

Distribution pricing: theoretical principles and practical approaches

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Abstract— Electricity tariffs convey information on internal system operation to the actors involved. Electricity pricing is, then, of major importance both in liberalised and regulated systems. Most electricity consumers interact with the industry only through the price they pay for the service. Consequently, good tariff design reflects industry regulation as a whole and is the instrument used to provide consumers with the right signals. The objective of this study is to define the theoretical principles that regulation should pursue in electric distribution tariff design and introduce the reader to the most relevant practical approaches that have been proposed or implemented. Although distribution costs are usually the largest part of the access tariff (or use of system charge), there is not a universally accepted methodology for distribution pricing. The earliest attempts at cost allocation conformed what is now known as the accounting approach, based on business accounting. In recent years, the proposals have focused on two approaches: the application of long-term marginal (or incremental) costs and the cost-causality principle. Although the former aims to achieve a better economic signal, because of the difficulties surrounding its implementation, the most usual solution applied in practice draws more heavily from the causality principle.

Index Terms— pricing; causality; power distribution economics; tariffs; accounting

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