

Consumers, not TEPCO shareholders, to cover huge compensation bill

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Consumers will cover a large portion of the compensation bill for victims of the Fukushima No. 1 nuclear power plant crisis, but the plant operator's shareholders and supporting financial institutions will not be hit hard.

Prime Minister Naoto Kan and his Cabinet were expected to officially approve the damages framework totaling at least 5 trillion yen (\$62 billion) on May 12. Approval will enable Tokyo Electric Power Co. to announce its consolidated financial results for fiscal 2010 on May 20.

TEPCO is expected to post a net loss of 700 billion yen to 800 billion yen for fiscal 2010.

The company's results will also include an extraordinary loss of about 1 trillion yen for waste disposal related to the ongoing nuclear crisis.

The utility is expected to pay about 200 billion yen in compensation annually, plus about 1 trillion yen per year to operate thermal power plants after suspending operations at nuclear power plants.

It will also need about 1.5 trillion yen to decommission the Fukushima No. 1 nuclear power plant and about 250 billion yen to restore equipment in disaster-stricken plants to normal operations.

To fund these heavy financial obligations, the utility is expected to jack up electricity rates 16 percent, while Japan's eight other power companies will chip in an amount equivalent to a 2-percent hike in their respective service areas.

Banri Kaieda, the minister of economy, trade and industry, said May 11 he wants the impact on electricity rates to be minimized. He also said he will keep a close eye on the power companies to ensure they comply with his suggestion. He did not provide details of specific measures.

The power companies accumulate reserves to reprocess nuclear fuel, which requires 18.8 trillion yen in total. The money comes partly from electricity bills. This fund may be used to pay for damages, but this option will likely require revising relevant laws.

Either way, the compensation for the disaster will end up being footed by the consumer.

In contrast, under the compensation framework, TEPCO's shareholders and financial institutions will not bear much financial burden because the Kan government requires TEPCO to receive financial support from banks as a condition for governmental aid.

However, the utility will not ask banks to include debt waivers, interest reductions or exemptions in its agreements with them, sources said. Doing so could disqualify TEPCO for additional loans due to its precarious financial situation.

Many Cabinet members are complaining the framework goes too easy on the banks. Major banks are expected to consider additional funding for TEPCO at low interest rates, but in the end they will

likely come out ahead.

Since the Fukushima crisis erupted, TEPCO's stock price has plunged to 498 yen, one-quarter its worth before the March 11 tsunami crippled the nuclear plant.

Leading banks and insurance companies holding a large number of shares in TEPCO have posted losses of tens of billion yen. However, if the utility's stock ends up being devalued or delisted, they will be exempt from losses.

Moreover, in accordance with the Electricity Business Act, redemption of the company's corporate bonds, worth 5 trillion yen in total, takes precedence over the utility's general credit obligations.

All these loopholes mean TEPCO shareholders are unlikely to suffer substantial losses from the company's deteriorating finances.

The compensation could invite a chorus of protests from the public, especially since little discussion has been held on sharing the burden equally among all parties involved.

The announcement of hikes in electricity rates could spark protests.

To come up with its share of the cash to pay damages, TEPCO has several options. It will sell real estate and shares worth 500 billion yen, suspend all remuneration for eight of its directors that represent the company, implement a 20-percent pay cut for rank-and-file employees and cancel recruitment of new hires.

However, it may backpedal on suspending its directors' pay if TEPCO President Masataka Shimizu steps down at the June general shareholders' meeting. The utility has said nothing about how it will handle retirement benefits. Shimizu said May 10 the company is still looking into the extent to which it can downsize.

Under the compensation framework, a financial facility will be jointly established by TEPCO and other power companies to buy preferred shares in TEPCO. For the sake of a stable power supply, however, loan repayments by the company will be limited to amounts within its annual operating profits.

The government will inject public funds into the company by issuing national bonds that can be redeemed by the government as necessary to facilitate the compensation process.

Since power companies will repay loans from the public funds through the new facility, the government will not be directly responsible for repaying the funds.

No upper limit of compensation by TEPCO will be set under the framework. In the next 13 years, TEPCO will contribute 200 billion yen annually, while all other power companies together pay 200 billion yen each year.

The Cabinet will decide on a draft bill to establish the financial facility as early as late May. However, the bill will likely face opposition in the Diet.

Once a final framework is agreed upon, a third-party committee—consisting of legal, accounting and business management experts—will be set up to accurately assess TEPCO assets and review its cost structure to find a way to pay the staggering amount of compensation.

In its significantly weakened financial state—estimated at a 3 trillion yen decrease in net assets—the

utility will ask the financial facility to buy a large number of preferred shares under the compensation framework. TEPCO is likely to record about 200 billion yen loss over several years after fiscal 2011.

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