



New England States Committee on Electricity

To: New England Transmission Owners (NETOs)
From: NESCOE
Date: February 8, 2023
Subject: Asset Condition Projects and Process Improvements
Cc: ISO-NE; Planning Advisory Committee (PAC)

NESCOE appreciates the NETOs' close coordination over many years with ISO New England (ISO-NE) on transmission planning and operations, and their role in providing reliable system operations. Looking ahead, modernizing planning processes and protecting system reliability will be fundamental in the transition to the clean energy future. To that end, NESCOE has expressed the need to maximize the use of *all* of our existing transmission assets as an efficient and cost-effective path forward.¹ Maintaining transmission assets that are aged, damaged or otherwise obsolete—Asset Condition Projects—is, and will continue to be, central to our power system. We write to ask for the NETOs' collaboration in updating planning around Asset Condition Projects.

Investments in Asset Condition Projects have grown steadily. Today they are a material portion of the overall regional network service charge that consumers ultimately pay. Asset Condition Projects have an important role in system reliability. However, the process by which Asset Condition Projects are developed by NETOs, reviewed by ISO-NE, states and the public, approved for rate recovery, and considered in overall transmission system needs and planning is antiquated and ultimately, inadequate. It is the right time to implement planning process improvements to protect consumers from excessive costs and to maximize the use of all transmission assets by moving Asset Condition Projects from the current siloed, notice-based method into meaningful and holistic transmission system planning.

We offer below some suggested process enhancements to improve the transparency, predictability, and cost discipline of Asset Condition Projects in the nearest term, and to enable the region to better incorporate them into holistic transmission planning to allow consumers, and the system, to realize their full benefits. NESCOE is interested in working collaboratively and expeditiously with NETOs, ISO-NE and stakeholders on such reforms.

Background: Asset Condition Projects' Process and Materiality

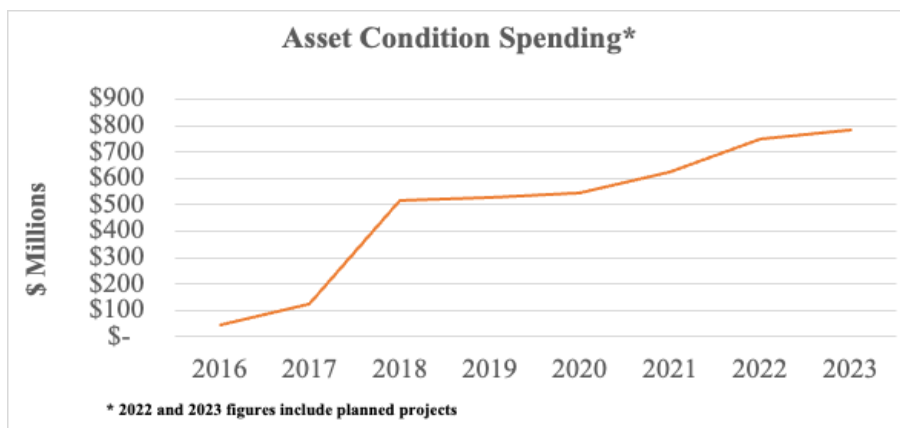
As you know, the regional transmission planning process that ISO-NE employs to develop reliability projects is set forth in Attachment K of the Open Access Transmission Tariff

¹ NESCOE, New England States' Vision for a Clean, Affordable, and Reliable 21st Century Regional Electric Grid (Oct 2020) at 3, at https://nescoe.com/wp-content/uploads/2020/10/NESCOE_Vision_Statement_Oct2020.pdf.

(OATT).² Central to this process are requirements related to collaboration among ISO-NE, NETOs, and the public, through the PAC. From developing assumptions for transmission system needs assessments to selecting solutions, ISO-NE is required to present its analysis and recommendations to the PAC and to consider the input and feedback it receives.

Asset Condition Projects, on the other hand, are not subject to these requirements. Instead, the process is simply for NETOs to provide to the PAC notice-style, informational presentations on Asset Condition Projects with an estimated cost of \$5 million or greater.³ NESCOE is not aware of any Asset Condition Projects with a cost estimate over \$5 million that have ever been withdrawn or materially modified based on PAC feedback. NESCOE has no information about the overall number of Asset Condition Projects over time estimated to cost less than \$5 million.

This visibility into Asset Condition Projects is significantly less than the visibility into transmission projects that move through the planning process that ISO-NE leads. Yet, the costs of Asset Condition Projects are nonetheless allocated to consumers across New England in the same way as the reliability projects that ISO-NE selects, *i.e.*, on a *pro rata* basis across regional network load.



