

New England States Committee on Electricity

To: Northeast Power Coordinating Council
From: New England States Committee on Electricity
Re: Comments on Proposed Cost Effectiveness Analysis Procedure
Date: September 19, 2011

The New England States Committee on Electricity (“NESCOE”) has reviewed NPCC’s proposed Cost Effectiveness Analysis Procedure (“CEAP”) and submits these comments in response to the proposal. NESCOE is New England’s Regional State Committee and is governed by a Board appointed by the six New England Governors. These comments represent the collective view of the six New England States.¹

The States are strongly supportive of NPCC’s effort to integrate cost effectiveness concerns into the standards development process. In support of the initiative, NESCOE offers the following recommendations:

First, NESCOE seeks clarification regarding the applicability of the standards that will be subject to the CEAP. NESCOE believes NPCC intends to apply the CEAP only to the “regional standards” for the Bulk Power System as currently defined by the NPCC performance based criteria; however, the procedure could be read to apply to the Bulk Electric System, which will be defined by the NERC bright line standard currently under development. NPCC should clarify the scope of the proposed procedure.

The procedure should provide a clear role for States. While not all States are members of NPCC, we have a unique interest in the outcome of the cost/benefit analyses that NPCC is proposing to undertake. In addition, the States have obligations under State law to make our

¹ These comments have also been shared with staff of the New York State Department of Public Service, and New York’s Diane Barney endorses them.

own assessments of the cost impacts associated with the implementation of reliability measures.

For these reasons, the procedure should ensure that the Regional Standards Committee (“RSC”) has the benefit of the States’ views at every stage of the cost-effectiveness assessment. State input should be considered in Phase 1, when the RSC is determining whether or not to accept a Regional Standard Authorization Request (“RSAR”).

Understanding State views at this early stage is particularly important because, as the proposed CEAP recognizes, the decision to pursue development of a standard necessarily entails a judgment about the level of reliability that is to be achieved or maintained. The States should have a role in defining what constitutes an “Adequate Level of Reliability” and may conclude that for some proposals a full Cost Effectiveness Analysis (“CEA”) is not necessary.² However, if the process is to be flexible in this way, the RSC must consider the views of the States on the cost/benefit analysis performed in Phase 1.

In Phase 2, when performing a CEA, the RSC should ensure that the Working Group or Task Force assigned to conduct the assessment specifically seeks State comment and input; furthermore, if any State requests it, the RSC should share the data and responses gathered from the industry. The level of documentation obtained through the assessment process must be sufficient to allow States and other observers to evaluate the reasonableness of the CEA’s conclusions. The RSC should have the benefit of the States’ broad experience with these types of evaluations.

The assessment process and resulting RSC determinations should also be more transparent than the draft CEAP suggests, to meet the needs of the States as well as other interested parties. States’ views and recommendations should be included in the information presented

² “Adequate Level of Reliability” can have a wide variety of interpretations. NESCOE appreciates the solar magnetic disturbance example provided in the draft CEAP but suggests that the drafting team develop additional examples to further define the level of adequacy being sought.

to the RSC, and the RSC should be required to post the rationale for any determination that a standard is cost-effective. The RSC should also explain the basis for its conclusion and identify the information it relied on, including at minimum providing the number of responses received and a sector and regional breakdown of those responses. The CEAP should recognize that a State may appeal the RSC finding within the NPCC governance structure. In any case where the States disagree with NPCC on the cost-effectiveness of a proposed standard, the NPCC Board should include the States' position in its submission of the standard to NERC.

NPCC should additionally consider mechanisms it may be able to implement to encourage strong industry participation. Both phases of the CEAP—the Cost Benefit Analysis (CBA) and the CEA—rely in significant part on the solicitation of industry opinion regarding costs. The CBA also asks for industry input on the benefits of a proposed course of action. The CEAP proposal acknowledges the importance of participation in providing that the RSC "will judge whether or not sufficient stakeholder responses were received to provide valid results for analysis." NESCOE believes that the adequacy of the industry's responses and the quality of the data produced are critical to the credibility of the CEAP process. In New England, the level of costs estimated by transmission owners have frequently been substantially less than actual costs and we therefore urge NPCC to apply a rigorous standard to the cost data submitted.

NESCOE also suggests that NPCC provide information by region in any CEAP report, rather than only on an interconnection-wide basis, so that State decision makers have a fuller understanding of the cost/benefit impacts on the New England region of a proposed standard. NESCOE also notes an ambiguity at item 6 of the draft Phase 2 survey questions: it is unclear whether the question seeks a probability assessment or an assessment of economic exposure.

NESCOE would support including the application of probabilistic risk assessments to both Phase I and Phase II evaluations as a necessary component of any cost/benefit analysis. Under Phase I, assessment of a proposed standard or "reliability related need" must also

include a discussion of the likelihood of an occurrence or event. A true “probabilistic risk assessment” must evaluate the likelihood of an occurrence as well as the cost or economic harm. Requiring probabilistic data during Phase I will allow States and other stakeholders to meaningfully discuss the relative benefits of a proposed standard. Further, the Phase II process should evaluate any alternatives that may achieve the standard or reliability measure as well as cost estimates for the same, with cognizance as noted above about the frequent disparity between estimated and actual costs.

Regarding description of the process as outlined in this early draft, NESCOE appreciates the descriptions provided by the drafting team in terms of the text in paragraphs II and III, the flow chart, and the Appendices and looks forward to further refinement of these materials.

Finally, NESCOE believes that NPCC should consider establishing an after-the-fact review process as an element of the CEAP. A collaborative and transparent review of the actual costs and benefits of standards after they are implemented would be valuable to all parties and would allow NPCC to enhance and improve on the CEAP as the industry moves forward.

NESCOE fully supports NPCC’s efforts to consider cost effectiveness of proposed reliability measures. We appreciate the opportunity to provide comments on the CEAP proposal and look forward to contributing to further discussions.