Q. (Rates and Regulation Evidence page 4.7, lines 5 to 12)
Since Hydro does not “know” its marginal costs, on what basis are new CDM programs evaluated and how does Hydro decide if existing CDM programs should be continued?

A. Hydro uses the Total Resource Cost (TRC) test to determine whether to proceed with a CDM opportunity. This cost-benefit ratio (TRC test) is in accordance with the California Standard Practice Manual developed by the California Public Utility Commission (CPUC) and the California Energy Commission (CEC) and recognized as the standard for utility energy efficiency program assessment. A study of Hydro’s marginal costs of generation and transmission completed by NERA Economic Consulting in May 2006 outlined fuel savings as the main driver for marginal costs and estimated fuel costs are used in the TRC analysis. The NERA based marginal cost post-infeed estimates were used in the TRC analysis and are reflective of the changing economics of the system and show the programs have a positive TRC value.

Market impacts are a large consideration in ending a CDM program. For example, the utilities will remove incentives for technologies once the market has transformed to the standard of that incented technology. Hydro and NP are engaging in work in 2013 to explore exit strategies for the programs currently offered.