



IMO MAC meeting 20 March 2013

Principles for network investment options assessment



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Access Code requirements

- Capital investments and operating expenditure must be economically efficient
- Principles set out in the New Facilities Investment Test (NFIT) – s6.52:
 - Need to ‘efficiently minimise costs’, and
 - Recover costs via:
 - New (incremental) revenue, and/or
 - Tariff adjustments off-set by net benefits, and/or
 - Tariff adjustments justified by safety/reliability improvements

Access Code requirements

In particular

- Net benefit
 - “Means a net benefit ... to those who *generate, transport and consume* electricity”
- Need to assess costs and benefits to all parties, not just impact on Western Power’s networks

Implications for assessment of Network Control Services (NCS)

Assumptions

- The current market is efficient in terms of generation capacity
- NCS providers will be paid capacity credits by the market (like any other generator, if they meet RCM requirements)

Principles

- Total NCS facility cost includes capacity credits plus service charges to NSP
- Total cost of network investment option includes network augmentation costs plus capacity credits equivalent to NCS option (for generation capacity elsewhere)



Economic assessment of NCS

So, the assessment compares:

- The full cost of the NCS facility *with*
- The cost of the network augmentation plus capacity credits for equivalent generation (somewhere else)

Or, maths-wise, this is essentially the same as comparing:

- NCS charges to NSP (total facility costs less capacity credits) *with*
- The cost of the network augmentation

Note that pragmatic assumptions to suit the specific situation and sensitivity analysis are required.



Cost recovery

- Network costs (capital or NCS) are recovered via tariffs to the extent that they satisfy NFIT and similar principles for operating costs
- Where investment is driven by the service needs of a particular party (e.g. block load), costs may exceed the NFIT value
 - the balance to be funded by a contribution from the customer (in addition to their tariff revenue)
- Investment driven by general load growth will generally satisfy NFIT via reliability or net benefits

Questions / discussion

