

FROM SENATOR BINGAMAN

1. Does the Western Governors' Alliance have any concerns with the Renewable Fuel Standard as passed in the Energy Independence and Security Act of 2007?

While WGA does not have specific policy on the Renewable Fuel Standard, on April 17, 2008, we sent a letter to the Senate Committee on Energy and Natural Resources conveying our request to revisit the definition of renewable biomass in the Energy Independence and Security Act of 2007. The letter noted the "tremendous wildfire and forest health problems that the West faces" and requested that the definition of renewable biomass be modified to include biomass from hazardous fuels reductions on federal lands. WGA believes that this modification will help us to reduce the threat of wildfire while diversifying our energy sources.

2. Do you anticipate that the Western Governors Association will recommend that the western states work with CCS early mover project stakeholders to expedite the permitting process for long-term CO₂ storage and/or offer indemnification of the CO₂ storage sites (by the states where the storage is occurring)?

As the Western governors indicated in their letter to President Barack Obama, quickly moving to establish a national greenhouse gas emissions reduction goal that contributes to global climate stabilization is critically important. The governors also noted the need to invest in research and technology 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. We firmly recognize that we will not be able to achieve either of these objectives without an effective regulatory program for safely and permanently sequestering carbon. The Western Governors support the work of the Regional Carbon Sequestration Partnerships, but believe they have not moved quickly enough to complete the kind of testing that will make carbon sequestration a viable regulatory option. We strongly support increased funding for CCS demonstration projects so that we can craft effective national legislation on the long term storage of carbon dioxide. We believe that in the absence of national legislation, it will be left to the individual states to determine rules to govern CCS, expedite permits or deal with liability concerns.

3. In the stimulus package passed earlier in 2008 by the Congress, there were tax incentives developed to entice CCS early mover projects. Were these tax incentives useful for projects occurring in your state(s) or would you have any other suggestions for funding assistance to early movers?

WGA is unaware of specific projects that had increased viability as a result of tax incentives in the stimulus package. We would emphasize that it is critical to craft national legislation for the regulation of CCS. In general we support incentives that induce more rapid application of CCS; however, it must be done within the context of a regulatory structure that ensures permanent, safe storage of carbon dioxide.

FROM SENATOR MURKOWSKI

1. Our reliance upon foreign nations for a great deal of our energy needs is a problem we must solve. Our energy policy and our economy are inextricably linked. While lower gas prices are providing some relief, it will only be temporary unless we can find a long-term solution. Moreover, those low oil prices brought about by recession, along with continued difficulty in the credit markets, now threaten to delay or halt a wide range of renewable energy projects. I believe this is a clear indication of the need to increase domestic oil and gas production. Do you agree that side-by-side with our efforts to increase conservation and develop new energy sources, we also have to produce more secure sources of domestic oil and gas? If so, where should we be producing?

The Western Governors encourage adopting policy strategies, such as the proposed Alaska natural gas pipeline, that will stabilize oil and natural gas prices to the benefit of the consumer. This includes considering responsible way to increase domestic production. Concerns for security of supply, adequacy of the resource and protection of the environment require that we adopt policies that encourage energy efficiency and alternative energy sources with an emphasis on increasing incentives for domestic, renewable resources and conservation. We should focus on domestic production sites that provide development with a minimum of environmental impact.

2. There are very significant energy reserves on lands owned by Alaska Natives and American Indian tribes, who want to develop the potential of these reserves. Do you agree that our country's energy security would be enhanced if these resources were to be developed?

WGA recognizes the sovereign status of Native American tribes and has consistently worked with the tribes to explore regional considerations on energy and environmental issues. We will continue to offer our assistance as the tribes consider development of their energy resources. As we noted in the answer to 1. above, we support development of domestic resources in an environmentally responsible way.

**Response to Questions from U.S. Senate Environment and Natural Resources
Committee Dianne R. Nielson on behalf of the Western Governors' Association
January 30, 2009**

Page 3

3. Last year, the price of oil rose dramatically before declining to its lowest level since 2004. In light of this volatility, would you change or alter any of the recommendations included in your reports? Would you make any adjustments if today's relatively low oil prices persist?

