



WESTERN GOVERNORS' ASSOCIATION

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May 1, 2009

The Honorable Jeff Bingaman, Chairman
Senate Energy & Natural Resources Committee
304 Dirksen Senate Building
Washington, DC 20510

Dear Senator Bingaman:

On behalf of the Western Governors' Association, we urge the federal government to take constructive action that will accelerate the expansion of the electrical grid. Taking this action will enable the development of transmission lines for low-carbon electricity generation to meet national energy objectives and help stimulate economic activity at the time of the nation's serious economic slowdown. In November last year, we conveyed our views on the critical elements of national energy policy to then-President Elect Obama. In January, we conveyed our views to Congressional leadership on the appropriate federal role in enabling the development of transmission for geographically-constrained, low carbon generation. Copies of both letters are attached.

Bills introduced recently in Congress are aimed at reforming transmission development processes and highlight the urgent need to fill the vacuum created by the absence of a comprehensive federal energy plan. The adoption by the President and Congress of clear federal energy goals will remove the uncertainties public and private utilities now face in making generation choices and will help create the demand for new transmission lines to access areas of low-carbon electrical generation for existing and emerging markets. To be beneficial, any expansion of the federal role in transmission development must be explicitly linked to the need to achieve the clearly articulated national energy goals that the President and Congress adopt as the nation's leaders.

In the West, there are an unprecedented number of major proposed transmission expansion projects to move geographically constrained, low-carbon generation to load centers. These projects are sponsored by utilities, as well as independent transmission companies, and represent billions of dollars of potential private investment that can be leveraged by appropriate transmission plans and federal capital dedicated to clean energy development, including loan guarantees and other incentives.

In the West, the first step by the federal government should be a focus on and commitment to expediting these major proposed transmission projects. We believe the Administration and Congress should make a conscious effort to develop, in coordination with the WGA, a transmission road map to a new energy future in a manner that stimulates the rapid deployment of proposed projects and avoids creating new impediments that might delay these projects.

Such rapid deployment will not only lead to an acceleration of renewable energy delivery as part of meeting the challenge of global climate change, but will also provide, through the billions of construction dollars, a significant stimulus to the Western economy that will help move our nation from the economic doldrums to a growing economy.

Federal transmission legislation needs to include clear national energy goals that will reduce uncertainties for utilities and create the market demand necessary to enable cost-effective transmission projects to move forward. Assuming clearly articulated national goals are in place, Western Governors offer the following specific recommendations regarding the federal government's role in transmission development.

Transmission Planning

Western Governors support the development of interconnection-wide transmission plans. If the Federal Energy Regulatory Commission is given the authority to approve such plans, Congress needs to set explicit criteria by which the Commission evaluates these plans. At a minimum, statutory criteria should require that Governors within an interconnection approve electricity future scenarios to be studied and approve interconnection-wide plans corresponding to the future scenarios. For plans to be meaningful, legislation should require that federal agency actions related to the development of transmission comport with Governor-approved interconnection-wide transmission plans. These actions include FERC approval of incentives for transmission investments consistent with Governor-approved plans, designation of energy corridors across federal lands, prioritizing federal agency processing of applications for transmission rights-of-way, and the allocation of federal financial support for transmission.

As the WGA Western Renewable Energy Zone (WREZ) project is finding, there is also an urgent need to improve the understanding of the impacts of transmission and renewable generation development on wildlife values. The federal government has an important role to play in funding, helping improve the quality of information on wildlife impacts and avoiding or mitigating those impacts.

Financing Transmission

As stated in our January 27 letter to Congress, the federal government should play a major role in helping finance the "right sizing" of transmission to areas with large quantities of

geographically constrained, low-carbon energy resources. With clear national energy policies in place, utility assessments of resource options will provide strong market signals on where new transmission is needed and viable core transmission projects will emerge. However, only the federal government can assure that new transmission to such areas will be adequately sized to capture the significant economies of scale in transmission development and avoid the unnecessary environmental impacts that will result if the initial lines constructed to such areas are too small thereby requiring more lines to the same areas as demand increases. Only the federal government has the capability to invest to preserve the option to rapidly expand transfer capacity from areas with large quantities of geographically-constrained, low-carbon generation. Federal legislation should accept and address this central federal responsibility.

