

JAPAN RETAIL ELECTRICITY MARKET

Japan's Retail Electricity Market

The Next Ten Years

Retail 3.0 — Survival of the Fittest



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AUTHOR

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2000

First partial liberalization of retail supply (Retail 1.0)

2016

Full liberalization (Retail 2.0)

2026

Financial-market liquidity becomes the core of Retail 3.0

Author's Preface

This paper is based on my experience launching a business in Japan two years before power liberalization took hold, together with the knowledge and track record I have built participating in liberalized electricity markets around the world.

Japan's retail power market is now approaching its next inflection point: Retail 3.0. This paper outlines the structural changes to be expected there and their implications, unpacks the strategies that have been proven in the markets that liberalized earlier, and sets out my own view of the strategies Japanese companies should pursue.

Background and History

Before liberalization, Japan's power market — like those in other countries — was a regional monopoly model operated by the incumbent general electricity utilities. Liberalization then brought Retail 1.0 and Retail 2.0 in succession, but the resulting market structure differed substantially from that of the markets that liberalized earlier, such as the United States, the European Union and the United Kingdom. Today, however, Japan's power market is evolving toward a competitive business model much closer to those international markets.

Key Insight

The decisive difference between Japan's retail market — which began as Retail 1.0 and expanded under 2.0 — and other countries is whether a functioning wholesale power market existed.

In other countries, an active spot market, a physical bilateral market and liquid financial markets for instruments such as futures and options were all in place before retail was opened to competition. Japan, by contrast, pursued the process of retail liberalization while its wholesale power market remained substantively immature.

Japan is now moving into the Retail 3.0 phase, and is beginning to display, markedly, the same characteristics as the more mature retail power markets overseas.

EXHIBIT 01 The sequence of liberalization — earlier markets compared with Japan**Markets that liberalized earlier (US, EU, UK)**

Wholesale market

Financial liquidity

Retail liberalization

Hedging instruments existed first. A diverse product set became viable.

Japan

Retail liberalization

Wholesale

Financial

Competition ran ahead of hedging instruments. Price risk accumulated on retailers' books.

Source: constructed from the arguments in this paper. The time axis is conceptual and does not represent actual years.

PHASE 01

Retail 1.0

2000. Partial liberalization. It did not bring broad customer participation, and left almost nothing that could be carried into the phases that followed.

PHASE 02

Retail 2.0

2016. Full liberalization. A large number of companies entered, targeting some 86 million new customers.

86m

New customers addressable at the start of Retail 2.0

2000

Retail 1.0

When Japan took its first step toward partial retail liberalization in 2000, it did not result in broad customer participation in the market. Before 2000, the market was a complete regional monopoly.

Almost none of the lessons learned from the Retail 1.0 phase can be applied to the Retail 2.0 that followed, or to Retail 3.0 today.

2016

Retail 2.0

Retail 2.0, which began in 2016, was initially aimed at entering a highly profitable market of some 86 million new customers, and a large number of companies rushed to file license applications with the Ministry of Economy, Trade and Industry (METI). Market rules for customer switching, meter data management and scheduling were centralized far more efficiently within Japan than in the early stages of the overseas markets that preceded it. Much of Japan's retail market model is highly sophisticated even by global standards. At the same time, parts of it remain cumbersome and inefficient.

■ What Japan did well

Standardized business processes

Standardization using XML across switching, meter data and wheeling and distribution charges was achieved through a single organization: the Organization for Cross-regional Coordination of Transmission Operators (OCCTO).

Use of 30-minute smart meter data

Infrastructure enabling high-precision supply and demand management was built early.

Rigorous license screening

METI introduced a comprehensive license application process and a strict review.

Consistent application of market rules

Clear, simple rules were established that apply equally to all market participants.

DIAGNOSIS

Two layers of problem

The operational problems that stem from institutional fragmentation need to be read separately from the structural ones that constrain the growth of the market itself.

6

Separate bodies operating the major market functions

2

Products on which effectively every retailer competes

Issues that remain

- **Fragmented core functions and a proliferation of operators.** Market operations are split across a separate body for each major market function.
 - JEPX (Japan Electric Power Exchange), OCCTO (Organization for Cross-regional Coordination of Transmission Operators), EPRX (the balancing and reserve energy market), EEX (European Energy Exchange), TOCOM (Tokyo Commodity Exchange), the JPX carbon credit market, and others.
- **Absence of a dedicated wholesale license.** METI has no separate licensing regime for wholesale power suppliers.