Many economists believe the current low prices are not a result of long-term supply gluts, but a reflection of the serious downturn in the global economy. As such it would be dangerous to assume they will persist beyond economic recovery. We have been consistent in our call for a comprehensive national energy policy, noting that it is essential to our domestic economic and environmental security. WGA's Transportation Fuels for the Future notes that the boom-bust cycle in oil prices and investment in alternative fuels has led to complacency in forming a national policy for increasing our supply of domestically produced fuels. We would not change our report recommendations at this time, and we would continue to advocate for the programs cited in our letter to the new President.

4. Washington Post columnist Charles Krauthammer wrote an article last week in support of what he calls a "net zero gas tax." He calls for a \$1 per gallon increase in the federal gas tax, which would be accompanied by a \$14 per week reduction in the payroll tax. According to Krauthammer, such a shift would reduce global oil prices and domestic greenhouse gas emissions by restraining gasoline consumption. It is also described as revenue neutral. What are your thoughts on this proposal, particularly as an alternative to a tax on carbon, a cap-and-trade system, and/or higher CAFE standards?

The WGA has not sufficiently analyzed this proposal to offer a consensus opinion.

5. Alternative energy companies have an incredibly difficult time securing the financing necessary to become viable and productive. DOE's Loan Guarantee program, established by the 2005 Energy Policy Act, has proven woefully inadequate for addressing this problem thus far.

Do you believe that there have been short-comings in the way that program has been administered? If so, what would you have done differently? Do you believe that loan guarantees are the most effective financial instrument for advancing private-sector, clean energy technology ventures?

Loan guarantees have been successfully applied in many programs, and WGA believes that they could effectively be a part of a national energy strategy if constructed and managed correctly. We would be willing to work with DOE to help fix any short-comings in the current program, and to develop better applications for the future.

6. Several pieces of legislation were introduced last Congress to create a self-funding federal bank to assist start-up, clean energy companies. As envisioned by those bills, such an entity would be able to issue not only loan guarantees, but direct loans and insurance products as well. Additionally, this federal bank would, in some instances, be allowed to assume a financial stake in clean energy technology firms and issue publicly-traded stock. In the context of what has taken place at Fannie Mae and Freddie Mac, do you believe it is appropriate for the federal government to back start-up, clean energy technology firms in this manner?

The WGA believes that such a program, if managed properly, could provide significant stimulus to clean energy. According to renewable energy developers, getting financial incentives will allow development to proliferate along a much faster track than would be possible otherwise. Because the WGA believes we need to move more quickly to achieve energy security and reduce carbon emissions, programs that will enable that must be a part of our strategy.

7. We all know that coal supplies 50% of our nation's electricity supply. The Chamber of Commerce's Institute for 21st Century Energy testified that the U.S. has enough coal to last for well over 200 years. What role do you see for coal in the nation's energy mix going forward? Compared to commercial-scale carbon capture and sequestration, how important do you believe incremental efficiency improvements within the existing coal fleet are?

The Western Governors agree that coal-fired facilities that more efficiently use energy make sense. We believe every clean energy source should be considered as a means of meeting future energy demand. However, the primary policy of the WGA with respect to coal is to achieve near-zero emissions. In their letter to the new President, the governors stated the need to invest in research and technology 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. While short-term improvements in the operating efficiency of existing plants will have an impact on emissions, the governors believe that the solution is to have 100% of the coal burning electrical generation facilities have near-zero emissions within the next 20 years.

8. It would seem that more output from the same amount of fuel input is a win-win for the environment, the consumer, and the success of companies that operate electric power generation facilities across the country. And yet, these efficiency improvements are consistently not undertaken. What, specifically, gets in the way of incremental efficiency improvements at power generation plants in the existing fleet? What can this Congress do to remedy such a shortcoming?

The WGA agrees that any plant improvements that result in lower emissions of air pollutants or greenhouse gases are desirable. It is often the case that these "efficiency improvements" actually represent significant changes to operating permits under current EPA rules, thus requiring facilities to undergo permit modification procedures. While WGA believes the states and EPA should continue to be responsible for determining facility permitting rules, we would conceptually support streamlined processes recognizing the value of plant modifications that result in lower emissions. We would further support asking EPA to determine the best way to streamline processes without compromising the critical function of the permitting programs.

