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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.

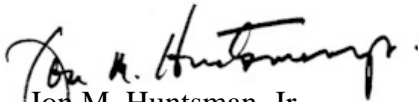
In the West, the foundation has been laid for the development of transmission necessary to tap the region's geographically constrained, low-carbon resources. FERC Order 890 helped launch robust regional transmission expansion planning. State policies on Renewable Portfolio Standards and greenhouse gas 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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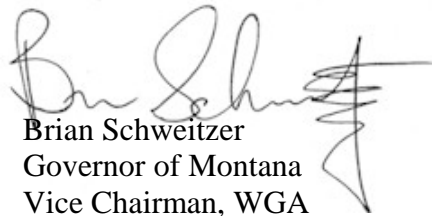
foundation will be extremely valuable in meeting future federal goals related to renewable energy and climate change. The additional actions we are proposing will build on this foundation.

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