Transmission Permitting

We see little benefit in FERC pre-empting state transmission line permitting processes. The major hurdle for permitting transmission in the West has been securing permits from federal agencies. This effort has been the most dominant time-consuming element of transmission development. Efficient and expeditious processing of permit applications for transmission lines across federal lands needs to be a priority with federal land management agencies. Even where federal land management agencies have made processing right-of way permits a priority, the implementation of federal law has resulted in lengthy and inflexible federal permitting processes. Enabling FERC to pre-empt state siting processes will not fix the underlying problem of untimely federal permitting decisions. If Congress wants to reform transmission permitting processes, we respectfully request that it:

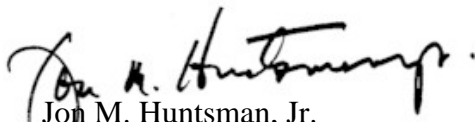
- Direct that the timely processing of transmission right-of-way applications become a priority activity for federal agencies;
- Re-examine requirements in federal law that increase permitting time without adding value, make it difficult to rapidly accommodate project modifications during the permit review process, and allow preservation of rights-of-way for rapid future expansion;
- Prior to FERC exercising any “backstop” pre-emption of state transmission siting laws, require that the Commission find the transmission line:
 - is needed to meet national carbon and renewable generation requirements;
 - comports with an interconnection-wide transmission plan;
 - is “right sized” to meet long-term needs for geographically constrained, low-carbon generation;
 - is the lowest cost option to meet long-term needs; and
 - that the state has failed to make a decision within a set statutory period.
- Require that the data identified in the WREZ process be used when evaluating and siting transmission corridors;


The plethora of proposed transmission projects in the West is strong evidence of the willingness of the private sector to build transmission. However, capitalizing on this opportunity to make significant progress in meeting the goals of the President and the West is hampered by:

- the lack of a federal energy plan that removes uncertainty and creates demand for the generation these projects would carry;
- a failure to recognize the essential role the federal government must play to “right size” these projects to meet long-term national energy and environmental goals; and
- a lengthy and inflexible federal agency permitting process.

We urge the federal government to create a comprehensive national energy plan and take constructive actions along the lines of this letter to accelerate the expansion of the electrical grid.

Sincerely,


Jon M. Huntsman, Jr.
Governor of Utah
Chairman, WGA


Brian Schweitzer
Governor of Montana
Vice Chairman, WGA

Attachments:

November 2008 letter to President-Elect Obama

January 2009 letter to Congress

cc: The Honorable Nancy Pelosi
The Honorable Harry Reid
The Honorable John Boehner
The Honorable Mitch McConnell
The Honorable Henry Waxman
The Honorable Edward Markey
The Honorable George Voinovich
The Honorable Ben Nelson



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November 20, 2008

The Honorable Barack Obama
Obama for America
P.O. Box 8102
Chicago, IL 60680

Dear President-elect Obama:

Western Governors are very concerned that during our nation's deepening energy crisis, the United States lacks an effective long-term energy policy. As you prepare to take office, we urge you not to delay in exercising the leadership necessary to ensure swift adoption and implementation of an energy plan that will provide affordable and clean energy to sustain our economy, stimulate greater energy efficiency, strengthen our energy security and independence, and reduce greenhouse gas emissions.

We believe that the United States has the ability to be the world leader in developing and implementing the innovative technologies that will be necessary to meet our energy challenge. However, the scale of the effort that will be required is enormous. Unless we make substantial investments in energy efficiency and other systemic changes, the Energy Information Administration projects that by 2030 U.S. demand for petroleum and other liquid fuels will increase by 10% while global demand will increase by 30%. In the same time period, U.S. demand for electricity is expected to increase by 20% while global demand would nearly double.

An enormous national commitment is necessary to transform our energy infrastructure and our economy as we shift to low-carbon-emission energy sources that include wind, solar, geothermal, biomass, hydro and other renewables, as well as fossil fuels with carbon capture and storage. We recognize that nuclear may be a part of the discussion of a national energy strategy. This letter does not speak to nuclear energy as WGA does not have relevant existing policy.

Transforming our energy infrastructure and economy will require new policies, incentives, market mechanisms and private-public partnerships. Most important, it will require a bipartisan partnership that achieves a broad consensus among political leaders and with the American people.

