

First year anniversary workshop of TOCOM Electricity Futures Summary Report

The Tokyo Commodity Exchange (TOCOM)/Japan Exchange Group (JPX) co-hosted the Electricity Futures webinar with Quick Corp. to celebrate the first anniversary of TOCOM's Electricity Futures listing on December 15, 2020. The event was attended by over 250 people from 152 companies.

Program Agenda

4:00-4:15 pm	<p>Welcome Ishizaki Takashi, Representative Director, President</p> <p>Opening Remarks Hatakeyama Yojiro, Director-General for Commerce and Service Industry Policy, Ministry of Economy, Trade and Industry (METI) Kurusu Toshihiko, Director, Commodity Market Office, METI</p>												
4:15-4:30 pm	<p>TOCOM Electricity Futures Market : The year in review Ichimura Seiki, Manager, TOCOM</p>												
4:30-5:15 pm	<p>Keynote Speech : Electricity trading and risk management Ishibashi Shoichiro, Senior Managing Director, Astmax Trading, Inc.</p>												
5:15-5:30 pm	<p>An efficient analysis tool for the electricity spot market Yamada Takahiro, Sales Planning Consultant, General Dept. of Biz Service, Quick Corp</p>												
5:30-6:00 pm	<p>Panel Discussion</p> <ul style="list-style-type: none"> • Purpose of Use of TOCOM Electricity Futures • Internal management system for the use of electricity futures markets • Use of Electricity OTC derivatives and off-floor trading <p>Panelists</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 30%;">Nozawa Ryo</td> <td>President and CEO, enechain Corp.</td> </tr> <tr> <td>Sakamoto Yuichi</td> <td>General Manager, Power Business Development Dept. LNG, Power & Engineering Business Unit, Osaka Gas Co.,Ltd</td> </tr> <tr> <td>Hashimoto Kenichiro</td> <td>General Manager, Operation & Trading Dept., Marubeni Power Retail Corporation</td> </tr> <tr> <td>Tsugane Yasumasa</td> <td>Senior Marketing Manager, Energy Dept. Commodity Trading & Risk Management Div., Mitsui & Co., Ltd.</td> </tr> <tr> <td>Ikeda Hideyuki</td> <td>Senior Manager, Platform Department, Minna-Denryoku, Inc.</td> </tr> <tr> <td>Ogawa Tomoyuki</td> <td>Senior Manager, Procurement Department, Electricity Business Group Loop Inc</td> </tr> </table> <p>Moderator Yamashita Masahiro General Manager, TOCOM</p>	Nozawa Ryo	President and CEO, enechain Corp.	Sakamoto Yuichi	General Manager, Power Business Development Dept. LNG, Power & Engineering Business Unit, Osaka Gas Co.,Ltd	Hashimoto Kenichiro	General Manager, Operation & Trading Dept., Marubeni Power Retail Corporation	Tsugane Yasumasa	Senior Marketing Manager, Energy Dept. Commodity Trading & Risk Management Div., Mitsui & Co., Ltd.	Ikeda Hideyuki	Senior Manager, Platform Department, Minna-Denryoku, Inc.	Ogawa Tomoyuki	Senior Manager, Procurement Department, Electricity Business Group Loop Inc
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Opening Remarks (<https://youtu.be/4m7a6KeF348>)

Hatakeyama Yojiro, Director-General for Commerce and Service Industry Policy, METI

The electricity futures market, which was established to create an environment for the systematic sale and procurement of electricity in line with the liberalization of the power industry, will play a major role in stabilizing the management of power companies. It is my hope that each company will accumulate know-how and take other necessary actions during the trial listing period of the electricity futures market. I also hope that the Tokyo Commodity Exchange will continue to develop the market by accurately understanding the needs of the power industry.

Kurosu Toshihiko, Director, Commodity Market Office, METI

One year has passed since the trial listing of the electricity futures at TOCOM, and there are high expectations for this market. However, in order to foster growth in the market, it is necessary for all parties involved to work together. Since electricity differs from other commodities, I believe that those involved are experiencing a trial-and-error process, nonetheless, I hope that each person in the electricity business will freely and openly exchange opinions and support this market with the intention of launching a venture business.

