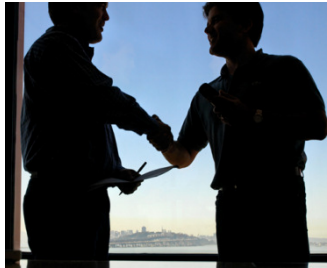


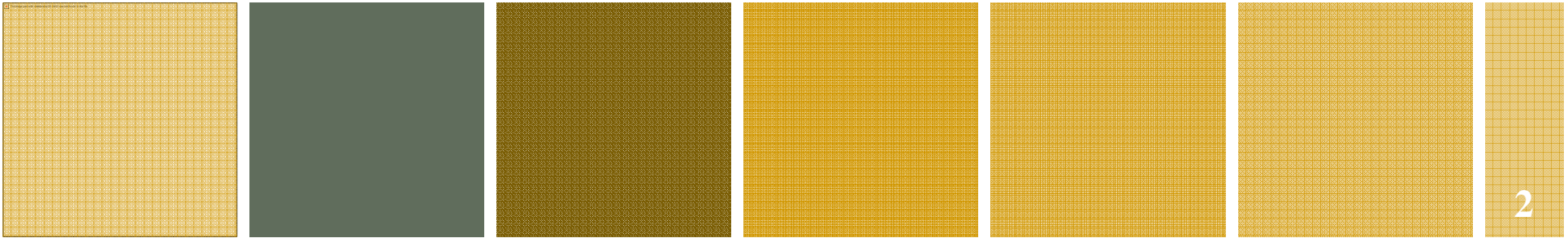


sapere research group



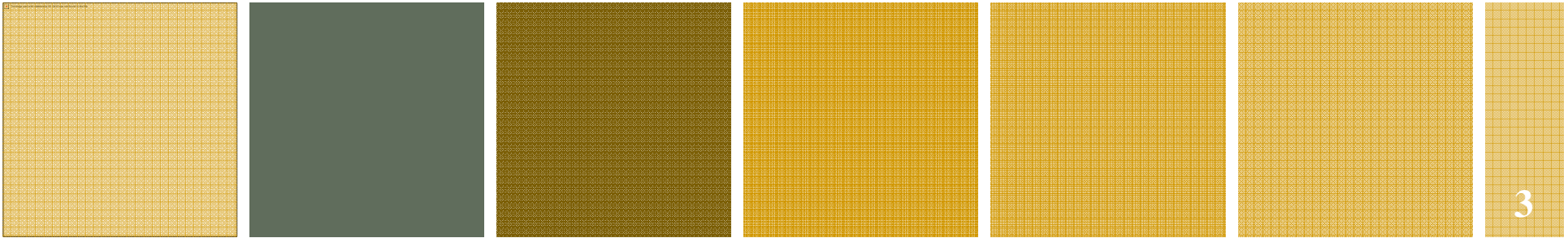
Cost-benefit analysis of balancing market proposal- an update

22 February 2011



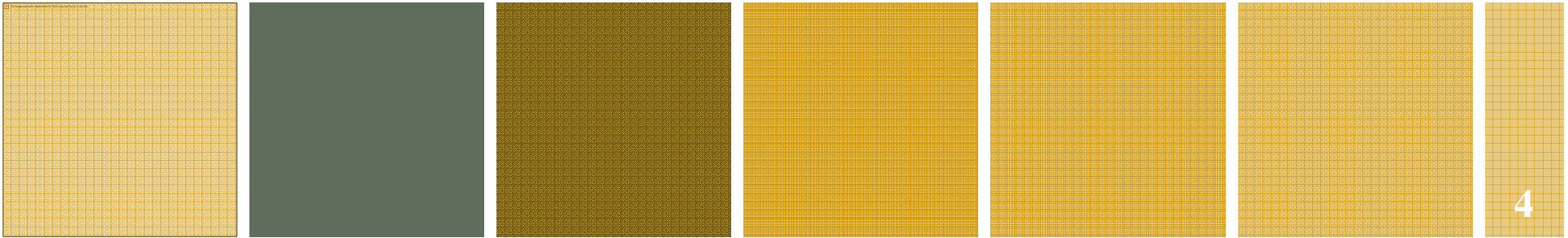
Content

- Scope
- Timing
- Methodology/approach
- Feedback sought
- Where to from here



Scope

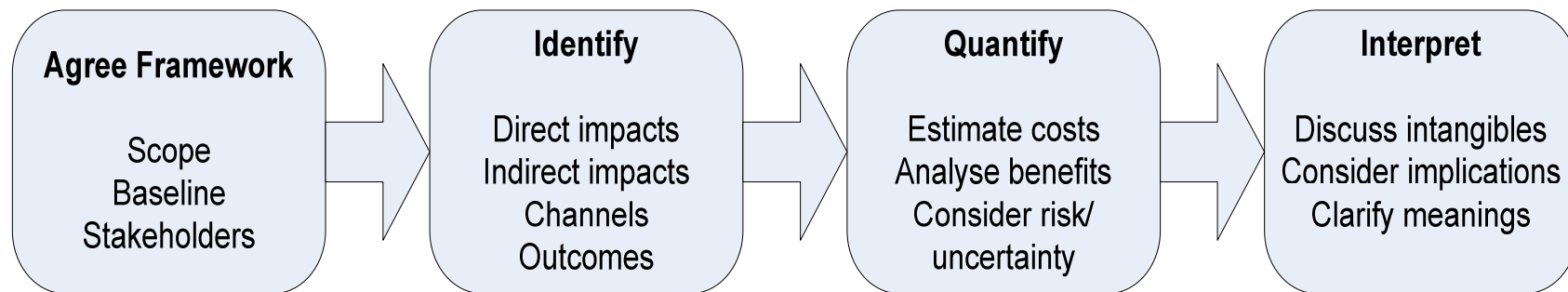
- Focused on balancing market proposal as requested by the RDIWG
- Counter-factual is the status quo
- Objective is a “high level” analysis
- Ancillary Services and Reserve Capacity Mechanism important, but largely second order