As a first step, we must promote more efficient use of energy in all of its forms. This includes: (1) manufacturing more fuel-efficient vehicles and enhancing our public transportation systems, (2) wide-scale adoption

of regulatory structures that reward those utilities achieving reduced energy usage among their customers, and (3) the design and manufacture of more energy efficient consumer goods.

The United States faces a very serious policy and technological challenge in increasing energy security, while simultaneously reducing greenhouse gas emissions and maintaining energy expenditures at a reasonable fraction of national GDP. The challenge must be met decisively with policies that represent the best environmental and economic interests of our nation.

Western Governors recommend the following goals, principles and immediate actions as the foundation for a National Energy Policy:

Energy Policy Goals

- Promote a more efficient use of energy throughout the economy.
- Reduce greenhouse gas emissions on a scale necessary to contribute to climate stabilization.
- Maximize the economic development opportunities offered by clean energy.
- Ensure that energy costs are affordable for consumers and support a sustainable, growing economy.
- Increase the proportion of our energy supplies that come from domestic resources and friendly trading partners.
- Minimize adverse environmental impacts.

Energy Policy Principles

- Energy security is essential; both energy efficiency to reduce demand and a diversity of energy sources and technologies must be part of the solution.
- Climate change is happening, so we must reduce our greenhouse gas emissions immediately and adapt to changes that cannot be avoided.
- A clean energy economy should focus on economic prosperity, environmental sustainability and energy affordability.
- A National Energy Policy must consider that global and domestic energy demand and prices are increasing.
- Energy delivery infrastructure development and expansion are needed to avoid supply interruptions and promote increased development of and accessibility to renewable and other clean energy sources.
- Transportation energy and emissions should be addressed as a system, including vehicles, fuels and transportation demand.
- Energy development must be done in an environmentally responsible manner.
- A comprehensive national framework should include clear and measurable goals, an aggressive timeframe for implementation, and certainty in how solutions will be implemented.
- Substantial, long-term national commitment to investment in energy technology and infrastructure is needed, in the same way our nation made a commitment to put a man on the moon.

- Stable long-term policies are necessary to enable public and private investment in environmentally responsible energy research, development and immediate deployment.

While the solutions to our energy dilemma will take time to fully develop and implement, we believe that, with your leadership, our nation can set a course of action within the first 100 days of your new administration. We urge you to promptly:

1. Establish an aggressive and achievable national greenhouse gas emissions reduction goal that will put the United States on a path to contribute to global climate stabilization.
2. Propose a mandatory national system for reducing greenhouse gas emissions that makes maximum use of market-based mechanisms. Revenue raised should support the energy policy principles in this letter and not be used as a means of sustaining or expanding general governmental operations.
3. Aggressively pursue a national energy efficiency program to reduce existing and future energy demand and thereby reduce greenhouse gas emissions.
4. Establish an oil import reduction goal that strengthens energy security and independence. Since nearly 90% of oil is used for transportation, propose a plan that:
 - Brings more fuel efficient and near-zero emission vehicles into the market;
 - Increases the supply of domestically produced, low-carbon fuels;
 - Minimizes the economic and technological uncertainties inherent in deploying high efficiency vehicles and developing and using non-petroleum transportation fuels; and
 - Reduces vehicle miles travelled and increases mass movement of people and goods.
5. Create a substantial, long-term national public investment on the scale of tens of billions of dollars annually, and encourage at least the same investment from the private sector, to support the kind of basic and applied research and deployment of clean energy technology and infrastructure that will result in:
 - Near-zero greenhouse gas emissions from new coal-fired electricity generation in 10 years and from existing generation no later than 2030;
 - Dramatically increased energy from wind, solar, geothermal, hydro and biomass resources;
 - Expansion and upgrade of the electricity transmission grid and storage capabilities;
 - Advanced vehicle and battery technologies and alternative transportation fuels; and
 - Next generation energy efficiency technologies and practices.