Session1 (<https://youtu.be/YfliQ-Dfhr0>)

TOCOM Electricity Futures Market : The year in review

Ichimura Seiki, Manager, TOCOM

- Since TOCOM launched electricity futures in September 2019, the number of participants, including domestic power companies, overseas power traders, and financial institutions, has increased from 13 to 57, and the open interest, which represents the market size, has steadily grown. Although the majority of trading is in East Area products, trading in West Area products is also increasing, and spread trading, which trades the difference between East Area and West Area products, is also conducted to hedge the price difference between the East and West markets.
- TOCOM became a wholly-owned subsidiary of the Japan Exchange Group, and JCCH, the clearing house, was integrated into JSCC, creating a secure environment for trading on a global scale.

Session2 (<https://youtu.be/0emdS2p5SQ0>)

Keynote Speech : Electricity trading and risk management

Ishibashi Shoichiro, Senior Managing Director, Astmax Trading, Inc.

- Risk management in the electricity business means measuring the expected profit and loss, clarifying the loss tolerance, understanding the risk to management, and conducting risk-taking and hedging transactions in accordance with the financial strength of each company.

- Risk management in the electricity business is carried out by repeating the following steps: accurate identification of position, risk analysis, risk management, power transactions to optimize risk, identification of residual risk, collation of results, and formulation of improvement measures.
- To manage risk, it is necessary to accurately identify the amount of risk and set a trading limit to manage it in accordance with the financial strength of each company. The risk management team and the trading team should be clearly separated, with the risk management team acting as a third party for the trading team's operations, performing internal controls, confirming and checking transactions, while the trading team must trade within the allowable limits for which it has been delegated authority.
- In addition, futures trading is one of the means of risk management, and TOCOM electricity futures trading can be used to hedge the risk of price fluctuations and avoid counterparty credit risk.

Session3

An efficient analysis tool for the electricity spot market

Yamada Takahiro, Sales Planning Consultant, General Dept. of Biz Service, Quick Corp

Session4 (<https://youtu.be/yKsSIZEGXAM>)

Panel Discussion

- ① Purpose of Use of TOCOM Electricity Futures
- ② Internal management system for the use of electricity futures markets
- ③ Use of Electricity OTC derivatives and off-floor trading

Panelists

Nozawa Ryo	President and CEO, enechain Corp.
Sakamoto Yuichi	General Manager, Power Business Development Dept. LNG, Power & Engineering Business Unit, Osaka Gas Co.,Ltd
Hashimoto Kenichiro	General Manager, Operation & Trading Dept., Marubeni Power Retail Corporation
Tsugane Yasumasa	Senior Marketing Manager, Energy Dept. Commodity Trading & Risk Management Div., Mitsui & Co., Ltd.
Ikeda Hideyuki	Senior Manager, Platform Department, Minna-Denryoku, Inc.
Ogawa Tomoyuki	Senior Manager, Procurement Department, Electricity Business Group Loop Inc

Moderator

Yamashita Masahiro **General Manager, TOCOM**

The following comments were made by each of the panelists based on their actual trading experience regarding the use of electricity futures trading, internal control systems for conducting electricity futures trading, off-floor trading, etc.

① Purpose of Use of TOCOM Electricity Futures

- The reasons for using electricity futures are to hedge the risk of selling electricity at a fixed price to customers, to hedge the price when using the JEPX spot market in case of an excess or shortage of electricity, and to hedge the price when purchasing renewable energy.
- The electricity forward curve provided daily by TOCOM is used as a leading indicator price.

② Internal control system for the use of electricity futures markets

- Since this is the first opportunity for most of the companies to engage in derivatives trading, they have started small, with the minimum necessary systems in place for hedge accounting and risk management. They are gradually increasing the volume of transactions while conducting verification in cooperation with relevant departments such as the finance and management divisions.
- With regard to the accounting procedure for electricity futures, some companies use mark-to-market accounting, which is the principle under JGAAP, while other companies are required to apply hedge accounting and are in discussions with their auditing firms. Even in cases where hedge accounting is allowed, there are many difficult issues to overcome with regard to its application.

③ Use of Electricity OTC derivatives and off-floor trading

- Inter-dealer brokers operate facilities similar to Type 1 and Type 2 Specified Commodity Markets under the Commodity Exchange Act and use TOCOM's off-floor trading when customers wish to clear their trades based on their various trading needs, such as East-West spread trading.

④ Requests to TOCOM

- There were requests for the listing of new products such as those covering the Hokkaido and Kyushu areas and an extension of contract months.
- There were also requests to improve the convenience of off-floor trading, to work toward resolving hedge accounting issues, and to strengthen efforts to improve market liquidity.