

# FIP programme introduced

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## Introduction

### Determination of premium

### Floating versus fixed premiums

### Determination of reference price

## Introduction

The proposed amendment to the Act on Special Measures Concerning the Procurement of Renewable Energy-Sourced Electricity by Electric Utilities (Renewable Energy Act) will introduce a feed-in premium (FIP) programme – a support programme proposed by the Ministry of Economy, Trade and Industry (METI) to replace the existing feed-in tariff (FIT) programme. The proposed FIP programme provides that power producers will receive a premium in addition to the market price for the electricity which they generate instead of the fixed electricity price determined by METI under the current FIT programme. The amendment to the Renewable Energy Act introducing the FIP programme will become effective on 1 April 2022 (for further details please see "[Cabinet approves Renewable Energy Act amendment bill](#)"). While a description of the FIP programme's general policy is set out in the amendment, METI has yet to address or determine the specific design of the FIP programme. Further, METI has not released any plans to impose the FIP programme on projects currently being developed under the FIT framework.

Under the amended Renewable Energy Act, the minister of economy trade and industry may grant certain subsidies to applicable types of renewable energy generator in order to promote renewable energy in the electricity market. Under the FIP programme, the minister will determine the method for calculating the premium for applicable renewable energy producers and the period for which the premium will be granted (FIP period), based on recommendations from the METI Procurement Price Committee.

## Determination of premium

Power producers subject to the FIP programme will receive the premium in addition to the sales price of the electricity sold in the wholesale electricity market or through private sale and purchase transactions. The premium amount will be calculated based on a determined reference price for such electricity (FIP price), which will be established through:

- a prescribed method to be determined by the minister, which considers, among other factors, the opinion of the committee, the type of renewable energy and the capacity of the project; or
- a bidding system between interested developers, which will likely be similar to the procurement procedure established under the FIT regime.

Under the contemplated FIP programme, the premium will effectively be the difference between the FIP price and the electricity market reference price. Given that the FIP price will be fixed, the main driver of pricing changes will be the reference price. For the purposes of the FIP programme, METI may classify the reference price for projects as either 'floating type' or 'fixed type' premiums, based on the committee's recommendations.

## Floating versus fixed premiums

If the reference price is classified as a floating type premium, the reference price will adjust to reflect changes in the standard market price (for a 30-minute unit). In this regard, the floating type premium provides energy producers with pricing certainty and thus incentivises investment in the renewable energy market. However, there are concerns that such cost certainty may discourage competitiveness in the market as the potential revenues would be secured for the subject period, regardless of any fluctuations to the underlying market prices.

Alternatively, if the reference price is classified as a fixed type premium, it will be fixed for the

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subject period. With a fixed type premium, the premium will be a fixed amount, unaffected by market price fluctuations. Accordingly, under a fixed type premium approach, power producers would have some difficulty assessing the future revenues from subject projects, thereby increasing investment risk. However, the advantage of applying a fixed type premium method is that it encourages market-oriented behaviour as energy producers would be incentivised to react to market conditions.

METI plans to incorporate both the floating and fixed type premiums into the FIP programme in order to encourage the desired development and market conduct.

### **Determination of reference price**

The reference price will be determined based on the average wholesale price of electricity during a prescribed period, which will consider expected seasonal and hourly supply and demand fluctuations (reference period). The length of the reference period will determine the frequency with which a reference price will be changed. The current amendment to the Renewable Energy Act contemplates that the reference period will be stipulated in a separate ordinance of METI, which will be enacted before the amendment to the Renewable Energy Act takes effect.

The current FIP framework contemplates that all pricing risks associated with market fluctuations will be borne by energy producers. In other words, no payments will be issued in the event that the FIP price becomes less than the reference price. The FIP regime is expected to be structured to empower the committee to review the FIP price and reference price on an ongoing basis in order to fine tune the FIP programme based on market conditions.

Although the FIP programme's introduction will not directly affect existing certified projects, parties whose projects will require METI certification after the amended Renewable Energy Act takes effect should keep up to date with upcoming developments.

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