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Regulators' Role in Order 1920 Cost Allocation

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Cost Allocation under Order 1920

- Transmission Providers (TPs) may design new transmission under the Order 1920 planning process that are paid for through the Order 1920 cost allocation methods
- Legal Standard: Order 1920 cost allocation methods must
 - Be just, reasonable, non-discriminatory, and non-preferential
 - Result in the costs being allocated “roughly commensurate” with the benefits received

Order 1920 Cost Allocation Methods

1. Ex Ante Method – submitted on compliance
2. Voluntary Funding Method – submitted on compliance
3. State Agreement Method - submitted after compliance



THE WHO



Order 1920 creates a new entity called Relevant State Entities (RSEs)

- RSEs are electric utility regulators, transmission siting authorities, and other state entities legally designated to regulate electric utilities or site transmission
- RSEs have authorities prior to and after Order 1920 compliance filings
- Prior to compliance filings, Order 1920 requires TPs to give RSEs the opportunity to provide meaningful input on, among other things, cost allocation



THE WHEN



What is the “Engagement Period”?

- The Engagement Period is a 6-month period (with a potential 6-month extension) prior to compliance when the RSEs meet and may:
 1. Provide input to the TPs on the
 - *Ex Ante Method*
 - Voluntary Funding Method
 2. Create an RSE-designed cost allocation method and propose it for adoption through the TPs on compliance;
 3. Design a State Agreement Process that is run later;
 4. Other actions unrelated to cost-allocation.
- While only the RSEs may “participate” in the Engagement Period, the RSEs may invite other parties to observe their deliberations.



What Initial Engagement Periods Have Been Announced?

- CAISO: 11/1/24 – 5/1/25 Public process “will commence in early 2025”
- MISO: seeking a year extension for compliance
- ISO-NE: 9/9/24 – 3/10/25 “Due to challenges to Order No. 1920 on rehearing and on appeal from other parties and the possibility for meaningful updates to the rule on rehearing or appeal, the ISO is deferring its stakeholder discussions on compliance at this time”
- NorthernGrid: 11/1/24 - 5/1/25
- NYISO – Aug-Sept receive comments; Oct – Dec develop proposal, Jan – June develop tariff.
- PJM: 10/7/24 – 4/7/25
- SERTP: 11/14/24 - 5/14/25
- SPP: 10/28/24 – 5/5/25
- WestConnect: 10/28/24 – 4/28/25



THE WHAT:

Cost allocation methods filed on
compliance



What is the *Ex Ante* Method?

- *Ex Ante* Method(s) is the default cost allocation method for facilities planned and selected under Order 1920
- *Ex Ante* Method(s) will be applied unless FERC approves a State Agreement Method
- TPs can propose their Order 1000 tariffs for the *Ex Ante* Method if it complies with Order 1920
- *Ex Ante* Method(s) cannot rely on voluntary contributions
- Role of RSEs in the *Ex Ante* Method(s):
 1. RSEs have the “opportunity” to provide input on the *Ex Ante* Method(s) or
 2. RSEs can also propose their own *Ex Ante* Method(s) to the TPs and the TPs are required to submit an RSEs method to FERC even if the TPs dislike it.



What is the Voluntary Funding Method?

- RSEs and interconnection customers may voluntarily fund all or a portion of the costs of an Order 1920 Facility that wouldn't otherwise meet the selection criteria

- Role of RSEs in the Voluntary Funding Method:

TPs must “consult and seek support from” RSEs when developing the Voluntary Funding Method



THE WHAT:

Future cost allocation
process and method



What is the State Agreement **PROCESS**?

During the Engagement Period

- RSEs may design a **PROCESS** that is run later called the "State Agreement Process" or "SAP"

After the Engagement Period:

- The SAP is run sometime before but no later than 6 months after the TPs select Order 1920 Facilities for regional cost allocation
- During the SAP, the RSEs and anyone else they have invited may design a cost allocation **METHOD** for the selected Order 1920 Facilities ("State Agreement Method")



What must the RSEs include in Their Proposal for a SAP?

