



WESTERN GOVERNORS' ASSOCIATION

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May 19, 2008

Dear Members of the Western Electric Industry Leaders Group:

We are writing in response to your open letter dated April 18, 2008 regarding our common energy future in the West. Western Governors share your views on the urgent need for collective action to ensure reliable electricity supplies while meeting existing and potential future policy objectives.

For the past seven years we have engaged in regional electricity issues and worked through the Western Governors' Association (WGA) to promote transmission expansion, develop clean and diversified energy resources, and ensure electric reliability. We will continue working together through the WGA to respond to the challenges facing the western electricity system.

Your April 18 letter outlines many of the challenges we face. Your companies do need to take action to meet these challenges. We solicit your support and participation in the following areas.

1. On June 30 at the WGA meeting in Jackson, Wyoming, Western Governors will explore the topic of transmission expansion to enable load-serving entities to acquire generation that meets state and federal policy objectives. We look forward to a conversation with our panel of industry experts: Jeff Sterba, Chairman, President and CEO of PNM Resources; David Sokol, Chairman of MidAmerican Energy Holdings Company; John Fielder, President of Southern California Edison; and Michael Niggli, COO of San Diego Gas & Electric Company. This is the beginning of a dialogue we plan to continue. The staff contact is Steve Ellenbecker, Wyoming Governor's Office (307.631.7127).
2. On May 28-29, the Western Governors' Association and the U.S. Department of Energy will launch a Western Renewable Energy Zone (WREZ) project to identify areas rich in renewable resources and the transmission that is needed to move that power to load-serving entities. This project is an outgrowth of the September 2007 WGA renewables and transmission summit in which several of you participated. We need your active support and commitment to make the WREZ project a success. The staff contact is Rich Halvey, WGA (303.623.9378).

3. WGA's energy affiliate, the Western Interstate Energy Board (WIEB) and its Committee on Regional Electric Power Cooperation, are exploring the value of an on-going forum that would include western load-serving entity resource planners. We see the need for better collaboration and information sharing among resource planners and their respective counterparts in state and provincial energy agencies and regulatory commissions. We urge your companies' resource planners to participate and help shape this effort. The staff contact is Doug Larson, WIEB (303.573.8910).
4. On June 15-18, the Western Conference of Public Service Commissioners is meeting in Whitefish, Montana. Western regulators will be discussing how to meet growing demand and renewable energy and carbon emission objectives. We urge the Western Electric Industry Leaders Group to participate in that discussion. The staff contact is Connie Jones, Montana Public Service Commission (406.444.6170).

Our perspective on energy is grounded and influenced by the Western Governors' Clean and Diversified Energy Initiative. In 2006, we issued a report that identified the resource potential and policy recommendations to attain three goals: adding 30,000 MW of clean and diversified energy resources by 2015; achieving a 20% increase in energy efficiency by 2020; and ensuring a reliable and secure transmission grid for the next 25 years. We welcome your participation to help us implement these goals and emerging new challenges in a carbon constrained world.

We concur that the challenges you identified are great and require close coordination between the western electric industry leaders and western state policy makers. Attached, for your information, is further background information on many of the other energy issues we are working on or following in the West. We look forward to working with you.

Sincerely,



Dave Freudenthal
Governor of Wyoming
Chairman, WGA



Jon M. Huntsman, Jr.
Governor of Utah
Vice-Chair, WGA

Attachment

Western Governors' Association Western Energy and Transmission Issues

Energy Efficiency and Conservation

The WGA Clean and Diversified Energy report found that implementing energy efficiency best practices could lead to enormous savings that would reduce the need for new generating facilities by 75 percent in 2020 and yield a net gain of \$53 billion for the WGA region. In July 2007, the WGA held a workshop on energy efficiency in buildings with expert stakeholders from building and energy industries, government, public interest groups and utilities. The WGA published a report in January 2008 with policy recommendations that seek to make the region a leader in energy efficiency by exceeding International Energy Conservation Codes (IECC) by at least 30 percent.

Technology Development

In October 2007, WGA held a workshop on near zero emission coal technologies to explore issues and consider opportunities to advance our recommendations in the Clean and Diversified Energy report. Western Governors will use the findings of this workshop to craft resolutions and encourage actions regarding the deployment of near zero emission technologies.

