



**Western Governors' Association
Policy Resolution 05-02**

June 14, 2005
Breckenridge, Colorado

Regional Electricity Policy Making

A. BACKGROUND

1. Western Governors have pursued policies for many years to build the capacity of the Western region to make decisions necessary to ensure affordable and reliable electricity supplies for the region's citizens and the regional economy. These policies are grounded in the beliefs that:
 - The Western electric power system is a highly integrated power system that requires the collaboration of many parties;
 - Successful operation of the regional power system is necessary to ensure affordable and reliable power supply to the region's citizens and economy;
 - Decisions about the regional power system are infused with the public interest, and the states and provinces reflect the public interest; and
 - States should continue to shape their energy future through cooperative state action. Federal, local and tribal governments should support such cooperative state efforts.
2. The faulty state of market design that contributed to the 2000-2001 Western electricity crisis and the widespread Western blackouts in 1996 illustrate the need to ensure sound practices are in place to ensure Western customers are provided energy in a fiscally responsible and reliable manner. Significant progress has been made in addressing the problems that contributed to those events.
3. Western Governors have:
 - Urged Congress to enact federal electric reliability legislation to provide a legal underpinning for enforceable regional electric reliability standards. The Governors have asked the Western Electricity Coordinating Council for a plan on how to implement such legislation in the Western Interconnection.
 - Supported the creation of a stop-gap Western Reliability Management System to improve compliance with regional reliability standards until federal legislation is enacted.
 - Supported the creation of the Western Electricity Coordinating Council as a means to ensure that regional reliability decisions reflect the public interest and advance the Governors' electricity goals.
 - Supported the development of cost-effective regional organizations that meet the region's transmission needs.

- Initiated effective regional coordination of state and sub-regional transmission planning processes that affect the entire region.
 - Supported the development of a grid-wide database to ensure the availability of information on loads, transmission, and generation to ensure the adequacy, efficiency and reliability of the grid.
 - Sought federal government support of state efforts to develop effective approaches to mitigate market power.
 - Developed the Western Governors' Transmission Permitting Protocol to coordinate reviews of proposed interstate transmission lines. Twelve governors, four federal agencies and the Province of Alberta have signed the Protocol.
 - Requested that the Western Electricity Coordinating Council and the Seams Steering Group-Western Interconnection, in collaboration with state and provincial agencies, develop assessments of the adequacy of the electric power system to meet demand and the adequacy of the natural gas system to provide fuel for natural gas-fired generation.
 - Adopted a Western states' energy policy roadmap (Resolution 03-19), adopted a resolution to ensure electric system reliability (Resolution 03-27) and launched an initiative to develop 30,000 MW of clean and diverse generation and improve energy efficiency by 20 percent (Resolution 04-14). These actions promote the development of new transmission and the implementation of tariffs and practices that will enable all energy resources, including the region's vast renewable resources, to provide diverse, reliable and affordable supplies for the region.
 - Supported federal and state efforts to improve Western air quality and dialogue regarding interstate air quality issues.
4. The Governors have taken these actions in the belief that decisions on the organization and operation of the Western power system are best made by those affected by such decisions.
 5. These actions have been taken in the recognition that successful organization and operation of the Western power system requires the collaboration of many parties, particularly the Western power industry, federal, state and local regulatory authorities, and Western states and Western Canadian provinces.
 6. Western Governors have explored how best to organize state participation in regional electricity decision-making.
 - a. In December 2002, Western Governors directed that the concept of a regional electricity decision-making mechanism be explored.
 - b. In June 2004, Western Governors accepted recommendations from the state/provincial Committee on Regional Electric Power Cooperation (CREPC) to enhance the capabilities of Western states and provinces to effectively participate in regional electric power decision-making and directed that a mechanism to finance such enhanced capabilities be developed. These recommendations assumed that robust industry processes would be in place in the Western

Interconnection to address regional reliability and commercial issues and that the states/provinces would be effective participants in the decision-making and operation of such processes.

- c. In December 2004, Western Governors directed the WGA staff, in consultation with the CREPC, to monitor and report on the status of the Western electric power industry's capacity to address regional electricity issues. The staff report found that the West's ability to ensure adequate and affordable supplies of electricity would be significantly improved with better information and greater regional coordination regarding the following important functions:
- Assessment of the adequacy of resources to meet the demand for electricity with an understanding that we must maintain individual states rights
 - Planning and expansion of the electric transmission system in a timely and cost-effective manner;
 - Enforcement of regional electric reliability standards;
 - Monitoring and oversight of transparent wholesale power markets to prevent abuses and assure commercial efficiency; and
 - Development of effective commercial practices in wholesale power markets.

The report also found that the Western states hold the ultimate authority and responsibility to ensure an affordable and reliable supply of electricity for their citizens. The ability of the Western states to fulfill this responsibility depends on effective industry processes to carry out the above-listed important regional functions. These processes may be executed within the context of existing or new industry institutions. The development and operation of such regional mechanisms will require the active participation of states, federal, tribal, local and provincial regulatory authorities and play a role in the long-term viability of the region's power needs.