EXHIBIT 02 Fragmented market functions — the six bodies participants must face

JEPX Wholesale	OCCTO Coordination	EPRX Balancing	EEX Futures	TOCOM Futures	JPX Carbon
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Constraints on market growth

- **A lagging mature wholesale market.** Development of the bilateral market and the financial market for futures and options in particular has been slow.
- **Homogeneous product design.** Effectively every retailer competes on only two, barely differentiated, products.
 - Fuel-cost adjustment plans
 - Market-indexed plans
- **A severe shortage of specialist talent.** Securing people with advanced knowledge, skills and practical experience has become a major challenge.

EXHIBIT 03 Homogeneous product design — competition concentrated in two products

Fuel-cost adjustment plan Modeled on the incumbents' standard product	Market-indexed plan Passes price risk through to the customer
---	---

Little room to differentiate; competition collapses into margin and fee discounting

TURNING POINT

The limit of growth without hedging

Prices were set monthly while power was bought in 30-minute increments. That structural mismatch was fully exposed the moment the market spiked.

~50%

Share of effective physical supply cleared through the JEPX spot market

~20%

Share of the low- and high-voltage markets won by new entrants

~25%

New entrants that exited the business or failed

Since Retail 2.0 began in 2016, the JEPX spot market has expanded rapidly, growing to account for approximately 50% of effective physical supply. This made it the principal source of supply for new entrants, but it also became a factor limiting the diversity of products they could put in front of customers.

In the first few years of Retail 2.0, almost every new entrant and former incumbent utility offered exactly the same product to low- and high-voltage customers. That product was modeled on the incumbents' standard fuel-cost adjustment plan. For extra-high-voltage customers such as large factories, new entrants had little choice but to match the steep discounts offered by the incumbents in intense price competition.

Structural Mismatch

Although sale prices were set on a monthly basis, electricity was in fact procured on the spot market in 30-minute increments every day, and there was no means of hedging movements in the spot price within the month.

Because JEPX was the principal source of supply for new entrants under Retail 2.0, the conventional product — which passes through a fuel-cost adjustment each month — carried extremely high embedded risk. Even while carrying that price risk, new entrants ultimately captured roughly 20% of the low- and high-voltage markets. Switching to new entrants in the extra-high-voltage market, by contrast, remained at an extremely low level.

The Retail 2.0 trend, which had drawn in a large number of new entrants, was transformed by Russia's invasion of Ukraine. A global surge in LNG prices triggered a sharp spike in domestic market prices in Japan, inflicting severe damage on new entrants and incumbents alike.

What happened to the new entrants

Procurement at a price that preserved a margin over the customer became impossible; losses mounted in the absence of any hedge; and imbalance charges spiked. Together these forced roughly 25% of the total to exit the business or fail.

What happened to the incumbents

Caps on the fuel-cost adjustment within regulated transitional tariffs became a constraint, leaving them unable to pass through the increase in fuel costs and posting enormous losses.

The crisis was a serious wake-up call for Japan's power market. METI took emergency measures, including a nine-month grace period allowing distressed companies to rebuild their financial footing. It then implemented three policy changes that have defined the transition to Retail 3.0 now advancing rapidly.

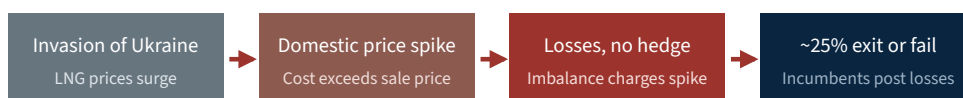
EXHIBIT 04 2022 — the chain of events

EXHIBIT 05 The three policy changes that defined the transition to Retail 3.0**POLICY 01****Promoting stronger risk management**

METI encouraged retailers to formulate risk management plans and issued specific guidance on them. Awareness of hedging rose rapidly across the industry as a result.

POLICY 02**Approval of market-indexed products**

New entrants and incumbents alike were authorized to offer market-indexed products to customers, making it possible to shift price volatility risk to the customer.

POLICY 03**Transition to the FIP regime**

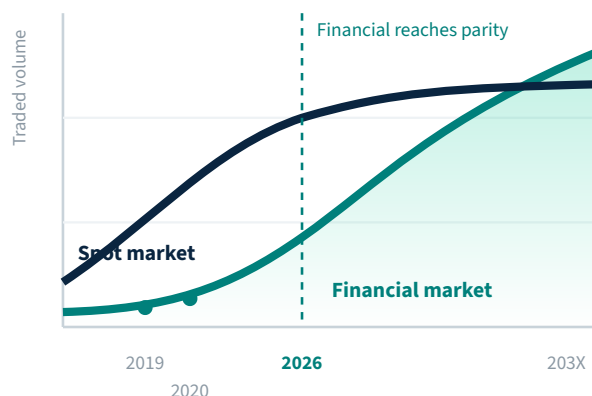
The feed-in tariff (FIT) regime for renewable energy was scaled back in favor of the market-linked feed-in premium (FIP). This reformed the structure under which incumbents purchased renewable output in bulk, creating an environment in which market participants, including new entrants, can procure renewable power directly.

