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Practice Update

FERC Directs PJM to Establish New Rules and Guidelines for Co-Located Load and Behind-The-Meter Generation

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On December 18, 2025, the Federal Energy Regulatory Commission (FERC or Commission) directed PJM Interconnection (PJM), the nation's largest regional transmission organization, to establish transparent and fair rules for the co-location of large loads with grid-connected generation facilities. The Commission approved the order by a vote of 5-0, an increasingly rare outcome that suggests consensus among the Commissioners regarding the principles of co-location of large loads laid out therein. While limited to PJM, the order is a strong indication that FERC will soon adopt nationwide rules for co-location of large loads, and large load interconnection to the interstate grid, particularly given the Commission's recent Advanced Notice of Proposed Rulemaking (ANOPR) seeking information and comment on the rules that should govern interconnection of large loads. Such rules will help to unlock additional power supply options for developers of data centers across the country, as power will often be the limiting factor for new development for the next five years.

The order results from a show cause proceeding initiated by FERC in February regarding the rules for co-location arrangements in PJM's tariff. Co-location arrangements are defined by FERC as referring to both the co-located load and the associated

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generator, and are becoming increasingly common in the PJM region. Since the issuance of the show cause order, entities have continued to raise issues involving co-location arrangements to the Commission. Ultimately, the Commission found PJM's tariff to be unjust and unreasonable because it does not contain clear provisions regarding the rates, terms, and conditions of service for such arrangements.

PJM must submit revisions to its tariff in response to the Commission's order. In doing so, PJM must include four service options for co-location arrangements:

1. Network integration transmission service (NITS) (i.e., traditional, fully firm service);
2. A new interim, non-firm transmission service that only customers seeking NITS may request;
3. A new firm contract demand transmission service; or
4. A new non-firm contract demand transmission service.

To be eligible for either firm or non-firm contract demand transmission service, a customer must deploy special protection schemes to effectively limit their energy withdrawals from the transmission system to a specified MW quantity — i.e., the contract demand — and the load must be separately metered from any associated generators. Energy withdrawals above the contract demand by customers taking either firm or non-firm contract demand service will be prohibited under PJM's tariff.

FERC also addressed the current Behind-the-Meter Generation (BTMG) rules in PJM's tariff, finding them to be no longer just and reasonable. For load-serving entities, the BTMG rules reduce transmission charges by netting output from BTMG in the calculation of their peak demand. FERC found such netting to violate cost causation principles, as it inappropriately shifts costs onto other transmission customers. Thus, in its compliance filing, the Commission directed PJM to propose a new MW threshold for the amount of load that network customers may net by using BTMG, as discussed in the body of FERC's order, and to establish a transition period for network customers already using the BTMG rules.

PJM will have to submit an informational report detailing the reliability of co-location arrangements by January 19, 2026. The report must include information about proposals that were presented in PJM's Critical Issue Fast Path stakeholder process, such as the expedited interconnection process for shovel-ready generation projects, modifications to PJM's reliability backstop mechanism to respond to acute resource adequacy shortfalls, and demand flexibility measures to reduce the need for new generation.

In addition to the informational report, PJM will have 60 days, or until February 16, 2026, to file a revised tariff setting forth the required terms and conditions for a generator seeking to serve a co-located load and the transmission service options for co-location arrangements. Once PJM submits these tariff revisions, FERC will issue a public notice providing for a 60-day comment period for interested parties, consistent with Section 205 of the Federal Power Act. This proceeding, and the comments submitted therein, will determine the "rules of the road" for co-location arrangements in the PJM region until the Commission acts on the ANOPR.

Lastly, FERC instituted a paper hearing regarding the rates, terms, and conditions of the interim, non-firm transmission service, firm contract demand transmission service, and non-firm contract demand transmission service. PJM must submit its initial brief on or before February 16, 2026. The deadline to file responses to PJM's initial brief will be March 18, 2026, and the deadline to file replies to those responses will be April 17, 2026. This paper hearing will present interested parties an opportunity to articulate a position regarding these types of transmission service to the Commission, including providing a response to any PJM proposal that customers perceive as placing an undue cost or burden on large-load customers.
