

# Important Measures for Liberalizing the Electric

With the arrival of intense price competition in the electric power business, we find ourselves in an increasingly severe business environment, and we feel an even greater need to enhance our efficiency and respond accurately and promptly to market trends. We have positioned fiscal 2002 as a year for cultivating the corporate strength to withstand any change in the business environment, as well as for establishing a new corporate mission, power supply plan, and management efficiency plan.

## Strengthening Cost Competitiveness

To survive the market competition, it is essential to implement the various liberalization measures that we at OEPC have so eagerly put together and achieve a fee standard that will help us to compete with new power producers and suppliers (PPS) and private power generators. To accomplish this, we need to maintain an awareness of costs in each segment, make more effective capital investments, actively streamline and increase the efficiency of business operations, and further strengthen our cost competitiveness. More specifically, through creating more efficient facilities, we will reduce our annual capital investment to ¥300 billion or less over the next 10 years, reduce selling, general, and administrative expenses by 5%, and examine the online procurement of materials and equipment.

In July 2002, the Company introduced the aforementioned in-house company system. Due to the small size and geographic remoteness of the islands, the Company has found it difficult to conduct low-cost operations in remote island areas. However, with the newly clarified rights and responsibilities, an in-house company will carry out prompt decision-making in managing remote island operations, and

aim to improve revenues through long-term self-help efforts as a highly autonomous entity.

Each and every employee will work toward improving the efficiency of operations management through such measures as promoting the centralization of back-office work through practical use of IT, working toward acquiring ISO 9001 certification for our quality management system, and introducing the managerial accounting system.

## Creating an Efficient Electric Power Supply System

The Company is working to build an environmentally-conscious, efficient electric power supply system based on the concepts of a secure, stable power supply and reduced costs. In February 2002, the Company began operating the No. 1 generator of the Kin Thermal Power Station, an important newly-developed source of electrical energy. Work is presently under way on the No. 2 generator, with a view to starting its operation in May 2003. After the start of full-scale operations at the Kin Thermal Power Station, we will introduce as an energy source LNG, which excels in transmission system operation and has a lower environmental impact. We will develop the No. 1 generator, using LNG, by fiscal 2010, and the No. 2 generator by fiscal 2011. In developing remote island energy sources, we will review the basic designs, capacities and specifications of the equipment in use, work to lengthen the useful life of existing facilities, and postpone the full-scale development of energy sources by making effective use of mobile generators. At the same time, the Company is constructing an efficient, economical remote island electricity supply system by laying undersea cables and promoting plans to develop new energy generation systems.



Power transmission cables linking remote islands

# Power Supply Market



Kin Thermal Power Station

With regard to distribution facilities, we are increasing the number of trunk lines and dual-routed backup systems consistent with our power supply plans, improving our transmission network, and expanding the application of methods of installation that minimize the probability of power blackouts.

## **Promoting Load Leveling Through Improved Marketing**

We have put our energy into promoting load leveling through enhanced marketing of electric water heaters and heat-storage air conditioning systems and by encouraging people to subscribe to our new electricity rates menu, which contributes to load leveling. During the term under review, we encouraged all employees to put marketing needs at the forefront of their concerns and help customers understand the merits of load leveling. The Company has also developed a number of marketing schemes closely tailored to the preferences and needs of consumers in Okinawa, including the establishment of the Okiden Fureai Plaza (“Okiden”

is an abbreviation of the Japanese name for Okinawa Electric Power), and various promotion campaigns such as the deploying of “mobile showrooms,” containing mockups of residences filled with electric appliances, to tout the advantages of electricity in terms of safety and convenience. As a result, contracts for heat-storage air-conditioning systems increased by 41.9% over the previous term to 305, and due to the introduction of a rental system, the number of households using electric water heaters increased by 31.6% to 10,010 during the term under review.

As part of a new electricity rates menu, and in order to meet various needs of our customers and promote greater management efficiency, we introduced the Ee-Life system (low-voltage power supply contracts, where charges vary according to the season and time of day), which sets discounted rates for customers who use only electric power in the home. We also introduced a weekend electricity supply discount for businesses and a heat-storage air-conditioning sub-contract, which provides

discounts on the use of electric power air-conditioning systems during off peak times. In order to cultivate further demand for electric power, we will encourage more customers to use electric water heaters and heat-storage air-conditioning systems and offer improved consulting services based on an accurate understanding of our customers' needs.

### **Enhancing Corporate Value Through Groupwide Efforts**

Despite the increase in demand for electric power, we expect a slow down in the growth of demand as more customers become involved in private power generation. The OEPC Group as a whole will work to cultivate and support new business and enhance the performance of the Company on a consolidated basis. Our aim is to achieve 70% of our revenues from the electricity business and 30% of our revenues from other businesses by fiscal 2010.