The rise of the wholesale financial market

The wholesale financial market that provides the vehicle for financial hedging began with the opening of the power futures market on the Tokyo Commodity Exchange (TOCOM) in 2019, followed the next year by the listing of Japanese power futures on the European Energy Exchange (EEX) in 2020.

Liquidity in financial markets conventionally builds slowly in the early stages. Today, in 2026, it is precisely this financial-market liquidity that forms the core supporting the emerging Retail 3.0 market. Traded volume in the power financial market as of 2026 has in fact grown to match, or slightly exceed, that of the spot market.

Based on comparison with mature markets overseas, Japan's power financial market can be expected to expand substantially further. The spot market, meanwhile, is likely to stabilize at its current scale or slightly above it. Were a genuine medium-term market to be established, supply would migrate toward it, and a scenario in which the spot market itself contracts is also conceivable.

EXHIBIT 06 Spot and financial market scale (conceptual)

Source: conceptual, based on the arguments in this paper. Axes show relative scale, not measured values.

01

What Retail 3.0 Will Change

Some of the changes set out below have already begun; the rest are expected within the next several years. These projections are based on the development path of the markets that liberalized earlier.

A

New structured products

C

The prospective 70-50-50 rule

B

Consolidation among retailers

D

Differentiation between incumbents and
retailers

SHIFT A**From two products to structured**

Monthly fuel-cost adjustment and market-linked products decline; hedge-based structured products take their place. The shift has already begun at extra-high voltage.

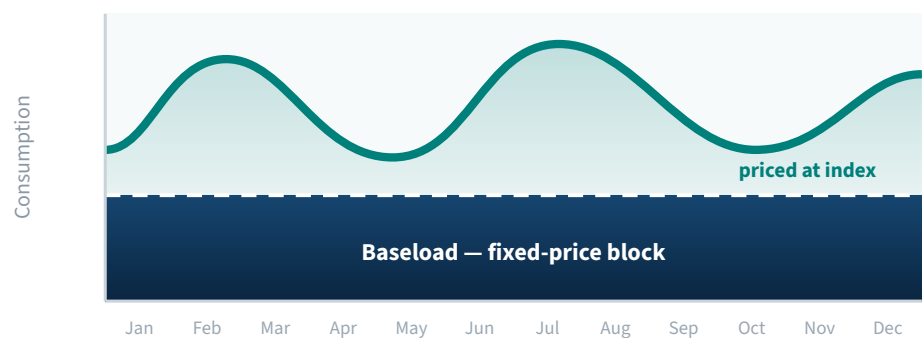
THE PRINCIPLE**Two prices, one meter**

The predictable part of a customer's load is sold forward at a fixed price. Only the swing above it is exposed to the index.

A**New structured products**

Monthly fuel-cost adjustment and market-linked products will gradually decline, and the market is expected to shift toward hedge-based structured products. This movement has already begun in the extra-high-voltage market.

The representative structured products in overseas markets are set out on the following page. The most widely adopted in each segment is shown in bold.

EXHIBIT 07 Annual consumption profile — how Block and Index splits a customer's load

- Variable consumption — the swing above the block, priced at an index (JEPX spot).
- Baseload consumption — a fixed volume each 30 minutes, at a price agreed in advance.

Illustrative. The split between block and index is set per customer from the load-following profile; the shape shown is a typical seasonal pattern, not measured data.

EXHIBIT 08 Representative structured products in overseas markets, by voltage segment

Segment	Product	Description
Extra-high voltage	Fixed Price	A product offering the customer a fixed price per kWh for a term of one year or longer.
	Block and Index	A product applying a fixed price to a set volume of electricity — a fixed block — that the customer uses in each 30-minute interval each day. Volume varying above the fixed block is priced at an index, typically the JEPX spot market price.
	Block and Index with a Collar	Mechanically the same as Block and Index, but adding a cap above which the index price cannot rise and a floor below which it cannot fall.
High voltage	Fixed Price	As above.
	Block and Index	As above.
	Index with a Collar	Similar to Block and Index with a Collar above, but without the fixed-price component.
Low voltage	Fixed Price	As above.
	Index	Similar to Index with a Collar above, but with no cap or floor. Very close to the conventional market-linked product.
	Budget Plan	A product billing the customer a fixed amount each month regardless of consumption. Highly popular with older customers living on a fixed income such as a pension.