On compliance, if RSEs adopt an SAP and TPs “choose” to file it with FERC, the following key information must be included within the proposed tariff:

1. The event triggering the beginning of the SAP;
2. The duration of the SAP (not to exceed 6 months after Facility selection)
3. Which entities can participate in the SAP;
4. How the SAP will result in a cost allocation being filed;
5. What constitutes an agreement in that SAP;
6. How the agreement is communicated to the TPs;
7. Circumstances under which or the information necessary for TPs to file or to consider filing the State-Agreement Method;
8. Whether TPs commit to file a State-Agreement Method with FERC, even if the TPs dislike the method;
9. Identify the Facilities to which the SAP applies.

¶¶ 1403, 1405, 1412, and 1416 ; FN 3013.



What is the State Agreement METHOD?

The State Agreement Method:

- Will be designed when a State Agreement Process is run (either before or within 6 months after Order 1920 facilities are selected)
- Will describe who pays for specific facilities that are selected under Order 1920 and how much they will pay
- May rely on voluntary contributions ¶ 1409
- Must identify to which facilities the method applies
- If approved by FERC, overrides *the Ex Ante Method*



What are Examples of Cost Allocation Methods?

1. Granular Approach (“Beneficiary Pays”) - Identify specific beneficiaries and monetize the savings received by those beneficiaries
2. Postage Stamp – Same rate over specified region but charges allocated on volume: energy (MWh) or demand (MW)
3. Highway Byway – Costs are allocated based on the voltage of the lines. As voltage increases so does the geographic scope and the percentage of the postage-stamped allocations
4. License Plate: Physical location of the investments
5. Energy flows: from the new investments, e.g. DFAX

If requested, in-depth presentation and discussion can happen later



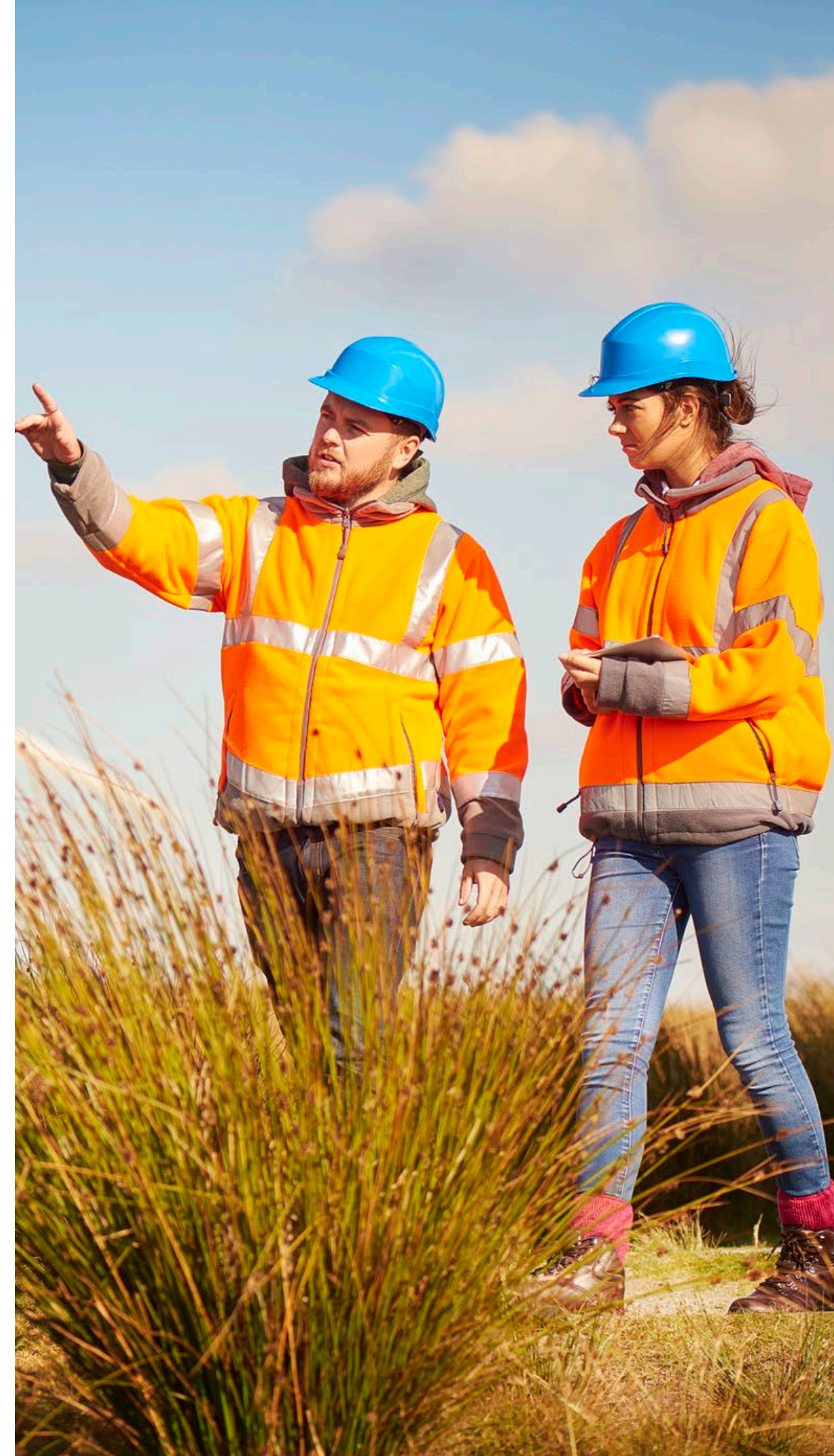
While the RSEs may design both the State Agreement **PROCESS** and State Agreement **METHOD**, the TPs may reject either or both unless, in their compliance filing, the TPs waived that authority to reject the RSEs' proposals.



