



WESTERN
GOVERNORS'
ASSOCIATION

Policy Resolution 03-03

Western States' Energy Policy Roadmap

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Washington, D.C.

SPONSORS: Governors Martz, Leavitt, Kempthorne, Guinn and Richardson

A. **BACKGROUND**

1. In the last year, much of the West has experienced significant volatility in natural gas prices, increases in electricity prices, and power shortages. This has touched many peoples' lives, and has triggered a significant ripple effect through many of the western states' economies. It has also highlighted that the western electric power system has inextricably linked the energy futures of western states.
2. The recent extraordinary high prices in western energy markets have required a rethinking of western energy policy. Extraordinary wholesale electricity prices in the western wholesale power market have spawned much-needed power plant construction for the first time in a decade as well as significant conservation efforts.
3. States have been and should continue to shape their energy futures through cooperative action among themselves with the support of the federal government.
4. Over the past 18 months, western governors have undertaken an aggressive effort to develop energy policy to meet the needs of the West. Governors across the West called for and implemented energy conservation measures. They took action to address the short-term problem, while working towards developing and implementing a long-term energy policy to avoid future problems. The governors have done this individually in their states, and collectively through the Western Governors' Association (WGA).
5. Through the WGA, the governors have articulated bipartisan policies on renewable energy, natural gas, coal and energy for the Americas. On February 1-2, 2001, the Western Governors held an Energy Policy Roundtable followed by a May 9 Electric Transmission Roundtable. A roadmap of needed actions has evolved. Additionally, in April 2001, the Bush Administration released the National Energy Policy addressing many of the same issues. On August 13, 2001, the Western Governors and the Bush Administration executed a Memorandum of Understanding to enable needed collaborative action to address the energy challenges in the West.

6. In 1999, the governors adopted principles for guiding effective environmental and natural resource decision-making and have been actively encouraging the use of these principles by stakeholders and decision-makers.
7. Regional transmission organizations have been proposed as new institutions to facilitate the development of competitive wholesale electricity markets. A variety of analyses have been done on the cost/benefits of establishing RTOs and congestion management, significant uncertainties surround such analyses.

B. GOVERNORS' POLICY STATEMENT

1. Energy Policy for the West should provide for low-cost, reliable, affordable power supplies and include a broad range of new generation, including alternative sources such as wind.
2. In developing and implementing energy policy in the West, decision-making should be guided by the "Enlibra" Principles.
3. To address the ongoing western electricity problems, Western Governors:
 - a. Find that states must continue to play a pivotal role in electric power decisions. Specifically, the governors believe that --
 - i. The existing authority of states over retail electric power sales must be retained and all transmission to and from any retail entity should remain subject to the jurisdiction of the states.
 - ii. To accommodate the regional and international nature of electricity markets, Congress should allow states to create regional mechanisms to decide regional power issues, including but not limited to, the creation and operation of regional transmission organizations, reliability of the Western power grid, transmission system planning and expansion, maintenance requirements and market monitoring. The Federal Energy Regulatory Commission (FERC) should be required to defer to such decisions.
 - iii. The formation of Regional Transmission Organizations shall not undermine the historical authority of a state to protect its ratepayers' interests.
 - b. Encourage retail power suppliers and power generators to enter into power supply contracts to reduce dependence on the spot electricity market. A mix of short-term and long-term power contracts will reduce reliance on the volatile wholesale spot market and stabilize prices to consumers. Utilities and direct end-use customers that rely extensively on the spot market should also

reexamine their power purchase practices in order to appropriately hedge themselves against future price spikes.

- c. Request utilities and state and tribal public utility commissions to adopt rate reforms that send more accurate price signals (or a proxy for such price signals) to consumers. This is the first step in empowering customers to make wise decisions about their energy use and to make investments that reduce their total use and cost. This means developing and deploying technologies that allow building owners and other consumers to receive more accurate price signals that encourage them to reduce or shift consumption to off-peak times.
- d. Ask that federal agencies, in their implementation of the Administration's National Energy Policy and other federal actions, work with the Western Governors and tribal leaders to streamline regulatory processes to enable retired generation to be reactivated, existing generation to increase production, and new generation and natural gas and electricity transmission to come on-line while protecting public health, safety and the environment. States, tribes and federal regulatory agencies need to expedite the review of any permits required to bring retired generation on line. States should continue to have flexibility to use existing and new back-up generation during short-term energy shortfalls without violating human health and environmental standards.
- e. Ask state and tribal public utility commissions and all non-jurisdictional utilities to approve demand-exchange tariffs under which customers can voluntarily agree to reduce demand in exchange for compensation. A number of utilities have demand-exchange programs underway and more utilities need to implement them.
- f. Ask state and tribal public utility commissions and non-jurisdictional utilities to eliminate barriers to clean distributed generation. Distributed generation includes small turbines, high efficiency co-generation, fuels cells, etc., that are typically installed on the consumer's property. Utilities have frequently blocked the installation of such technologies through cumbersome business practices or complex and inconsistent requirements for connecting such generation to the transmission grid. Requirements to ensure safety and reliability of the grid should remain in place.
- g. Ask utility distribution companies and state and tribal energy agencies to promptly develop energy efficiency measures that provide savings through technical assistance, financial incentives, accelerated penetration of new technologies, and appropriate regulation. Ask PUCs, state legislatures and tribal councils to take steps necessary to encourage funding of such measures

(e.g., including recovery of utility costs in rates, and adopting system benefit charges which are a non-bypassable fee on each kilowatthour sold).

