OPTIONS EVALUATION REPORT (OER)

Line 82-95 - Refurb

OER- N2505 revision 1.0

Ellipse project no(s):
TRIM file: [TRIM No]

Project reason: Reliability - To meet overall network reliability requirements
Project category: Prescribed - Replacement

Approvals

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Change history

Revision	Date	Amendment
0	07/10/2021	Initial Issues
1	12/11/2021	Minor Update

Executive summary

Line 82/95 is a double circuit, steel tower 330kV transmission line between Tomago Switching Station and a field location in Seahampton near Newcastle Substation, where it splits into the single circuit sections of Line 95 and Line 82. Line 95 continues on to Newcastle Substation, while Line 82 continues on to Liddell Substation. The line is a key part of the network in the Newcastle region and supply infrastructure for Tomago aluminium smelter. There are 70 structures on the double circuit section of the transmission line over a route length of 20km, which traverses mainly bushland and agricultural areas to the west of Newcastle.

Detailed analysis of asset condition information has identified that 64 of the 67 structures on line 82/95 have several condition issues on the line which require refurbishment to address asset health and maintain appropriate risk levels across the network.

The main drivers of the need to remediate these issues are:

- Manage network safety risk levels "As-Low-As Reasonably-Practicable" in accordance with the regulation obligations and TransGrid's business risk appetite. Under the Electricity Supply (Safety and Network Management) Regulation 2014 Section 5 'A network operator must take all reasonable steps to ensure that the design, construction, commissioning, operation and decommissioning of its network (or any part of its network) is safe'; and
- Provide economic benefit to consumers through reduction in safety and bushfire risks.

The assessment of the options considered to address the need/opportunity appears in Table 1.

Table 1 - Evaluated options

Option	Description	Direct capital cost ($m)	Network and corporate overheads ($m)	Total capital cost[1] ($m)	Weighted NPV (PV, $m)	Rank
Option A	Remediate all identified condition issues for line components which have experienced greater deterioration and/or reached the end of their functional lives	3.42	0.29	3.71	470.72	2
Option B	Remediate all identified condition issues on the line	3.91	0.35	4.26	598.19	1

The preferred option is Option B, as it has the highest weighted NPV result of the technically and commercially feasible options which were considered. It is therefore recommended that Option B be scoped in detail and progressed from DG1 to DG2.[2] In consideration of the delivery requirements and the economic benefit NPV analysis for the need, its optimal timing is 2025/2026.

[1] Total capital cost is the sum of the direct capital cost and network and corporate overheads. Total capital cost is used in this OER for all analysis.

[2] DG stands for 'decision gate' that forms a part of TransGrids investment decision process.

1. Need/opportunity

Line 82/95 is a double circuit, steel tower 330kV transmission line between Tomago Switching Station and a field location in Seahampton near Newcastle Substation, where it splits into the single circuit sections of Line 95 and Line 82. Line 95 continues on to Newcastle Substation, while Line 82 continues on to Liddell Substation. The line is a key part of the network in the Newcastle region and supply infrastructure for Tomago aluminium smelter. There are 70 structures on the double circuit section of the transmission line over a route length of 20km, which traverses mainly bushland and agricultural areas to the west of Newcastle.

Detailed analysis of asset condition information has identified that 64 of the 67 structures on line 82/95 have several condition issues on the line which require refurbishment to address asset health and maintain appropriate risk levels across the network.

The most significant element of concern is that the insulators have reached the end of their expected lives:

- The line contains structures installed with pre-1965 porcelain insulators, and recent testing has indicated a deterioration of the insulation performance. Further, this vintage of insulators was produced user an older porcelain mixture formula which is no longer in use, and the manufacturer has recommended their replacement.
- A number of structures are installed with fog or semi-fog type insulators, which are more susceptible to pin corrosion.

Failure of an insulator may result in a fallen conductor – there was a recently recorded instance in 2011 of an insulator failure resulting in a conductor drop event.