CONCRETE STEPS FOR STATE REGULATORS



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Initial Steps For The RSEs

Step 1: Identify the RSEs in your planning region and ask if they want to participate in the Engagement Period;

Step 2: Once participating RSEs are identified, schedule a meeting to address the governance of the group:

- Vote Eligibility: Because each state may have more than one RSE participate in the Engagement Period, determine if:
 - Each state gets a single vote and its vote may be split, or
 - Each RSE gets a vote.
- Leadership: Elect leadership based on majority vote
- Decision-making: Adopt a decision-making protocol (majority, 2/3, unanimous). ¶¶ 1360 1361.
- Attendance: will proxies be allowed to attend and vote?
- Meetings: cadence and virtual and/or in-person
- Expert Assistance: will the RSEs hire experts?

Step 3: Develop a budget for meetings and experts and send to the TPs and ask them to pay. ¶¶ 1354 and 1357.

Step 4: Start meeting ASAP – most Engagement Periods have already started.



Potential Additional Agenda Items For First RSE Meeting

- How engaged do the RSEs want to be with the TPs' development of the *Ex Ante* Method(s) and Voluntary Funding Method?
- Do the RSEs want to develop their own proposal for the *Ex Ante* Method?
- How will the RSEs facilitate public input and transparency during the Engagement Period?
- State Agreement Process – do the RSEs want to develop a process?
- Does the full RSE group want to empower subregions to develop State Agreement Method(s) for facilities located only in their own subregion?
- Do the RSEs want to ask the TPs for any of the following discretionary actions:
 1. Benefit Metrics – discussed in next slide
 - Consider asking for additional metrics beyond the 7 required by FERC
 - Consider asking that the metrics be used for cost allocation in addition Facility selection and evaluation ¶ 1505
 - Consider asking that the metrics be calculated over 20 or 40 years for the purposes of cost allocation ¶ 859
 2. SAP and State Agreement Method– ask the TP to agree to file the SAP and any State Agreement Method at FERC even if the TP disagrees with them. ¶ 1416



