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## Electricity Pricing in Japan: Key Legal Considerations for Retail Suppliers

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### I. Introduction

Nearly ten years have passed since the full liberalization of Japan's electricity retail market in April 2016. As of March 2026, the number of registered retail electricity suppliers exceeds 800.<sup>1</sup> As all customers (including households and commercial users) are now free to choose their electricity provider and pricing plans, tariff structures have become increasingly diverse. At the same time, the methods for calculating electricity charges and the manner in which such pricing is explained to customers have become more important than ever.

In Japan, under the principle of freedom of contract, the terms and conditions of electricity supply agreements between retail electricity suppliers and customers may, in principle, be freely determined based on mutual agreement. Accordingly, electricity tariffs may also generally be set freely based on such agreement.

However, certain regulatory safeguards apply in Japan from a consumer protection perspective. In particular, the Electricity Business Act and the "Guidelines Concerning Retail Electricity Business"<sup>2</sup> issued by the Ministry of Economy, Trade and Industry (the "**Retail Guidelines**") establish certain rules regarding tariff setting and the manner in which pricing is explained.

This article outlines key points that retail electricity suppliers should consider when designing electricity pricing plans.<sup>3</sup>

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<sup>1</sup> List of Registered Retail Electricity Suppliers (Agency for Natural Resources and Energy)  
[https://www.enecho.meti.go.jp/category/electricity\\_and\\_gas/electric/summary/retailers\\_list/](https://www.enecho.meti.go.jp/category/electricity_and_gas/electric/summary/retailers_list/)

<sup>2</sup> <https://www.meti.go.jp/press/2024/03/20250331007/20250331007-1.pdf>

<sup>3</sup> This article is intended for general informational purposes only and does not constitute legal advice with respect to any specific situation. It does not address the legality or appropriateness of any particular pricing plan.

## **II. Fundamental Approach to Pricing Plan Design**

The Retail Guidelines list “unclear methods for calculating electricity charges” as a type of problematic conduct. From a practical perspective, the key consideration is not whether the pricing structure is fixed or variable. Rather, the critical question is whether, from the customer’s standpoint, the pricing mechanism is sufficiently transparent, i.e., whether the customer can understand (i) the underlying indices or benchmarks used and (ii) the formula by which the electricity charges are determined.

## **III. Problematic vs. Permissible Pricing Structures**

The Retail Guidelines provide examples of pricing structures that may be considered problematic as involving “unclear methods for calculating electricity charges.” These include formulations such as “the amount billed by the company at the end of each month” or references to “market price” without further specification. Such approaches are problematic because they offer limited predictability for customers and make it difficult for them to assess the appropriateness of the resulting charges.

By contrast, it is not inherently problematic to adopt pricing structures that incorporate external indices (such as wholesale market prices or fuel costs) into electricity tariffs, provided that the calculation methodology is clearly defined. For example, market-linked pricing plans tied to the trading prices of the Japan Electric Power Exchange (JEPX), as well as tariff structures incorporating fuel cost adjustment mechanisms, are generally permissible so long as the applicable formula is transparent and objectively determinable.

## **IV. Relationship with Disclosure Obligations under the Electricity Business Act**

To ensure that customers are able to receive retail electricity supply with a sufficient understanding of pricing and other supply conditions, the Electricity Business Act imposes certain disclosure obligations on retail electricity suppliers. These include (i) a duty to explain the supply conditions and (ii) a duty to provide pre-contract written materials (commonly referred to as a “key terms” or “important information” document).<sup>4</sup>

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<sup>4</sup> Article 2-13 of the Electricity Business Act

In this context, when designing pricing plans, it is important not only to ensure that the calculation formula is clear, but also to satisfy these disclosure obligations in a thorough and customer-oriented manner. In particular, where a supplier offers pricing plans that incorporate mechanisms such as market-linked pricing or fuel cost adjustments (under which charges fluctuate based on changes in fuel prices or wholesale electricity prices), the supplier is required to explain (i) the fact that the charges are subject to such fluctuations, (ii) the method for calculating such fluctuations, and (iii) whether any cap or upper limit applies to such adjustments.<sup>5</sup>

Further, the following practices are considered likely to induce customer decisions based on misunderstanding and may therefore constitute a violation of the disclosure obligations:<sup>6</sup>

- Highlighting only the advantages of a pricing plan (e.g., the possibility of lower charges) while failing to disclose the disadvantages (e.g., the risk of higher charges).
- Failing to explain the availability of a pricing plan with a cap (such as a cap on fuel cost adjustments), even where the customer has expressly indicated a preference for such a structure and such a plan is available.

