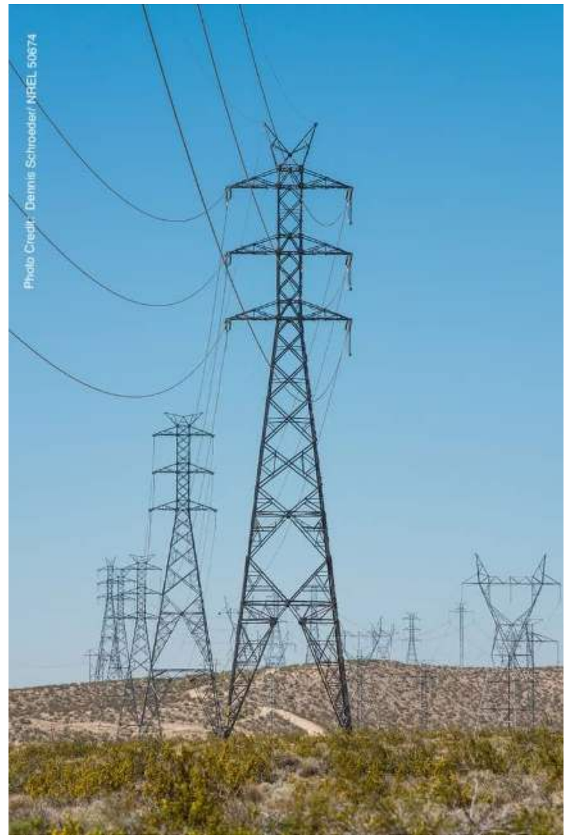
Policy Opportunity Brief: FERC Order 1920-A

Background



The Federal Energy Regulatory Commission (FERC) regulates interstate transmission, transmission planning, and transmission project cost allocation, among other duties. In 2022, FERC found that transmission development was largely reacting to interconnection requests from electric generation project developers and failing to consider long-term drivers of transmission needs, "[resulting] in [inefficient [and piecemeal] expansion] of the transmission system."

In addition, while transmission investment in the United States is at historically high levels, "90% of [this investment is] justified solely based on reliability needs without benefit-cost analysis." The allocation of the costs of interstate transmission projects has become a contentious issue, creating an additional impediment to transmission system development. To address these issues, FERC undertook a three-year rulemaking which culminated in the adoption of Order 1920. Simplified, Order 1920 updated the processes through which regional transmission providers (1) identify future transmission needs, (2) evaluate solutions to address those needs, and (3) determine cost allocation. Order 1920-A modified Order 1920 to ensure a more robust role for states in planning and cost allocation.

Key Reforms[1]

1. *Scenario Development*

   Order 1920 encouraged, but did not require, transmission providers to consider state input during the development of long-term transmission needs scenarios. Order 1920-A "requires transmission providers to incorporate state input." The updated Order additionally requires that transmission providers develop additional scenarios, as requested by relevant state entities, when such scenarios will be used to inform cost allocation discussions.

2. *Cost Allocation*

   Order 1920 allowed, but did not require, transmission providers to adopt a cost allocation method developed during the state engagement process. Order 1920-A makes clear that providers are to submit "any information related to [an] agreed-upon cost allocation method or State Agreement Process" that participating state officials request. Order 1920-A further clarifies that FERC will consider the entire record submitted by providers, including any agreed upon cost allocation method, which can then be adopted by the commission.

   Order 1920-A includes a new requirement for identifying and quantifying the benefits and costs associated with specific state policies during the state engagement process. The updated Order also provides for extensions to the state engagement process if requested by relevant state entities. In addition, the new order requires transmission

[1] See CNEE's summary of FERC Order 1920:
https://cnee.colostate.edu/wp-content/uploads/2024/07/FERC-Order-1920_CNEE_Final.pdf.

providers to consult with state officials prior to amending their cost allocation method or state agreement process on file with FERC.

Policy Opportunities

FERC Order 1920-A refines and improves the long-term regional transmission planning process established by Order 1920, ensuring states have a robust role in both the planning process and in cost allocation decisions. Said FERC Chairman Mark Christie, "Collectively, these changes give the states a much bigger toolbox containing far more effective tools they can use to protect their consumers and the interests of their states."

1. Identifying Future Transmission Needs

Order 1920-A requires transmission providers to consider state input during the development of long-term transmission needs scenarios. The Order additionally requires that transmission providers develop additional scenarios, as requested by relevant state entities, when such scenarios will be used to inform cost allocation discussions. States can prepare in advance for participating in scenario development by engaging in:

i. Interagency, public, and collaborative data gathering processes to inform state input on the specific factors (and their relative weights) to be considered in the development of long-term scenarios.

ii. Regional conversations with generation developers and other state electric planning entities to identify "geographic zones with the potential for significant new generation."[2]

iii. Existing and new intra- and interstate planning processes and dialogues to develop state proposed scenarios for providers' consideration. This process might also inform a regional request for the development of additional and more robust scenarios to inform cost allocation discussions and decisions.

2. Cost Allocation

Order 1920-A makes clear that FERC will consider any agreed upon cost allocation method adopted during the state engagement process and that such method can be adopted by the commission. States can enter the cost allocation discussion prepared by engaging in:

i. Existing and new intra- and interstate planning processes and dialogues to determine state and regional priorities for new, replacement, and upgraded transmission projects.

ii. Regional conversations with generation developers and other state electric planning entities to determine whether a facility might be voluntarily funded.

iii. Existing and new intra- and interstate planning processes and dialogues to determine state and regional priorities for cost allocation. These forums might also provide an avenue for reaching regional agreement on one or more preferred methods of cost allocation.

State voices will be more likely to be heard if they speak together. Pre-emptive regional consultation and collaboration can enable states to ensure that their priorities and concerns are considered throughout the implementation of Order 1920.

For more information on Orders 1920 and 1920-A:
https://emp.lbl.gov/ferc-order-1920-webinar-states-taking-action-transmission-planning-and-cost-allocation

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[2] While the Order does not require that transmission providers consider identifying "geographic zones," it does encourage providers to do so.