



## **BPA Letter to the Region**

### **Public Generating Pool Comments**

**July 22, 2019**

With the recent addition of Seattle City Light, PGP represents eleven consumer-owned utilities in Washington and Oregon that own almost 8,000 MW of generation, 97% of which is carbon free with approximately 7,000 MW of hydro. Four of the PGP members operate their own balancing authority areas (BAAs), while the remaining members have service territories within the BPA BAA. As a group, PGP members also purchase over 45 percent of BPA's preference power.

The Public Generating Pool (PGP) appreciates the opportunity to comment on BPA's Letter to the Region provided to customers on June 20, 2019. PGP has been actively engaged with the Public Power Council (PPC) and other public power trade associations throughout this process and we are generally aligned and supportive of BPA's policy proposals described in its Letter to the Region. PGP member utilities collectively also support the principles developed by PPC that were submitted to BPA on June 17, 2019. PGP's comments focus on BPA's EIM stakeholder process and treatment of greenhouse gas (GHG) accounting in the EIM.

#### **I. BPA EIM Stakeholder Process**

PGP commends the EIM team for running an excellent stakeholder process on BPA's evaluation for joining the EIM. The process was thoughtful, thorough, transparent, and collaborative. PGP acknowledges the countless hours spent by staff developing and providing background materials on each issue, along with relevant analysis and rationale for proposed resolutions. PGP appreciates all of the time and effort BPA contributed, meeting with stakeholders and responding to questions and concerns.

#### **II. GHG Accounting in the EIM**

BPA has stated that its policy proposal on carbon in the EIM is to opt out of selling directly into California via the EIM unless Congress grants BPA authority to directly purchase allowances under California and other state carbon programs. PGP believes this is a valid EIM participation solution for BPA. However, PGP believes congressional waiver to pay state taxes and obtain the ability to purchase carbon allowances should not be BPA's only consideration in its decision to sell directly into California via the EIM. CAISO's current GHG accounting algorithm in the EIM is problematic for low-carbon hydro resources such as BPA's and must be examined thoroughly before BPA opts to sell directly into California via the EIM.

CAISO's market optimization assumes the resources with the lowest GHG bid adder cost are "deemed" to serve CAISO load, regardless of energy bid, actual dispatch, or EIM transfers that occur. EIM Participating Resources that opt to sell directly into California can be "deemed" to

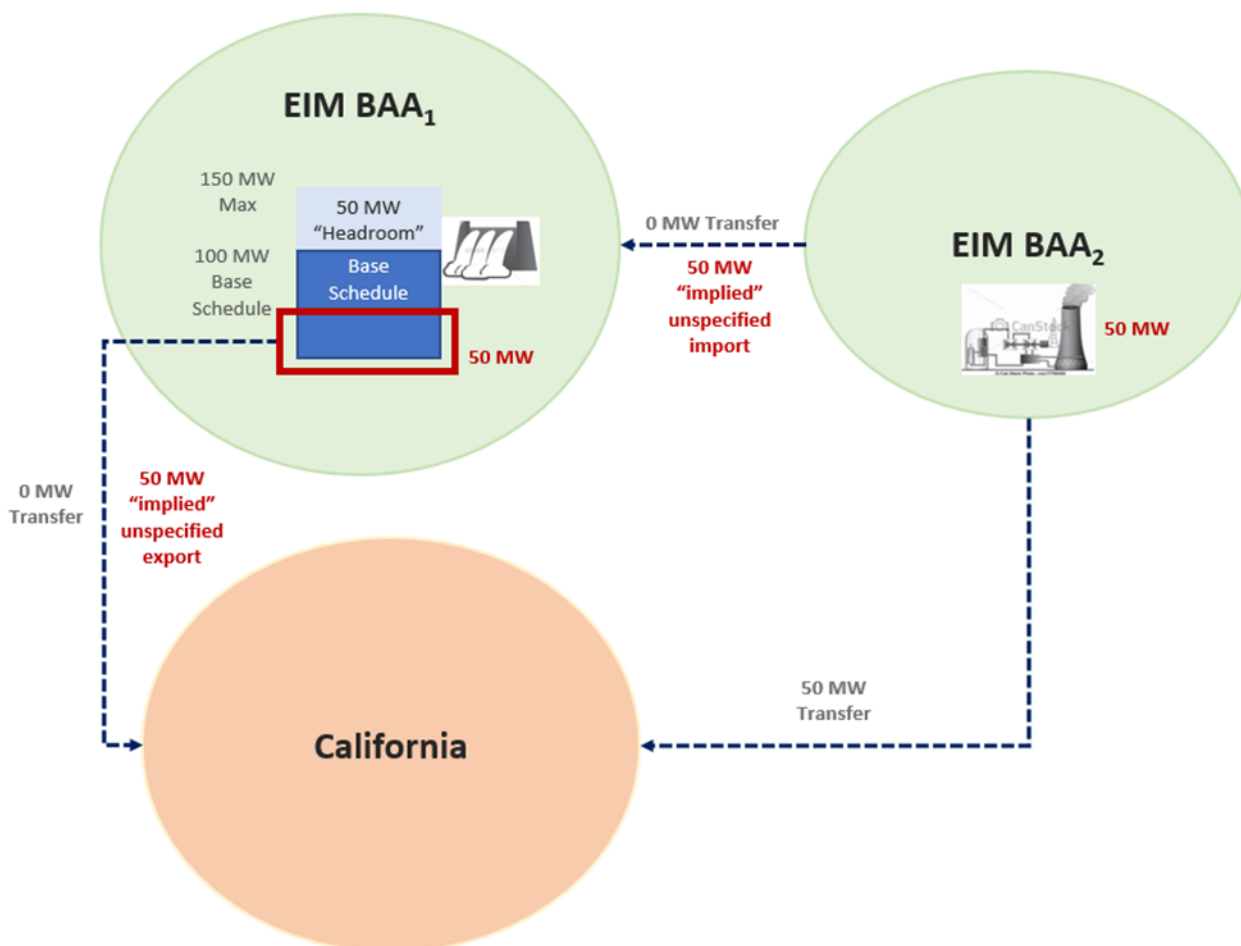
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serve California load up to the MW value between the resource's base schedule and the resource's upper economic level. The result is that zero/low carbon resources, such as hydro resources, are predominantly "deemed" to serve California load for the MWs bid above their base schedule even if the resources are not dispatched above their base schedule. If the MW portion of the resource that was "deemed delivered" to California was originally included in the resource's base schedule, that MW portion is "backfilled" with EIM imports, considered to be "unspecified" by CARB from a carbon content perspective.

