
Memorandum

To: PAC, NETOs
FROM: ALEX LAWTON, JASON FROST, PATRICIO SILVA, JACKIE LITYNSKI
DATE: MAY 15, 2023
RE: ASSET CONDITION PROJECTS OVERSIGHT AND PLANNING

Modernizing, right-sizing, and overseeing transmission development will be paramount for ensuring our electric system’s reliability as we progress towards our clean energy and climate requirements in an efficient, least-cost manner. However, our current processes for dealing with the biggest transmission investment type—asset condition projects—are insufficient. They lack robust oversight, are overlooked in system planning, and encourage developing transmission in a piecemeal, inefficient, and imprudent manner. On February 8, 2023, the New England States Committee on Electricity (NESCOE) wrote a letter to the New England Transmission Owners (NETOs) and copied ISO New England and the NEPOOL Planning Advisory Committee (PAC). This letter expressed concerns regarding the review processes for asset condition projects and the opportunity New England has to right-size transmission projects to meet future system needs.

Synapse submits this memorandum as part of our role representing client interests at NEPOOL. Synapse is a leader for public interest and government clients in providing rigorous analysis of the electric power sector. At NEPOOL specifically, we represent consumer advocates throughout New England to ensure ratepayers receive reliable and affordable energy as we transition to a clean and sustainable grid.¹ On the following pages, we highlight asset condition project oversight and planning issues so that (1) the PAC recognizes the concerns consumers have over asset condition projects, (2) stakeholders continue productive conversations on the matter, and (3) the PAC develops a more structured dialogue on appropriate reforms. NESCOE, NETOs, and other stakeholders must come together to take an honest look at how asset condition projects are reviewed, approved, and interact with larger needs assessments and system planning. This group should use this opportunity to identify reforms that will ensure a reliable, clean electric grid at the least-cost for ratepayers.

¹ Synapse also represents the Vermont Energy Investment Corporation (VEIC) and PowerOptions, Inc.

Asset Condition Projects

New England has a growing gap between the amounts invested in reliability projects and asset condition projects. Asset condition spending now constitutes the majority of new regional transmission investments and is projected to continue increasing.² Ratepayers ultimately bear the costs for asset condition projects; but unlike other investments that have cost reviews built into approval processes, there is little to no meaningful check on the prudence of asset condition spending. Projects under \$5 million are specifically exempted from review by the tariff and therefore are never presented to the PAC. Projects exceeding \$5 million are presented to the PAC, whereby the cost “review” process occurs through NETOs presenting their proposed projects and spending.

Synapse’s concerns are twofold. First, we have doubts over whether there is a sufficient review of costs to ensure just and reasonable rates. Second, the omission of asset condition projects from planning and right-sizing considerations may see the region miss substantial opportunities to build out a transmission system that meets future needs at the least-cost.

Cost Oversight and Review Processes

Synapse is concerned that there may be several fundamental problems with the asset condition project review and approval process. First, participants appear to receive little notice to analyze proposals or engage in a proper review of the NETOs proposals. Second, our understanding is that very few stakeholders have the bandwidth, resources, or expertise to periodically review spending proposals, regardless of the review time allotted. Third, we also understand there is no requirement that NETOs receive comments, incorporate feedback from stakeholders, or follow up with the PAC after presenting their proposals.³ Lastly, concerning cost overruns appear to occur periodically, seemingly without any further review or repercussions. In short, our impression is that asset condition spending proposals are not subject to meaningful review and NETO presentations serve as little more than a *pro forma* exercise.⁴

Synapse is concerned that the lack of regulatory oversight may be creating a perverse incentive for NETOs to pursue asset condition spending disproportionately, unnecessarily, and/or exorbitantly. We understand there are few strings attached to the approval and rate-basing of

² ISO New England. Regional System Plan (accessed October 2022). Available at: <https://www.iso-ne.com/system-planning/system-plans-studies/rsp>.

³ ISO New England Open Access Transmission Tariff, Attachment K. Available at https://www.iso-ne.com/staticassets/documents/2021/07/sect_ii_att_k.pdf.

