
AMT/NEWSLETTER

Energy

July 2025

Support Scheme for Initial Investments in Rooftop Solar Power Generation Systems *Explanation of the Background and Overview of the Scheme*

Norifumi Takeuchi / Kazuki Kutsumizu

Contents

1. Introduction
2. Overview of the Scheme
3. Conclusion

1. Introduction

On February 3, 2025, the Calculation Committee for Procurement Prices (the "**Committee**"), which was established in the Agency for Natural Resources and Energy under the Act on Special Measures for the Promotion of Use of Electricity from Renewable Energy Sources (Act No. 108 of 2011; the "**Renewable Energy Act**"), published its "Opinions on Procurement Prices for Fiscal Year 2025 and Beyond" (the "**Opinions**"). Pursuant to the Opinions, the Japanese government has decided to implement a financial support scheme for initial investments in rooftop solar power generation systems to encourage the adoption of such systems (the "**Scheme**").

Since rooftop solar power generation systems are relatively easy to integrate into local communities and impose only a low burden on the power grid as they are primarily intended for self-consumption, the government has already implemented various policies to encourage the adoption of such systems, including the provision of price incentives under the FIT/FIP scheme. However, compared to when the FIT scheme was first introduced, the annual rate of adoption of solar power generation systems has decreased, and thus the Scheme will be introduced to actively utilize the potential of rooftop solar power generation systems. In this newsletter, we have

provided an overview of the Scheme, focusing on the background and details of the Scheme.

2. Overview of the Scheme

2.1. Background of the Scheme

As solar power generation uses sunlight as its energy source, its generation systems can be installed anywhere and can be easily adopted. Accordingly, the Japanese government has promoted its use through various government policies and it is considered as Japan's leading renewable energy¹. Rooftop solar power generation systems are considered relatively easy to integrate into local communities, and when used for self-consumption, the burden on the power grid is low. Due to these advantages, the Opinions state that it is important to actively utilize them, and the government intends to take the initiative to adopt them for the public sector in coordination with the policies of related government agencies². On the other hand, it is also necessary to ensure that the system to be established takes into account the financial burden on citizens. Therefore, in order to maximize the effect of early investment payback while taking into account the promotion of self-consumption, the government has decided to introduce the Scheme with respect to the period and prices for initial investments in residential solar power generation systems and commercial rooftop solar power generation systems³.

2.2. "Stepwise Pricing" and "Shortening of the Support Period"

When considering the Scheme, the following two approaches were proposed: (i) "stepwise pricing" that sets separate periods for the initial financial support and the later financial support, with higher procurement prices for the initial period and lower procurement prices for the later period; and (ii) "shortening of the financial support period" by shortening the existing financial support period (i.e., the FIT/FIP period). These two approaches were discussed in terms of four issues: (a) the payback period; (b) ensuring business continuity and appropriate disposal; (c) self-consumption; and (d) the financial burden on citizens, and were summarized as follows.

Firstly, regarding "(a) the payback period," it will vary in both approaches of (i) and (ii) depending on the initial investment support prices to be set. In this regard, the Committee has expressed the view that if the purchase price offered by an electricity retailer is high, approach (i) will result in the purchase of electricity at the lower price set for the latter period, while approach (ii) will result in the sale of surplus electricity to the electricity retailer at the higher price, and therefore the latter approach increases more profitability⁴.

Secondly, with respect to "(b) ensuring business continuity and appropriate disposal," approach

1 https://www.enecho.meti.go.jp/category/saving_and_new/saiene/renewable/solar/index.html

2 See page 22 of the Opinions published by the Calculation Committee for Procurement Prices on February 3, 2025. https://www.meti.go.jp/shingikai/santeii/pdf/20250203_1.pdf

3 https://www.enecho.meti.go.jp/category/saving_and_new/saiene/kaitori/dl/2024_fitkakaku_shokitoushi.pdf

4 See Figure [Reference 22] of page 23 of the Opinions.

(i) is considered to be potentially more advantageous. More specifically, under approach (i), even if the procurement price for the latter period is lower than that for the initial period, there is still an incentive to continue the business compared to approach (ii) under which there is no financial support for the latter period. In addition, particularly for commercial solar power generation, a scheme to create a reserve fund for the disposal costs of solar power generation systems was implemented with effect from July 2022 by the revision of the Renewable Energy Act. Under this scheme, contributions to the reserve fund are made by way of making certain monthly deductions from the purchase price of the solar power generation systems for a specified period, which is similar to the withholding tax system⁵. However, under approach (ii), no financial support is provided during the specified contribution period, and thus it is not possible to implement the aforementioned reserve system. Based on this analysis of issue (b), approach (i) of “stepwise pricing” has been adopted for the commercial solar power generation as explained below.

Thirdly, with regard to the issue of “(c) self-consumption,” the Opinions analyzed approaches (i) and (ii) to determine which approach was more advantageous in preventing a situation where the incentive for self-consumption, which is also an advantage of demand-supply-proximity-type solar power generation systems, declines (i.e., a situation where it is more economically advantageous to sell the generated electricity rather than consume it for personal use). In this regard, it was determined that there is no difference between approaches (i) and (ii), and for both approaches, the base prices must be set lower than the standard electricity rates.