- h. Where states and tribes have not already acted, ask state and tribal agencies to accelerate the implementation of efficiency practices and investments in state and tribal buildings and ask the federal government and local government to take similar action.
 - i. Ask Congress, state legislatures and tribal councils to expand assistance to low income families and families and individuals with fixed incomes to help pay high energy bills.
 - j. Encourage Congress to enact federal legislation consistent with WGA resolution 00-009 that would: enable the establishment of enforceable system reliability rules; provide for delegation and deference to the West; and, enable the creation of regional advisory bodies of states and provinces.
 - k. Encourage the creation of a centralized grid-wide database that tracks prospective demand, and tracks generation and transmission facilities under construction, whether they are permitted, in the permitting process, or under consideration.
 - l. Support efforts to ensure the availability of information on loads, transmission, and generation where necessary for ensuring the adequacy, efficiency and reliability of the grid.
 - m. Will conduct a regional assessment of whether and how gas supplies and transmission can be increased in time to meet seasonal peak load demand.
4. To maintain the Western Governors' commitment to a viable economy and a clean and healthy environment in the West, we need to pursue a national energy policy that will result in a diverse energy portfolio that will include conventional and alternative energy resource development, energy efficiency and conservation. All of the following energy supply and demand options should be pursued.
- a. **New energy development** – Enable exploration and development of promising domestic oil, gas, coal, geothermal, solar, biomass or wind resources where lands, air, water, fish and wildlife and other environmental resources can be protected.
 - b. **Coal** -- Implement R&D and tax incentives to promote the development and deployment of new technologies to increase the efficiency and lower the emissions from coal-based generation. (See WGA Policy Resolution 00-037.)

- c. **Renewables** – Accelerate the development and deployment of promising renewable energy technologies, such as wind, geothermal, biomass, photovoltaic, and concentrating solar power (CSP), through the extension and expansion of state and federal production tax credits and state and tribal financial incentives such as system benefit charges, portfolio standards, recovery of utility costs in rates and/or creative new incentives
- Western Governors recognize that environmental attributes of electricity generated from renewable sources have economic value and can be sold separately from the energy as Renewable Energy Credits (RECs). Selling of RECs represents a market-based strategy to overcome transmission barriers and provide consumers access to the most economical renewable energy resources. RECs lower the costs of renewable energy and, in combination with other public policies supported by Western Governors, can accelerate the development of the West's most promising renewable resources. Accordingly, Western Governors support the:

- (i) Establishment of a single institution in the West that will issue, track and oversee REC trading,
- (ii) Development of a standard set of market design and operating guidelines for trading RECs within the Western Interconnection, and
- (iii) Creation of an independent, regional generation tracking system to provide data necessary to substantiate the number of megawatthours generated from renewable energy sources and support verification, tracking and trading of RECs.

Western Governors believe that the development and deployment of renewable energy technologies can benefit the region by:

- Diversifying the region's energy supply;
- Promoting the development of new technologies and Western companies in a growing global market;
- Reducing air pollutants from energy production;
- Providing a safety net in the event reductions in greenhouse gases are required; and
- Meeting our obligation for careful stewardship of our natural resources;
- Providing a hedge against fluctuating energy prices;
- Saving precious water resources.

Western Governors recognize the contribution that the National Renewable Energy Laboratory and other federal labs have made in developing

technologies which enable the cost-effective use of an increasing portion of the western renewable energy resource. Western Governors will promote renewable energy, including efforts of the National Renewable Energy Laboratory and other federal labs to continue outreach to western states to ensure that their research and development efforts are germane to the western resource base and thereby offer technology options that can contribute to increasing the availability of renewable power generation.

Western Governors support the development of renewables such as wind generation that could offset, through emissions trading, additional emissions as fossil-fueled plants come on line. Such joint resource generation could be an important part of a comprehensive energy strategy in the West that would enable the West to capitalize on its wind and coal resources. Western Governors realize that substantial increases in power transmission lines would be critical.