Other issues on the line include:

- Corrosion related deterioration on the towers and foundations. Deterioration, particularly of critical members such as tower legs which cannot be readily replaced, can lead to failure and subsequently compromise structural integrity.
- Deterioration of earthwire and conductor fittings, conductor dampers, spacers and corona rings due to corrosion – failure of the fitting attachment can result in a fallen conductor.
- Damaged connections on earthwire bonding and structure earthing – poor connection leads to possible transfer potential, earth current and voltage gradient issues.
- Deterioration on asset components relating to public safety such as climbing deterrents, aerial markers and signage.

There is a need to remediate these issues to:

- Manage network safety risk levels “As-Low-As Reasonably-Practicable” in accordance with the regulation obligations and TransGrid’s business risk appetite. Under the Electricity Supply (Safety and Network Management) Regulation 2014 Section 5 ‘A network operator must take all reasonable steps to ensure that the design, construction, commissioning, operation and decommissioning of its network (or any part of its network) is safe.’
- Provide an economic benefit to consumers through reductions in safety and bushfire risks. The direct impact of asset failure can result in a conductor drop event with potential fire ignition and/or safety hazard consequences to the general public, as evaluated in the associated modelling.

If the condition issues on the line are not addressed in sufficient time, then the asset will operate with increasing risk of failure as it continues to deteriorate. The level of reactive corrective maintenance needed to keep the line operating within required standards may also increase, particularly when asset failures ultimately occur.

Consequently, the proposed project has an economic benefits need, and addressed this need will provide avoided cost savings from reduced in bushfire and safety risk, and maintenance costs that would otherwise occur without refurbishment.

Appendix B provides a summary of the number of structures with condition issues within each asset component category. The figures for each (Option A and Option B) are based on the Transmission Line Refurbishment Criteria document.

2. Related needs/opportunities

- Need N2504: Line 95 Refurbishment
- Need N2506: Line 82 Refurbishment

3. Options

The base case for this assessment is a 'do nothing' scenario, where the assets will remain in service until they fail and be subsequently replaced. In addition to the base case, two remediation options have been considered. Option A involves a targeted program to address components which have experienced the greatest deterioration. Option B involves addressing all identified condition issues on the line.

3.1 Base case

It is noted that a 'run to fail' scenario, where the issues are addressed through increased asset monitoring and preventative maintenance tasks, is not a valid base case for this Need. The condition issues on the asset have already been identified through maintenance inspections, and increasing the frequency of inspections to monitor the condition issues will not necessarily address them.

The base case will instead be defined as a 'do nothing' scenario, where the assets are left in service until they fail and require replacement. The replacement cost has been captured in the NPV assessment under financial risk cost.

3.2 Options evaluated

Option A — Remediate all identified condition issues for line components which have experienced greater deterioration and/or reached the end of their functional lives. [NOSA N2505, OFS N2505A]

Detail of scope can be found in **Error! Reference source not found.**

It is estimated that this option would cost $3.71 million ± 25% in $2020-21. This project is expected to be completed within the 2024 – 2028 regulatory period. The project is expected to be completed within 25 months following DG1.

Option B — Remediate all identified condition issues on the line. [NOSA N2505, OFS N2505B]

Detail of scope can be found in Appendix B.

It is estimated that this option would cost $4.26 million ± 25% in $2020-21. This project is expected to be completed within the 2024 – 2028 regulatory period. The project is expected to be completed within 26 months following DG1.

Option B will provide efficiency in delivery by addressing all identified condition issues for line components in a single mobilisation whilst reducing bushfire risks on the line that may arise from conductor drop due to asset failure.

3.3 Options considered and not progressed

The following options were considered but not progressed:

Table 2 Options considered but not progressed

Option	Reason for not progressing
Increased inspections	The condition issues have already been identified and cannot be rectified through increased inspections, and therefore is not technically feasible.

Option	Reason for not progressing
Elimination of all associated risk	This can only be achieved through retirement and decommissioning of the associated assets which may lead to reliability issue. Therefore, it is not considered technically feasible .
New transmission line	Due to significant costs of this option, a new double circuit 330 kV transmission line is not considered commercially feasible.
Non-network solutions	TransGrid does not consider non-network options to be commercially and technically feasible to assist with meeting the identified need, as non-network options will not mitigate the environment (bushfire) and safety posed as a result of corrosion-related asset deterioration.