Lastly, with respect to “(d) the financial burden on citizens,” regardless of whether approach (i) or approach (ii) is adopted for the Scheme, as long as the financial burden on citizens becomes smaller than that under the existing FIT/FIP system on a discounted present value basis, then such financial burden can be considered to be reduced. In this regard, it was stated in the Opinions that there is no difference between approaches (i) and (ii), and it was proposed that the discount on the present value be set at 2% to be in line with the level of the price stability target (2%) and the interest rate of 20-year Japanese government bonds (approximately 1.9% as of December 2024)⁶.

Based on the summary of the issues as explained above, taking into account the trade-off relationship between issue (a) and issues (b), (c) and (d), and with the promotion of self-consumption and the reduction of the financial burden on citizens as prerequisites, the government has decided to shorten the payback period to the extent that these objectives are not hindered. Furthermore, to ensure business continuation and appropriate disposal of solar power generation systems, the Opinions have proposed that (i) the “stepwise pricing” scheme should be adopted at least for commercial rooftop solar power generation systems that are subject to the disposal cost reserve system, as it is necessary to secure appropriate funds required for disposal, and (ii) for residential solar power generation systems, the “shortening of the support period” scheme should be adopted to maximize the effect of shortening the payback period.

⁵ See page 3 of https://www.enecho.meti.go.jp/category/saving_and_new/saiene/kaitori/dl/fip_2020/fip_document03.pdf.

⁶ Same as Footnote 4.

2.3. Subsequent Discussions on Residential Solar Power Generation Systems

As explained above, the Committee initially considered adopting the "shortening of the financial support period" scheme for residential solar power generation systems in principle. The key reasons for this policy are that (i) it is possible to earn sufficient profits from the sale of electricity as electricity retailers have been offering a significant range of purchase options since the first expiration of the FIT period occurred in 2019, and (ii) it is important to establish business and finance models that do not depend on the FIT/FIP system as soon as possible to achieve the goal of self-sustaining renewable energy (for this reason, the Committee is cautious about adopting the "stepwise pricing" scheme based on the FIT/FIP system)⁷.

However, it has been found through the hearings conducted by the secretariat of the Committee that there have been cases where certain business operators adopted a business model for residential solar power generation, under which the business operator installed a solar power system on the roof of a house by entering into an agreement with the resident concerning the purchase of electricity, and where this business model operates on the expectation that it can be financed through stable profits generated from the sale of electricity under the FIT model⁸. Accordingly, in order to ensure the foreseeability of business operators and the smooth adoption of residential solar power generation systems, the government has granted a grace period for the transition to the "shortening of the financial support period" scheme.

As a result of the discussions above, the Committee has decided that until FY 2026, the "stepwise pricing" scheme will also apply to residential solar power generation in the same manner as for commercial rooftop solar power generation systems, taking into account the foreseeability of business operators and the necessity of providing a sufficient grace period for the transition, while maintaining the principle that the "shortening of the financial support period" scheme is the appropriate approach. The Committee will discuss the policy for FY 2027 and thereafter in the upcoming FY.

2.4. Details of the Scheme

The details of the Scheme (meaning the "stepwise pricing" scheme) to be implemented from October 2025 are as follows (see Figure 1). The following details are transitional measures until FY 2026, and the details of the Scheme are subject to change from FY 2027.

As a start, the procurement periods are currently set at ten years for residential solar power generation systems and 20 years for commercial rooftop solar power generation systems, respectively. While maintaining these procurement periods, business operators will be allowed to sell electricity at a price (the "**Initial Investment Support Price**") exceeding the current expected FIT/FIP prices for a certain period of time from the start of the procurement period (the "**Initial Investment Support Period**"). The Opinions state that, with the promotion of self-consumption

⁷ See pages 24 and 25 of the Opinions.

⁸ See page 24 of the Opinions.

and the reduction of the financial burden on citizens as prerequisites, the Initial Investment Support Period and the Initial Investment Support Price will be calculated under the following conditions precedent, so as to maximize the effect of early investment payback.

Conditions Precedent to the Calculation of the Initial Investment Support Period and the Initial Investment Support Price ⁹	
(i)	Regarding electricity rates, business operators should ensure that the prices during the Initial Investment Support Period will not exceed the values of the expected self-consumption benefits when setting the prices for FY 2025 (industrial electricity rate: 19.56 yen/kWh, and residential electricity rate: 27.31 yen/kWh).
(ii)	After setting the weighted average wholesale electricity market price at 8.3 yen/kWh, business operators should ensure that the financial burden on citizens when setting the procurement/base prices under the Scheme will not exceed the financial burden on citizens when setting the procurement/base prices using the conventional method on a discounted present value basis (discount rate: 2%).

