

# Relevant costs – how to perform compliant calculations?

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NER300.com's understanding (as at 29 June 2013) of the way in which to perform compliant calculations of relevant costs, based on guidance in [FAQ 52 of the 27 June 2013 edition of the Second Round FAQ](#) and further recent unofficial clarifications from a source with experience in this topic, is given below.

## Investment costs

DEMO is a project that is built in stages and enters into operation in stages. Its first year of operation is 2016. This means its "Year 0", the year prior to the entry into operation, is 2015. The Project Sponsor incurs investment costs in 2013, 2014, 2015 and 2016.

For the purpose of the NER300 relevant cost calculation, DEMO's investment costs are calculated as follows:

Let  $I_n$  be "DEMO's investment costs of Year n expressed in Dec 2013 values"

The investment cost  $I$  of DEMO for the purpose of the relevant cost calculation is:

$$I = I_{2013} + I_{2014} + I_{2015} + I_{2016}$$

## Operating costs and benefits

Costs and benefits for Years 1 to 5 of operation, in Dec 2013 values, should be discounted back to the Year 0 (i.e. by 1 to 5 years respectively) at the real discount rate used above:

Let  $O_n$  be "DEMO's operating benefit of Year n expressed in Dec 2013 values"

Let  $R$  be the real discount rate (in %) to apply to future cashflows. Imagining DEMO to be located in the Eurozone, then from [DG COMP's table of reference rates](#), one possible annual real discount rate to apply is  $0.56\% + 1\% = 1.56\%$ .

The NPV of the operating benefit  $O$  of DEMO for the purpose of the relevant cost calculation is:

$$O = O_{2020}(1 + R)^{-5} + O_{2019}(1 + R)^{-4} + O_{2018}(1 + R)^{-3} + O_{2017}(1 + R)^{-2} + O_{2016}(1 + R)^{-1}$$