

Maintaining compliance with performance standards applicable to Ingleburn substation secondary systems

RIT-T Project Assessment Conclusions Report

Region: Greater Sydney

Date of issue: 30 June 2022



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Executive summary

Transgrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for maintaining reliable secondary systems at Ingleburn substation. Publication of this Project Assessment Conclusion Report (PACR) represents the final step in the RIT-T process.

Ingleburn substation will continue to play a central role in the safe and reliable operation of the power system throughout and after the transition to a low-carbon electricity future. It forms part of the Greater Sydney network which supports the flow of energy between generation in the Central West of NSW and the southern suburbs of Sydney. Ingleburn substation is a customer connection point supplying the Endeavour Energy 66 kV network in the area inclusive of Macquarie Fields and Minto, supply major infrastructure and a growing residential population in the area.

Transgrid has identified that the secondary systems at Ingleburn substation have reached a condition that reflects the end of serviceable life. As it is superseded by new technology at the manufacturer level and the existing technology becomes obsolete, spare parts become scarce and the ability of any primary asset connected to the substation to reliably operate will be at risk.

Identified need: meet the service level required under the National Electricity Rules for protection schemes

Secondary systems are used to control, monitor, protect and secure communication to facilitate safe and reliable network operation.¹ They are necessary to operate the transmission network and prevent damage to primary assets when adverse events occur.

Provision of redundant protection schemes to ensure the transmission system is adequately protected is a Network Performance Requirement under Schedule 5.1 of the National Electricity Rules (NER), therefore the condition issues affecting the secondary systems at Ingleburn substation must be addressed.

The Network Performance Requirements, set out in Schedule 5.1 of the NER, place an obligation on Transmission Network Service Providers (TNSPs) to provide redundant protection schemes to ensure the transmission system is adequately protected. Schedule 5.1.9(c) of the NER requires a TNSP to provide sufficient primary and back-up protection systems, including any communications facilities and breaker fail protection systems, to ensure that a fault of any type anywhere on its transmission system is automatically disconnected.

Additionally, TNSPs are required to disconnect the unprotected primary systems where secondary systems fault lasts for more than eight hours (for planned maintenance) or 24 hours (for unplanned outages). TNSPs must also ensure that all protection systems for lines at a voltage above 66 kV are well-maintained so as to be available at all times other than for short periods (less than eight hours), while the maintenance of protection systems is being carried out.² In the event of an unplanned outage, AEMO's Power System Security Guidelines require that the primary network assets must be taken out of service within 24 hours.³

¹ As per Schedule 5.1 of the NER.

² As per S5.1.2.1(d) of the NER.

³ Australian Energy Market Operator. "Power System Security Guidelines, 7 April 2021." Melbourne: Australian Energy Market Operator, 2021.35. Accessed 22 June 2021. https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3715-power-system-security-guidelines.pdf?la=en

Furthermore, as per clause 4.11.1 of the NER, remote monitoring and control systems are required to be maintained in accordance with the standards and protocols determined and advised by AEMO.

A failure of the secondary systems would involve replacement of the failed component or taking the affected primary assets, such as lines and transformers, out of service.

Though replacement of failed secondary systems component is a possible interim measure, the approach is not sustainable as the stock of spare components will deplete due to the technology no longer being manufactured or supported. Once all spares are used, replacement will cease to be a viable option to meet performance standards stipulated in clause 4.6.1 of the NER.

If the failure to provide functional secondary systems due to technology obsolescence is not addressed by a technically and commercially feasible credible option in sufficient time (by 2023/24), the likelihood of not recovering from secondary systems faults and not maintaining compliance with NER performance requirements will increase.

The proposed investment will enable Transgrid to continue to meet the standards for secondary systems availability set out in the NER, and to avoid the impacts of taking primary assets out of service. Consequently, it is considered a reliability corrective action under the RIT-T.

A reliability corrective action differs from a 'market benefits'-driven RIT-T in that the preferred option is permitted to have negative net economic benefits on account of it being required to meet an externally imposed obligation on the network business.

No submissions received in response to Project Specification Consultation Report

Transgrid published a Project Specification Consultation Report (PSCR) on 15 November 2021 and invited written submissions on the material presented within the document. No submissions were received in response to the PSCR.

No material developments since publication of the PSCR

No additional credible options were identified during the consultation period following publication of the PSCR.

Since publication of the PSCR the cost estimate for Option 1 and delivery timeframes across all options have been adjusted to reflect the latest project plan to implement the preferred option.

Option 1 remains the preferred option at this stage of the RIT-T process.

Complete in-situ replacement remains the most prudent and economically efficient option to meet regulatory obligations

In the PSCR Transgrid put forward for consideration three technically and commercially feasible options:

- **Option 1** – Complete in-situ replacement
- **Option 2** – IEC-61850 replacement⁴; and

⁴ International Electrotechnical Commission (IEC), "IEC 61850 standard for Power Utility Automation," accessed 14 May 2020. <http://www.iec.ch/smartgrid/standards/>

- **Option 3 – Strategic asset replacement**

Option 1 remains the most prudent and economically efficient option to address the identified need. Implementation of Option 1 will enable Transgrid to continue meeting its regulatory obligations set out in clauses 4.11.1, 4.6.1(b),⁵ and Schedule 5.1 of the NER. Consequently, it will ensure the performance standards applicable to Ingleburn substation secondary systems are met and is therefore the preferred option for this RIT-T.

