

1 **Q: With respect to the development of marginal cost estimates, should the**  
2 **selection of generation resources take account of the configuration of the**  
3 **underlying transmission network?**  
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5 A. As discussed on pages 77-80, internal or opportunity (external) approaches can be  
6 used to estimate marginal cost estimates for energy and generation capacity.  
7 Opportunity cost approaches reflect the underlying transmission network in so far  
8 as energy prices, typically locational marginal prices, and capacity prices reflect  
9 transmission constraints. Internal approaches for the marginal cost of energy are  
10 frequently developed using production costing tools, which include a representation  
11 of the transmission network. Internal approaches for the marginal cost of  
12 generation capacity reflect the lowest cost approach for the utility, frequently  
13 reflected in the peaker deferral method and do not typically reflect the transmission  
14 system configuration.