- d. **Environmental Regulation** – Review environmental and natural resource policies to ensure they are as efficient as possible. These policies include the air quality regulations for health and regional haze. See WGA resolutions 99-013 *Principles for Environmental Management in the West*; 99-012, *Air Quality Reform and Flexibility - Western Air Quality Initiative*; and 00-015, *Regional Haze*. These policies advocate collaboration, flexibility to achieve compliance, and implementation of economic incentives. Economic incentive-based programs should be implemented where found to be appropriate alternatives to command and control.
- e. **Permitting Energy Facilities** -- Streamline state, tribal and federal processes for siting new generation, electric transmission and natural gas pipelines while protecting public health, safety and the environment.
- f. **Energy Infrastructure** – Support economic and environmentally sound energy infrastructure investments to transport energy to markets, including the following:
 - i. Pending completion of environmental review, the governors urge: (1) construction of a pipeline to move natural gas from Prudhoe Bay along the Alaska Highway to the lower 48 states while ensuring full pipeline safety to protect the public and the environment (see WGA Policy Resolution 00-033); (2) the expansion of natural gas pipeline systems in the lower 48 states, and, (3) the expansion of electrical transmission capacity from areas rich in energy resources to load centers.
 - ii. Encourage a stable economic environment conducive to construction of needed electrical generation.
 - iii. To assure the construction of needed electricity transmission additions: (a) support the early formation of cost-effective Regional

- Transmission Organizations (RTOs) in the West to identify and facilitate needed expansion of the transmission infrastructure; (b) urge the RTOs to address at an early stage any factors that may inhibit investment in transmission expansion in the West, including definition of the property or financial rights that accrue to a market participant making a transmission infrastructure investment; (c) urge the industry, states, provinces to implement immediately a pro-active Western Interconnection transmission planning process; (d) ask industry and states to undertake the more detailed studies identified in the *Conceptual Transmission Plans* report, including potential additional transfer capacity between western and eastern interconnections; (e) urge FERC and state Public Utility Commissions (PUCs) to form joint State/FERC panels to adopt appropriate mechanisms that will enable cost recovery of transmission investments made before RTO structures are fully implemented; (f) encourage the Internal Revenue Service to issue permanent regulations that clarify and extend the use of tax exempt bonds for investment to expand the transmission infrastructure and clarify that transfer of operational control of transmission assets financed with tax-exempt securities does not constitute a private business use or otherwise jeopardize the tax-exempt status of those securities; (g) urge the Administration and Congress to approve any reasonable requests by Federal Power Marketing Administrations to increase their borrowing authority, allow Congressional appropriations; or allow the use of revenue streams for needed transmission investment and (h) ask FERC to adopt policies that enable the integration of individual transmission requests made of utilities into more comprehensive transmission plans; -
- iv. Urge Congress to reject, as unwarranted and inappropriate, proposals to grant FERC the power of eminent domain for transmission facilities. No western state has ever denied a permit for an interstate electric transmission line. Gaining approval for new transmission facilities across federal lands is typically the major challenge to siting new transmission facilities in the West.
- g. **Energy efficiency and conservation** – At a minimum:
- i. Encourage rate structures that give utilities and customers an incentive to reduce consumption.
 - ii. Encourage long-term stability of government and utility conservation programs.
 - iii. Accelerate the development and deployment of new, more energy efficient products in the market place. Such efforts are best implemented at the state, tribal and regional level often with the assistance of the federal government.

- iv. Review and improve the energy efficiency of building codes in Western states and tribal lands.
- v. Accelerate the development of federal government appliance efficiency standards that are cost-effective standards and recognize the unique conditions in the West (e.g., dry climates).
- vi. Support federal R&D that maximizes the development of energy efficiency technologies applicable to the growing Western region.
- vii. Support federal, state and tribal tax incentives to accelerate the introduction of new energy efficient technologies.
- viii. Develop mechanisms to encourage energy efficiency measures in air quality planning documents.

C. **GOVERNORS' MANAGEMENT DIRECTIVE**

1. The governors direct the WGA to focus their efforts in implementing the provisions of this resolution in the following six areas:
 - a. Demand response, including an inventory of current price signals to western consumers, evaluation of the experience with demand exchange programs, real-time pricing, time-of-use pricing and conservation block rates, and development of a plan to send better price signals;
 - b. A real-time, quality information system to provide decision-makers and market participants better information on western energy demand, supply and infrastructure;
 - c. Rapid deployment of energy efficiency technologies on a multi-state basis;
 - d. Supply technology assessment and deployment to identify economic, institutional and environmental barriers to new technologies and actions to overcome such barriers;
 - e. Streamlined permitting of energy infrastructure that includes the use of new technologies, such as visualization, in permit review processes; and,
 - f. Improved integration of energy and air quality review processes.
2. The Governors direct WGA to identify and evaluate options available for financing investments in new transmission capacity.
3. The Governors direct WGA to seek outside funding and convene a regional meeting of stakeholders to define an institutional structure, design operating guidelines, and identify information needed to establish a market for trading of RECs in the western interconnected system.
4. This resolution shall be posted on the WGA Web site.

Approval of a WGA resolution requires an affirmative vote of two-thirds of the Board of the Directors present at the meeting. Dissenting votes, if any, are indicated in the resolution. The Board of Directors is comprised of the governors of Alaska, American Samoa, Arizona, California, Colorado, Guam, Hawaii, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Northern Mariana Islands, Oregon, South Dakota, Texas, Utah, Washington and Wyoming.

All policy resolutions are posted on the WGA Web site (www.westgov.org) or you may request a copy by writing or calling:

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