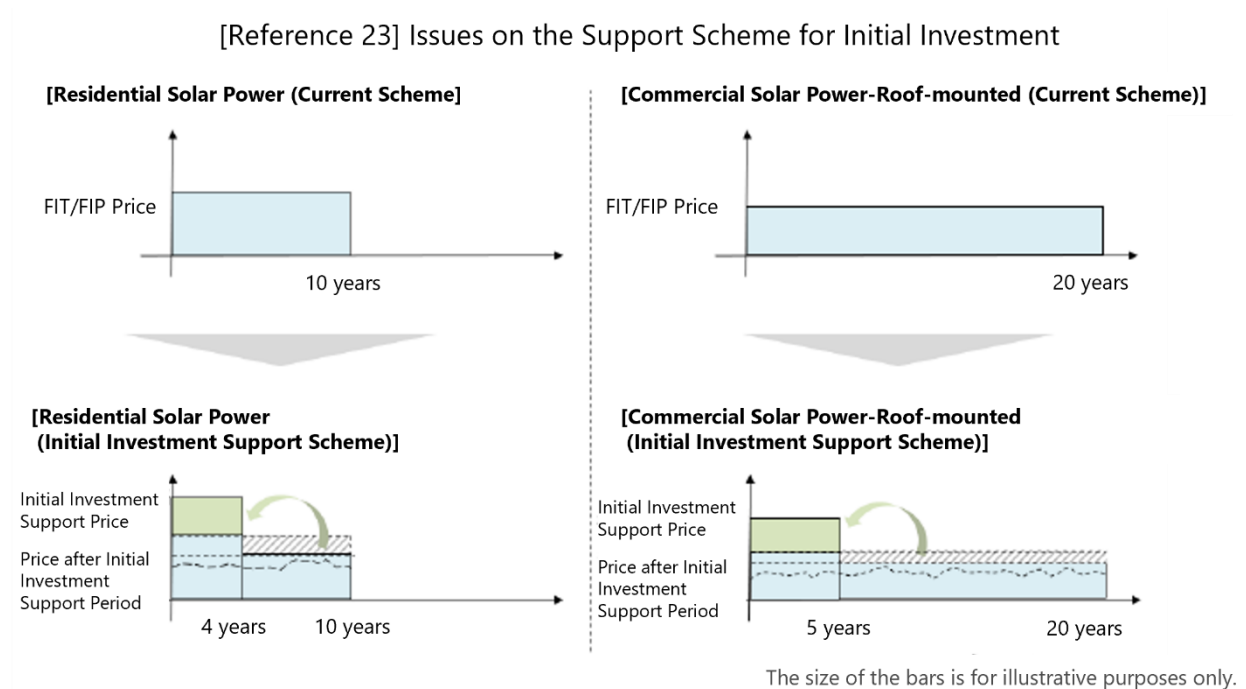
When a solar power generation system is installed on a newly constructed house, the installation costs are included in the construction or purchase costs of the house. Therefore, it was pointed out that the payback period for the solar power generation system itself is not a significant barrier to its adoption¹⁰. However, given the fact that the current installation rate of solar power generation systems on newly constructed detached houses is below the FY 2030 target, the government has decided not to exclude the installation of solar power generation systems on newly constructed houses from the scope of the financial support under the Scheme at this stage in order to strengthen efforts to achieve the target.

Furthermore, under the Scheme, business operators are required to set prices by referring to residential electricity rates to minimize the disincentive for self-consumption explained in Part 2.

Please note that the Scheme will be implemented from October 2025, and although prices have been re-established, the prices for FY 2025 that were already set will be maintained as a transitional measure during the period from April to September 2025¹¹.

⁹ See page 26 of the Opinions.
¹⁰ See page 26 of the Opinions.
¹¹ For the specific procurement prices, see:
https://www.enecho.meti.go.jp/category/saving_and_new/saiene/kaitori/fit_kakaku.html.

Figure 1



(Source: [Reference 23] Issues on the Support Scheme for Initial Investment, page 26 of the Opinions)

3. Conclusion

The use of rooftop solar power generation systems is expected to increase through the utilization of the Scheme from October 2025. Under the existing FIT/FIP system, there have been cases where financing was secured by way of project finance or project bonds for the development of portfolios of hundreds of rooftop solar power generation systems based on long-term cash flow assumptions. It is necessary to closely monitor the impact of the Scheme on financial institutions' efforts to finance such development of rooftop solar power generation systems.

In addition, regarding the future direction of the Scheme, the "shortening of the support period" is expected to be adopted, and it will also be necessary to continue monitoring the framework of the Scheme for FY 2027 and beyond.

End

-
-
- This newsletter is published as a general service to clients and friends and does not constitute legal advice. Should you wish to receive further information or advice, please contact the authors as follows:
 - Authors:
Norifumi Takeuchi (norifumi.takeuchi_grp@amt-law.com)
Kazuki Kutsumizu (kazuki.kutsumizu@amt-law.com)
 - If you wish to unsubscribe from future publications, kindly contact us at [General Inquiry](#).
 - The back issues of the newsletter are available [here](#).