Post Investment Appraisal (cost assessment)

1. Introduction

1.1. The post investment appraisal approach to loss reduction will assess saved losses after assets have become operational. The approach is intended to complement any pre-investment appraisal approach to loss reduction by providing an ex-post assessment of the saved losses that were used to justify the initial investment.

2. Details of proposed approach

Approach

2.1. The objective of a post investment appraisal is to provide a check that the losses savings that were calculated in any pre-investment appraisal have been delivered once the asset has become operational.

2.2. The post investment appraisal should take place an appropriate period of time after the asset has become operational and should reflect the calculated saved losses for a discrete historic period (e.g. first full regulatory year after becoming fully operational) using actual network and meter data where available.

2.3. The approach to assessing losses post investment should be as similar as possible to the approach used to assess losses pre-investment (i.e. simply substituting actual data instead of assumed data). If the post investment appraisal finds that losses savings are not within a specified range of those calculated in the pre-investment appraisal then the DNO should provide a justification as to why it believes this is the case (note that losses savings could be more or less than previously assessed).

2.4. At least intitially, it is suggested that the learning that comes out of any post investment appraisal should only be used to refine the method of pre-investment appraisal going forward i.e. it should not be used as a way of disallowing investment expenditure that has already been made and which passed the pre-investment appraisal in place at the time of the investment. This however could be reviewed after the scheme has been running for a number of years and potentially additional rewards or penalities could be received for variations in saved losses.

2.5. It may be appropriate to apply a proportional approach to the post investment appraisal. For instance, high cost investments that have passed a pre-investment cost/benefit test on the basis of delivering a large volume of saved losses may require a more rigorous post investment appraisal whereas low cost investments delivering a small volume of loss savings could be subject to a less rigorous post investment appraisal (or even be exempt from it).

Outputs

2.6. Outputs would be an assessment of saved losses (in kWh) post investment. This can then be compared to the pre-investment assessment of saved losses and if it is outside a defined range then an additional output would be a detailed justification of why the DNO believes this to be the case.

Targets

2.7. Targets would be in the form of an acceptable range of variance to the pre-investment assessed loss savings (either in kWh or %). If post investment assessed loss savings are outside of this range then a detailed justification will be required by the DNO.

Measurement

2.8. The post investment appraisal of saved losses should be as similar as possible to the pre-onvestment appraisal to ensure a like for like comparison, with the exception being that the post investment appraisal will use actual network and meter data for a specifed historic period (i.e. an assessment relating to a past year) whereas the pre-investment appraisal will obviously use assumed/estimated network and meter data (i.e. an assessment relating to future years).

Rewards / Penalties

2.9. At least initially, no further rewards or penalites would be received over and above any funding agreed as part of the pre-investment appraisal. However this could be reviewed after a period of time and potentially if losses savings vary from those assessed at the time of the pre-investment appraisal in a way that can be influenced by the DNO then rewards or penalities could be received based on the difference. However, in this instance care would need to be taken to ensure no gaming of the initial assessed loss savings.

3. Risks / Benefits

3.1. In the event that actual saved losses are always within an acceptable range of the pre-investment appraisal there is a risk that a post investment appraisal may simply add unnescessary cost. However it is only by running the scheme over a number of years that such a conclusion can be demonstrated and the act of providing that demonstrable assurance will be of benefit in itself. If this were the case then a review of the scheme after a number of years would allow the post investment appraisal to be switched off.

3.2. In the event that actual saved losses can vary substantially from those assumed at the pre-invstment appraisal, applying a post investment appraisal will provide valuable learning as to why this may be the case that can then be used to refine the pre-investment appraisal method to ensure that any cost/benefit analysis is as robust as possible prior to investment. Such refinement of the pre-investment appraisal will possibly allow investments that would otherwise have failed a cost/benefit test and vice-versa.

3.3. Costs associated with the post investment appraisal would need to be estimated by DNOs. It may be approapriate to take a proportionate approach to the post investment appraisal which varies in its complexity (and therefore likely cost) depending on the cost of the initial investment.

4. Some evaluation criteria

4.1. Evaluation critera:

- Proportionality: As desctibed above it may be appropriate to apply a proportional approach to the post investment appraisal depending on the cost of the initial investment and the size of assumed loss savings.
- Transparency: A post investment appraisal will provide transparency around whether the assumed loss savings that have been used to justify additional DNO expenditure have been delivered.

- Consistency: The post investment appraisal will be consistent among DNOs and also consistent with the pre-investment appraisal.
- Credibility: The approach will add credibility to any pre-investment approach by demonstrating whether or not assumed loss savings have materialised.
- Clarity and Controllability: The post investment appraisal will be on the same basis as the pre-investment appraisal and so should be equally as clear and controllable as any pre-investment appraisal approach.
- Adaptability and Commitment: The approach can be applied in the same way as any pre-investment approach.

5. Any additional information