In addition, the Retail Guidelines recommend that suppliers take the following measures to enhance the clarity of their explanations to customers:<sup>7</sup>

- Clearly explain the relationship between fluctuations in market prices and resulting changes in electricity charges, including the calculation methodology and any coefficients used, for example by using charts or visual illustrations.
- Clearly explain the potential for significant price volatility, including price increases, by using historical examples of substantial market fluctuations and illustrating the range of potential impacts through graphs or similar tools.

## **V. Potential Consequences of Non-Compliance**

Failure to comply with the requirements discussed above may result in regulatory action under the Electricity Business Act. In particular, the competent authorities may issue administrative measures such as business improvement orders or other corrective actions

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<sup>5</sup> Article 3-12, Paragraph 1, Item 8 of the Ordinance for Enforcement of the Electricity Business Act

<sup>6</sup> Ministry of Economy, Trade and Industry, “Guidelines Concerning Retail Electricity Business” (last revised March 31, 2025), p. 11.

<sup>7</sup> *Id.* p. 13.

where a violation is found to be detrimental to the public interest.<sup>8</sup>

While monetary penalties are not always the primary enforcement tool under the Electricity Business Act, regulatory intervention (particularly in the form of corrective orders) can have a significant operational and reputational impact on retail electricity suppliers. In addition, depending on the nature of the conduct (for example, misleading representations in marketing or customer communications), other regulatory regimes (such as consumer protection laws) may also be implicated, potentially giving rise to additional regulatory exposure.

## **VI. Practical Considerations**

In light of the above, retail electricity suppliers should, at a minimum, take the following points into account when designing pricing plans:

- 1. Ensure consistency and clarity in pricing components and calculation methodology**

Suppliers should ensure that the components of the tariff and the applicable calculation methodology are clearly and consistently described across all customer-facing materials, including standard terms and conditions, pricing schedules, pre-contract disclosure documents (key terms/important information documents), application interfaces, and other relevant materials.

- 2. Avoid emphasizing benefits alone**

Suppliers should not focus solely on the potential for lower charges. They should also clearly explain the possibility of price increases (particularly in periods of market volatility) as well as the existence or absence of any applicable caps. This issue is especially relevant for market-linked pricing plans and those incorporating fuel cost adjustment mechanisms.

- 3. Establish a framework for ongoing information disclosure**

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<sup>8</sup> For example, under the Electricity Business Act, violations of disclosure obligations may result in administrative measures such as business improvement orders pursuant to Article 2-17, Paragraph 2 and, in cases of non-compliance with such orders, administrative fines of up to JPY 3 million pursuant to Article 118, Item 1. In serious cases where the supplier's conduct is found to be detrimental to the public interest, the registration of a retail electricity supplier may also be revoked pursuant to Article 2-9, Paragraph 1, Item 1.

Suppliers should implement systems to provide ongoing, accessible information to customers in order to enhance pricing transparency. This may include disclosures through websites, billing statements, and FAQs.

## **VII. Conclusion**

Following the full liberalization of Japan's electricity retail market, a large number of retail electricity suppliers have entered the market, resulting in increasingly diverse pricing structures. However, this does not mean that opaque or unintelligible pricing mechanisms are permissible.

From a practical perspective, the key considerations are (i) clarity of the pricing methodology, (ii) customer-facing explanations that are reasonably understandable, and (iii) ongoing transparency through continuous information disclosure. When introducing or revising pricing plans, retail electricity suppliers should evaluate not only price competitiveness, but also the overall consistency and integrity of their approach across all relevant touchpoints including standard terms and conditions, pre-contract disclosure documents, website disclosures, and sales and operational practices.

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