Where we're at

- Paper is a snapshot as of last week with gaps – wanted to give RDIWG a flavour of approach and likely content, given interest
- Changes have been made subsequent to paper being distributed
- Numbers still only formative
- Focus is on **categories** (of costs and benefits) at this stage

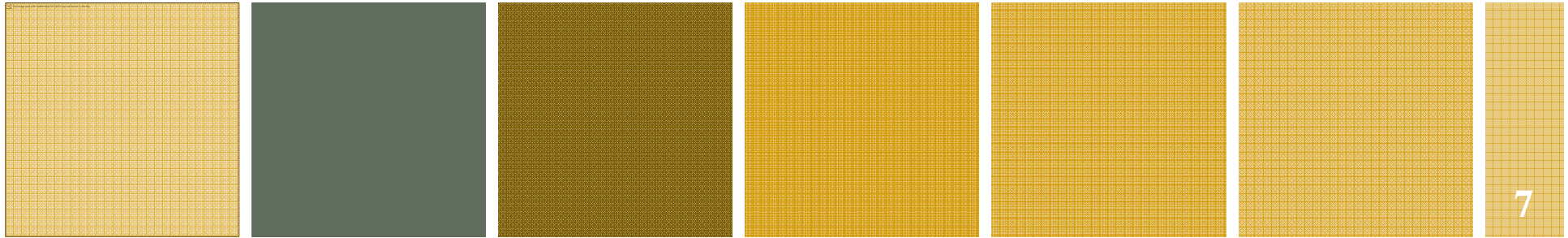
Approach



- **Expert review and opinion (Kieran Murray):**
 - No strong priors
 - Using well established methods

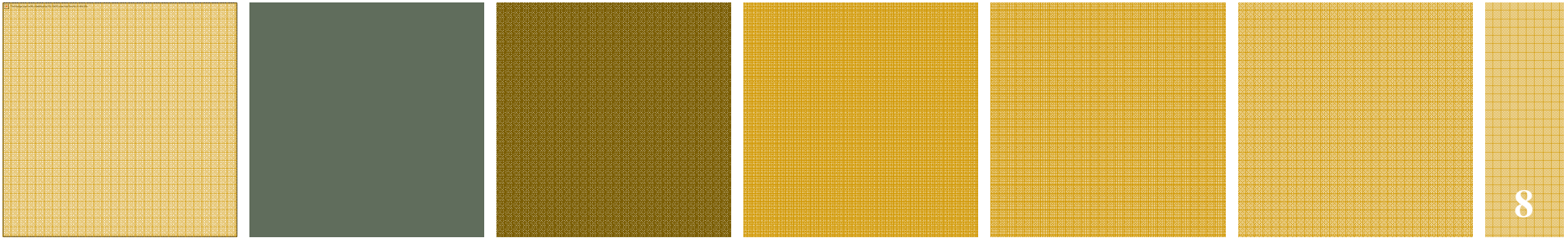
Approach

- Paper is about:
 - Identifying, describing and (where possible) enumerating relevant (economic) costs and benefits
 - Impacts on the economy as a whole
- Paper is not about:
 - Impacts on individual firms/organisations
 - Non-economic changes (e.g. price changes and wealth transfers)



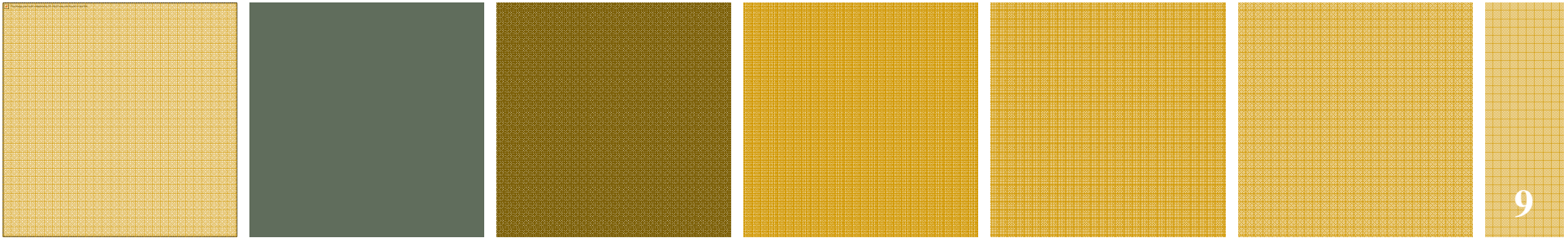
Approach to costs (see Table 1)

- Only include costs directly related to specific balancing proposal (i.e. apply additionality and attribution “rules”)
- Small number of more “solid” categories:
 - Implementation/set-up costs
 - Ongoing costs



Approach to benefits (see Table 1)

- More difficult to estimate:
 - General and specific modelling and assumptions required
 - Qualitative and quantitative in nature
- Quantifiable benefits classified as:
 - Availability benefits
 - IPP STEM offers not currently dispatched
 - Changes to bidding behaviour from compressed timeframes
 - Increased availability of generation following outages
 - Capital costs avoided



Feedback sought

- Do the categories of costs and benefits make sense?
- Errors, omissions?
- Relevant counterfactual implications (see over)

Forecast stem price (\$/MWh)

