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Order No. 1000 Transmission Planning and Cost Allocation

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Overview

- Order No. 1000
 - Background / Need for Reform
 - Legal Basis for Action
 - Transmission Planning
 - Participation in a Regional Planning Process that meets requirements
 - Public Policy (State and Federal)
 - Interregional Coordination
 - Reforms to Transmission Planning Processes
 - Cost Allocation
 - Cost Allocation Methods
 - Principles for Cost Allocation
 - Application of Cost Allocation Principles
 - Compliance and Implementation
 - Reciprocity

Order No. 1000

- *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Docket No. RM10-23-000, 136 FERC ¶ 61,051 (2011), 76 Fed. Reg. 49,842 (Aug. 11, 2011).
- Effective Date: October 11, 2011

Background

- Order No. 888
 - Minimum requirements for transmission planning
 - *E.g.*, account for network customers in transmission planning
 - *E.g.*, construct new facilities for requests of long-term firm point-to-point transmission customers
- Order No. 890
 - FERC: lack of criteria in the OATT for transmission provider planning obligation
 - FERC: absence of requirement for planning process be open to customers, competitors, and state commissions
 - FERC: absence of requirement that key assumptions and data be available to customers
 - Attachment K
- Nine Planning Principles from Order No. 890
 - Coordination
 - Openness
 - Transparency
 - Information exchange
 - Comparability
 - Dispute resolution
 - **Regional participation**
 - Economic planning studies
 - **Cost allocation for new projects**

The Need for Reform

- Order No. 1000 is intended to address deficiencies in transmission planning and cost allocation processes that remain following the issuance of Order No. 890:
 - Lack of requirement for a regional transmission plan
 - Transmission needs driven by public policy requirements
 - Renewable energy resources
 - Energy efficiency / demand response
 - State economic development policies
 - Obstacles to non-incumbent transmission projects developers' participation in regional transmission planning processes
 - Lack of coordination between transmission planning regions
- FERC concludes that existing methods for allocating costs of new transmission are not just and reasonable because they inhibit the development of efficient, cost-effective transmission facilities necessary to produce just and reasonable rates

Legal Basis for Action

- The Commission's issuance of Order No. 1000 was pursuant to its authority under Section 206 of the Federal Power Act.
 - Section 206 authority is necessary to correct deficiencies in transmission planning and the allocation of costs. Order No. 1000 will help ensure that Commission-jurisdictional services are provided at rates, terms and conditions that are just and reasonable and not unduly discriminatory.
 - Section 202(a) does not preclude issuance of Order No. 1000 because it applies only to voluntary operation of facilities, not planning of facilities.
 - The Commission noted that no party sought judicial review of its authority in Order No. 890 to adopt planning and allocation principles, which Order No. 1000 enhances.

Order No. 1000: Transmission Planning

- **Participation in Regional Planning Process**
 - Order No. 890 included a regional participation principle
 - Sharing of system plans
 - Identification of system enhancements that could relieve congestion of integrate new resources
 - Order No. 1000 requires public utility transmission providers to participate in a regional transmission planning process that meets seven transmission planning principles: (1) coordination; (2) openness; (3) transparency; (4) information exchange; (5) comparability; (6) dispute resolution; (7) economic planning studies.
 - Regional planning processes should identify transmission facilities that cost-effectively meet the needs of transmission providers, customers, and other stakeholders

Order No. 1000: Transmission Planning

- Order No. 1000 did not specify the geographic area that would constitute a region for planning purposes.
 - The Commission defers to transmission providers to form regions.
- Non-transmission alternatives must be considered in regional planning processes on a comparable basis to transmission alternatives.
 - However, the Commission did not specify which or how non-transmission alternatives should be considered.
- Merchant transmission developers are not required to participate in regional planning.
 - If a merchant transmission developer participates, it must provide sufficient data to allow for an evaluation of the impact of the project on other facilities in the region.