4. Evaluation

4.1 Commercial evaluation methodology

The economic assessment undertaken for this project includes three scenarios that reflect a central set of assumptions based on current information that is most likely to eventuate (central scenario), a set of assumptions that give rise to a lower bound for net benefits (lower bound scenario), and a set of assumptions that give rise to an upper bound on benefits (higher bound scenario).

Assumptions for each scenario are set out in the table below.

Table 3 Scenario Inputs

Parameter	Central scenario	Lower bound scenario	Higher bound scenario
Discount rate	4.8%	7.37%	2.23%
Capital cost	100%	125%	75%
Risk cost benefits	100%	75%	125%
Scenario weighting	**50%**	**25%**	**25%**

Parameters used in this commercial evaluation:

Table 4 Parameters

Parameter	Parameter Description	Value used for this evaluation
Discount year	Year that dollar values are discounted to	2020/2021
Base year	The year that dollar value outputs are expressed in real terms	2020/2021 dollars
Period of analysis	Number of years included in economic analysis with remaining capital value included as terminal value at the end of the analysis period.	25 years

Expected asset life	Period of depreciation of the asset	35 years
ALARP disproportionality	Multiplier of the environmental and safety related risk cost included in NPV analysis to demonstrate implementation of obligation to reduce to ALARP.	Refer to section 4.3 for details.

The capex figures in this OER do not include any real cost escalation.

4.2 Commercial evaluation results

The commercial evaluation of the technically feasible options is set out in Table 5. Details appear in Appendix A.

Table 5 - Commercial evaluation (PV, $ million)

Option	Capital Cost PV	Central scenario NPV	Lower bound scenario NPV	Higher bound scenario NPV	Weighted NPV	Ranking
Option A	3.07	419.80	203.75	839.54	470.72	2
Option B	3.53	534.75	261.62	1061.64	598.19	1

Based on the commercial evaluation, Option B is the preferred option as it yielded the highest weighted NPV and is technically and commercially feasible.

4.3 ALARP evaluation

TransGrid manages and mitigates bushfire and safety risk to ensure they are below risk tolerance levels or 'As Low As Reasonably Practicable' ('ALARP'), in accordance with the regulation obligations and TransGrid's business risk appetite. Under the Electricity Supply (Safety and Network Management) Regulation 2014 Section 5 'A network operator must take all reasonable steps to ensure that the design, construction, commissioning, operation and decommissioning of its network (or any part of its network) is safe.' TransGrid maintains an Electricity Network Safety Management System (ENSMS) to meet this obligation.

In its Network Risk Assessment Methodology, under the ALARP test with the application of a gross disproportionate factor[3], the weighted benefits are expected to exceed the cost. TransGrid's analysis concludes that the costs are less than the weighted benefits from mitigating bushfire and safety risks. The proposed investment will enable TransGrid to continue to manage and operate this part of the network to a safety and risk mitigation level of ALARP.

Evaluation of the above options has been completed in accordance with As Low As Reasonably Practicable (ALARP) obligations. The Network Safety Risk Reduction is calculated as 6 x Bushfire Risk Reduction + 3 or 6 x Safety Risk Reduction + 0.1 x Reliability Risk Reduction.

Results of the ALARP evaluation are set out in Table 6.

[3] The values of the disproportionality factors were determined through a review of practises and legal interpretations across multiple industries, with particular reference to the works of the UK Health and Safety Executive. The methodology used to determine the disproportionality factors in this document is in line with the principles and examples presented in the AER Replacement Planning Guidelines and is consistent with TransGrid's Revised Revenue Proposal 2023/24-2027/28.

Table 6 - Reasonably practicable test ($ million)

Option	Network Safety Risk Reduction	Annualised Capex	Reasonably Practicable?[4]
A	17.65	0.22	Y
B	24.47	0.25	Y

The result of the ALARP evaluation is that both options meet the ALARP threshold.

4.4 Preferred option

The preferred option is Option B, as it has the highest weighted NPV result of all the technically and commercially feasible options considered as part of this need. Option B also meets the ALARP threshold. The optimal delivery date for this option is 2025/2026 based on an optimal timing analysis (see Section 5).

