

Building for the Future Through Electric Regional Transmission Planning and Cost Allocation

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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” (DeGrandis, et al. 2022; FERC Staff 2024; Order 1920 pars. 418 and 419). In addition, while transmission investment in the U.S. is at “historically high levels [,] 90% of [this investment is] justified solely based on reliability needs without benefit-cost analysis” (Pfeifenberger 2022, see also: Hartman and Chandler 2024). 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 to update planning, benefit-cost assessment, and cost allocation processes, culminating in the adoption of Order 1920.

What Does Order 1920 Do?

Simplified, Order 1920 updates the processes through which regional transmission providers (1) identify future transmission needs, (2) evaluate solutions to address those needs, and (3) determine cost allocation (Karin Herzfeld in AEU 2024a).

1. The Order reforms the planning process by requiring that transmission providers develop (and update every five years) a 20-year (minimum) regional transmission plan utilizing “a plausible and diverse set of at least three scenarios that incorporate specific factors and [that] use best available data” (FERC 2024a, FERC Staff 2024, Hunton Andrews Kurth 2024). The specific factors that providers are to consider are to be drawn from “categories of factors,” which are:
 - (i) federal, Tribal, state, and local laws and regulations impacting the resource mix and demand, including policies related to decarbonization, electrification, and energy justice and equity;
 - (ii) “state approved integrated resource plans and expected supply obligations for load-serving entities”;
 - (iii) trends in fuel costs and availability of emerging technologies;
 - (iv) resource retirements;
 - (v) interconnection requests and withdrawals; and
 - (vi) “utility and corporate commitments and federal, [Tribal], state, and local policy goals that affect long-term transmission needs” (Order 1920 pars. 409 and 433).
2. The Order reforms the project selection process by directing providers to develop a facility evaluation and selection process that considers (at minimum):
 - (i) at least seven specific economic and reliability benefits¹ measured over a 20-year horizon beginning with the in-service date of the facility;
 - (ii) facilities that address transmission needs that have been identified through multiple interconnection requests but that have not been built; and
 - (iii) opportunities for “right-sizing”² and for the use of grid enhancing technologies (GETs), including dynamic line ratings, advanced power flow control devices, advanced conductors, and transmission switching. Providers are to consider GETs for both new facilities and for upgrades to existing facilities (FERC 2024a, FERC Staff 2024 Jones, et al. 2024).

¹ These benefits are: “avoided or deferred reliability transmission facilities and aging infrastructure replacement; either reduced loss of load probability or reduced planning reserve margin; production cost savings; reduced transmission energy losses; reduced congestion due to transmission outages; mitigation of extreme weather events and unexpected system conditions; and capacity cost benefits from reduced peak energy losses” (FERC Staff 2024).

² “Right-sizing” is modifying a replacement facility “to increase that facility’s transfer capability” (Order 1920 paragraph 1678).

Order 1920 directs providers to select projects by the third year of the planning cycle and to reevaluate these selections when development is hampered by delays, cost overruns, or when significant policy changes “cause reasonable concern that the selected facility may no longer meet the selection criteria” (FERC 2024a, Hunton Andrews Kurth 2024, Jones, et al. 2024).

3. Order 1920 reforms cost allocation by requiring that transmission providers open a six-month period of state engagement, prior to submitting compliance filings, that provides “a forum for negotiation that enables meaningful participation by relevant state entities [to] negotiate a long-term regional transmission cost allocation method(s) and/or state agreement process” (FERC 2024a, Order 1920 par. 1357). While the Order allows providers to use a cost allocation method created during this engagement period, it does not require them to do so (Hunton Andrews Kurth 2024). Providers are directed to submit one or more default methods of cost allocation consistent with principles 1-5 of Order 1000 (FERC 2024a, Hunton Andrews Kurth 2024, Wayner 2024).

Providers are authorized to propose a “state agreement process” that allows parties to voluntarily develop and agree to a cost allocation method no later than six months after a project or portfolio of projects has been selected (FERC 2024a, Hunton Andrews Kurth 2024). Participant funding (by states or project developers) can be an element of cost allocation methodologies developed through this process (Hunton Andrews Kurth 2024). The rule requires that the default cost allocation method be used if states do not participate in this process, if states fail to reach an agreement,³ if providers elect not to file the cost allocation method selected, or if FERC rejects the resulting cost allocation method (Order 1920 pars. 1292 and 1294, Wayner 2024).