Order No. 1000: Transmission Planning

- **Public Policy Driven Projects**
 - Transmission needs driven by state or federal policies
 - Renewable energy
 - Demand response
 - Order No. 1000 requires transmission providers to include in their OATTs provisions that explicitly provide for consideration of public policy requirements established by state or federal laws or regulations
 - OATTs must specify procedures/mechanisms for evaluating projects that are proposed to achieve public policy requirements
 - The Commission concluded, however, that Order No. 1000 does not create any obligation to satisfy a public policy requirement
 - Failure to comply with a public policy requirement will not constitute a violation of a transmission provider's OATT

Order No. 1000: Transmission Planning

- **Interregional Coordination**
 - Order No. 1000 requires regional transmission planning processes to coordinate with neighboring planning regions
 - Process should address evaluation of facilities that are proposed to be located in both regions
 - Interregional coordination is limited to neighboring regions within the same interconnection
 - FERC encourages interconnection-wide planning
 - A transmission provider will not be deemed non-compliant if it fails to reach agreement regarding interregional procedures with foreign systems (e.g. Canada)
 - Joint evaluation of an interregional project must occur within the same general timeframe as each region's individual consideration of the project

Order No. 1000: Transmission Planning

- **Interregional Coordination (cont.)**
 - Interregional procedures must provide for the exchange of planning data and information at least annually
 - Stakeholder input is required for the development of interregional procedures
 - The procedures themselves, however, are not required to provide for stakeholder input
 - Transmission providers in each pair of neighboring regions must develop the same language to be included in their OATTs that describes the interregional procedures for that pair of regions

Order No. 1000: Transmission Planning

- **Non-incumbent Transmission Developer Participation in Transmission Planning Processes**
 - FERC concerns:
 - Undue discrimination to deny a non-incumbent transmission provider that sponsors a project the same rights as an incumbent utility
 - Non-incumbent transmission developers may be less likely to participate in regional transmission planning processes
 - Planning processes that deter non-incumbent transmission developers may not result in cost-effective transmission solutions

Order No. 1000: Transmission Planning

- **Non-incumbent Transmission Developer Participation in Transmission Planning Processes**
 - Transmission providers must remove from OATTs (or other agreements) any federal right of first refusal for an incumbent transmission provider to construct facilities included in a regional transmission plan
 - Must describe sponsors' right to construct facilities
 - If an incumbent transmission project developer may recover the cost of a transmission facility through a regional cost allocation method, a non-incumbent must be able to do so as well
 - The Commission declined to adopt a proposal permitting a developer to maintain a right to build a project that is proposed but not selected
 - If a non-incumbent developer abandons a project that was proposed to meet reliability obligations, a public utility will not be subject to a reliability standard enforcement action for a reliability violation that occurred due to the failure of the project to be constructed and placed into operation.

Order No. 1000: Transmission Planning

- **Non-incumbent Transmission Developer Participation in Transmission Planning Processes**
 - Limitations:
 - Reforms only apply to facilities evaluated in a regional transmission planning process and selected for the regional plan for the purpose of cost allocation
 - No modification of existing obligations for incumbent utilities to build unsponsored projects identified as necessary
 - Right of incumbent utility to build, own, and recover costs for upgrades to its own facilities are not affected (e.g. tower change-outs or reconductoring)
 - Proposed reforms only affect rights of first refusal established in OATTs or FERC-jurisdictional agreements
 - Non-incumbent developers not required to use regional cost allocation process / regional transmission planning process

Order No. 1000: Cost Allocation

Cost Allocation Methods

- Regional Cost Allocation Method(s): transmission providers must have in place a method, or set of methods, for allocating the costs of new transmission facilities selected in the regional transmission plan for purposes of cost allocation.
 - Final Rule does not specify how costs of an individual regional transmission facility should be allocated.
 - Transmission planning regions may develop different methods for different types of transmission projects.
 - If the transmission provider is in an RTO/ISO, then the cost allocation method(s) must be set forth in the RTO/ISO OATT.
 - For non-RTO/ISO transmission planning regions, each transmission provider in the region must set forth in its OATT the same language regarding the cost allocation method(s) used in its transmission planning region.