Bold indicates the most widely adopted product in each voltage segment.

Profitability

The least profitable products for a retailer are those based on market indexation and on fuel-cost adjustment. Where competitors are all offering the same product, the effect is more pronounced still.

The result is a race to discount margin and fees. By contrast, the more complex products that employ hedging techniques — with the exception of pure index products — use the wholesale financial market to avoid price risk and to secure and manage an appropriate spread.

Other variations on products now spreading in overseas markets are also beginning to be adopted in Japan. The principal ones are set out on the following page.

SHIFT B

Consolidation is not optional

In overseas retail markets that faced the same transition, large-scale industry consolidation has occurred without exception.

850

Licensed retailers (approximate)

~10%

Retailers with no customers at all

~50%

Retailers with fewer than 20,000 customers

Embedded demand response

Products with a demand-response mechanism built into the product itself.

Bundling

Demand response, battery storage and energy efficiency packaged together.

Bring Your Own Energy

Adopted principally by data centers and large factories. With or without battery storage, the customer invests in on-site generation and manages the assets in partnership with a retailer, an aggregator or a trading company.

Under Bring Your Own Energy, that generation is in some cases deployed into the spot market or the balancing market.

B Consolidation among retailers

Of the roughly 850 licensed retailers today, about 10% have no customers at all, and about 50% have fewer than 20,000. These smaller retailers, and some of the larger operators, will struggle to convert their businesses to meet the requirements needed to win in competition, or simply to retain the customers they have.

EXHIBIT 09 Japan's electricity retailers — composition by scale



Base: approximately 850 licensed retailers.

Succeeding in Retail 3.0 will require substantial revision of the business model, skills in financial markets and their application, and investment in new systems capable of supporting risk management and the operation of structured products while reducing cost to acquire and cost to serve.

The single largest factor driving consolidation is the need to spread the burden of the required system investment across a larger customer base and to bring economies of scale to bear. Economies of scale are also a critical lever for reducing cost to serve — the cost of operations and back-office functions. The systems in use are, naturally, closely bound up with that cost reduction.

Consolidation — that is, the acquisition of smaller retailers — is driven by a range of factors beyond economies of scale alone. Those factors are discussed in detail later in this paper.

In overseas retail markets that faced the same Retail 3.0 transition some years ago, large-scale industry consolidation has occurred without exception.

Investment

spread across a larger base

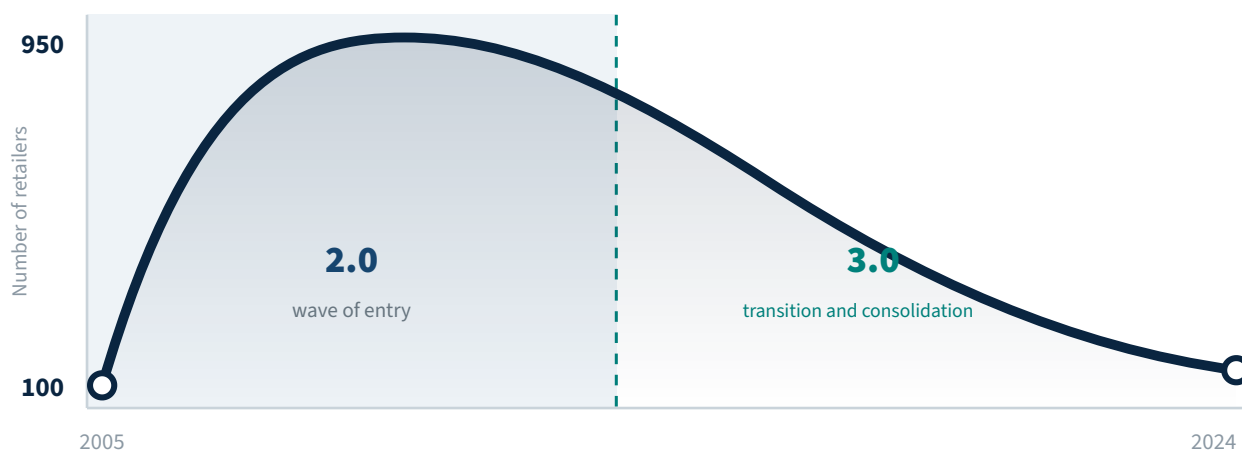
Scale

lowers cost to serve

Skills

acquired, not built alone

EXHIBIT 10 U.S. retailer consolidation, 2005–2024 — the shape every liberalized market has followed



A similar trajectory is expected in Japan. Figures are approximate and indicative of shape rather than precise counts.