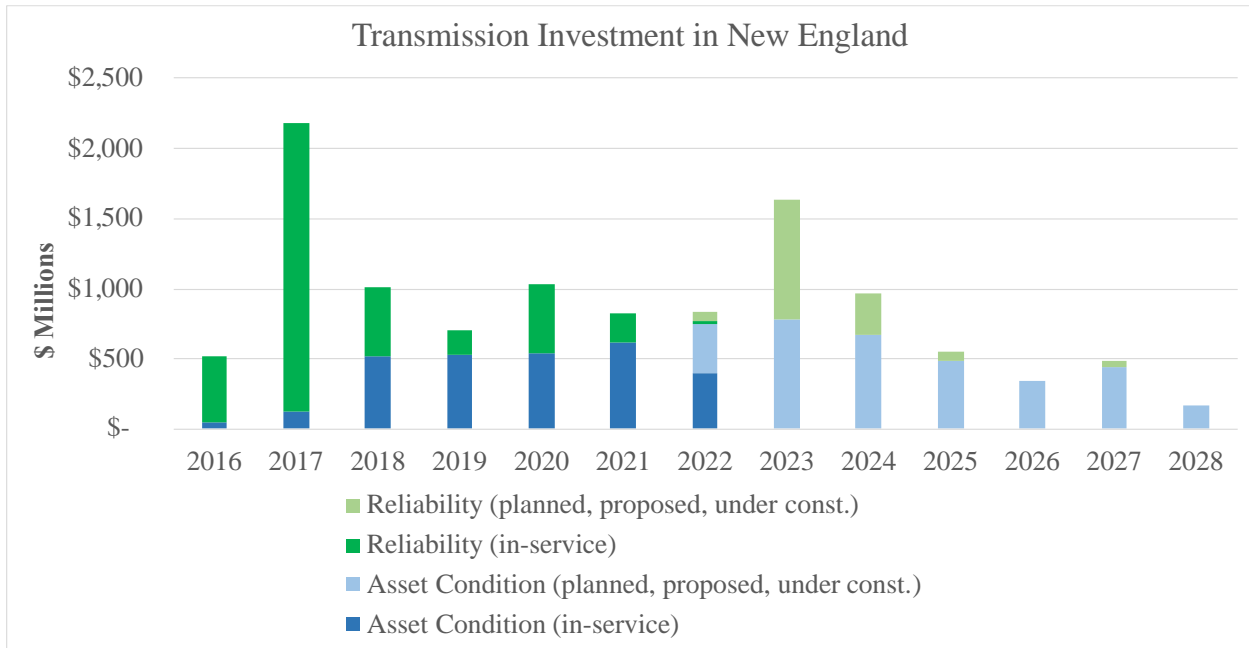
As noted above, Asset Condition Projects are an increasingly material component of the overall regional network service charge. They now outpace ISO-NE-led cost upgrades in the Regional System Plan (RSP). In March 2016, when ISO-NE first began tracking Asset Condition Projects and making them visible in a central location, there were \$58 million in Asset Condition Projects planned or under construction.⁴ Since that time, over \$2.787 billion of Asset Condition Projects

² ISO New England Open Access Transmission Tariff, Attachment K, at https://www.iso-ne.com/static-assets/documents/2021/07/sect_ii_att_k.pdf.

³ We understand this threshold was selected to be consistent with the requirements to submit a transmission cost allocation (TCA) application. The TCA(s) and associated proposed plan application(s) for asset condition projects are submitted to the Reliability Committee for approval. As with the PAC, NESCOE is not aware of any projects that have been rejected or materially modified based on Reliability Committee (RC) feedback. *See* https://www.iso-ne.com/static-assets/documents/2016/03/ui_coastal_flooding_iso_responses.pdf.

⁴ In 2016, ISO-NE created a New England Asset-Condition Update List to capture all asset-condition PAC presentations that occurred after May 18, 2015. ISO-NE updates the New England Asset-Condition Update List

have been placed in service, and \$3.255 billion more are proposed, planned, or under construction.⁵ By way of comparison, ISO-NE-identified reliability projects currently proposed, planned, or under construction are estimated at \$1.317 billion.⁶



Source: Final RSP Project List – October 2022; Final Asset Condition List – October 2022.

Despite the magnitude of Asset Condition Project costs passed onto consumers compared to the costs of ISO-NE-identified reliability projects, they are subjected to materially less regional review and scrutiny.

Also, there is very little forewarning to states, stakeholders and the paying public as to when these costs will be presented and how significant they will be. The lack of meaningful notice to ISO-NE, states and stakeholders impedes meaningful review. For example, in a July 2022 presentation to the PAC, New England Power Company reviewed several Asset Condition Projects with estimated costs totaling \$449.95 million.⁷ Consumer investment in nearly a half a billion dollars in transmission infrastructure warrants more advance notice, scrutiny, and opportunity for adjustment based on considered feedback.

Additionally, there have been instances of unforeseen cost variances where cost estimates for Asset Condition Projects have increased significantly over the course of several years, again with

three times per year. March 2016 ISO-NE Asset Condition Update, at <https://www.iso-ne.com/system-planning/system-plans-studies/rsp/?load.more=1>.

⁵ ISO-NE. October 2022 Asset Condition Project List, at <https://www.iso-ne.com/system-planning/system-plans-studies/rsp>.