Benefit Metrics – the Requirements and Opportunities for RSEs

- FERC has mandated the use of 7 specific benefit metrics in the evaluation and selection of Order 1920 Facilities
- The metrics need not be used for cost allocation
- However, the 7 metrics will have bearing on whether FERC approves a cost allocation method as just, reasonable and roughly commensurate.
- TPs may propose to use more than just those 7 metrics
- RSEs should discuss whether to ask the TPs to use additional metrics and/or use the metrics in cost allocation



REGION-SPECIFIC CONSIDERATIONS FOR COST ALLOCATION



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RTO and ISO Areas

Parts of the United States with established Regional Transmission Organizations and/or Independent System Operators (RTOs/ISOs) may have an easier path to establish RSE group makeup and governance during the Engagement Period as these regions already have regional state entities.

Regional observations:

- MISO - the MVP usage rate should comply with Order 1920 however additional methods will be required for the MISO South States who reject the usage rate. The MVP Project Qualifications will need to be revised.
- PJM – Transmission Owners (TOs) are the TPs in PJM who must consult with the RSEs. Given the multitude of TOs and a potential misalignment of interests with and among regulators, the discussions may be challenging.
- ISO-NE- FERC recently approved a supplemental Order 1000 cost allocation for long-term planning based on load-ratio share that, with minor modifications, should comply with Order 1920.
- SPP – the highway-byway method will likely comply with Order 1920.
- NYISO - current load-ratio share methodology for public policy projects would likely comply with Order 1920 w/o the “public policy” moniker.
- CAISO – regional/low voltage method will likely comply with Order 1920; CAISO will not engage with other stakeholders besides the RSEs



Non-RTO/ISO AREAS

- FERC explicitly stated that all metrics can be calculated in non-RTO/ISO planning regions. ¶¶ 729-731.
- Southeast – without transparency in production costs in, it is unclear how benefits normally using production cost modeling can be calculated in the southeast.
- Western Interconnection – FERC indicated that production costs are calculated in the non-ISO area of the Western Interconnect. ¶ 771.
 - Northern Grid – first meeting was held on 11/1/24
 - West Connect – first meeting will be held on 11/14/24
 - Key Question: how will the cost allocation (and planning) processes address non-jurisdictional entities.
- Question: Do existing regional planning entities need additional funding/governance changes to carry out the planning mission of Order 1920?





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Thank you!

**For additional assistance and technical support,
please contact
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Supplemental Slides with Citations to Order 1920



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Order 1920 establishes new role for Relevant State Entities (RSE)

“any state entity responsible for [.....]

- electric utility regulation or
- siting electric transmission facilities

within the state or portion of a state located in the transmission planning region,

including any state entity as may be designated for that purpose by the law of such state.”

¶ 44.



"Engagement Period" Details

- TPs pick the start and end dates for the Engagement Period. ¶ 1354.
- Duration: six months long and the first period must be completed prior to compliance deadline, which currently is June 2025. ¶ 1358. So, the Engagement Period will likely, at the latest, start in December (unless extensions are granted).
- Only RSEs may "participate" in the Engagement Period. ¶ 1364. "Participation" is not defined. Therefore, nothing precludes the RSEs from inviting parties to observe the RSE meetings.
- TPs may trigger future Engagement Periods if beneficial. ¶ 1368
- During the Engagement Period, the RSEs have the opportunity to discuss planning issues, but those issues are not discussed in this slide deck.