Western Governors can play a vital role in ensuring the conduct of these important regional functions by:

- Using their 'bully pulpit' to encourage actions by Western industry participants to develop and operate processes that will ensure the region's ability to provide reliable and affordable electric power without undercutting individual state rights and responsibilities. Western Governors may want to consider adopting guidelines upon which they can gauge the progress toward developing effective industry processes to address interconnection-wide reliability issues and effective means for addressing commercial issues that impact the region as a whole.
- Agreeing on a plan to enable the states to have the capabilities to be effective partners in resolving regional reliability and commercial issues in the Western Interconnection.

B. GOVERNORS' POLICY STATEMENT

1. To provide a sustained source of revenue to enhance the capability of states and provinces in the Western Interconnection to effectively address regional electric power issues, Western Governors request that: (a) the Western Electricity Coordinating Council collect and pass through revenue from a voluntary, opt-in fee on all control area transactions; (b) additional sources of support be explored, as necessary; (c) public utility commissions in the Western Interconnection increase their support; and (d) the Western Interstate Energy Board continue its support. Such revenues shall be used to assist states and provinces to help resolve regional challenges in resource adequacy, transmission planning and expansion, reliability, the monitoring and oversight of transparent wholesale markets, efficient commercial practices, and transmission permitting. The Western Interstate Energy Board, whose members are appointed by and serve at the pleasure of the Governors, already operates as the technical energy arm of the Western Governors' Association, and is the appropriate organization through which to strengthen the ability of states to address regional electricity issues. The added cost to consumers of improving the states' ability to resolve regional challenges facing the electric industry is proposed to be approximately \$600,000 per year, with an average residential customer impact of less than \$.05 cents per year.

2. Western Governors urge the Western electric power industry to implement effective interconnection-wide policies and practices to ensure long-term viability for delivering power to Western customers.
 - a. Such process(es) should be supported by all participants in the Western power industry. Such process(es) should be capable of developing or coordinating, on an ongoing basis, solutions among the companies and states as needed to avoid practices that adversely impact the entire Western Interconnection. These processes should address:
 - i. *Resource adequacy* – Whether the region, under normal and extreme weather conditions, will have in place sufficient generation and demand response resources to meet electricity demand, sufficient transmission to move generation to load, sufficient natural gas resources and infrastructure to fuel natural gas power plants, and sufficient energy and infrastructure to avoid scarcity, high prices, and the ability of market participants to exercise market power. The examination of resource adequacy should consider price and supply volatility and the benefits of fuel diversity, energy efficiency and distributed generation and individual state's energy needs and rights.
 - ii. *Water Efficient Electricity Production* - Hundreds of thousands of acre-feet of water are used each year to cool the west's electric power plants. As water supplies continue to become increasingly scarce and expensive, it will be critical for new thermal electric power plants to incorporate state-of-the-art water efficient cooling technologies (e.g. dry cooling, wet/dry hybrid cooling) and/or consider using water of significantly impaired quality.

- iii. *Transmission planning and expansion* – Whether the region has sufficient transmission in the right locations to tap diverse sources of energy to generate electricity and maintain reliability.
 - iv. *Grid reliability* – Whether the region has in place and is ensuring compliance with cost-effective interconnection-wide reliability standards.
 - v. *Market monitoring* – Whether the region has in place mechanisms to prevent market abuses and assure commercial efficiency in the wholesale electricity market; and
 - vi. *Efficient commercial practices* – Whether there are in place commercial practices that enable wholesale power markets to operate efficiently.
- b. Any mechanism, process and related implementing organization should be transparent, including its analysis and decision-making processes.
 - c. The decisions of such an organization(s) are imbued with the public interest and therefore states and provinces in the Western Interconnection, which are most suited to articulate the public interest, should be full participants.
 - d. The activities must not be controlled by a few market participants.
 - e. Help diversify generating resources in the Western Interconnection by removing obstacles to the integration of new generating technologies into the transmission system.

- 3. Congress should pass the pending consensus electric reliability provisions supported by Western industry and Western Governors.

C. GOVERNORS' MANAGEMENT DIRECTIVE

- 1. The Western Governors' Association (WGA) shall post this resolution to its web site to be referred to and transmitted as necessary.
- 2. WGA staff is directed to specifically communicate this resolution to the Western Electricity Coordinating Council, control area operators in the Western Interconnection, state public utility commissions and other federal, state, local and tribal utility regulatory authorities in the Western Interconnection, the Premiers of Alberta and British Columbia, and the Western Interstate Energy Board.
- 3. WGA staff is directed to work with WECC and its members, the Seams Steering Committee-Western Interconnection, and other appropriate industry organizations to implement this resolution.
- 4. WGA staff is directed to seek the collaboration of the Federal Energy Regulatory Commission and the Department of Energy in the implementation of this resolution.
- 5. WGA staff is directed to report on progress in implementing this resolution at the June 2006 WGA meeting.

6. The Western Interstate Energy Board staff is directed to file semi-annual reports on the progress made in addressing the electric industry challenges identified in this resolution.

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