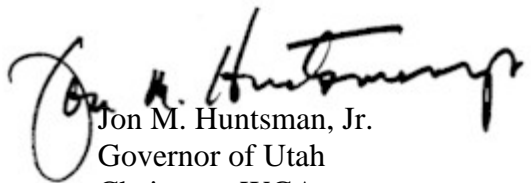
6. Ensure affordability for lower income energy consumers through energy efficiency and cost assistance programs.
7. Provide for workforce development and clean energy jobs, adaptation to climate change impacts, reduced consumer impacts, particularly for low-income consumers, and transition assistance to industries.

While the first 100 days are critical, these actions only represent the first steps. Within the next year, a comprehensive energy plan must be enacted that will set the direction of this nation for the next 50 years. This plan, though adjustable over time, must establish measurable goals, strategies, milestones and funding to ensure that we are moving towards affordable and environmentally responsible energy security and independence.

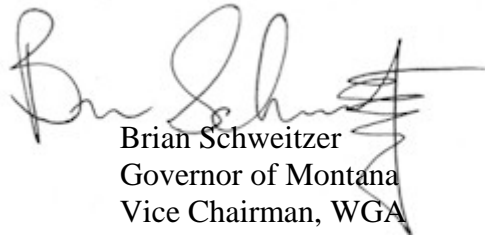
We must not repeat the mistakes of the past. We must have the collective political will and resolve to create and implement a long-term comprehensive energy policy despite short-term political and market fluctuations. The future of our nation depends upon it.

The Western Governors stand united and ready to work with your administration to develop and implement a strong National Energy Policy.

Sincerely,



Jon M. Huntsman, Jr.
Governor of Utah
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January 27, 2009

The Honorable Nancy Pelosi
Speaker, House of Representatives
H-232
Washington, DC 20515

The Honorable Harry Reid
Senate Majority Leader
S-221
Washington, DC 20510

The Honorable John Boehner
House Minority Leader
H-204 The Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader
S-230
Washington, DC 20510

Dear Speaker Pelosi, Majority Leader Reid, Minority Leader Boehner and
Minority Leader McConnell:

There is an urgent need to preserve the capability to transmit large amounts of geographically constrained, low-carbon electricity generation to distant population centers. Geographically constrained resources, such as wind, solar and geothermal, cannot be moved to preferred locations on the transmission system. While private industry and the states will be heavily involved with planning for transmission expansion, it would be most effective to do it in partnership with the federal government.

The efforts of Western Governors and others over the past eight years have spurred an unprecedented number of major, long-distance transmission expansion proposals. Most of these transmission proposals would tap the very large and geographically constrained wind, solar and geothermal resources of the West. We are concerned, however, that a traditional approach to investment and siting will result in lines that are too small to move substantial amounts of power generated from geographically constrained, low-carbon resources. In fact, there are already proposals that have reached a point where siting and investment decisions will lock in the characteristics of the project at a level almost certainly insufficient for the long-term. This is of particular concern as we face a future shaped by federal standards regarding renewable generation and climate change.

The federal government should help ensure that near-term projects are adequately sized to meet long-term needs and options are preserved to correctly size transmission projects in the future. Appropriate and timely action by the federal government will help projects capture economies of scale in building transmission and avoid environmental impacts from the construction of multiple lines to the same area. Once a transmission line is constructed, it is very difficult and expensive to increase the capacity of that line.

We believe the federal government should take the following actions now:

- Enact legislation to fund the upsizing of *near-term* transmission projects proposed to serve large geographically constrained, low-carbon resource areas.
- Enact legislation to preserve the ability to expand, to their maximum technical capabilities, *other proposed* projects to large geographically constrained, low-carbon resource areas.
- Increase the borrowing authority and authorization for federal power marketing administrations for transmission construction to move geographically constrained, low-carbon generation.
- Provide that interest on bonds issued by or on behalf of states or local governments to finance transmission facilities in furtherance of developing geographically constrained, low-carbon resources is exempt from federal income tax;
- Redirect the implementation of Sections 1221 and 368 of the Energy Policy Act of 2005 to focus on expedited cooperative actions with states to preserve transmission corridors and ensure the timely siting and permitting of large transmission lines to move geographically constrained, low-carbon generation.