Order No. 1000: Cost Allocation

Cost Allocation Methods

- Interregional Cost Allocation Method(s): Transmission providers, together with transmission providers in the same planning region and neighboring (two or more) planning regions, must have a common method(s) for allocating the costs of new interregional transmission facilities among the beneficiaries of that transmission facility in the neighboring (two or more) transmission planning regions in which the facility will be located.
 - Final Rule does not mandate a single national approach to interregional cost allocation, and will allow flexibility in cost allocation approaches.
 - Planning regions can develop a different cost allocation method(s) for different types of projects, but the method(s) should apply to all transmission facilities of the same type.
 - Final Rule does not specify how costs for a specific interregional transmission facility should be allocated.

Order No. 1000: Cost Allocation

Principles for Cost Allocation

- A Principles-Based Approach
 - Six (6) regional and interregional cost allocation principles.
 - Final Rule declines to adopt other additional principles proposed by commenters.
 - Transmission providers must be given the opportunity to determine their own cost allocation method(s).
 - If no agreement can be reached on a method, FERC will develop an appropriate cost allocation method.
 - Each public utility transmission provider must make individual compliance filings that include its own proposed method(s).

Principles for Cost Allocation

Principle 1: Costs must be allocated in a way that is roughly commensurate with benefits

Regional Cost Allocation Principle 1

The cost of transmission facilities must be allocated to those within the transmission planning region that benefit from those facilities in a manner that is at least roughly commensurate with estimated benefits. In determining the beneficiaries of transmission facilities, a regional transmission planning process may consider benefits including, but not limited to, the extent to which transmission facilities, individually or in the aggregate, provide for maintaining reliability and sharing reserves, production cost savings and congestion relief, and/or meeting Public Policy Requirements.

Interregional Cost Allocation Principle 1

The costs of a new interregional transmission facility must be allocated to each transmission planning region in which that transmission facility is located in a manner that is at least roughly commensurate with the estimated benefits of that transmission facility in each of the transmission planning regions. In determining the beneficiaries of interregional transmission facilities, transmission planning regions may consider benefits including, but not limited to, those associated with maintaining reliability and sharing reserves, production cost savings and congestion relief, and meeting Public Policy Requirements.

Principles for Cost Allocation

Principle 1: Costs must be allocated in a way that is roughly commensurate with benefits

- Final Rule does not prescribe particular definition of “benefits” or “beneficiaries”.
- Cost causation is the foundation of an acceptable cost allocation method.
- Final Rule does not extend scope of beneficiaries for new transmission facilities such that costs may be involuntarily allocated to those within an adjacent region that benefit from those facilities.
- If a non-public utility transmission provider becomes a part of a transmission planning region and is found to be a beneficiary of a transmission facility, the non-public utility is responsible for the costs associated with such benefits.

Principles for Cost Allocation

Principle 2:

No involuntary allocation of costs to non-beneficiaries

Regional Cost Allocation Principle 2

Those that receive no benefit from transmission facilities, either at present or in a likely future scenario, must not be involuntarily allocated any of the costs of those transmission facilities.

Interregional Cost Allocation Principle 2

A transmission planning region that receives no benefit from an interregional transmission facility that is located in that region, either at present or in a likely future scenario, must not be involuntarily allocated any of the costs of that transmission facility.

Principles for Cost Allocation

Principle 2:

No involuntary allocation of costs to non-beneficiaries

- No threshold voltage level to define which benefits would be ineligible for cost allocation.
- No allocation where benefits received are trivial in relation to the costs to be borne.
- Cost allocation methods must provide for allocation of the *entire* prudently incurred cost of a transmission project to prevent stranded costs.
- Cost allocation methods may consider benefits and costs of groups of transmission facilities, or they may apply the principle on a project-by-project basis.
 - Each individual transmission facility in a group of facilities is not required to show benefits to every beneficiary allocated a share of costs of that group; but the aggregate costs of the group of facility must be allocated roughly commensurate with aggregate benefits.