Importantly, Order 1920 does not specify outcomes, it provides an updated planning and decision-making process. Because of this, state input during the planning, project selection, and cost allocation processes will be key for ensuring that implementation of the Order results in “beneficial grid projects” (Wayner 2024). Recognizing this, FERC’s Order emphasizes increased transparency, regional and local coordination, public participation, and state engagement. According to Karin Herzfeld, FERC Senior Counsel, the Order’s ‘requirement for meaningful state input is “unprecedented”’ (AEU 2024a).

Getting a Head Start on Implementation – Opportunities for States

1. Identifying Future Transmission Needs

Order 1920 requires transmission providers to create a planning process that provides an open, transparent, and meaningful opportunity for Tribes, state and local regulators, non-jurisdictional entities, and other interested parties to propose factors to be considered in long-term scenarios and to provide input into how to account for specific factors in those scenarios (Jones, et al. 2024, Order 1920 par. 305). While the Order does not require that transmission providers consider identifying “geographic zones with the potential for significant new generation” as contemplated by the Notice of Proposed Rulemaking (NOPR), the final order does encourage transmission providers to consider identifying such zones (Jones, et al. 2024). Additionally, FERC “does not preclude” reliance on state developed scenarios as long as those scenarios meet the planning horizon (20 years) and stakeholder input requirements of the Order (Order 1920 par. 306).

In its Order, FERC “[encourages] transmission providers to ‘respect states’ concerns’ in the planning process and [encourages] states to participate actively in the development of long-term scenarios” (Jones, et al. 2024). States can come to these forums prepared. Policymakers might direct utility commissions or a dedicated transmission planning office (if one exists in the state) to engage in:

1. An interagency, public, and collaborative data gathering process to inform state input on factors to be considered in the development of long-term scenarios. This process can also include data gathering to inform state input on how scenarios should account for specific factors within the categories of factors required to be included by Order 1920.

³ The final order allows participants to “decide what constitutes ‘agreement’ among them” (Hunton Andrews Kurth 2024).

2. Existing and new interstate dialogues to develop regional agreement on specific policies that will inform future transmission needs and that should be accounted for in long-term scenarios.
3. Regional conversations with generation developers and other state electric planning entities to identify “geographic zones with the potential for significant new generation.”
4. 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 call for the development of additional and more robust scenarios (AEU 2024).

2. Evaluating Solutions

Transmission providers are required to consult with “and seek support from relevant state entities [and other interested parties]” when developing their project evaluation and selection process (Hunton Andrews Kurth 2024, Jones, et al. 2024). The Order also requires that providers develop “a process to provide relevant state entities and interconnection customers with the opportunity to voluntarily fund a portion of, or the full cost of a [facility] that otherwise would not meet the transmission providers’ selection criteria [(participant funding)]” (Jones, et al. 2024). Policymakers can ensure that their state is prepared for these consultations by directing utility commissions or a dedicated transmission planning office (if one exists in the state) to engage in:

1. An interagency, public, and collaborative data gathering process to inform state input on the benefits to be considered during project evaluation and selection. This could include an evaluation of needed transmission upgrades that could be accomplished through the use of GETs.
2. Existing and new intra- and interstate planning processes and dialogues to determine state and regional priorities for new, replacement, and upgraded transmission projects.
3. Regional conversations with generation developers and other state electric planning entities to determine whether a facility might be voluntarily funded.

3. Cost Allocation and the State Agreement and Engagement Processes

Order 1920 creates two opportunities for states to engage in cost allocation discussions. First, the Order requires that transmission providers open a six-month period of state engagement *prior* to submitting compliance filings to provide a forum for “negotiation” and “meaningful participation by relevant state entities [to] negotiate a long-term regional transmission cost allocation method(s) and/or state agreement process” (FERC 2024a, Order 1920 par. 1357). Second, the Order authorizes, but does not require, transmission providers to propose a state agreement process that allows parties to voluntarily develop and agree to a cost allocation method no later than six months after project selection (FERC 2024a, Hunton Andrews Kurth 2024). States can enter the cost allocation discussion prepared by engaging in:

1. 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”’ (AEU 2024a, AEU 2024b, CEN 2024). Pre-emptive regional consultation and collaboration can enable states to ensure that their priorities and concerns are considered throughout the implementation of Order 1920.

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