

1 Q. Appendix A, page 11: Please explain why energy costs are based on opportunity costs and
2 what criteria was used to make this choice?

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4 A. This response has been provided by Christensen Associates Energy Consulting.

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6 Valuation of resources according to opportunity costs obtains resource efficiency
7 gains not otherwise available—by definition. Under the condition where internal
8 resource costs are less than market value, internal resources should be sold at
9 market value up to the point that net gains are exhausted, notwithstanding
10 institutional and transaction-related impediments. Transmission constraints may
11 also impede power transfers. Where internal costs are above market value,
12 market purchased of power are substitute for internal resources are reduced,
13 and market purchases of power are substituted.

14

15 The loads of Hydro’s domestic markets vary dramatically across seasons, months,
16 and days. When domestic loads are comparatively low, Hydro has the capability
17 to participate heavily in external regional markets. To this end, opportunity cost-
18 basis of resource valuation is compelling.