

Global Gas to Gas Convergence and TEPCO's Strategy

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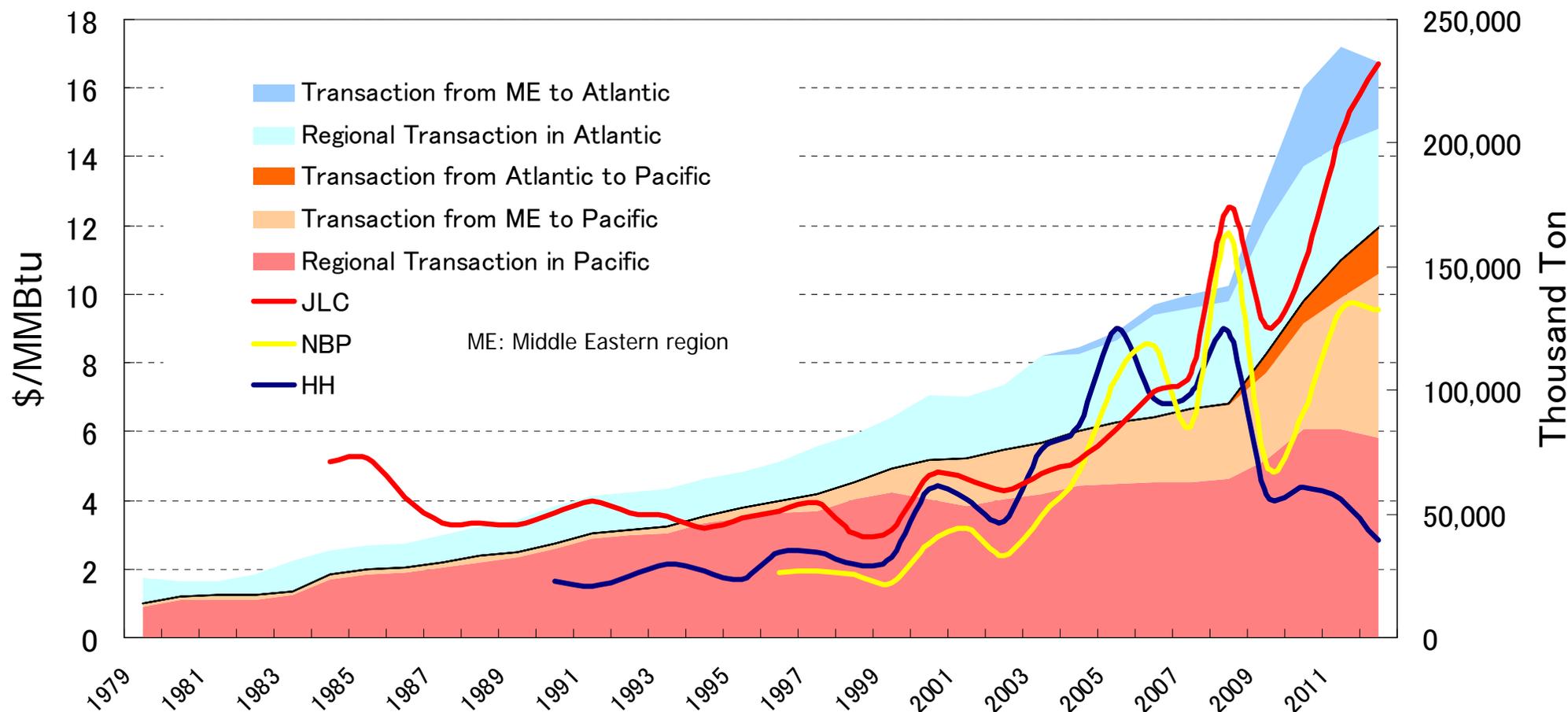
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TOKYO ELECTRIC POWER COMPANY