For example, a hydro resource in the EIM may have a base schedule of 100 MW that bids in 50 MW of upward dispatch range ("headroom"). Given the zero-cost GHG adder of hydro, the CAISO's market optimization will assume 50 MW of that hydro resource is "deemed delivered" to California, even if the resource is only dispatched to meet its base schedule at 100 MW and there are no imports into the host balancing authority or exports from the host balancing authority of the hydro resource. The algorithm will then assume 50 MW of the host balancing authority's base load is being served by the EIM through unspecified imports. In reality, a different resource was dispatched to serve California load.



This outcome is problematic for several reasons:

- BPA's carbon emissions factor is increased due to the implied unspecified import, impacting both BPA and BPA's customers.

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- The true GHG costs of external resources serving load in California are not accounted for, as thermal resources may actually be dispatched to serve California load.
- Because the GHG costs aren't accurately captured, it results in the wrong dispatch and incorrect GHG accounting.
- As the volume of low-carbon resources that opt-in to serving California load increases, so too does the likelihood that a low carbon resource would be deemed the marginal GHG resource by CAISO's incorrect GHG accounting method, which could artificially lower the GHG portion of EIM LMPs.

PGP is concerned about the impacts to BPA and BPA's customers of BPA opting to sell directly into California via the EIM with CAISO's current EIM GHG market design. For instance, an increase in BPA's carbon emissions factor reduces the value of the FCRPS for sales into the California market for future years and may also make it more difficult for BPA and its customers to comply with existing and/or forthcoming state regulatory requirements tied to carbon emissions or "clean" energy.

PGP requests BPA thoroughly explore and vet the full impacts and potential unintended consequences to BPA and BPA's customers of selling directly into California given CAISO's current EIM GHG market design. The assessment should include the costs and benefits associated with selling directly into California, considering the increase in hydro due to BPA's participation in the EIM making it more likely for zero/low carbon resources to be the marginal GHG resource serving California. The assessment should also examine the impact to BPA's ACS emissions factor and the increase in costs to both BPA and its customers.

### **III. Conclusion**

PGP believes the summarization of issues and discussions to date in BPA's Letter to the Region demonstrates BPA's due diligence in evaluating the substantive issues and high-level policy considerations discussed up to this point. PGP greatly appreciate BPA's transparency and level of engagement with customers throughout its decision process for potentially joining the EIM. As previously mentioned, we generally support BPA's policy proposals and request BPA's commitment to fully study the impacts of BPA participating in the EIM with direct deliveries into California prior to selecting this option.

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