

HEADLINES

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

May 13, 2024

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Good morning, Chairman Phillips and Commissioners,

Item E-1 is a draft final rule, issued pursuant to section 206 of the Federal Power Act, to reform the Commission's regional transmission planning and cost allocation requirements. The reforms remedy deficiencies in the existing requirements to ensure that Commission-jurisdictional rates remain just and reasonable and not unduly discriminatory or preferential. Today's draft final rule builds on Order Nos. 888, 890, and 1000. In those orders, the Commission incrementally developed the requirements that govern regional transmission planning and cost allocation processes.

The Commission initially considered these reforms in its July 2021 Advanced Notice of Proposed Rulemaking (or "ANOPR"), and later issued an April 2022 Notice of Proposed Rulemaking (or "NOPR") that proposed specific reforms. The ANOPR and the NOPR received approximately 26,850 pages of initial comments and appendices by August 2022, and 3,825 pages of reply comments and appendices by September 2022. In addition, after September 2022, the NOPR received approximately 1,480 pages of supplemental comments and appendices. To our knowledge, this is the largest record ever considered by the Commission.

Today's draft final rule, based on the extensive record in this proceeding, finds that sufficiently long-term, forward-looking, and comprehensive regional transmission planning and cost allocation to meet long-term transmission needs is not occurring on a consistent and sufficient basis, and that the absence of this type of regional transmission planning is resulting in piecemeal transmission expansion that addresses relatively near-term transmission needs. In addition, the draft final rule finds that the status quo approach results in transmission providers investing in relatively inefficient or less cost-effective transmission infrastructure, with the costs ultimately recovered through Commission-jurisdictional rates. This dynamic results in, among other things, transmission customers paying more than is necessary or appropriate to meet their transmission needs, and customers missing out on benefits that outweigh their costs, which results in less efficient or cost-effective transmission investments.

This in turn renders Commission-jurisdictional regional transmission planning and cost allocation processes unjust and unreasonable.

The reforms in this draft final rule remedy this problem by requiring transmission providers to conduct regional transmission planning on a sufficiently long-term, forward-looking, and comprehensive basis to identify long-term transmission needs. Transmission providers must, among other things, plan ahead at least 20 years, using best available data to develop well-informed projections of long-term transmission needs and long-term regional transmission facilities to meet those needs. In addition, transmission providers must conduct this planning at least every five years and incorporate specific categories of factors that affect long-term transmission needs, including certain laws and regulations, integrated resource plans, trends in fuel costs, retirements, interconnection requests and withdrawals, and policy goals and corporate commitments.

The draft final rule also requires transmission providers to measure and use at least seven enumerated economic and reliability benefits for the evaluation and selection of long-term regional transmission facilities. These seven benefits are: (1) avoided or deferred reliability transmission facilities and aging infrastructure replacement; (2) either reduced loss of load probability or reduced planning reserve margin; (3) production cost savings; (4) reduced transmission energy losses; (5) reduced congestion due to transmission outages; (6) mitigation of extreme weather events and unexpected system conditions; and (7) capacity cost benefits from reduced peak energy losses.

Additionally, the draft final rule requires transmission providers to include in their tariffs an evaluation process, including selection criteria, that they will use to identify and evaluate long-term regional transmission facilities for potential selection. Transmission providers must establish an evaluation process that identifies long-term regional transmission facilities that address long-term transmission needs, measures the benefits of the identified transmission facilities consistent with the final rule requirements, and designates a point in the evaluation process at which transmission providers will determine whether to select or not select identified transmission facilities. Transmission providers must also establish selection criteria that are transparent and not unduly discriminatory or preferential, aim to ensure that more efficient or cost-effective long-term regional transmission facilities are selected, and seek to maximize benefits accounting for costs over time without over-building transmission facilities.

With respect to cost allocation, the draft final rule requires transmission providers to file one or more *ex ante* methods to allocate the costs of long-term regional transmission facilities (or a portfolio of such facilities) that are selected. Transmission providers are also required to hold a six-month engagement period with relevant state entities regarding cost allocation methods and/or a state agreement process prior to compliance. The draft final rule provides additional flexibility on cost allocation by permitting transmission providers to adopt a state agreement process, agreed to by relevant state entities, which could occur before, as well as up to six

months after selection, for its participants to determine, and transmission providers to file, a cost allocation method for specific long-term regional transmission facilities.

The draft final rule also requires transmission providers to include in their tariffs provisions to reevaluate previously selected long-term regional transmission facilities in certain circumstances.

In addition, the draft final rule contains provisions to ensure the evaluation of regional transmission facilities that will address certain transmission needs identified through the generator interconnection process and have not yet been built.

In order to make the use of existing transmission infrastructure more efficient and optimize the performance of such infrastructure, and to promote cost savings by improving operational efficiency of new transmission facilities, the draft final rule requires transmission providers to consider several alternative transmission technologies—dynamic line ratings, advanced power flow control devices, advanced conductors, and transmission switching—in regional transmission planning processes.

Recognizing that local transmission planning may affect the more efficient or cost-effective regional transmission needs identified in long-term regional transmission planning, the draft final rule requires transmission providers to adopt enhanced transparency for local transmission planning information and identify potential opportunities to “right-size” replacement transmission facilities to more efficiently or cost-effectively address long-term transmission needs. Transmission providers must also adopt tariff provisions that provide a federal right of first refusal for a transmission provider to develop any “right-sized” facility.

In addition, the draft final rule declines to adopt the NOPR proposal to establish a conditional federal right of first refusal based on joint ownership. The draft final rule explains that the Commission will continue to consider the NOPR proposal and potential federal right of first refusal issues in other proceedings.

Another NOPR proposal that the draft final rule does not adopt is the proposal to limit the availability of the construction work in progress (or “CWIP”) incentive. The draft final rule explains that any action on the CWIP incentive is more appropriately considered in a separate proceeding to allow for a holistic approach to transmission incentives.

Finally, the draft final rule requires transmission providers to revise their interregional transmission coordination processes to reflect the long-term regional transmission planning reforms adopted in the draft final rule.

The draft final rule will be effective 60 days from publishing in the *Federal Register*. It requires that each transmission provider submit a compliance filing within ten months of the effective date of the draft final rule for most draft final rule requirements, but provides for a compliance

filing within twelve months of the effective date of the draft final rule for the interregional transmission coordination requirements.

Thank you, this concludes our presentation. We are happy to address any questions.

Contact Information

News Media

Email: MediaDL@ferc.gov

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