Capital and Operating Expenditure

The capital cost expected for the project is $4.26 million.

Regulatory Investment Test

A regulatory investment test for transmission (RIT-T) is not required as the estimated capital cost for the preferred option is below the threshold of $6 million.

5. Optimal Timing

The test for optimal timing of the preferred option has been undertaken. The approach taken is to identify the optimal commissioning year for the preferred option where net benefits (including avoided costs and safety disproportionality tests) of the preferred option exceeds the annualised costs of the option. The commencement year is determined based on the required project disbursement to the meet the commissioning year based on the OFS.

The results of optimal timing analysis is:

- Optimal commissioning year: 2025/2026
- Commissioning year annual benefit: $25.6 million
- Annualised cost: $0.25 million

Based on the optimal timing, the project is expected to commence in the 2024-2028 Regulatory Period.

6. Recommendation

The preferred option is Option B, as it has the highest weighted NPV result of all the technically and commercially feasible options considered as part of this need.

It is therefore recommended that this option be scoped in detail, so that it can be progressed from DG1 to DG2. Total project cost is $4.26 million including an amount of $0.5 million to progress the project from DG1 to DG2.

[4] Reasonably practicable is defined as whether the annualised CAPEX is less than the Network Safety Risk Reduction.

Appendix A – Option Summaries [5]

Project Description	Line 82/95 Refurbishment		
Option Description	Option A - Refurbish components that meet primary condition criteria only		
Project Summary			
Option Rank	*2*	Investment Assessment Period	*25*
Asset Life	*35*	NPV Year	2021
Economic Evaluation			
NPV @ Central Benefit Scenario (PV, $m)	419.80	Annualised CAPEX @ Central Benefit Scenario ($m)	Annualised Capex - Standard (Business Case) 0.22
NPV @ Lower Bound Scenario (PV, $m)	203.75	Network Safety Risk Reduction ($m)	Network Safety Risk Reduction 17.65
NPV @ Higher Bound Scenario (PV, $m)	839.54	ALARP	ALARP Compliant? Yes
NPV Weighted (PV, $m)	470.72	Optimal Timing	Optimal timing (Business Case) 2026
Cost (Central Scenario)			
Total Capex ($m)	3.71	Cost Capex (PV,$m)	3.07
Terminal Value ($m)	0.95	Terminal Value (PV,$m)	0.23
Risk (Central Scenario)	**Pre**	**Post**	**Benefit**
Reliability (PV,$m)	Reliability Risk (Pre) 0.03	Reliability Risk (Post) 0.02	Pre – Post 0.01
Financial (PV,$m)	Financial Risk (Pre) 23.31	Financial Risk (Post) 14.28	Pre – Post 9.03
Operational/Compliance (PV,$m)	Operational Risk (Pre) 0.00	Operational Risk (Post) 0.00	Pre – Post 0.00
Safety (PV,$m)	Safety Risk (Pre) 8.41	Safety Risk (Post) 7.16	Pre – Post 1.25
Environmental (PV,$m)	Environmental Risk (Pre) 675.73	Environmental Risk (Post) 264.45	Pre – Post 411.28
Reputational ($m)	Reputational Risk (Pre) 2.74	Reputational Risk (Post) 1.67	Pre – Post 1.07
Total Risk (PV,$m)	Total Risk (Pre) 710.22	Total Risk (Post) 287.58	Pre – Post 422.63
OPEX Benefit (PV,$m)			OPEX Benefit 0.00
Other benefit (PV,$m)			Incremental Net Benefit 0.00
Total Benefit (PV,$m)			Business Case Total Benefit 422.63

