



## Generation wheeling charge system

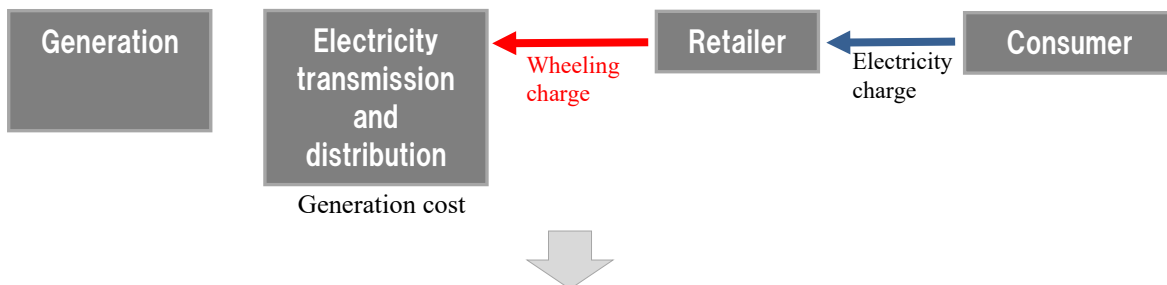
The Japanese Government has decided to introduce a Generating Side Wheeling Charge system (*hatsudengawa kakin*) and is aiming for its official introduction in April, 2024. Although some elements remain under discussion, the following provides an overview of the key points of the system based on information available as of November 23, 2023.

### Overview of the Generating Side Wheeling Charge System

#### 1. Background and timing of introduction of the generation charge system

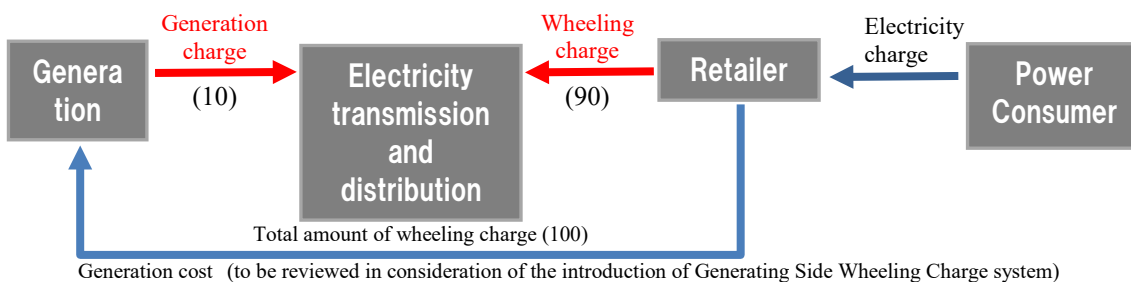
- The term “Generation Side Wheeling Charge System” (*hatsudengawa kakin seido*)” refers to a system that will require power producers, who are grid users, to bear, together with power consumers, a portion of the costs necessary for the maintenance and expansion of transmission and distribution facilities. Prior to the change, these costs have been borne entirely by electricity retailers.

<Current wheeling charge system> 100% charge to electricity retailers (demand side)<sup>1</sup>



<After introduction of the Generating Side Wheeling Charge system>

A portion of the wheeling charge will be borne by the power producer (as a generation charge). The total amount of the wheeling charge is unchanged.<sup>2</sup>



<sup>1</sup> Excerpt from METI publications

<sup>2</sup> Excerpt from METI publications

- While the discussion within Government included the possibility that so-called existing FIT/FIP-approved power sources<sup>3</sup>, etc., would also be subject to generation charges. However, it has recently been pointed out that the Generating Side Wheeling Charge System will place an additional burden on power producers. Therefore, in order to ensure a smooth introduction of the System, it is necessary to carefully consider the treatment of existing FIT/FIP-approved power sources, etc. so as not to hinder the maximum possible introduction of renewable energy (see also Q1).
- The system is set to be introduced in April, 2024.