EXHIBIT 11 Three forces driving consolidation

Spreading investment

The burden of investment in systems for risk management and structured products must be spread across a larger customer base.

Economies of Scale

Economies of scale are a critical lever for reducing the cost of operations and back-office functions.

Acquiring financial skills

The people and structures needed to operate in the wholesale financial market, obtained through scale rather than built alone.

SHIFT C

A uniquely Japanese design

There is no precedent for such a procurement obligation in any liberalized power market overseas.

EXHIBIT 12

Supplier Obligation

Demand, next 12 months



Demand, year two



Demand, year three



SHIFT D

The first-mover window

Smaller, more agile retailers can respond faster than large operators, for whom organizational and system changes take time.

C The prospective 70-50-50 rule

This is a uniquely Japanese piece of regulatory design. If METI were to approve and introduce a requirement obliging retailers to procure 70% of demand for the next 12 months, and 50% of demand in years two and three, I believe the shape of Japan's retail power market would change extremely rapidly and dramatically.

Purchasing the power needed to comply with this regulation will require meeting the credit requirements set by suppliers, placing significant financial pressure on retailers.

Implication

There is no precedent for such an obligation in any liberalized power market overseas. Although the detailed design has yet to be settled, it is readily predictable that the large majority of retailers will struggle to comply and will be forced either to sell their customer portfolios or else to exit the market.

D Differentiation between incumbents and retailers

Retailers that introduce new products early will have a significant opportunity to differentiate themselves in the market before the former incumbent utilities follow. This is because smaller, more agile retailers can respond faster than large operators, for whom organizational and system changes take time.

In Japan, several retailers have already begun offering structured products. Once it becomes clear that these are what customers want, and that retailers unable to offer them are in terminal decline, that number will increase extremely rapidly.

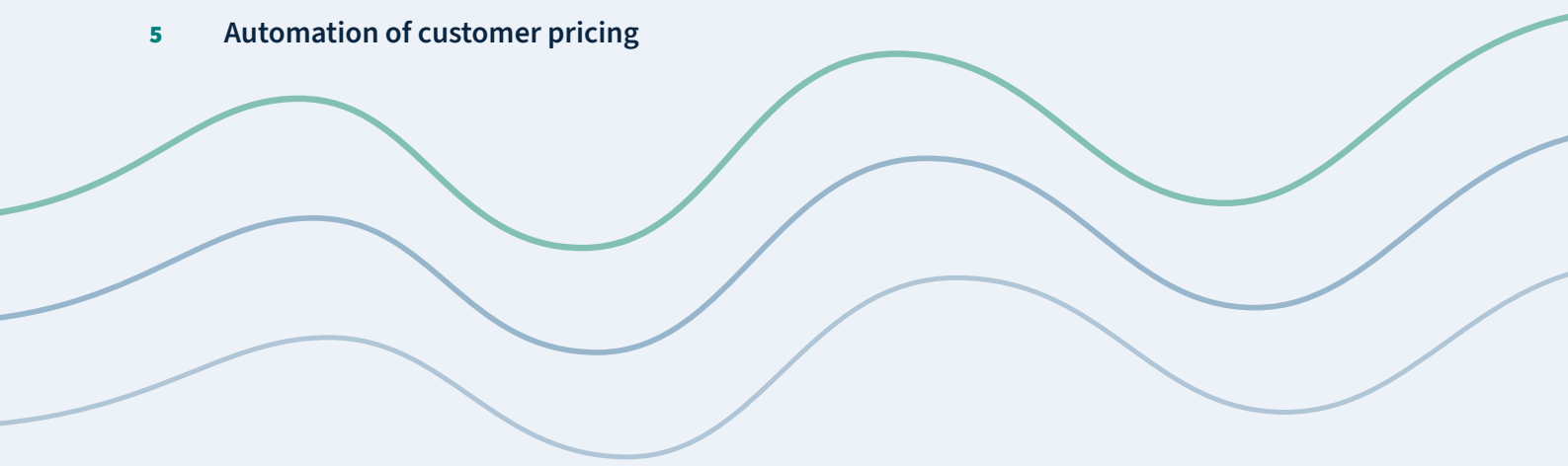
Even the large operators are preparing to offer hedge-based products, starting with the extra-high-voltage market, and are expected to extend them shortly to high voltage and then to low voltage.