Ex Ante Methods

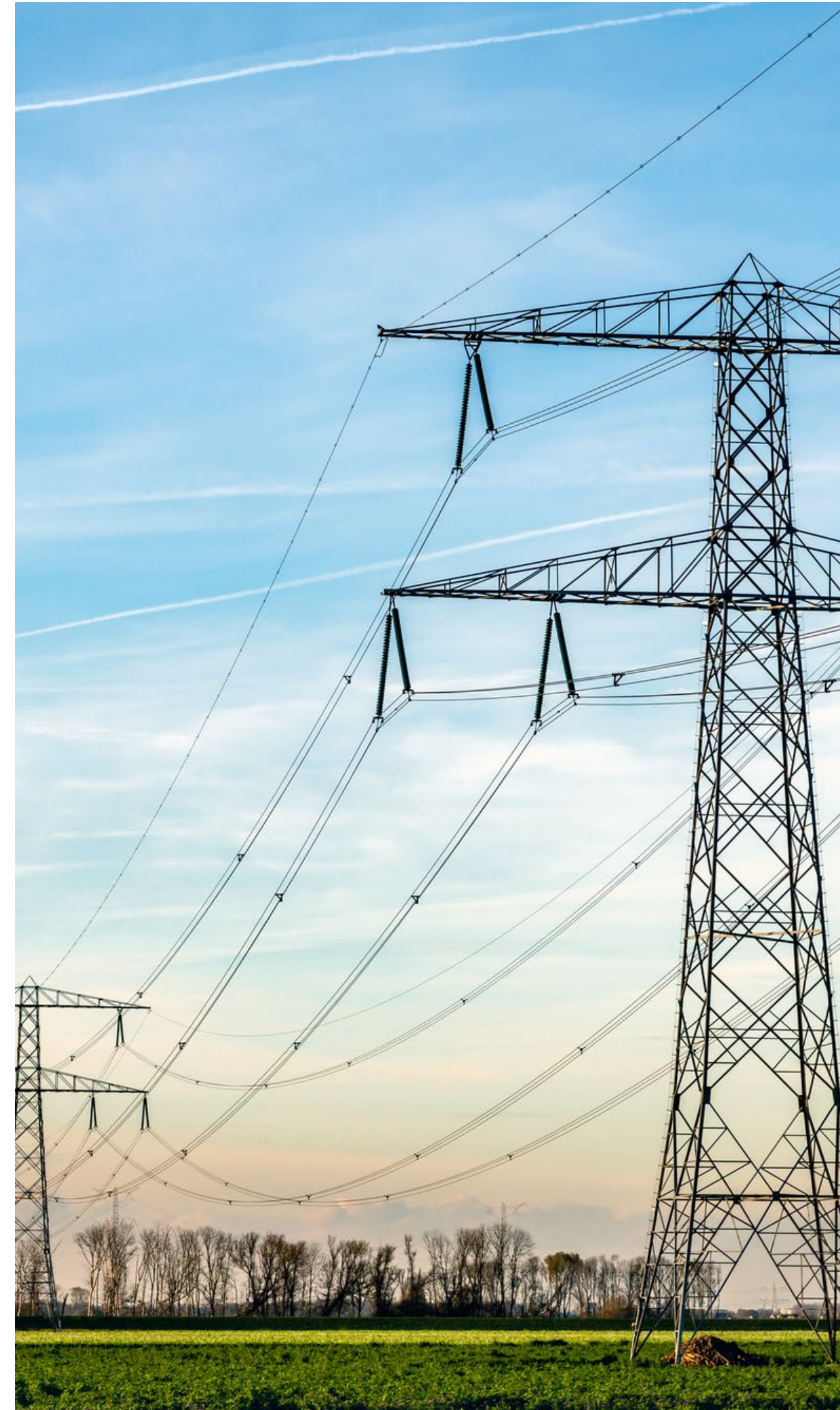
- TPs must develop the *ex ante method(s)* for inclusion in its compliance filing, but can also file *ex ante* methods later. ¶¶ 1291, 1364, 1430.
- During the Engagement Period, RSEs may weigh on the *ex ante method(s)*. ¶¶ 1296, 1357.
- During the Engagement Period, unless RSEs agree to the *ex ante* method, the method chosen must “comply with five of the six existing Order No. 1000 regional cost allocation principles.” ¶ 1469.
- TPs can propose Order 1000 tariffs as one of the *ex ante* methods if they comply with O1920 requirements. ¶¶ 1302 & 1303, 1474.
- The *ex ante* methods will be applied unless the RSEs adopt a State Agreement Method. ¶¶ 1292 and 1294.
- The *ex ante* method must:
 - Be just and reasonable, and roughly commensurate. While the 7 BMs need not be used in the allocation of costs, the costs must be allocated roughly commensurate with the benefits received. ¶¶ 1505 and 1506.
 - Be defined in the proposed tariff in the compliance filing and cannot rely on subsequent negotiations.
 - Not rely on voluntary cost contributions. ¶ 1304. “Cannot be participant funding ” where the costs of a transmission facility are allocated only to those entities that volunteer to bear those costs. ¶ 1408 and FN 3008