9. Are you concerned about any unintended geopolitical consequences associated with a transition away from oil, given the producing nations that rely so heavily on revenue from the sale of their oil and other energy commodities to the United States?

WGA has not specifically analyzed this issue. In their letter to President Obama, WGA asked that the United States "Establish an oil import reduction goal that strengthens energy security and independence." We believe that by creating that goal, oil producing nations will have sufficient notice of our intent, and time to adjust accordingly. Regardless, considering all major consequences, whether they are environmental, economic, or geopolitical must be part of the development of a national energy policy.

10. Utah is blessed with significant energy potential, some of which is located on Indian reservations. I understand that the Northwestern Band of Shoshone Nation is currently constructing a 100-megawatt geothermal power plant to deliver renewable energy to Riverside, California, and that the Northern Ute Tribe is currently in the planning stages of a large-scale crude-oil refinery on its reservation lands. Has there been any dialogue between the Governor's office and these tribes relative to these projects to develop their energy potential? Is there support in the State of Utah for these projects?

With respect to the Utah-specific question, there have been discussions between tribal representatives and the Governor's office regarding both of the energy projects. In general, governors regularly have government to government discussions with the tribes on environmental, energy, and other issues. The Western Governors support efforts by the tribes to responsibly develop their natural resources. We have also partnered with the tribes on issues of overall importance to the West, most significantly the Grand Canyon Visibility Transport Commission and the Western Regional Air Partnership.

11. The Center for American Progress has listed a national Renewable Electricity Standard of 25 percent by 2025 as one of its top ten energy and environmental

priorities for the 111th Congress. Do you believe the members of the WGA would be able to comply with that standard if it was enacted into law? Can you describe the costs you would expect states to face, and the potential impact such a standard could have on the reliability of the electrical grid?

The West is blessed with enormous renewable resource potential. If we can upgrade and expand the existing transmission grid, improve procedures for integrating variable sources like wind and solar, and continue to develop technologies that will reduce the price of energy from renewable sources, it is certainly technologically and economically feasible to achieve 25% renewables by 2025. We believe the costs of upgrading and expanding the transmission grid will be substantial, but that in partnership with the federal government achievable. This upgrade of the transmission grid can also be done to accommodate higher levels of renewables and maintain high reliability. However, even given current technologies, most grid experts believe it is possible to maintain a reliable grid at 25% renewables. One issue of concern to the Western Governors is federal preemption. WGA would recommend that FERC use agency discretion to provide that prior to preempting a state siting law in a designated NIETC, the Federal Energy Regulatory Commission must find that the proposed transmission project is needed to transport location-constrained, low-carbon generation and the line is properly sized to capture economies of scale and minimize environmental impacts.

FROM SENATOR SESSIONS

1. It appears that there will be a sizable economic stimulus package enacted by Congress shortly. That package will likely include funding for numerous environmental projects. Considering that most thoughtful observers believe that in addition to a short term stimulus, projects should also have long term value for the country. Would you please list 5 or more projects that you believe would be particularly cost effective in the long term for our nation?

I would also request that you please state the amount that is necessary to be spent on the projects that you have listed above.

Based on the Western Governors letter to President Obama and adopted WGA policy, the following would be high priority projects for stimulus funding:

- *Upgrade of the existing transmission grid and construction of new transmission from high quality renewable resource areas to population centers*
- *Advanced vehicle and battery technologies, and clean transportation fuels research*

- *Investments in our forests will create jobs in struggling rural areas and reduce the average \$1 billion the federal government spends every year fighting wildfires. The nation's forests have been devastated by disease, overcrowding and are even beginning to show stress due to drought and climate change. Investments in forests create jobs for hazardous fuels reduction projects (the removed small diameter materials during thinning can be used as biomass for energy production), planting trees to restore fire and insect damaged forests, thin overstocked forests to protect communities and watersheds, upgrade or decommission roads, and improve trails are needed. These funds could be channeled through Community Wildfire Protection Plans and federal agencies.*
- *Research, development and deployment of next generation energy efficiency technologies*
- *Research for improving predictive capabilities for climate change and related impacts, and for analysis of all alternatives regarding the reduction and mitigation of greenhouse gases, adaptation policies and other global climate change measures.*
- *Research, development and deployment of advanced coal plants with near-zero emissions*

The WGA has suggested that at least \$15 billion per year for the next ten years needs to be available for research and construction, and that this should be matched by an equivalent amount of private money.