Principles for Cost Allocation

Principle 3: Benefits to Cost Threshold Ratio

Regional Cost Allocation Principle 3

If a benefit to cost threshold is used to determine which transmission facilities have sufficient net benefits to be selected in a regional transmission plan for the purpose of cost allocation, it must not be so high that transmission facilities with significant positive net benefits are excluded from cost allocation. A public utility transmission provider in a transmission planning region may choose to use such a threshold to account for uncertainty in the calculation of benefits and costs. **If adopted, such a threshold may not include a ratio of benefits to costs that exceeds 1.25** unless the transmission planning region or public utility transmission provider justifies and the Commission approves a higher ratio.

Interregional Cost Allocation Principle 3

If a benefit-cost threshold ratio is used to determine whether an interregional transmission facility has sufficient net benefits to qualify for interregional cost allocation, this ratio must not be so large as to exclude a transmission facility with significant positive net benefits from cost allocation. The public utility transmission providers located in the neighboring transmission planning regions may choose to use such a threshold to account for uncertainty in the calculation of benefits and costs. **If adopted, such a threshold may not include a ratio of benefits to costs that exceeds 1.25** unless the pair of regions justifies and the Commission approves a higher ratio.

Principles for Cost Allocation

Principle 3: Benefits to Cost Threshold Ratio

- Use of a benefit-to-cost ratio threshold is not required.
- If a threshold is used, a benefit to cost ratio of 1.25 is a reasonable ratio that will not act as a barrier to the development and construction of valuable new transmission projects.
- Transmission providers may use a lower ratio without a separate showing, or may use a higher threshold if they justify it to the Commission and the Commission approves it.

Principles for Cost Allocation

Principle 4: Allocation to be solely within transmission planning region(s) unless those outside voluntarily assume costs

Regional Cost Allocation Principle 4

The allocation method for the cost of a transmission facility selected in a regional transmission plan must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs. However, the transmission planning process in the original region must identify consequences for other transmission planning regions, such as upgrades that may be required in another region and, if the original region agrees to bear costs associated with such upgrades, then the original region's cost allocation method or methods must include provisions for allocating the costs of the upgrades among the beneficiaries in the original region.

Interregional Cost Allocation Principle 4

Costs allocated for an interregional transmission facility must be assigned only to transmission planning regions in which the transmission facility is located. Costs cannot be assigned involuntarily under this rule to a transmission planning region in which that transmission facility is not located. However, interregional coordination must identify consequences for other transmission planning regions, such as upgrades that may be required in a third transmission planning region and, if the transmission providers in the regions in which the transmission facility is located agree to bear costs associated with such upgrades, then the interregional cost allocation method must include provisions for allocating the costs of such upgrades among the beneficiaries in the transmission planning regions in which the transmission facility is located.

Principles for Cost Allocation

Principle 4: Allocation to be solely within transmission planning region(s) unless those outside voluntarily assume costs

- Transmission providers may negotiate an agreement to share a transmission facility's costs with the beneficiaries in another transmission planning region.
- However, transmission providers in one planning region may not unilaterally allocate costs to beneficiaries in another region.
 - This may lead to some beneficiaries of transmission facilities to escape cost responsibility.

Principles for Cost Allocation

Principle 5: Transparent method for determining benefits and identifying beneficiaries

Regional Cost Allocation Principle 5

The cost allocation method and data requirements for determining benefits and identifying beneficiaries for a transmission facility must be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed transmission facility.

Interregional Cost Allocation Principle 5

The cost allocation method and data requirements for determining benefits and identifying beneficiaries for an interregional transmission facility must be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed interregional transmission facility.

Principles for Cost Allocation

Principle 5: Transparent method for determining benefits and identifying beneficiaries

- Requiring cost allocation methods and data requirements to be open and transparent ensures that such methods are just and reasonable.
- Adequate documentation will allow stakeholders to determine how the cost allocation method was applied to a proposed transmission facility.
- Stakeholder access to cost allocation information will help aid in the development and construction of new transmission and avoid litigation.

Principles for Cost Allocation

Principle 6:

Different methods for different types of facilities

Regional Cost Allocation Principle 6

A transmission planning region may choose to use a different cost allocation method for different types of transmission facilities in the regional transmission plan, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements. Each cost allocation method must be set out clearly and explained in detail in the compliance filing for this rule.

