

A blurred background image showing various electrical components, including a blue power outlet, a white electrical plug, and a circuit breaker panel with a yellow warning strip.

# Structure of Electricity Distribution Charges

March 2006

## Bath report – context and output

- Commissioned to consider potential benefits from moving to an economic charging regime
- Assumptions necessary in order to carry out project
- Did not consider what 'best' solution might be
  
- Output measured reinforcement expenditure over 20 years
- Output suggested gains would be made from moving to economic charging models, with LRIC model minimising capital spend

## Bath report – responses to Ofgem’s open letter consultation

- 9 responses – DNOs, GBSO and a large customer
- Responses varied: majority welcome report in aiding understanding and highlighting issues
- DNOs generally stressed need for further development of models and further consideration of costs, benefits and sensitivity of outputs to assumptions
- One response stressed need to consider ‘customer impacts’ in any proposals, not just costs/benefits

## Bath report – responses to Ofgem’s open letter consultation (2)

- General concern over £200m figure, e.g. DNOs noted that the report did not consider locational message already provided by connection charge. This may dilute benefits
- Two DNOs stated:
  - ‘the application of economic charging methods are likely to result in long term savings in investment needs’
  - ‘location is one of main economic decisions that can be affected by pricing structures and levels’
- However, other DNOs questioned whether UoS prices would influence generator siting decisions

## Bath report – responses to Ofgem’s open letter consultation (3)

- Two responses raised concern about the cost reflectivity of using forward looking costs in models
- Responses varied on aligning demand and generation models; one response thought this may not necessarily ‘be considered an advantage’
- Some concern about scaling of outputs within economic charging models – concern over both the method used and the magnitude of scaling

## Bath report – responses to Ofgem’s open letter consultation (4)

- GBSO is considering the applicability of the theory behind the LRIC model to the GB transmission system
- One DNO intends to commission its own report studying the impact of different charging models on deferring capital expenditure

A blurred background image showing various electrical components, including a blue three-pin plug, a white electrical outlet, and a meter, all set against a light blue and white background.

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## Structure of Electricity Distribution Charges Review – Ofgem thoughts

- Mixed (DNO) responses to the Bath report
- Key project, important to reach a successful conclusion prior to next price control (18 months)
- Welcome and support COG project but recognise this will be challenging
  
- Need to ensure work is focussed and goals clear

## Structure of Electricity Distribution Charges Review – Ofgem thoughts

- Four main issues need to be addressed:
  - Development of economic charges for generators
  - Economic charging models at EHV level
  - Structure of charges to reflect cost drivers (e.g. time of use)
  - Further development of common charging structures
  
- Replacement of DRM at LV not demonstrated to be high priority

## Structure of Electricity Distribution Charges – Additional thoughts

- Focus required in order to deliver timely solution
- Danger of losing momentum by repeating generic work
  
- Any modifications from this process need to
  - Fully consider issues prior to submission, e.g. consultation
  - Be clear and transparent
  - Demonstrate how licence objectives are being bettered

A large, central ofgem logo, identical to the one in the top right corner, featuring the word "ofgem" in white lowercase letters on a red rounded rectangular background. The background of the slide is a faded image of electrical components, including a three-pin plug and a meter.

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