## 2. Basic concept of the charge method

- **The Charge method**, in principle, consists of two elements: a fixed kW charge, and a metered kWh charge.
- In addition to the fact that the power grid is capable of allowing electricity to flow in both directions, the newly introduced Generating Side Wheeling Charge system will require the power producer to bear some of the costs related to power transmission and distribution that have until now been borne solely by the demand side.
- Based on this point of view, and on the assumption that transmission and distribution facilities equivalent to the forward power flow kW on the demand side can typically handle the reverse power flow kW on the power producer side, if the demand side and producer (reverse power flow) are located at the same point, the power producer will be required to bear the portion of reverse power flow kW on the producer side that exceeds the forward power flow kW on the demand side (the kW charge).
- Therefore, the kW amount subject to the kW charge is equivalent to the amount of reverse power flow kW on the producer side that is in excess of the kW amount of the demand side under consignment contract.
- In the future, the formation of facilities in the core grid will be based on a cost-benefit assessment that takes into account not only the contracted kW but also the usage of the facilities (kWh), and the kWh portion will be borne by the power producer (kWh charge). Since the meter that measures the amount of generated electricity subject to charge is installed in such a way that even if there is on-site consumption, the meter will display an amount which is the value excluding the amount of on-site consumption, such meter measurement value is deemed to be the electricity amount subject to kWh charge.
- In consideration of the burden of charges on the power producer when pumped storage power generation or storage batteries are used, out of fairness with other power sources<sup>4</sup>, the Council of the Agency for Natural Resources and Energy has decided to exempt pumped storage power generation and storage batteries from kWh charges (see Q5 of the Q&A below for treatment of charge for storage batteries installed alongside power generation facilities).

## Q&A

This article provides an explanation of frequently asked questions (FAQ) regarding the generation charge, which could cause a new burden to the renewable energy system, including existing installed generation facilities (generally based on METI's publications). (Please note that the Questions & Answers may not always apply to individual specific cases.)

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<sup>3</sup> Existing FIT/FIP-approved projects include those awarded through bidding in years prior to 2024 (the year in which the Generating Side Wheeling Charge system will be introduced)

<sup>4</sup> This is to avoid being at a disadvantage compared to other sources in terms of kWh charges because of pumped storage losses and storage losses in pumped storage and power generation and storage batteries.

**Q1 My company is currently operating a power generation facility that is subject to the procurement price under the FIT system. Will the Generating Side Wheeling Charge System) apply to existing FIT (and FIP) power sources and will the generation facility be charged immediately?**

**A1**

- No, the generation facility will not be charged for the existing FIT (or FIP) procurement period. In principle (to ensure equal benefit and fairness), all power sources that are connected to the grid and are reverted back to the grid should be subject to the Generating Side Wheeling Charge System. However, existing FIT (and FIP) power sources will only become subject to generation charge after the end of the respective procurement period.

**Q2 What is the charge method for FIT-approved biomass power generation facilities?**

**A2**

- In the case of biomass co-firing facilities<sup>5</sup> which include approved FIT facilities within the procurement period, only the non-FIT portion will be charged a generation charge (based on the actual biomass ratio and other factors).
- To explain in some more detail based on METI publications: with respect to the FIT-approved biomass power generation facilities, the amount of electricity sold under the FIT scheme represents a portion equivalent to total amount of electricity sold each month x the input ratio of biomass fuel (biomass ratio) for that month.
- In other words, for biomass co-firing, only the biomass combustion portion is eligible for purchase under the FIT scheme. For biomass co-firing that includes FIT-approved power sources within the procurement period, the non-FIT-approved portion will be charged based on the actual biomass ratio and other factors.

