

Asia's Developing Future



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More work is needed to help local renewable power projects succeed

Liberalizing energy markets so that locally generated renewable energy projects have a chance to compete with big utilities is only the first step in getting those projects off the ground.

Other policies are needed to ensure the participation of local politicians and consumers. Those policies should promote financial returns from local power suppliers that are large enough to compete with traditional suppliers. And everyone needs to know that the profits of those local providers are being reinvested locally.

Those are two of the recommendations of a working paper for the Asian Development Bank Institute that looked at energy market reforms in Japan and France. While the research found there had been genuine attempts to promote local power generation schemes, it found a number of sticking points that meant plans were being stalled.

France fully liberalized its power market in 2007 while Japan's market was opened up gradually until being completely liberalized in 2016. Both countries traditionally had a very centralized system in which nuclear power played a large role.

Liberalizing their energy markets meant that households in Japan and France could then choose where they bought their power. That gave local power operators a chance. It meant that households could buy from producers who were generating power from rooftop solar systems, for example, or from power generated from local rivers or wind farms.

In France, the intention was to lower the country's reliance on nuclear energy, which currently makes up about 77% of the country's energy.

Japan had a similar goal, and its importance was intensified by the meltdown of the Fukushima nuclear plant in 2011. That event prompted the government to suspend

operations at more than 50 nuclear plants and increase its imports of fossil fuels. This led Japan to increase its already large and expensive imports of coal and oil. It spent \$250 billion on total fuel imports in 2012, a third of its total import expenditure for that year.

Liberalizing the market meant that local Japanese and French power operations had a chance to succeed. But the working paper suggests more is needed to ensure success.

In France, the paper concludes that the attempt to promote local renewable energy has not worked. The historic incumbents remain the main power operators. There are new providers in the system and regulatory change means it costs nothing for consumers to switch providers. But still, only about 15.1% of households and business consumers have switched from the main incumbent operators to a new provider in the 10 years since energy market liberalization.

In Japan, where full liberalization took place only a few years ago, the story is much the same. Only about 5% of those who were able to switch suppliers have done so. There are some promising signs in Japan, however, which may point to a better way forward.

Some local governments, groups, and businesses have started to develop renewable electricity using resources available in their communities, mostly solar and wind power. Japanese communities, especially in the countryside, face declining economic activity and local taxes as their populations are aging. The revenue from locally produced power is seen as a potential source of funding that could offset some of those effects.

Nearly half of local Japanese authorities say they are considering or planning community energy policies.

But the incumbent power operators in Japan, similar to their counterparts in France, have been reluctant to give up their power, so to speak.

They say that allowing small producers to sell power to the national grid may disturb operations. And they are also keen to maintain the country's reliance on nuclear power, which they have invested fortunes to develop.

The authors say the uncertainty caused by the incumbent opposition may be a contributing factor in why local power production has failed to take off in Japan.

They say one of the most important issues for regulators to get right in promoting local power schemes is to demonstrate that any money raised will go back into the local communities. That would ensure that local politicians will back the plans and consumers will be able to see the logic behind the operations, outside their desire to use more green energy.

Having local governments involved directly in these power operations can help. Local operators can also sell shares to the consumers who will use the power, thereby increasing the sense of ownership.

National governments also need to ensure that mechanisms are in place to buy locally produced power at a level that makes it profitable. If there are no profits to reinvest, the issue of local power production helping local communities is a non-starter.

This podcast was based on [*Energy Market Liberalization for Unlocking Community-Based Green Finance*](#), a working paper for the Asian Development Bank Institute by Aki Suwa, professor at the Faculty for the Contemporary Society of Kyoto Women's University in Japan and Magali Dreyfus, researcher at the National Centre for Scientific Research and the Center for European Research on Administration, Politics and Society, of Lille University in France.

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