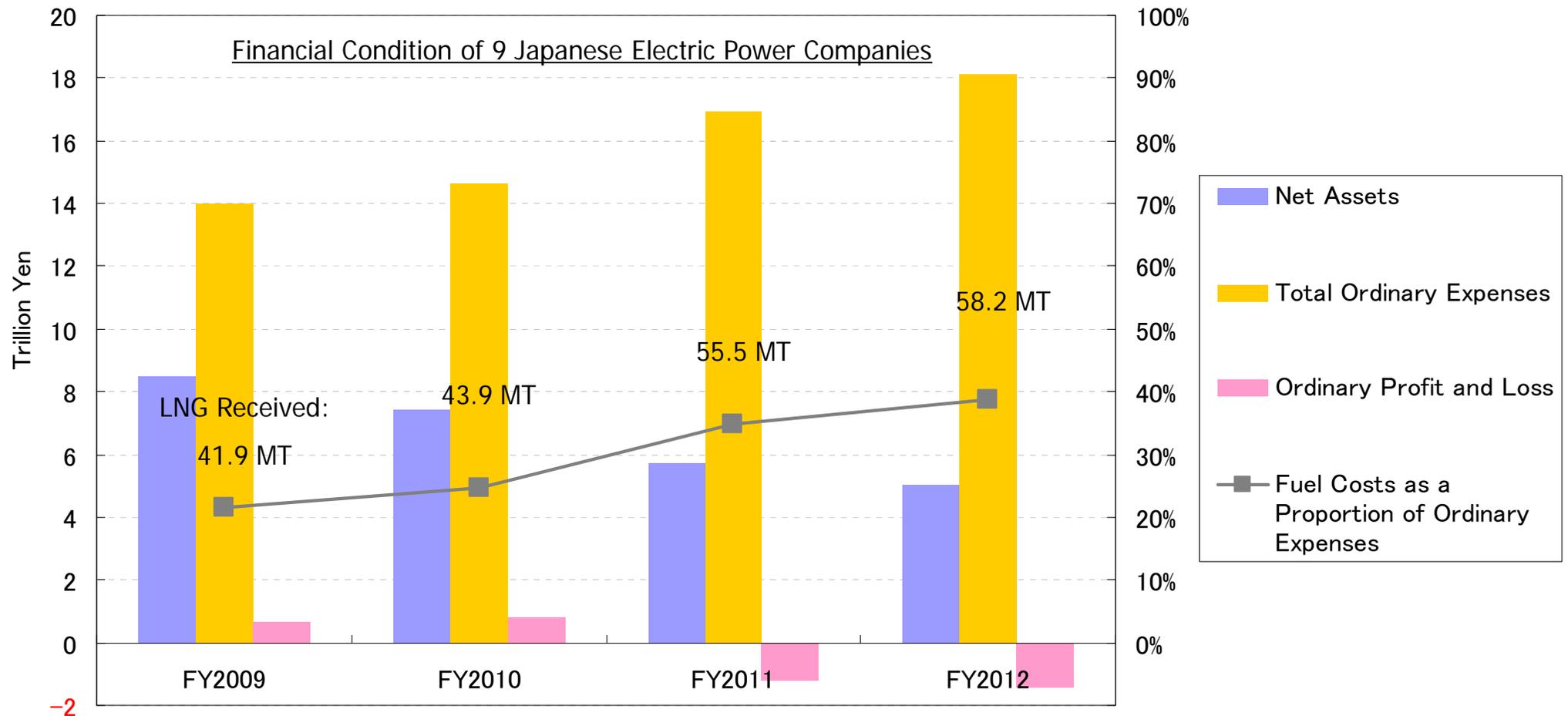
LNG Trade Flows — In Transition

- Historically, LNG had been traded within segregated regions
- Since 2009, a significant gap has developed in regional natural gas pricing (JLC, NBP, HH), and inter-regional trade has grown – some LNG has become available to respond to the price gap
- Inter-regional trade has not been sufficient to close the gap, but increasing diversification of LNG supplies as a result of the arrival of new suppliers and extension of the currently emerging trend toward inter-regional supplies should naturally accelerate the dynamism of the global natural gas/LNG market



Global Gas to Gas Convergence Urgently Needs to be Encouraged

- Over time, Asian LNG prices could become level with other gas/LNG market prices through the emergence of significant inter-regional LNG transactions, with residual gaps reflecting mainly transportation cost differentials (“**Global Gas to Gas Convergence**”)
- However, Japanese utilities now face huge deficits partly because their LNG procurement cost is the highest among the key consumer markets and cannot be passed through. This situation is not sustainable
- Japanese LNG buyers therefore need to take urgent positive action – they need to encourage the dynamism of the natural gas/LNG market to ensure Global Gas to Gas Convergence



What LNG Buyers Can Do to Promote Global Gas to Gas Convergence

Improve Operational Capability	<i>Develop capability to receive all grades of LNG, especially leaner LNG</i>
Expand Upstream Business	<i>Acquire more equity LNG, which provides enhanced pricing flexibility and a natural hedge</i>
Remove Destination Restrictions	<i>Adjust the LNG supply-demand balance through third party sales, which may lead to more frequent inter-regional trade</i>
Diversify Supply Sources & Price Indices	<i>Purchase LNG under a portfolio of price indices, including netback pricing based on gas/LNG prices in other regions</i>
Improve Price Review Mechanism	<i>Adjust the gap of LNG prices through price review, and explore new price review ideas supporting Global Gas to Gas Convergence</i>
Use Futures Market	<i>Hedge fuel procurement costs, and apply hedging techniques to mediate across regional markets</i>

- If there is strong Global Gas to Gas Convergence, appropriate price signals will be issued which will enable all LNG market participants to make more appropriate business decisions
- Under such conditions, only competitive projects can launch (while non-competitive projects will not), and the supply-demand balance will be adjusted properly
- If there is weak Global Gas to Gas Convergence and Asian LNG prices remain higher than in other markets, Asian buyers will recognize the price signals. One potential business decision for them would be to switch from LNG to other fuels

TEPCO's Strategy

- The energy prices charged by Japanese energy utilities are facing intensive attention from customers and the government
- In order to accomplish a stable, flexible and potentially less expensive energy supply, TEPCO is well advanced in redefining its approach to LNG procurement and investment
- TEPCO is developing a multi-dimensional strategy that supports Global Gas to Gas Convergence:

“Volume Buyer” x “Value Chain Strategy” x “Lean Spec LNG Strategy”

Strategic Positioning

Value Chain Strategy: 2000~

- ✓ Seek investment opportunities in every segment of the LNG value chain – particularly upstream
- ✓ Strengthen TEPCO's supply chain

Volume Buyer Strategy

- ✓ Maintain and enhance long term relationships with 1st class LNG sellers
- ✓ Increase LNG volume offtake to enhance bargaining power in the supply market

TEPCO will...

- ✓ Restructure its LNG supply portfolio with focus on stability and flexibility
- ✓ Achieve appropriate and less volatile LNG prices through optimized use of a basket of indices
- ✓ Deepen its involvement in the value chain, particularly upstream business

Lean Spec Strategy: 2010~

- ✓ Modify TEPCO's integrated operations/facilities to receive every grade of LNG
- ✓ Increase supply source diversity
- ✓ Introduce lean LNG price differential

Operational Capability