**Q3 How will it be billed when there are multiple contracts at one demand location (generation location)?**

**A3**

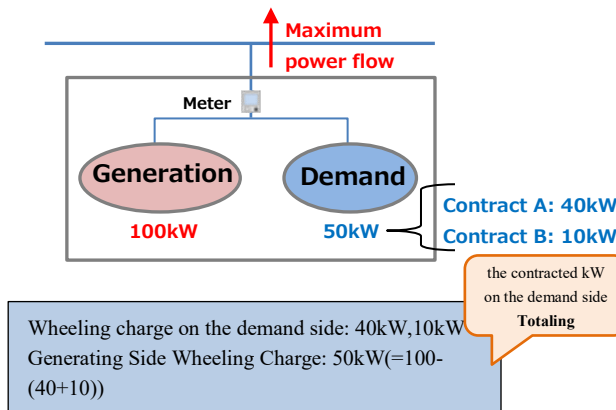
- According to METI publications, if there are multiple demand-side contracts, the sum of the demand-side contracts kW is calculated. If there are multiple generation contracts, the kW portion to be billed for generation will be calculated after pro-rating the contracted kW under the demand-side contracts based on the contracted kW under the generation contracts.
- Specifically, please refer to the following chart 7.

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<sup>5</sup> Co-firing of biomass and non-biomass.

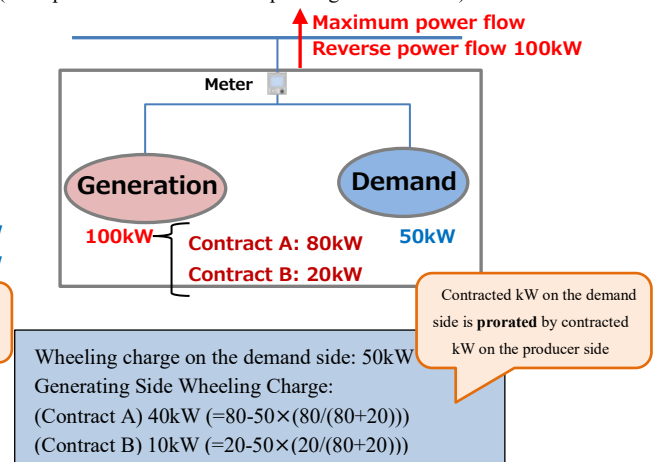
[Chart 7] Image of kW charge calculation when there are multiple contracts at one demand point (generation location)<sup>6</sup>

■ In case of partial supply  
(Multiple demand-side contracts exist)



(Note) The above describes a case in which the total contracted kW on the demand side is equal to the maximum forward power flow kW (maximum consumed power kW) (cross-split type partial supply). If the total contracted kW on the demand side exceeds the maximum consumed power kW (notification-type partial supply or vertical cut-off partial supply), the kW amount to be charged will be calculated using the maximum consumed power kW.

■ When electricity is sold to multiple parties  
(Multiple contracts exist on the power generation side)



(Note) The above describes a case in which the total contracted kW on the power producer side is equal to the maximum reverse power flow kW (maximum received power kW). If the total contracted kW on the producer side exceeds the maximum kW received, the kW to be charged will be calculated using the value obtained by prorating the maximum received power by each contracted kW.

**Q4 Please explain the concept of the charge method when there is a combination of FIT/FIP approved power sources within the procurement period and other power sources.**