Interregional Cost Allocation Principle 6

The public utility transmission providers located in neighboring transmission planning regions may choose to use a different cost allocation method for different types of interregional transmission facilities, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements. Each cost allocation method must be set out clearly and explained in detail in the compliance filing for this rule.

Principles for Cost Allocation

Principle 6: Different methods for different types of facilities

- Different cost allocation methods for different types of transmission projects is permitted.
- States are encouraged to participate actively in transmission planning processes, particularly with respect to transmission needs driven by public policy requirements.
- Transmission planning regions may determine for themselves how to distinguish between types of facilities.
- Transmission projects proposed to address a public policy requirement must be eligible for selection in a regional transmission plan for purposes of cost allocation.
 - Such facilities cannot be designated as a type of facility for which cost allocation is to be determined on a case-by-case basis.

Application of Cost Allocation Principles

- Extra High Voltage (EHV) Facilities
 - No rebuttable presumption that the costs of EHV facilities (345 kV and above) should be allocated widely across a transmission planning region.
 - Planning regions are permitted to allocate EHV facility costs across regions if they choose.
- Participant Funding
 - Not permitted to be the cost allocation method for regional or interregional transmission projects selected in a regional transmission plan for purposes of cost allocation.
 - Does not preclude voluntary participant funding
 - No applicability to existing facilities with existing cost allocation mechanism.

Application of Cost Allocation Principles

- Regional vs. Interregional Cost Allocation Methods
 - Methods may be different.
 - Transmission providers may use their regional cost allocation method to allocate their share of costs of an interregional facility, but are not required to do so.
 - One region does not need to accept the regional planning (and cost allocation) method(s) of another planning region with which it participates in interregional coordination.
 - Each planning region may decide for itself how to allocate the costs of a new interregional transmission facility.

Other Cost Allocation Matters

- No new findings or rules regarding:
 - Generator Interconnection
 - Pancaked Rates
 - Rate Incentives
 - Variable Energy Resources
 - Joint Ownership
 - Cost-Recovery for Non-Transmission Alternatives

Order No. 1000

Compliance and Implementation

- 76 Fed. Reg. 49,842 (Aug. 11, 2011)
- Effective Date: October 11, 2011
- RTOs/ISOs may make a filing which demonstrates that existing transmission planning processes are in compliance with Final Rule.
- Transmission providers that are members of RTOs/ISOs may demonstrate compliance through the RTO/ISO filing.

Order No. 1000

Compliance and Implementation

- 12 Months from Effective Date – October 11, 2012
 - Compliance Filing: OATT amendments
 - Public policy requirements
 - Elimination of federal right of first refusal
 - Qualification criteria to propose projects
 - Requirements for proposed transmission projects
 - Transparent and not unduly discriminatory process
 - Method(s) for allocation of costs of new transmission facilities selected in regional transmission plans for purposes of cost allocation

Order No. 1000

Compliance and Implementation

- 18 Months from Effective Date – April 11, 2013
 - Compliance Filing
 - Method(s) to identify and evaluate interregional transmission facilities
 - Procedures to study a proposed transmission project jointly evaluated in multiple regions
 - Interregional transmission coordination procedures
 - Maintenance of website or email list to communicate information
 - OATT language for each pair of regions describing interregional transmission coordination
 - Interregional cost allocation method(s)

Order No. 1000

Reciprocity

- Final Rule does not exercise authority under FPA section 211A to require non-public utility transmission providers to comply with the provisions of the Final Rule.
- FERC may exercise its authority under FPA section 211A in the future on a case-by-case basis.
- Each non-public utility transmission provider with a safe harbor tariff can decide whether it wishes to retain safe harbor status by fulfilling the transmission and cost allocation requirements in the Final Rule.
- FERC expects non-public utility transmission providers to participate in transmission planning and cost allocation processes

Questions / Comments

**Order No. 1000:
Transmission Planning and Cost Allocation**
August 18, 2011



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