⁶ ISO-NE. October 2022 RSP Project List, at <https://www.iso-ne.com/system-planning/system-plans-studies/rsp>.

⁷ July 20, 2022 Planning Advisory Committee Minutes, Items 2.0 and 3.0, at https://www.iso-ne.com/static-assets/documents/2022/08/072022_pac_minutes_ml.pdf.

little warning or review. For example, Avangrid recently provided an update on the Milvon to West River segment of its Railroad Corridor Transmission Line Asset Condition project, noting that its 2018 cost estimate for its preferred solution alternative of \$196.6 million had almost doubled to \$345.4M.⁸

We understand that NETOs typically provide ISO-NE Asset Condition Project presentations with six weeks' notice. They are made publicly available approximately a week before the applicable PAC meeting. This brevity of notice, coupled with the lack of requirements for NETOs to receive comment or return to the PAC for further presentations or adjustments, affords states and stakeholders scant opportunity to weigh-in on the impact of millions (and sometimes of hundreds of millions) of dollars of unilateral utility decision-making. It also siloes billions of dollars worth of transmission investment away from broader transmission system needs assessments.

Suggested Process Improvements

Near-Term Visibility-related Process Improvements

There are a number of near-term visibility and notice-related changes that the NETOs could make to help to mitigate the concerns above.

- First, NETOs can and should bring greater transparency and notice in connection with Asset Condition Projects. NESCOE suggests that NETOs submit and present to the PAC, on an annual basis, one-, two-, and five-year Asset Condition Project capital spending plans. NETOs in other regions of the country provide stakeholders longer-term views into Asset Condition Projects and the NETOs' internal financial and operational planning and capital spending plans may provide such longer-term projections.
- Second, NETOs should include in their Asset Condition Project presentations to PAC an explanation as to the planning assumptions used and details on cost estimation.
- Third, given the substantial cost escalation for some Asset Condition Projects, the NETOs should take advantage of each others' cost estimation and management practices to bring the benefit of best practices to all companies serving and collecting revenue from New England consumers. A regular discussion with PAC about such practices, and any modifications that emerge, would be appropriate as well.

Fundamental Planning Efficiency and Rightsize-Related Planning Improvements

More fundamental Asset Condition Project planning reform is required to address fully the gaps in the current system planning process and to protect consumers from excessive costs. NESCOE asks the NETOs to begin coordinating with ISO-NE, in consultation with the PAC, to discuss integrating Asset Condition Project planning into the ISO-NE-led regional planning process. The upcoming discussions on right-sizing regional transmission facilities is a well-timed opportunity to begin such a dialogue.⁹

⁸ See Avangrid Railroad Corridor Transmission Line Asset Condition Assessment Update (November 15, 2022) at 4, at https://www.iso-ne.com/static-assets/documents/2022/11/a04_railroad_corridor_transmission_line_asset_condition_assessment_update.pdf.

⁹ See ISO New England's 2023 Annual Work Plan (AWP) (Oct. 12, 2022) at 6, at https://www.iso-ne.com/static-assets/documents/2022/10/2023_awp_final_10_12_22.pdf.

The question of whether and to what extent to “right-size” transmission to account for broader potential needs will arise more often in the future as the region considers transmission expansion to account for clean energy resources and state decarbonization requirements.¹⁰ This was a driver behind NESCOE’s ONE Transmission concept¹¹ and our request that ISO-NE include in its 2023 Work Plan an allocation of resources to develop standards or guidelines for right-sizing future transmission projects, including asset condition and reliability projects.¹² Confidence in a right-sizing approach requires confidence in the first instance that the underlying project is warranted and prudent. The current framework makes it difficult to assess Asset Condition Projects in this context. Given NETOs’ interest and role in modernizing our transmission system to accommodate a cleaner resource mix, we are confident there will be shared interest in such process enhancements.

In 2020, we asked ISO-NE to reform transmission planning processes to enable the integration of clean energy resources at the lowest possible cost.¹³ ISO-NE responded promptly and positively with new analysis and a new lasting analytical approach. It also commenced work on tariff changes to provide a pathway for states to operationize study results according to the states’ interests and direction. We are enthusiastic about making additional and more holistic changes to include Asset Condition Projects in order to support efficient investment in a reliable, clean energy system, developed in the most cost conscious way. NESCOE looks forward to working on this with NETOs, ISO-NE and the PAC.

¹⁰ NESCOE Memo to PAC on Right-Sizing Transmission Projects, April 11, 2022 (“NESCOE Right-Sizing Memo”) at 1, at https://www.iso-ne.com/static-assets/documents/2022/04/nescoc_memo_right_sizing_transmission_projects.pdf.

¹¹ https://nescoc.com/wp-content/uploads/2021/04/ONE_Tx_PAC_4-14-21.pdf.

¹² NESCOE Right-Sizing Memo at 2.

¹³ NESCOE Vision Statement, October 2020 at 5, at <https://nescoc.com/resource-center/vision-stmt-oct2020/>.