EXHIBIT 13 Rollout sequence for hedge-based products

02

Keys to Succeeding in Retail 3.0

The keys to success, based on the experience of retailers overseas, are as follows.

-
- 1** Commitment to transformation
 - 2** Focus on risk management
 - 3** Trading and risk management systems
 - 4** Advanced billing and customer care systems
 - 5** Automation of customer pricing
- 

KEY 01

1-3 years

Time required before the transformation works smoothly

The cost of waiting

Companies that waited for others to complete the move fell far behind and never recovered. Most were acquired by the retailers that moved early.

KEY 02

The reach of risk management

Risk management is not confined to commodity price risk; it affects every aspect of an energy retailer.

RULE OF THUMB

12 months

The benchmark ceiling on cost to acquire. Above the equivalent of twelve months of commodity margin, profitability is exposed to serious risk.

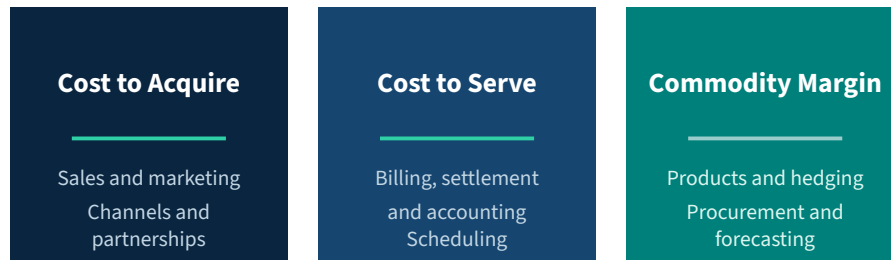
1 Commitment to transformation

The single most important element as a retailer moves from Retail 2.0 to 3.0 is probably management's firm commitment to adapting and transforming the current business in order to win in the 3.0 market. That transformation process takes a minimum of one year, and more likely two or even three, before everything is working smoothly.

In overseas markets, companies whose management waited to see other retailers complete the move to 3.0 before responding fell far behind their competitors and were never able to recover their performance. The majority of these late movers have been acquired by the more advanced retailers that began adapting to 3.0 early.

2 Focus on risk management

Many companies tend to think of risk management as the management of commodity price risk, but in practice it extends much further. Risk management affects every aspect of an energy retailer. Successful retailers watch three principal success factors — cost to acquire, cost to serve, and commodity margin management — down to a granular level.

EXHIBIT 14 The three success factors that determine profitability

Pricing and hedging only work once all three factors are understood at a granular level

Cost to Acquire

This means analyzing the detailed numbers behind sales, marketing, channels and partnerships. As a global rule of thumb, unless a customer can be acquired for less than the equivalent of twelve months of commodity margin, overall profitability is exposed to serious risk. The requirement, in other words, is to find innovative methods of acquiring customers and better systems for managing that process.

TARGET STATE

Straight-through processing

People perform no manual work and concentrate on managing exceptions. The degree of automation sets the level of cost to serve.

A sure route to failure

Trying to solve operations and back-office problems by hiring more people.

SCOPE

Commodity margin management

Products, hedging, procurement, balancing, analytics and forecasting. A combination of skills and system operation is indispensable.

Cost to Serve

This concerns operations and back-office functions: scheduling, billing, customer care, payment processing, accounting and settlement of over- and under-supply. The goal to aim for is straight-through processing through automation, in which people perform no manual work and can concentrate on managing exceptions.

Retailers unable to transform tend to try to solve problems in operations and the back office by hiring still more people. This is a sure route to eventual failure.

Commodity Margin Management

This is the area most companies think of first when they think of risk management. It covers products, hedging, procurement, balancing, analytics and forecasting. Success here requires a combination of skills and system operation.

Common Mistake

A frequent error is to price and hedge without understanding cost to acquire and cost to serve by customer type. Setting margin by reference to competitors rather than to one's own profitability leads directly to losses.

The goal must be to secure profitability, not to win the fight for market share.

Cost to Acquire	Cost to Serve	Commodity Margin
Sales, marketing, channels and partnerships, at a granular level	Operations and back office, driven toward straight-through processing	Products, hedging, procurement, balancing, analytics and forecasting

EXHIBIT 15 Two responses to a rising cost to serve

Add people



Headcount scales with volume. Cost to serve rises with every customer added.

Automate



People handle exceptions only. Cost to serve decouples from volume.

