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December 2, 2002

The Honorable Michael O. Leavitt
Governor of Utah
210 State Capitol
Salt Lake City, UT 84114

Dear Mike:

The Western governors have been engaged with the Administration and Congress on energy legislation for well over a year. We have been particularly concerned about the electricity title and its potentially negative effects on the Western Interconnection, which ties 11 of our states and parts of three others together into a common electric grid.

We expect the debate over the electricity title to resume early next year, and the region needs to be well prepared to engage in that debate and the longer-term struggle over implementation of electricity policy. Our experience over the past two years has shown that when Western governors have taken the initiative to engage Congress, the Federal Energy Regulatory Commission, and the Department of Energy on a sustained, substantive basis, we have been able to turn back intrusive federal policies and reshape federal decisions to meet the needs of the region.

As you know an energy bill was not enacted during the lame duck session. Therefore, we have a brief, post-election hiatus to assess the situation, review our options and plan for the new year. In addition, FERC jumped into the fray last year with its proposed Standard Market Design rule, a complicated proposal to create regional electricity markets, which many states believe would usurp part of a state's authority to regulate electricity. While FERC has extended the comment period on key elements of the SMD rule, such as market design in the Western Interconnection and state roles, we have only until January 10, 2003 to affect the outcome.

The debate has been vigorous and time consuming. The issues surrounding the regulation of electricity are complex; and, as we learned from California's experience, perverse consequences can arise from the best-intended decisions. We have been able to get a workable reliability provision into both the House and Senate bills, but we have been unable to influence provisions involving electricity market design in the legislation. The elections leave this matter up in the air. Therefore, it is prudent that we take steps to protect the interests of the region, including grid reliability, and expand our capability to implement Western solutions derived from the collaborative efforts of the states and Western industry.

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As the lead governors for energy issues, we recommend that the states in the Western Interconnection strengthen how we cooperate among ourselves and interact with the federal government and Congress. Throughout the electricity debate, we have relied on our staffs, our Public Utility Commissions and other public and private allies to advise us. The Committee on Regional Electric Power Cooperation (CREPC) has been particularly helpful. This voluntary committee of our PUCs and energy and facility siting advisors has provided important analysis and recommendations. These efforts have been coordinated by WGA and the Western Interstate Energy Board (WIEB). While this has been an effective way to engage Congress and stay abreast of the activities in Washington, D.C., our efforts have also illuminated some weaknesses that need to be shored up.

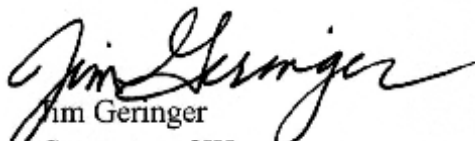
The weakness that concerns us is the lack of a more thorough and formal mechanism for the states in the Western Interconnection to manage interstate affairs and interact with FERC and the Administration on regulatory issues that affect the interstate grid. Given the complexity of these issues and the enormous consequences decisions will have on our economies and the well being of our citizens, we can no longer afford to deal with them on an ad hoc, voluntary manner. This will be particularly true if an SMD rule is adopted.

Our preference would be to strengthen the deliberations of a subset of state representatives within CREPC, including finding a stable, regional funding source to staff its operations, while ensuring accountability to governors. In this way, we would not be creating a new organization, but strengthening the body WGA, WIEB and the PUCs have come to rely on for advice and recommendations.

We have asked the staff at WGA and WIEB to analyze our recommendation, and they will be providing your staff council member with their analysis next week. We hope you will give this recommendation serious and favorable consideration at the Winter Meeting of WGA on December 6.

In the meantime, should you or your staff have questions or concerns, please contact Jim Souby or Doug Larson at 303-623-9378.

Sincerely,



Jim Geringer
Governor of Wyoming

Lead Governor for Energy



John A. Kitzhaber, M.D.
Governor of Oregon

Lead Governor for Energy

cc: Governor Frank Murkowski, Alaska
Governor Tauese Sunia, American Samoa
Governor Carl Gutierrez, Guam
Governor Linda Lingle, Hawaii
Governor Bill Graves, Kansas

Governor Mike Johanns, Nebraska
Governor John Hoeven, North Dakota
Governor William Janklow, South Dakota
Governor Rick Perry, Texas