

24 March 2005

## **Electricity Distribution: Academic reports on the long term charging framework**

Ofgem is today publishing three reports written by academics. Academic views have been sought by Ofgem to provide the opportunity for fresh thinking and new independent ideas for the future longer term electricity distribution charging regime, to highlight issues and to aid selection of appropriate charging models going forwards.

It is Ofgem's intention to publish an industry consultation in late April 2005 concerning its thoughts on longer term models and asking for industry views on these.

### *Scope*

The academics were asked to consider the following:

1. How to determine electricity distribution use of system charges in an economically efficient manner:
  - What type of charging model would you advocate, and why? What level of detail in this model would provide adequate economic messages?
  - Is the use of forward looking long run incremental costs appropriate? If so, how would these be determined?
  - Is it appropriate to treat demand and generation in the same manner?
  - How are cost drivers best reflected within models?
2. What is the best method of scaling model outputs to achieve regulatory revenue?
3. Is there a need for an economic model: is marginal pricing appropriate across the entire DNO network? Are there any constraints that need to be considered, e.g. metering?

### *Interim regime*

To date, work on the structure of charges project has focussed primarily on the implementation of an interim regime which introduces simple models for use of system charging for new generators from 1 April 2005 and establishes a common connection boundary for generation and demand connections. In this interim regime demand use of system charges predominantly have not changed. Further information on the interim regime is available on the Ofgem website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk) under the Electricity Distribution Charges area of work.