Earlier this year, WGA completed another stakeholder initiative on transportation fuels and released a report entitled Transportation Fuels for the Future. One of the findings of the report was that the West's electrical infrastructure has substantial unused off-peak capacity for overnight charging for a large fleet of plug-in hybrid electric vehicles (PHEVs). With future improvements in battery technology and appropriate incentives for off-peak pricing, fleet purchases, and other steps, PHEVs could become an important contributor to reducing the dependence on foreign oil and curtailing carbon emissions through collaboration of the transportation and electric sectors.

There are numerous other opportunities for technological innovation to create smart grid systems, reduce and manage demand, develop advanced storage systems, utilize the storage capacity of batteries in the fleet of PHEVs, and improve renewable energy technologies.

Integrating Renewables into a Reliable Power System

WestConnect and the National Renewable Energy Laboratory are engaged in a ground-breaking regional analysis of the integration of large amounts of wind and solar in Wyoming, Colorado, New Mexico, Arizona and Nevada. The study will examine the potential gains of coordinating operations of Balancing Authorities in a virtual consolidation to reduce the cost of integrating wind and solar over a broad area. A similar study could be done in the Northwest.

The ACE (area control error) diversity exchange program begun by utilities in the Northern Tier Transmission Group (NTTG) is another step that will help integrate variable wind and solar generation. Companies outside the NTTG footprint have joined the program.

With the support of Western Governors, the Western Electricity Coordinating Council (WECC) is implementing two new Reliability Centers to protect reliability throughout the Western Interconnection. All Balancing Authorities in the Western Interconnection are expected to provide real-time operating information to these centers. This will improve capacity to ensure reliable operation of the grid as more variable wind and solar generation is integrated.

Expanding the Transmission Grid

Since the western electricity crisis, Western Governors have vigorously supported the development of pro-active regional transmission expansion planning. They also supported the Federal Energy Regulatory Commission's transmission planning principles under Order 890. The Western Interconnection Regional Advisory Body (WIRAB) is working with the WECC to study expanding the transmission grid in a carbon constrained world with more renewable energy. There has been tremendous progress in transmission planning over the past seven years. In the face of large emerging challenges, such as carbon reduction goals, much more needs to be done.

Transmission planning is only one step on the road to building needed transmission. Construction of large transmission projects requires the collaboration of multiple companies and many state and federal agencies. In the past, transmission projects have been planned and built through voluntary actions. Some western states have created infrastructure authorities to facilitate new transmission investment and support renewable energy development. These entities can play an important role in financing and partnering with project developers and others to build new transmission and we encourage utilities to engage with these state authorities.

WGA's Western Renewable Energy Zone (WREZ) project will create a new framework for building transmission to renewable resource areas. The purpose of WREZ is to inform decision makers (LSEs, transmission providers, developers, state regulators) about the costs of renewable power, the transmission to move renewable power to consumers, and encourage partnerships in developing transmission projects. The WREZ project promotes a regional view of the potential for renewable resources and serves to counter steps that could balkanize transmission and the renewables markets. Over time, the WREZ process could pave the way towards interstate collaboration on permitting of multi-state transmission and facilitating steps to address cost allocation and cost recovery of new transmission.

Developing new transmission also requires the collaboration of state and federal permitting agencies. The Energy Policy Act of 2005 created new federal authority to designate corridors on public lands (Section 368) and on non-federal lands (Section 1221). The provisions for preemption of state siting laws and designation of corridors on federal lands hold the potential for unproductive federal interference in state and local land use decisions. More productive mechanisms are in place to assist siting, such as the 2002 Western Governors' Transmission Permitting Protocol and Section 1221(h) of the Energy Policy Act of 2005. Section 1221(h), which has not been adequately implemented, requires federal agencies, which are often the stumbling block to expeditious permitting decisions, to make timely decisions. Western Governors will continue to pursue opportunities for more efficient and coordinated action on transmission permitting.

Last year, WGA began the Wildlife Corridors Initiative to improve the knowledge of and management for migratory corridors and crucial habitat. This initiative is a proactive effort to identify sensitive areas and develop practices that would inform future decisions for siting transmission projects and potential energy resources.