

Projects & Energy: Japan



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Demand: growth returns after a decade

For the first time in more than a decade, Japan is planning for electricity demand to rise. Data centers, semiconductor manufacturing and the electrification of industry are driving large-load investment as digital transformation and Green Transformation (GX) advance. Delivering decarbonized power reliably and connecting it quickly requires large-scale investment in both generation and networks.

Policy framework: energy security moves to the foreground

The international energy environment has changed dramatically: the United States has withdrawn from the Paris Agreement and turned back to fossil fuels, while Europe, drawing on the Draghi report, has turned toward industrial capacity, with "Made in EU" requirements emerging in some public support schemes. Since the Middle East situation deteriorated in February 2026, stable fuel supply has been the most pressing question. Japan still pursues stable supply, economic growth and decarbonization together under the Seventh Strategic Energy Plan and the GX 2040 Vision, but POWERX GX, published in August 2026, places the emphasis on energy security.

Offshore wind: tenders rebuilt, past projects admitted to the LTDA

The selected consortium's withdrawal from the three Round 1 sea areas exposed problems not apparent at tender; the framework is being reformed and those areas await re-tender. Projects selected in Rounds 2 and 3 may now join the fourth round of the Long-term Decarbonized Capacity Auction (LTDA) this fiscal year, conditional on resetting their supply price to JPY 0/kWh and forgoing the balancing-cost element of the feed-in premium (FIP), as exceptional treatment reflecting inflation and exchange-rate pressures, and not expected to recur. Legislation enacted in April 2026 extends the framework to the exclusive economic zone. A substantial pipeline is therefore expected over the coming years, financed largely on a project finance basis.

Corporate PPAs: private capital alongside public support

Private contracting increasingly works alongside public support, with some corporate PPA projects also using the FIP scheme. As corporate demand for clean power grows, PPAs have become an established route to market for solar, onshore wind and, increasingly, battery storage. Buyers are driven by RE100 commitments, Scope 2 reporting and, as phase 2 of the GX emissions trading scheme (GX-ETS) takes effect, by carbon cost itself. For developers, a long-term offtake from a creditworthy counterparty unlocks project finance. Price, volume guarantees, termination fees, non-fossil certificates and balancing costs are the recurring negotiating points, while storage is more often contracted on a tolling or capacity basis.

Hydrogen and ammonia: moving toward commercialization

Seven projects, four domestic and three overseas, have been selected for price-gap (contract-for-difference) support under the Hydrogen Society Promotion Act. The overseas projects are dominated by ammonia from Louisiana in the US and Odisha in India, for co-firing at thermal plants. Support runs for 15 years from the start of supply, which must begin by FY2030, followed by a 10-year supply obligation.

For the LTDA's fourth round, hydrogen- and ammonia-fired projects must first pass a pre-qualification screening against criteria including a carbon intensity (CI) threshold, Japanese participation in upstream equity interests, key facilities supplied by companies that strengthen Japanese industrial competitiveness, and a credible path to offtake, all of which must be maintained thereafter. CI must now be built into contracts as a commercial variable, and upstream equity participation, take-or-pay structures, CI monitoring and project-on-project risk are at the core of this work.

Thermal power: LNG retained, CCS Business Act in force

LNG-fired capacity, originally to be auctioned for three years only, will again be procured in the fourth round under the LTDA. A generator may now elect to refund other-market revenue as a fixed amount rather than roughly 90% of actual revenue, making the volume risk of long-term LNG contracts more bearable; the fixed amount has yet to be set.

The CCS Business Act came fully into force in May 2026, regulating storage and pipeline transport and conferring test-drilling and storage rights over designated areas, the first being off Tomakomai and Kujukuri. A cost-difference support scheme is being prepared under which, for pipeline projects, the government would cover the gap between the GX-ETS price and the sum of capture costs and transport and storage fees.

Storage: projects multiply, discipline follows

Connection applications for grid storage have far outstripped connected capacity. Connection procedures are being tightened, and from April 2027 principal control equipment in renewable and storage installations must carry a JC-STAR ★1 cybersecurity label, as is already required under the LTDA. Within the LTDA itself, lithium-ion projects using cells from manufacturers whose supply plans are certified under the Economic Security Promotion Act are awarded in priority, replacing the rule capping any single cell-producing country at under 30% of awarded capacity, which survives only for other chemistries.

Other developments

GX-ETS: phase 2 began in FY2026 and binds companies emitting 100,000 tons of CO₂e or more, so carbon cost must be priced into projects and allocated by contract.

Public lending: an amendment to the Electricity Business Act, due in force around December 2026, enables OCCTO, the national grid coordinator, to lend for large-scale transmission and generation, generally capped at around 30% of project debt alongside commercial lending, with priority for generation awarded in the LTDA or backed by a long-term investment-grade PPA.

GX Strategic Areas: the first selections, in September 2026, were Kawasaki City for complex regeneration, nine data-center clusters and eight industrial parks anchored by decarbonized generation, with infrastructure support, subsidies and possible special-zone designation.

Outlook

Public support has become central to project economics, and carbon now carries an explicit price. Neither can be addressed in a single contract: the documentation must work across the supply chain as a whole.