ADDITIONAL RESPONSE TO QUESTION ASKED BY CHAIRMAN BINGAMAN

At the January 8, 2009 hearing, Chairman Bingaman asked whether the Federal Energy Regulatory Commission should be granted the same authority to permit electric transmission lines as it has to permit natural gas pipelines. As I noted in my response, what is needed to enable the construction of needed transmission is a partnership between states and the federal government. There are eight steps the federal government should take to build that partnership

1. Enact legislation authorizing the Secretary of Energy to pay for the incremental costs of optimizing the size of new electric transmission lines to reach areas with large amounts of location-constrained, low-carbon generation.
 - In exchange for financing the incremental cost of a new line, the federal government would receive the increased transfer capacity. The government could then sell the incremental capacity as demand increases.
 - This will capture economies of scale in transmission construction and reduce environmental impacts by eliminating the need for future lines to the same area.

**Response to Questions from U.S. Senate Environment and Natural Resources
Committee Dianne R. Nielson on behalf of the Western Governors' Association
January 30, 2009**

Page 8

2. Redirect the implementation of Section 368 of the Energy Policy Act of 2005, which requires the federal government to establish energy corridors over lands managed by the Department of Energy, Bureau of Land Management, Forest Service, and Department of Defense. The focus should be on the designation of energy corridors across federal land to facilitate transmission reaching location-constrained, low-carbon resource areas. The results of the WGA Western Renewable Energy Zones project should be used as a basis for designating corridors in the Western Interconnection.
3. Revise agency implementation of Section 1221 of the Energy Policy Act of 2005 to:
 - Limit the designation of National Interest Electric Transmission Corridors by DOE to those corridors that are necessary for moving large amounts of location-constrained, low-carbon generation.
 - Require DOE to conduct a more rigorous analysis of transmission congestion and whether corridor designations are needed more than was done in the 2006 DOE congestion study. The analysis should consider future congestion that would result from the deployment of location-constrained, low carbon generation.
 - Consistent with the need to coordinated with state permitting processes, require federal permitting agencies to process within one year permits for proposed transmission lines carrying large amounts of location-constrained, low-carbon generation.
 - Require agencies to consider the results of the WGA Western Renewable Energy Zones project when designating National Interest Electric Transmission Corridors in the Western Interconnection.
4. Use agency discretion to provide that prior to preempting a state siting law in a designated NIETC, the Federal Energy Regulatory Commission must find that the proposed transmission project is needed to transport location-constrained, low-carbon generation and the line is properly sized to capture economies of scale and minimize environmental impacts.
5. Use agency discretion to refocus incentives for transmission investment granted by the FERC to proposed projects that carry large amounts of location-constrained, low-carbon generation and are optimally sized over the long-term.
6. Use agency discretion under FERC Order 890, to require transmission owners, in cooperation with states, to develop interconnection-wide transmission expansion plans to move large amounts of low-carbon electricity generation. In granting incentive rates of return on transmission investments, FERC should give priority to projects that comport with such plans and carry large amounts of low-carbon generation.

**Response to Questions from U.S. Senate Environment and Natural Resources
Committee Dianne R. Nielson on behalf of the Western Governors' Association
January 30, 2009**

Page 9

7. Continue the DOE's support for the WGA Western Renewable Energy Zones project and determine if this approach should be applied in the Eastern Interconnection.
8. Enact legislation to provide that income from bonds issued by state transmission infrastructure authorities is exempt from federal taxation.

[These 8 points are from the WGA Issue Brief for the Obama Administration title
"Expand Renewable Electricity Generation and Modernize the Grid."]