KEY 03

From procurement to commodity management

Futures, options and swaps trading, together with advanced analytics and forecasting, become indispensable.

KEY 04

CAC and COTS

Deploying advanced systems for acquisition, billing and customer care is the single biggest lever for reducing and managing both.

EXHIBIT 16

The widening scope of commodity management**Retail 2.0 — "procurement"**

Spot buying

Scheduling

Retail 3.0 — commodity management

Procurement

Futures

Options

Swaps

Analytics and forecasting

Build the capability, or partner with a firm that provides it as a service.

3

Trading and risk management systems

The key to success in a Retail 3.0 environment is to move the function currently called procurement into a comprehensive commodity management environment. This is a far more complex undertaking, because futures, options and swaps trading, together with advanced analytics and forecasting, become indispensable tools for managing commodity margin.

This does not mean that a retailer must replicate the behavior of a pure trading house entirely. It does mean that a retailer must either build sufficient capability in the trading domain, or enter into a partnership with a firm able to provide that domain as a service.

Managing all of this requires diverse data sources and a risk management system tightly integrated with an advanced billing system. Measuring a wide variety of risks and metrics accurately is ultimately what points the way to higher profitability.

Mindset Shift

A further major shift in thinking is to classify and organize customers into different book structures on the basis of product, consumption, location and other criteria. This is the key to managing cost to serve, cost to acquire and margin properly across the whole portfolio.

4

Advanced billing and customer care systems

With the introduction of structured products, customers are now grouped by book structure for the purposes of risk management and hedging, and incorporated into a diverse range of structured products, each with different characteristics. Without an advanced billing system to manage these, success is close to impossible.

The billing and customer care systems used by successful retailers overseas have far more functionality than the conventional systems of the Retail 2.0 era. The ability to transfer data seamlessly to and from risk management and pricing systems is a minimum requirement. In better systems, business processes from sales through billing to customer care are automated, covering not only internal data flows but external processes such as meter data ingestion.

Deploying advanced systems to handle customer acquisition, billing and customer care is the single biggest lever for reducing and managing cost to acquire (CAC) and cost to serve (COTS).

5 Automation of customer pricing

Where only market-linked or fuel-cost adjustment products are sold, pricing automation is unnecessary. When structured products are adopted, however, the ability to change a product quickly and amend both the billing and the risk management system becomes critically important. An advanced billing system handles this easily, and product changes should be built in seamlessly from customer acquisition through billing to customer care.

Retailers overseas often hold several dozen products or more, adding, retiring or amending them almost daily. These retailers practice what is known as mass customization, managing margin and profitability continuously.

Pricing formulas are built on the load-following profile, customer segment, location, balancing risk, contract term, credit risk, cost to serve and cost to acquire, and are updated continuously. All of this is operated on a foundation of market forecasting and analytics based on the forward curve — the mathematical formula used to project future power costs.

Competitive Edge

Where this complex undertaking can be systematized and a dedicated pricing team established, prices can be quoted to low- and high-voltage customers instantly, and to extra-high-voltage customers within one day. That speed of response is itself a powerful competitive advantage.

Instant

Quotes to low- and high-voltage customers

Within 1 day

Quotes to extra-high-voltage customers

Dozens+

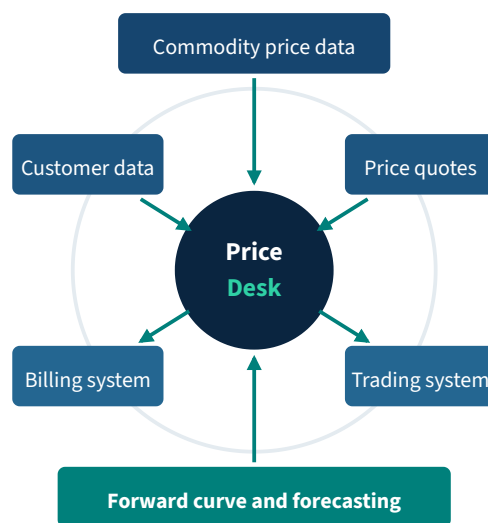
Products held by retailers overseas

EXHIBIT 18 Inputs to the pricing formula

Load-following profile	Customer segment	Location
Balancing risk	Contract term	Credit risk
Cost to serve		
Cost to acquire		

All of it updated continuously, on a foundation of market forecasting and analytics based on the forward curve.

EXHIBIT 17 Data flows around the price desk



Pricing formulas update continuously and connect acquisition, billing and customer care end to end.

