

Summit Handa Power Corporation business presentation

<Main Q&A>

Date: Friday, April 5, 2019

Attendee: President, Naiki, Summit Handa Power Corporation (SHP)

Are prices of PKS (Palm Kernel Shell) and imported wood chips used as fuel for power generation hedged?

Imported wood chips are delivered through the Woodchip & Biomass Dept. of Sumitomo Corporation and Fuel Dept. of Summit Energy Corporation under a long-term contract of 10 years. They are hedged over a long period of time together with foreign exchange risk. Shipping costs have been also hedged by long-term contracts. We buy PKS in the form of a single year contract. There is a story that the price of PKS will rise due to the spread of biomass power plants, but there is no major movement at present. Therefore, we will consider concluding a long-term contract as needed while monitoring the situation.

What can you do to generate SHP profit more?

In FIT (Feed-in Tariff) system, it is possible to sell electric power at higher price by using domestic thinning wood as fuel. At present, the proportion of imported fuel is high, but we basically accept all offers from domestic forestry enterprises for the use of thinning wood, and we believe that in the future the proportion will increase and contribute to the profit of SHP although it depends on the trend of domestic forestry. On the other hand, continuous operation of power plants has the greatest impact on profitability, and routine inspections of power plants are extremely important. Since the operation started in June 2017, there has been only one unplanned stop, and a solid system has been established.

Why do you use coal as a supplementary fuel?

SHP can generate 100% of its power from biomass, but uses a few percent of coal as a supplementary fuel. SHP uses a small amount of coal because the ash from the coal can protect the boiler wall. Even if the biomass fuel system stops operating, the boiler can continue to run using only coal by reducing the output to 50%. Once the boiler is shut down, it takes time to start up, so it is important to make a situation in which only coal can operate. Since coal is used as a supplementary fuel for tens of percent of biomass power plants in general, our percentage is relatively low. However, electricity generated using coal as a fuel is not covered by the FIT system and is sold at lower market prices than FIT price. Therefore, the current percentage of coal use is planned to be reduced. We plan to revamp its coal supply system during regular inspections scheduled for this fiscal year.

Are biomass power plants actively traded?

Although Sumitomo Corporation is working on wind power generation in Europe at such a stage, there are many biomass power plants in Japan that will be launched in the future, therefore we don't know such a case.

Is there an operation policy after the 20 year FIT?

Although the specific policy has not been decided yet, since the present fuel cost is relatively high, we use it at lower cost. In addition, the environmental value of electricity generated by renewable energy is expected to increase and it is possible to sell electricity at a premium price like RE100, and we hope that it will be profitable from both purchasing and selling.

What is the percentage of in-house power generation that Summit Energy Corporation has? Is there a policy to increase the ratio in the future?

Summit Energy Corporation procures about 1/3 of the total from its own power plants. The rest is covered by procurements from power companies and wholesale electricity markets etc. At present, there is no specific plan to increase the share of in-house power generation.