⁴ Neither NESCOE (February letter to PAC) nor Synapse are 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.



asset condition projects, and NETOs earn a guaranteed rate of return on these investments. The ostensible lack of cost review and containment measures also raises questions over whether NETOs are prudently incurring these investments. While ISO New England has a “gold-plating” review process for asset condition projects,⁵ ISO New England is not a regulator and has no express directive to oversee NETOs’ spending. Regardless, a gold-plating review is not the same as a cost-prudency review since it is a distinct and much lower standard relative to an assessment of whether a cost is reasonable.

Planning and Right-sizing

Another concern is that asset condition projects are not adequately factored into transmission planning or public policy. Because asset condition projects lack cost-scrutiny and oversight relative to other transmission project types, the earnings opportunity may be driving NETOs to pursue them at a disproportionate rate. The perverse incentive to pursue asset condition projects therefore discourages a more optimal mix of transmission project types that New England will need for a decarbonized and electrified future.⁶ NESCOE elaborates on this point, highlighting that the region’s current construct siloes billions of dollars of transmission investments away from broader transmission system needs. New England needs a system that incentivizes and produces the optimal mix of transmission project types—particularly in light of beneficial electrification, load growth, and the increasing need for inter-regional transmission projects to fulfill state policies at the lowest cost to consumers.

Pursuing the optimal mix of transmission investments accentuates the need to incorporate asset condition projects into future needs assessments and system planning. Synapse raised the question during the March PAC meeting of whether asset condition projects are included in the regional system planning; ISO England’s response suggested that such projects are not currently included but that the ISO will consider this point moving forward. Synapse is unaware of any planning requirements that asset condition projects be considered and reviewed collectively or in future system needs assessments.

Monitoring asset condition projects collectively and developing planning protocols for them dovetails with the need for New England to right-size transmission lines. At the PAC and other NEPOOL committee meetings, numerous stakeholders have voiced interest in right-sizing transmission—particularly since the start of 2023. Incorporating asset condition projects into planning processes is a pre-requisite for decision-makers to determine how those projects

⁵ ISO-NE’s Planning Procedures contain a gold-plating review process.

⁶ Reliability Transmission Upgrades (RTUs), Market Efficiency Transmission Upgrades (METUs), Public Policy Transmission Upgrades (PPTUs), Elective Transmission Upgrades (ETUs) are among other types of transmission projects.

affect other transmission projects and investment decisions concerning the bulk power system, as well as how to strategically right-size lines. As stakeholders and NESCOE have mentioned,⁷ and we reiterate, right-sizing transmission infrastructure will lower costs to consumers while better ensuring the grid is prepared to reliably deliver zero-carbon electricity.

Opportunity for Improvements and Reforms

FERC has floated the idea of forming an Internal Transmission Monitor (ITM).⁸ The proposal has received stakeholder support, especially among state energy officials and regulators. While one role of the ITM could be to serve as the technical and cost-prudency reviewer for asset condition projects in the longer term, the timing of a final rule on this matter is uncertain given FERC's workload and currently split Commission. Therefore, it is imperative that NEPOOL does not wait for FERC action to address the asset condition regulatory gap, because ratepayers are being impacted now.

Synapse recommends the PAC continues to dedicate time during upcoming PAC meetings for members to participate in a formal discussion on NESCOE's letter and Synapse's concerns, ideally this summer. We commend the PAC for allotting time during the upcoming May PAC on Thursday, May 18 for NESCOE to present on these issues and solicit stakeholder input. Like NESCOE, we too welcome giving NETOs and other stakeholders the opportunity to respond to our concerns and clarify areas where there is mutual understanding on current processes and practices. Furthermore, we hope that PAC members from various sectors and ISO New England staff can exchange views, ideas, and proposals with one another. We'd like to see PAC organizers continue to facilitate this dialogue and play a proactive role in putting this on the agenda and setting follow-up discussions in the future as necessary. Synapse welcomes the opportunity to collaborate, deliberate, and or meet with any stakeholders to discuss this issue and encourages other stakeholders who share similar or diverging views to express their perspectives.

⁷ [NESCOE Letter to NETOs Re: Asset Condition Projects and Process Improvements](#), February 8, 2023.

⁸ FERC docket AD21-15-000.