STRATEGIC OPTIONS

The Options Available

SEVEN OPTIONS

1 Do nothing

Or perhaps everything I have argued here is wrong. The easiest path is always to do nothing, but it is also, more often than not, the riskiest.

Highest risk

2 Wait and see

This is the path of watching how others move before acting. Taking this option depends on not mistiming it — on not running the risk of responding too late, losing customers and being forced out of business.

Timing-dependent

3 Become an early adopter

If you are going to act, now is the time. You would not be the first mover in Japan: several retailers have already turned toward adopting Retail 3.0.

First-mover advantage

4 Sell the customer base

If you know you lack the funds to meet the 70-50-50 credit requirements — 70% for the next 12 months, 50% in years two and three — or the capital to execute the transformation to Retail 3.0, the customer base you hold may be worth more at this moment than at any other.

Time value

5 Form a partnership

The first partner that comes to mind is a large domestic operator. Another option is a partnership with one of the foreign-owned global energy companies now active in the Japanese market.

Capability gap

6 Roll up smaller retailers

One of the successful models in overseas retail markets is to acquire a number of smaller retailers, create a larger player and achieve economies of scale.

Scale

7 Some combination of two or more of the above

There is no need to limit yourself to a single option. Pursuing several paths in parallel is also a realistic strategy.

Combined strategy

EXHIBIT 19 The character of the options — passive and active paths

1–2 / Passive

The options themselves erode over time

3–7 / Active

Each depends on capital, capability or time

The author has indicated an intention to work with a limited number of retailers considering options 3 through 7 (see Conclusion).

ABOUT THE AUTHOR

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Peter Weigand is Chief Executive Officer of Skipping Stone, a global energy strategy and implementation consulting firm that has worked across every liberalized energy market worldwide. He and Skipping Stone have been active in Japan's power market since 2014.

He also serves as Chief Growth Officer of Tally Group, which provides the industry-leading global back-office solution adopted by retailers in countries around the world as the core system for Retail 3.0.

Before founding Skipping Stone, he was CEO of one of the largest energy retailers in North America, which he successfully transitioned from Retail 2.0 to 3.0 and took to an initial public offering.

CONCLUSION

Conclusion

This paper covers a great deal of ground, and there is much in it that warrants deeper consideration. Judging where to begin, and how to navigate these changes without making serious mistakes, is a difficult task.

The road to Retail 3.0 is far from smooth, and it demands a shift in thinking that changes the very nature of the business.

That is precisely why I intend to work with a limited and small number of retailers, among those considering options 3 through 7 above — early adoption, sale, partnership, roll-up, or some combination of them — sharing the experience I have built and providing advice.

Continuing the conversation

We would welcome the opportunity to discuss in greater depth any of the issues, opportunities or strategies outlined in this paper. To arrange a meeting, please contact us at the address below.

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SUMMARY

Japan's retail power market has entered a phase of business-model selection, not regulatory maturation.

This paper draws on my experience launching a business in Japan two years before power liberalization took hold, together with my involvement in liberalized electricity markets around the world. The six arguments it makes are summarized below.

- 01

Retail opened before the wholesale market existed

Other countries built liquid wholesale and financial markets before opening retail to competition. Japan did it in the reverse order. That sequencing is the root of the structural fragility of Retail 1.0 and 2.0.
- 02

Financial-market liquidity is what makes Retail 3.0 possible

Following the TOCOM listing in 2019 and EEX in 2020, traded volume in the power financial market has grown by 2026 to match, or slightly exceed, that of the spot market.
- 03

Products move from two choices to structured

The two barely differentiated products — fuel-cost adjustment and market-indexed — will decline in favor of hedge-based structured products. The shift has already begun in the extra-high-voltage segment.
- 04

Consolidation happens without exception

Of roughly 850 licensed retailers, about 10% have no customers and about 50% have fewer than 20,000. Every market that has faced this transition has consolidated in pursuit of scale.
- 05

A 70-50-50 rule would redraw the market

If an obligation to procure 70% of next-year demand and 50% in years two and three is introduced, the ability to meet supplier credit requirements becomes the dividing line. No liberalized market overseas has imposed one.
- 06

Systems and management intent decide the outcome

What determines success is the ability to see cost to acquire, cost to serve and commodity margin at a granular level — and the system investment that runs through trading, billing and pricing.

850 Licensed electricity retailers (approximate)	~25% New entrants that exited or failed in the 2022 price spike	~50% Share of effective physical supply cleared through the JEPX spot market	70-50-50 Prospective supplier obligation (next 12 months / years 2–3)
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Retail 3.0 will transform Japan's power market. Now is the time to capture the opportunity!

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