

New England States Committee on Electricity

To: Stephen Rourke, ISO-NE
From: NESCOE
Date: March 22 , 2013
Subject: Transmission Project Solution Comparisons for Reliability Projects
CC: PACMatters@iso-ne.com

NESCOE writes to share its general perspective on ISO-NE's Solution Study project comparisons and to request enhancements to the current process. Specifically, NESCOE encourages ISO-NE to apply a sufficiently broad range of both quantitative and qualitative criteria in selecting the most cost-effective project among competing transmission alternatives to meeting a system reliability need. These criteria should be clearly defined and presented to states and stakeholders in the form of a standardized matrix that tracks the full set of factors ISO-NE considered in its project-to-project assessment.

NESCOE also identifies below additional non-price criteria that, under appropriate circumstances, ISO-NE should consider in making its determination. NESCOE further requests that ISO-NE work with project developers to refine cost estimates and consider adopting cost containment features.

While we are writing in part due to issues that have been identified in the context of the Greater Boston Solutions Study Group's ongoing evaluation of competing projects, *NESCOE's comments are not and should not be construed as NESCOE or any state favoring one proposed project over another in that particular study.* At this time, neither NESCOE nor any state has sufficient information to have formed any such judgment. Rather, NESCOE's comments are process-focused and intended to suggest improvements to the general process and applied globally as part of the solution evaluation process when ISO-NE is considering alternative projects.

Range of Factors Considered

ISO-NE already appears to have adopted a standard practice for considering a broad set of factors in evaluating alternative solutions to a reliability need. In its *Sample Standard Transmission Analysis Solution Study Report*, ISO-NE sets forth "a common and consistent format, structure and content for reporting the results of studies conducted for the New England transmission system that evaluate alternative solutions to identified need."¹ Section 7 of the Report lists the following criteria that ISO-NE will apply in comparing alternative solutions:

¹ The Report is available at http://www.iso-ne.com/rules_proceeds/isone_plan/othr_docs/index.html.

- Operational Performance
- Constructability
- Construction Outage Requirements/Impacts
- Interface Impacts (Internal/External)
- Siting Issues Such As Environmental Impact or Right-Of-Way Acquisition
- Expansion Capabilities
- Lifetime Efficiency/Expectancy
- Maintenance Requirements
- Expected In Service Dates
- Costs (Including items that may impact project selection such as: Construction Costs, Outage Costs, Cost of Losses, NPV, etc.)

All of these illustrative criteria are important. However, in NESCOE's experience, the full range of the ISO-NE's analysis is not explicit in every case. For example, do construction costs include all components needed for operation or only those that have been priced to date? Are congestion costs related to outages associated with construction included in the analysis?

ISO-NE can, and in our view should, enhance the transparency of the Solution Study evaluation process by clearly defining all of the factors considered in its analysis and formally adopting and implementing a standard matrix for use in presenting to states and stakeholders the full set of factors applied in a project-to-project evaluation. This matrix should track, and more fully detail, the range of factors reflected in the Section 7 list.

State Public Policies Identified by the States as Non-Price Criteria

In addition, when balancing the attributes of multiple projects that are priced competitively in meeting a reliability need, ISO-NE should consider as qualitative criteria whether and the degree to which a project might provide ancillary regional benefits by advancing public policies reflected in state laws that the states identify. In response to FERC Order 1000, New England identified a process to consider public policies in transmission planning. While Order 1000 compliance filings establishing a formal structure for states to identify such policies remain pending at FERC, between now and when Order 1000 procedures become effective, the current planning process for meeting reliability needs can and should recognize unique circumstances warranting the consideration of state public policy goals. Consistent with Order 1000, and provided there is an adequate opportunity for state input, ISO-NE should consider the advancement of those state policies identified by the states as a non-price criteria when evaluating competing reliability projects. The states are pleased to work with ISO-NE on this aspect of the analysis.

Project Cost Estimates

According to ISO-NE's Planning Procedure 4 (PP4), at the Solution Study stage, project cost estimates are only required to be within -25% to +50% of expected cost. NESCOE is concerned about the width of this band when project selection is heavily weighted toward the cost of competing solutions. NESCOE strongly encourages ISO-NE to work with project proponents to narrow the estimate bandwidth. It would be false economy and unhelpful to states' subsequent consideration of a project at the siting phase for ISO-NE to conclude that one project costs less than another if the cost difference is within the estimation error. ISO-NE should also make every effort to ensure that all relevant costs and all components of project cost are included in the estimate: characteristics of competing projects can vary significantly, as can the practices of different developers for arriving at cost estimates.

Furthermore, it is not clear to NESCOE whether ISO-NE is requiring project proponents to use the Project Cost Estimate Template contained in Attachment D to PP4. This template was incorporated into PP4 based on the recommendations of the Project Cost Estimation and Controls Working Group. As you know, in 2008, ISO-NE, NECPUC, and New England transmission owners established the Working Group "to develop recommendations leading to more consistent and transparent estimates for proposed transmission projects."² By standardizing the practice for reporting project cost estimates, the template facilitates stakeholder review of cost estimates and side-by-side comparisons of proposed projects. The detailed breakdown of project costs in the template further helps to achieve improved cost estimates and enables close scrutiny of such costs. ISO-NE should require use of the Project Cost Estimate Template if it is not already doing so and, in any case, should make these cost estimate reports available for state and stakeholder review.

It is also not clear to NESCOE that developers of projects exceeding the cost thresholds in PP4 are providing cost estimate updates in accordance with Section 4 of Attachment D to PP4. While the ISO-NE website includes a cost update template, project updates are not reflected.³ These updates are critical to facilitate project cost tracking and understanding of evolving project scope and design changes. NESCOE would appreciate an update from ISO-NE on the status of project cost estimate updates.

Finally, NESCOE remains concerned about project cost overruns. In evaluating alternative projects, NESCOE encourages ISO-NE to give consideration to whether competing projects are willing to cap costs, propose creative ways to limit consumer risk of cost overruns, or otherwise reduce the risk of cost overruns that consumers pay.

² 2009 ISO-NE Regional System Plan at 158.

³ http://www.iso-ne.com/trans/pp_tca/req/proj_cst_est/index.html.

Thank you for considering these perspectives on the current Solutions Study process and suggested enhancements. NESCOE looks forward to further discussion with ISO-NE on this emerging set of issues.