**A4**

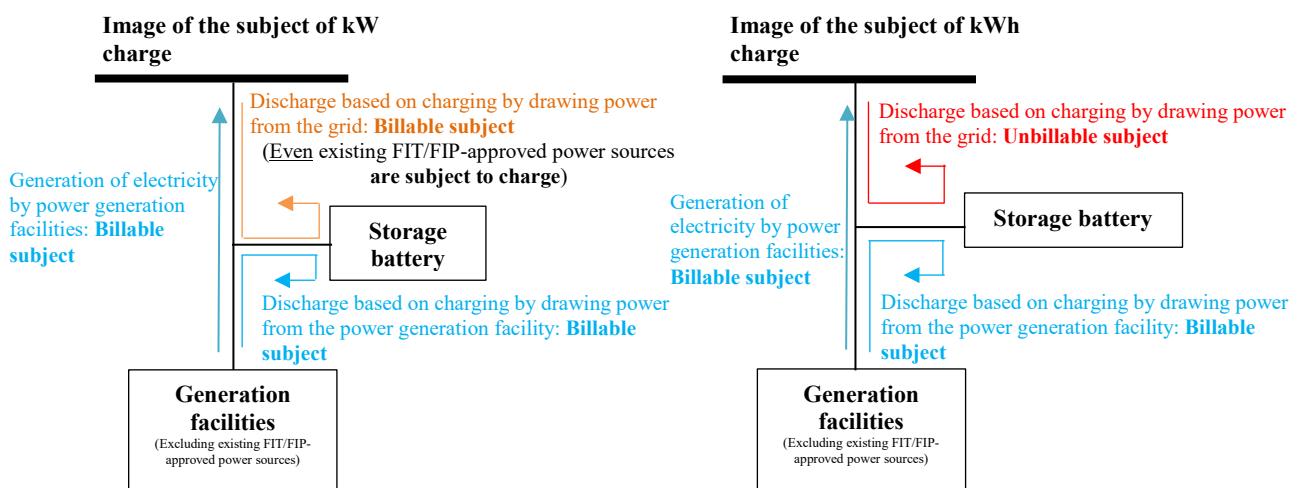
- According to METI publications, where the reverse power flow to the grid is less than 10 kW, it will not be subject to the Generating Side Wheeling Charge System for the time being. In addition, there will be no charge for existing FIT/FIP-approved power sources during the relevant procurement period, etc.
- Based on the above arrangement, the Generating Side Wheeling Charge (kW charge) for power sources whose reverse power flow to the grid side is 10 kW or more, and with a part of such power sources being existing FIT/FIP-approved power sources within the procurement period etc., a portion/part to be charged (i.e. a portion other than the portion of FIT/FIP-approved power sources within the procurement period etc.,) is calculated and charged.
- In such cases, the maximum power received is prorated between the proportion of generation facility capacity in the uncharged portion and the proportion of generation facility capacity in the charged portion, and the amount charged will be for the charged portion of the generation facility capacity.

**Q5 How are generation charges handled for Battery energy storage with on-site power generation (facilities)?**

**A5**

<sup>6</sup> Excerpt from METI publications

- The "Interim report on generation charges" released in April, 2023 stated that wheeling charges for battery energy storage with on-site power generation facilities would be considered in the future.
- According to METI publications, generally speaking, with regard to battery energy storage with on-site power generation (facilities), the kW charge (fixed charge) on the Generating Side Wheeling Charge will in principle be applied.
- However, since the existing FIT/FIP approved facilities/power sources within the procurement period, etc., will be subject to the Generating Side Wheeling Charge after the end of the procurement period, etc., the kW charge when storage batteries are installed alongside the existing FIT/FIP-approved facilities/ power source within the procurement period, etc., will be considered to be for the discharge portion based on charging by drawing the power from the grid of the battery energy storage with on-site power generation (facilities).
- In addition, it has been proposed through discussions that the portion subject to charge should be calculated by prorating the generation capacity of the existing FIT/FIP-approved power sources and storage batteries, and the storage batteries should be calculated as the portion subject to charge. Details for further developments still need to be confirmed.
- According to METI publications, out of fairness to other power sources, since it has been decided that kWh charges for storage batteries are exempted, kWh charges in the case of battery energy storage with on-site power generation (facilities) in general applies to the portion other than the discharges based on recharges with the power drawn from the grid of the storage batteries (i.e., power generated by the power generation facilities).
- However, it should be noted that when a storage battery is installed alongside an existing FIT/FIP approved power source within the procurement period, etc., the existing FIT/FIP-approved power source will become subject to the Generating Side Wheeling Charge after the end of the procurement period, etc.
- In addition, when calculating the amount of discharge based on the recharging of battery energy storage with on-site power generation (facilities) with the power drawn from the grid, if it is difficult to calculate an accurate figure or a figure close to the actual amount of electricity, it may be possible to use methods such as calculating the amount of electricity that storage batteries draw from the grid and discharge based on the amount of electricity drawn from the grid at the same location. Details of further developments still need to be confirmed.



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## Other

The design of a discount system for the Generating Side Wheeling Charge that reflects the impact of the power sources on the cost of maintenance of transmission and distribution facilities in the amount to be charged is currently under discussion. In addition, the establishment of a shifting guideline for shifting the Generating Side Wheeling Charge in bilateral transactions is also under discussion and consideration.

We will provide another update in April once the scheme is operational.

<sup>7</sup> Excerpt from METI publications

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