Voluntary Funding Method

- Provider must “provide Relevant State Entities and interconnection customers [ICs] with the opportunity to voluntarily fund the cost of, or a portion of the cost of, a LTRT Facility that otherwise would not meet the transmission TPs’ selection criteria.” ¶ 1012
- Provider must “consult and seek support from” RSEs when developing this process.
- On compliance, the proposed tariff must describe the following:
 1. The process that the TPs will use to make voluntary funding opportunities available to RSEs and ICs;
 2. The period during which these entities may exercise this option;
 3. The method that the TPs will use to determine the amount of voluntary funding required to ensure the selection criteria are met;
 4. The mechanism through which the funding agreement will be memorialized.

¶ 1013.



State Agreement Process (SAP)

- Prior to the Compliance Filing, RSEs may design a state agreement **PROCESS** (SAP). ¶ 1402. But TPs are not required to adopt the SAP. ¶ 5.
- After the Compliance Filing, through the SAP, a cost allocation **METHOD** can be developed for selected Facilities. (“State Agreement Method”).
- A State Agreement Method developed during an SAP that is submitted to and approved by FERC is applied to selected Facilities instead of the default *Ex Ante Method*. But TPs are not required to submit the State Agreement Method to FERC, unless the TPs have waived that authority in their compliance filing.
- SAP may happen before but no later than 6 months after the TPs selects Facilities.



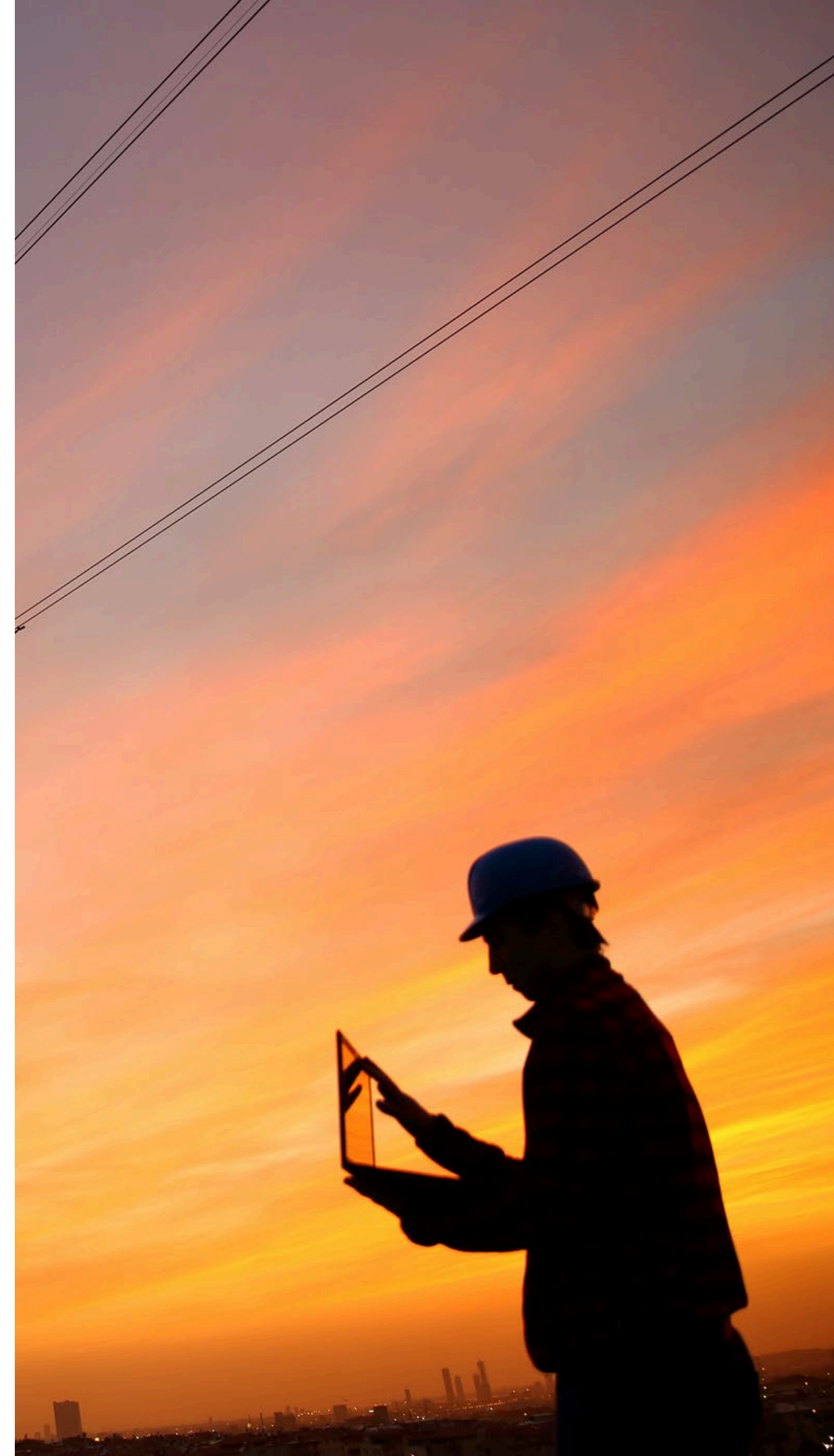
Cost Allocation Method Designed thru SAP

