

Legal Separation of the Power Transmission/Distribution Sector of Electric Power Companies—No Impact on Ratings

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on an absorption-type split agreement for the separation of the power transmission/distribution sector concluded by Japan's eight former general electricity utilities* ("power companies") excluding Tokyo Electric Power Company Holdings Incorporated ("TEPCO") (security code: 9501) and Okinawa Electric Power Company, Incorporated.

*Chubu Electric Power Company, Incorporated (security code: 9502), The Kansai Electric Power Company, Incorporated (security code: 9503), The Chugoku Electric Power Company, Incorporated (security code: 9504), Hokuriku Electric Power Company (security code: 9505), Tohoku Electric Power Company, Incorporated (security code: 9506), Shikoku Electric Power Company, Incorporated (security code: 9507), Kyushu Electric Power Company, Incorporated (security code: 9508), and Hokkaido Electric Power Company, Incorporated (security code: 9509)

- (1) Each of power companies announced that it concluded an absorption-type split agreement for the separation of the power transmission/distribution sector with a successor entity it established, along with the announcement of financial results. The legal separation of the power transmission/distribution sector of power companies scheduled in April 2020 is required by law as the third phase of electricity system reforms underway.
- (2) The general power transmission/distribution companies continue to be territorial monopolies, adopting the cost-plus pricing method, and therefore expect stable business management and earnings. Each of the power companies intends to have a general transmission and distribution company after the legal separation as its wholly owned subsidiary in the group. Given the details of restrictions on the power transmission/ distribution companies' conduct and a framework to ensure the power companies' ability to redeem financial debt through the issuance of Inter Company Bond (ICB), etc., the separation will cause no substantial change in the integration of each power company group including the general power transmission/distribution operator after the separation.
- (3) When TEPCO Group shifted to a holding company structure, JCR confirmed that the integration of the Group would not change and believed that the legal separation would not have a significant impact on the ratings for the Group. JCR considers that it is also applicable to the legal separation of the power companies described above.

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