In the West, there are major transmission projects to areas rich in geographically constrained, low-carbon resources that have been evaluated assuming they will carry large amounts of power. However, project sponsors are having difficulty justifying these high-capacity lines because the focus of regulators is generally on meeting the immediate, foreseeable needs of their customers. Public utility commissions are frequently limited to judging the prudence of a proposed project based on the foreseeable benefits to the company's ratepayers. It is difficult to justify the additional cost to a company's ratepayers of upsizing a line to meet long-term national renewable and climate-change goals, especially if those goals are not yet operational. Additionally, in the current economic climate there are new difficulties in securing financing for transmission to meet long-term needs.

Unless the federal government provides the financial assistance to upsize these projects, the lines will be built at a lower voltage. This means that limited transmission corridors will be consumed by undersized lines and the economies of scale in transmission construction will be lost. When demand for geographically constrained, low-carbon energy within an area grows, new lines will almost certainly be proposed to that same area, resulting in new environmental impacts, potential land-owner opposition and regulatory delays. State action alone cannot resolve this conundrum.

The Western Governors' Association (WGA) proposes that the federal government pay for the incremental cost of building higher capacity lines to geographically constrained, low-carbon resource areas where we know future demand for transfer capacity will increase. In return, the federal government would hold the rights to the newly created capacity. This incremental capacity would be sold as the demand for transmission capacity from the renewable

resource area increases. The proceeds from the sale of the incremental capacity would be used to pay back the federal investment.

In the longer term, there is a need to preserve the capability to increase transfer capacity in transmission corridors from areas with large amounts of geographically constrained, low-carbon resources. To achieve this, the federal government should pay the relatively small cost of acquiring wider rights-of-way and transmission towers capable of handling additional transmission circuits in the future. Project sponsors would pay the cost of the underlying project. When demand for additional transfers of low-carbon generation materializes, companies can build out the remaining capacity on the project and pay back the federal government for its investment to preserve the option to expand the line.

The federal government can help meet the need to move electricity generated from geographically constrained, low-carbon sources by:

- fostering long-term regional transmission planning and using the results of such planning in prioritizing the allocation of federal financial support for transmission;
- supporting state efforts to define renewable energy zones and the transmission needed from those zones;
- refocusing the designation of energy corridors on federal lands to those transmission corridors that will allow us to tap areas with large amounts of geographically constrained, low-carbon resources; and
- redefining the processes for designating National Interest Electric Transmission Corridors and for pre-empting states in permitting projects within such corridors by focusing on interstate transmission needed to move geographically constrained, low-carbon generation.

Our proposal relies on market participants, rather than federal agencies, to determine where new transmission is needed to access geographically constrained, low-carbon generation. The federal role should be limited to upsizing lines that are otherwise viable investments. The federal government should be encouraged to partner with states rather than run roughshod over state transmission siting processes. Federal backstop siting authority should be limited and targeted only to interstate transmission needed to meet national renewable energy and climate change goals in those cases where the states are not already doing so.

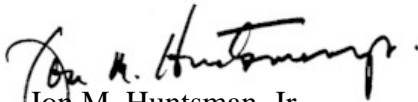
In the West, the foundation has been laid for the development of transmission necessary to tap the region's geographically constrained, low-carbon resources. FERC Order 890 helped launch robust regional transmission expansion planning. State policies on Renewable Portfolio Standards and greenhouse gas emissions have refocused the generation acquisition plans of load-serving entities. WGA's Western Renewable Energy Zones (WREZ) project and many effective state REZ projects are providing the necessary information and tools that enable load-serving entities, energy policy-makers and regulators to better understand their resource options. This

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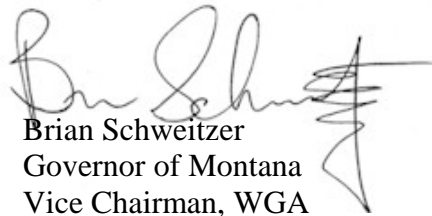
foundation will be extremely valuable in meeting future federal goals related to renewable energy and climate change. The additional actions we are proposing will build on this foundation.

Western states believe the type of partnership we have outlined in this letter and in WGA Policy Resolutions 08-8 and 08-9 will create the most expeditious path toward building the transmission needed to meet state and national goals related to renewable energy and climate change. We look forward to working with the Administration and Congress on this urgent issue.

Sincerely,



Jon M. Huntsman, Jr.
Governor of Utah
Chairman, WGA



Brian Schweitzer
Governor of Montana
Vice Chairman, WGA

cc: The Honorable Barack Obama