We expect information technology-related businesses to become one of our main businesses, second only to our electricity business. Both the national and the prefectural governments are promoting the strategic use of IT under various programs, which include the national government's "e-Japan" program and the prefectural government's "Okinawa General Administrative Information Communications Network," "Okinawa Prefecture Administrative Computerization Plan," and "e-Island Okinawa Declaration." To handle this trend accurately, the Okiden Group will more closely integrate IT-related business to provide improved, higher quality IT services.

In May 2001, our consolidated subsidiary, Okinawa Telecommunication Network entered the Internet service provider business, establishing the wholly owned subsidiary OT Net Service Co., Ltd. In July 2001, together with three other companies, including Nippon Telecom, we established the company First Riding Technology, Inc. to act as both a call center and an Internet solution center and offer a broadband wireless Internet connection service throughout the prefecture. In August 2001, six companies including Ryuseki Corporation and three OEPC Group companies established the company

Progressive Energy Co., to provide energy supply services through distributed power generation.

### **Creating a Working Environment that Improves Staff Abilities**

In this era of severe competition, we require a flexible approach to management issues and speedier decision making, and it is important for every employee to take responsibility for bringing about positive reform. With these aims in mind, the Company is pouring more energy than ever before into training human resources, building a Central Training Institute, switching to an emphasis on autonomous skill development, more effective training and use of human resources through staff reassignments, and making use of overseas study schemes and language education. In this way, we hope to train staff to strengthen their marketing ability, cultivate their self-reliance, and cope effectively with the rapidly globalizing business environment. We continue to promote the "Move 2000 Program," which provides assistance and incentives for staff to form venture companies. In the spring of 2001, two companies were established under the program – one to provide consulting services for ISO certification acquisition and the other one to provide computer network security.

### **Preservation of the Environment**

As a part of the electric power supply industry, the Company has its eyes fixed on the trends in environmental preservation measures. All Company involvement in environmental preservation activities, whether on global or local issues, is based on the premises provided in its Environmental Preservation Action Plan. On the basis of this plan, the Company is campaigning vigorously for various measures that will contribute to lowering environmental load and pushing forward corporate activities that put the highest priority on environmental considerations.

During the term under review, the Company actively promoted the establishment of new and effective energy generation systems that are more suited to the local area, introducing the No. 1 and 2 generators at the Yonaguni Wind Power Research

Facility, which operates a hybrid system combining solar and wind power generation with new types of storage batteries. Official operations began in February 2002 at the Kin Thermal Power Station, where the Company has laid down an ideal set of environmental preservation measures faithfully following the conditions of the Environmental Preservation Agreement with the town of Kin. With regard to the No. 2 generator, which is scheduled to start operating in May 2003, the Company continues to observe the Environmental Preservation Agreement Under Construction concluded with the town of Kin, and is implementing sound environmental preservation measures.

The Company acquired ISO 14001 environmental management system certification for its Ishikawa, Gushikawa, and Makiminato Thermal Power Stations, and will maintain strict adherence to its environmental management system and make efforts to acquire certification for its other power stations and offices. While promoting the introduction of new energy generation systems, as countermeasures against global warming, and in order to reduce CO<sub>2</sub> emissions, the Company has adopted the use of more efficient thermal generators and is putting together a plan to introduce LNG as an energy source in the near future. The Company will also build an in-house system to support the Okinawa Green Power Fund, inaugurated in October 2000 to promote the use of new energy sources, and introduce a Renewables Portfolio Standard (RPS) system.

### **Contributions to Regional Society**

Aware of the importance of working together with the local community for the good of the region, each and every member of staff strives to be a responsible citizen by taking active part in community activities. This is part of our overall effort to ensure that the Company enjoys the trust of the people of Okinawa Prefecture. As an important part of our continuing contribution to the community, we set aside a period of 10 days every November to encourage closer communication between our staff and the public. During this period, we hold various

events and get-togethers at power stations and other facilities throughout the prefecture, in addition to public activities, volunteer work, and sports exchange events. As part of our cultural activities, we sponsor the Okiden Sugar Hall Newcomers' Concert with the aim of discovering and helping to foster promising new talent in the field of classical music. The 8th annual concert was held during the term under review. In recognition of our efforts in discovering and supporting talented young people in the arts, we were recently awarded the Year 2000 Philanthropy Prize by the Association for Corporate Support of the Arts.

We also make a contribution to the development of the local community through financing collaborative research projects at educational institutions and through cooperation with the activities of the Center for the Revitalization of Industry in the Nansei Region. Moreover, the Company plays an active part in stimulating the economy of Okinawa Prefecture through various policy proposals to and support for local authorities. In addition to the foregoing, we sponsor the Exhibition of Science Works by Schoolchildren, OEPC staff act as volunteer helpers at triathlons held on Ishigaki and Miyako Islands, and employees help cement the Company's ties with the local community by participating in festivals and other local events.



Okiden Sugar Hall Newcomers' Performance Audition