Commissioning year annual benefit ($k): 18187.98

[5] Figures may not add due to rounding

Project Description	82/95		
Option Description	Option B - Refurbish all asset components identified as having condition issues		
Project Summary			
Option Rank	*1*	Investment Assessment Period	*25*
Asset Life	*35*	NPV Year	2021
Economic Evaluation			
NPV @ Central Benefit Scenario (PV, $m)	534.75	Annualised CAPEX @ Central Benefit Scenario ($m)	Annualised Capex - Standard (Business Case) 0.25
NPV @ Lower Bound Scenario (PV, $m)	261.62	Network Safety Risk Reduction ($m)	Network Safety Risk Reduction 24.47
NPV @ Higher Bound Scenario (PV, $m)	1061.64	ALARP	ALARP Compliant? Yes
NPV Weighted (PV, $m)	598.19	Optimal Timing	Optimal timing (Business Case) 2026
Cost (Central Scenario)			
Total Capex ($m)	4.26	Cost Capex (PV,$m)	3.53
Terminal Value ($m)	1.10	Terminal Value (PV,$m)	0.27
Risk (Central Scenario)	**Pre**	**Post**	**Benefit**
Reliability (PV,$m)	Reliability Risk (Pre) 0.03	Reliability Risk (Post) 0.01	Pre – Post 0.02
Financial (PV,$m)	Financial Risk (Pre) 23.31	Financial Risk (Post) 6.23	Pre – Post 17.08
Operational/Compliance (PV,$m)	Operational Risk (Pre) 0.00	Operational Risk (Post) 0.00	Pre – Post 0.00
Safety (PV,$m)	Safety Risk (Pre) 8.41	Safety Risk (Post) 2.33	Pre – Post 6.08
Environmental (PV,$m)	Environmental Risk (Pre) 675.73	Environmental Risk (Post) 162.91	Pre – Post 512.82
Reputational ($m)	Reputational Risk (Pre) 2.74	Reputational Risk (Post) 0.73	Pre – Post 2.01
Total Risk (PV,$m)	Total Risk (Pre) 710.22	Total Risk (Post) 172.21	Pre – Post 538.00
OPEX Benefit (PV,$m)			OPEX Benefit 0.00
Other benefit (PV,$m)			Incremental Net Benefit 0.00
Total Benefit (PV,$m)			Business Case Total Benefit 538.00

Commissioning year annual benefit ($k): **25639.9**

Appendix B Asset Condition

Asset Component Category	Cause	Effect	Consequence	No. of Structures with Condition Issues	
				Option A	Option B
Conductor Dampers	Drooping dampers. Ineffective vibration damping and result in increased conductor fatigue.	Fallen conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	1	1
Conductor Fittings	Corrosion of fittings.	Fallen conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	22	28
Conductor Spacers	Broken and deteriorated spacer. Can lead to increase in conductor clashing.	Damaged conductor	Line outage with potential network reliability impacts	0	8
Corona Rings	Corrosion of corona rings.	Fallen conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	1	4
Earthwire Bonding	Damaged connection.	Possible transfer potential, earth current and voltage gradient issues	Safety incident resulting in potential injury or death	6	6
Earthwire Fittings	Corrosion of earthwire fittings	Fallen conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	12	19

Asset Component Category	Cause	Effect	Consequence	No. of Structures with Condition Issues	
				Option A	Option B
Foundations	Paint at the steel leg member and foundation interface is worn, exposing foundation to corrosion. Failure of critical members can compromise structural integrity.	Fallen structure	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	7	7
Insulator	Porcelain insulators have reached end of serviceable life.	Fallen conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	24	24
Public Safety – Climbing Deterrent	Deteriorated.	Unauthorised access	Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	14	14
Public Safety – Danger Signs	Deteriorated.	Unauthorised access	Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	13	13
Public Safety – Structure ID Signs	Deteriorated.	Unauthorised access	Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	63	63
Structure Earthing	Poor connection.	Possible transfer potential, earth current and voltage gradient issues	Safety incident resulting in potential injury or death	2	2
Tower Base	Bent tower member. Failure of critical members can compromise structural integrity.	Fallen structure and conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	1	1

Asset Component Category	Cause	Effect	Consequence	No. of Structures with Condition Issues	
				Option A	Option B
Tower Body	Corrosion of tower members. Failure of critical members can compromise structural integrity.	Fallen structure and conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	2	13
Tower Crossarm	Corrosion of tower members. Failure of critical members can compromise structural integrity.	Fallen structure and conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	3	4
Tower Fasteners	Corroded nuts and bolts. Can compromise structural integrity.	Fallen structure and conductor	Bushfire resulting in potential loss of property and/or life Safety incident resulting in potential injury or death Line outage with potential network reliability impacts	11	16