

6. Determination of SRMC and LRMC

Project layout and design requires the determination of marginal costs short- and long-range (SRMC and LRMC). These parameters are determined on basis of the expected future development of the interconnected electric system.

SRMC are determined on basis of production costs and are routinely calculated for dispatching purposes. These vary with the type and availability of generating units, season, time of day, hydrologic conditions, etc.

LRMC are affected by production costs and depend on the foreseen expenditures associated with capacity additions required to cover the forecasted demand. The time horizon may extend over 1 or more decades.

Annex XX (Economic Appraisal Criteria for Electric Power Projects, KfW, April 1994) gives some background on the subject and describes procedures to determine marginal costs.

Alternatively, following step-wise procedure may be considered: