year. The final auction for purchasing certificates takes place in May of the following year. Consumers are forced to purchase them before confirming the exact annual requirements, often leading to surpluses or shortages. Meanwhile, the electricity underlying the certificates is generated between January and December each year. This creates a three-month gap between the actual generation period and the fiscal year when certificates can be used from April to next March. The mismatch between the electricity generation period and the certificate valid period imposes unnecessary costs and administrative burdens on consumers.

□ **Recommendation 1: [Extend the valid period of the certificates.](#)**

The valid period for the certificates should be extended to 18 months by adding three months before and after the fiscal year. This allows consumers to adjust for excess or shortfall in purchased quantities and enables the valid period for electricity and certificates to be aligned. In the United States, the valid period is set at a total of 21 months, including the six months preceding and the three months following the year the electricity was generated. In Europe, rules allow certificates to be used within one year from the actual electricity generation.

* Current Rule and Extension Proposal for the Valid Period of NFCs

Year/Month	Current year				Next year			
	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12
Generation period of electricity	■							
Valid period of NFCs (current rule)		■						
Auctions of NFCs			●	●	●	●		
Extention of valid peiord of NFCs (3 months each)	■							

● Challenge 2: The timing and method for purchasing certificates are limited.

Among NFCs, only “FIT NFCs” can be purchased by consumers, and only through four annual market auctions (excluding cases where long-term contracts for “Non-FIT NFCs” are secured through off-site PPAs with power generators). This makes it difficult for consumers to flexibly purchase certificates aligned with actual electricity usage or greenhouse gas emission reduction targets. There are restrictions on how to specify desired purchase conditions when bidding (such as not being able to select multiple items), which may prevent buyers from purchasing desired certificates.

□ Recommendation 2: Establish online system to trade throughout the year.

The government should establish an online system that enables the prompt issuance and sale of NFCs after electricity generation. Prospective buyers will be able to search for certificates based on attribute information such as the generator location, generation method and period. It is also desirable to change the rules to allow consumers to purchase Non-FIT NFCs as well, thereby increasing their options. Major certificates overseas enable issuance and sales through online systems throughout the year. Certificates with favorable conditions command higher prices, promoting new development by power generators.

* Another improvement area

- Easing restrictions on the transfer and resale of certificates between group companies (revision of accounting and tax rules).

2. Reduce the costs of offsite PPAs (Power Purchase Agreements).

● Challenge: The cost of additional offsite PPAs is high.

Declining cost of solar power generation has led to the growing adoption of offsite PPAs, where electricity consumers purchase power from new additional solar facilities under long-term contracts. While these agreements offer the benefit of supporting renewable energy expansion and contributing to climate change mitigation, they often come at a higher cost compared to standard electricity rates. This makes offsite PPAs particularly challenging for even large corporates to adopt, as they typically purchase electricity at low rates.

□ Recommendation: Exempt offsite PPAs from Renewable Energy Surcharge.

Electricity sold by retail electricity suppliers is subject to Renewable Energy Surcharge. This is because electricity users bear the cost of increasing renewable energy by the Feed-in Tariff system nationwide. On the other hand, offsite PPAs allow consumers to independently bear the cost of expanding renewable energy power sources. By exempting offsite PPAs from the surcharge, new renewable power generation facilities can be promoted without imposing the cost on the entire nation. A rule is expected to exempt electricity (or environmental attributes) procured through offsite PPAs from the surcharge, provided they do not receive national subsidies. This alleviates the cost burden compared to standard electricity rates, enabling a broader range of consumers to procure renewable electricity long-term through offsite PPAs. Electricity generated through offsite PPAs constitutes a very small portion of the total power supply in the nation. The impact of the exemption for offsite PPAs on the unit price of the surcharge is extremely minimal.

* Another improvement area

- Transparency and fair allocation of costs included in electricity rates (such as “Capacity Contribution Adjustment”)

3. Expand power sources other than solar.

● Challenge 1: Lack of standards for sustainability of hydro and biomass.

Renewable electricity from hydro and biomass power generation is internationally required to adopt methods with lower environmental impact. The international initiative “RE100” requires the use of electricity generated through sustainable methods. Overseas, third-party organizations certify sustainability based on established criteria. In Japan, the framework to certify the sustainability of hydro and biomass power generation is not yet in place. This leaves consumers unable to choose electricity from hydro and biomass sources certified as sustainable.

□ [Recommendation 1: Establish domestic standards based on overseas ones.](#)

Currently, there is no globally unified standard for assessing the sustainability of hydro and biomass power generation. Different countries and regions use evaluation standards established by International Organization for Standardization or non-governmental organizations, which are also recommended by RE100. Based on the standards of various overseas organizations, Japan should establish a unified domestic standard and build a system where third-party organizations can appropriately evaluate and certify sustainability. This would enable consumers to choose electricity from sustainable hydro and biomass power sources certified by third-party organizations.

● [Challenge 2: Purchasing cost for electricity from offshore wind is high.](#)

In Japan, expanding offshore wind power generation is essential to increase renewable electricity significantly. There is consumer demand for electricity which can be used even at night and during cloudy or rainy weather. However, current generation costs of offshore wind remain higher than solar power, preventing consumers from purchasing offshore wind electricity at a reasonable price. Rising costs of constructing offshore wind power plants, driven by factors such as soaring prices for materials, raise concerns about delays or cancellations of ongoing development projects.

□ [Recommendation 2: Introduce subsidies for purchasing offshore wind power.](#)

To reduce the cost of offshore wind power generation, the government should provide maximum support to developers while establishing a subsidy program for consumers who purchase electricity from offshore wind power plants through long-term offsite PPAs. As implementing the previous recommendation (exemption from the Renewable Energy Surcharge for offsite PPAs) is considered insufficient for the time being, tax credits or other measures should be combined. This will enable consumers to make offsite PPAs for offshore wind power at reasonable costs not significantly different from those for solar power. Offsite PPAs should spur offshore wind development nationwide, significantly boosting renewable electricity generation across Japan.

4. Make the FIP (Feed-in Premium) system easier to utilize.

●Challenge 1: [Obtaining the FIP certification takes time.](#)

The FIP system launched in 2022 enabled power generators to implement offsite PPAs utilizing FIP, reducing costs for consumers. However, obtaining FIP certification takes an extended period, resulting in many projects unable to commence as planned.

□Recommendation 1: [Streamline the certification process.](#)

Power generators are required to hold briefing sessions for local residents at least three months prior to applying for FIP certification (excluding rooftop solar installations, etc.). While securing local community consent before constructing power generation facilities is fundamental, and holding briefing sessions is a necessary measure, a more efficient certification process management is desirable. In cases where an application has no substantial impact on the construction plan (such as a generator name change within the same business entity), the requirement to hold a resident briefing session can be exempted.

●Challenge 2: [Premium calculation is complex; income predictability is low.](#)

The premium calculation of FIP incorporates multiple variable factors, including the annual average wholesale electricity market price in the previous year, the monthly average prices for the current and previous years during the current month, and the average market price of Non-FIT NFCs over the most recent year. Consequently, the predictability of income from the premium is low, affecting the pricing of off-site PPAs and making it difficult to forecast the long-term costs borne by consumers.

□Recommendation 2: [Simplify the premium calculation.](#)

Reduce the variable factors included in the calculation to link to the most recent wholesale electricity market prices. For example, referring to only the average wholesale market price for the current month would allow power generators to achieve stable income by combining market-based electricity sales revenue with premiums. This should enhance the predictability of costs borne by consumers.

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Working group of 24 companies promoting renewable energy use
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