- Must be just, reasonable, and not unduly discriminatory or preferential. Must “allocate[] costs in a manner that is at least roughly commensurate with estimated benefits.” ¶ 1409
- While the 7 required metrics are ostensibly only for the evaluation and selection of Facilities, those metrics will have a bearing on whether FERC considers a proposed cost allocation method just and reasonable. ¶ 1506
- A State Agreement Method need not comply with Order 1000 cost allocation Principles – however, the method must be roughly commensurate. ¶ 1470.



Benefit Metrics

- FERC has mandated the use of 7 specific benefit metrics. ¶ 720. However, TPs may propose to use more than just those 7. ¶ 737. The “Rule of Reason” will likely determine whether additional metrics beyond those 7 need to be included within the tariff.
- FERC specifies that these 7 benefits must be described in the TPs tariff so that stakeholders understand the manner in which those benefits will be measured, but Order 1920 does not mandate additional detail be included in the tariff. ¶ 840.
- Metrics are to be used for evaluation and selection of Facilities. ¶ 859.
- FERC did not mandate the use of metrics for cost allocation. ¶ 1509.
- HOWEVER, while the 7 required metrics are ostensibly only for the evaluation/selection of potential projects, those metrics will likely have a bearing on whether FERC considers a proposed cost allocation Method is just and reasonable (both for the *Ex Ante* and State-Agreement Methods) . ¶ 1506.



Benefit Metrics: 01920

#	Order 1920 Benefit Metric Description	Paragraph
1	Avoided or Deferred Reliability Transmission Facilities and Aging Transmission Infrastructure Replacement	¶ 745
2(a)	Reduced Loss of Load Probability	¶ 756
2(b)	Reduced Planning Reserve Margin	¶ 758
3	Production Cost Savings	¶ 767
4	Reduced Transmission Energy Losses	¶ 781
5	Reduced Congestion Due to Transmission Outages	¶ 788
6	Mitigation of Extreme Weather Events and Unexpected System Conditions	¶ 800
7	Capacity Cost Benefits from Reduced Peak Energy Losses	¶ 817