TransGrid expects coronavirus (COVID-19) to impact its suppliers and disrupt their supply chains. At this time the extent of the current or future impact is unknown. Consequently, some of the costs associated with the works outlined in this document may be affected.

All costs presented in this PACR are in 2021/22 dollars. The options are summarised in the table below.

Table E-1-1 Options considered

Option	Description	Capital cost (\$M 2021/22)	Operating costs (\$ per year)	Remarks
Option 1	Complete in-situ replacement	8.6 (+/- 25%)	3,000	Preferred option, would maintain regulatory obligations and provide highest net economic benefits.
Option 2	IEC-61850 replacement ⁶	12.7 (+/- 25%)	10,000	Would maintain regulatory obligations but provide less benefits.
Option 3	Strategic asset replacement	2.4 (+/- 25%) by 2023/24 and 5.4 (+/- 25%) spread between 2024/25 and 2034/35	3,000	

Non-network options are not able to assist in this RIT-T

In the PSCR, Transgrid noted that non-network options are not considered to be commercially and technically feasible to assist with meeting the identified need for this RIT-T. This is because non-network options will not enable Transgrid to continue meeting its NER obligation to provide redundant secondary systems and ensure that the transmission system is adequately protected.

⁵ As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

⁶ International Electrotechnical Commission (IEC), "IEC 61850 standard for Power Utility Automation," accessed 14 May 2020. <http://www.iec.ch/smartgrid/standards/>

Conclusion: complete in-situ replacement of protection and control systems is optimal

The optimal commercially and technically feasible option presented in the PSCR – Option 1 (complete in-situ replacement of protection and control systems) – remains the preferred option to meet the identified need. Option 1 can be implemented in sufficient time to meet the identified need by 2023/24, and is therefore the preferred option presented in this PACR.

Moving forward with this option is the most prudent and economically efficient solution to enable Transgrid to continue meeting its regulatory obligations set out in clauses 4.11.1, 4.6.1(b),⁷ and Schedule 5.1 of the NER. Consequently, it will ensure the performance standards applicable to Ingleburn substation secondary systems are met.

Option 1 involves replacement of all secondary systems assets at Ingleburn substation. This option will modernise the automation philosophy to current design standards and practices. This option also includes replacement of Direct Current (DC) supplies to account for an increase in secondary systems power requirements and remediation of the 415V Alternating Current (AC) distribution in the building.

There are also additional operational benefits available due to improved remote monitoring, control and interrogation, efficiency gains in responding to faults, and phasing out of obsolete and legacy systems and protocols.

The estimated capital cost of this option is approximately \$8.6 million. Routine and operating maintenance costs are approximately \$3,000 per year.

The works will be undertaken between financial year 2020/21 and 2023/24. Planning (including commencement of the RIT-T) commenced in 2019/20 and is due to conclude in 2021/22. The procurement and delivery of the identified assets is planned to occur during 2021/22. All works will be completed by 2023/24.

Necessary outages of relevant assets in service will be planned appropriately in order to complete the works with minimal impact on the network.

The analysis undertaken and the identification of Option 1 as the preferred option satisfies the RIT-T. Option 1 is the preferred option in accordance with NER clause 5.16.1(b) because it is the credible option that maximises the net present value of the net economic benefit to all those who produce, consume and transport electricity in the market. This preferred option, Option 1, was found to have the highest net economic benefit while also maintaining compliance with regulatory and safety obligations. Transgrid also conducted sensitivity analysis on the net economic benefit to investigate the robustness of the conclusion to key assumptions. Transgrid finds that under all sensitivities, except the low benefit scenario where the difference is marginal, Option 1 delivers the most net benefit. Transgrid notes that this scenario comprises an extreme combination of assumptions, including high capex costs and low operational risk.

⁷ As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

Next steps

This PACR represents the third and final step of the consultation process in relation to the application of the Regulatory Investment Test for Transmission (RIT-T) process undertaken by Transgrid. It follows a Project Specification Consultation Report (PSCR) released in November 2021. No submissions were received in response to the PSCR.

The second step, production of a Project Assessment Draft Report (PADR), was not required as Transgrid considers its investment in relation to the preferred option to be exempt from that part of the RIT-T process under NER clause 5.16.4(z1). Production of a PADR is not required⁸ due to:

- the estimated capital cost of the proposed preferred option being less than \$43 million;
- the PSCR stating:
 - the proposed preferred option (including reasons for the proposed preferred option)
 - the RIT-T is exempt from producing a PADR
 - the proposed preferred option and any other credible option will not have material market benefits⁹ except for voluntary load curtailment and involuntary load shedding
- the RIT-T proponent considers that there were no PSCR submissions identifying additional credible options that could deliver a material market benefit; and
- the PACR addressing any issues raised in relation to the proposed preferred option during the PSCR consultation.

Parties wishing to raise a dispute notice with the AER may do so prior to 2 August 2022 (30 days after publication of this PACR). Any dispute notices raised during this period¹⁰ will be addressed by the AER within 40 to 120 days, after which the formal RIT-T process will conclude.

Further details on the RIT-T can be obtained from Transgrid's Regulation team via RIT-TConsultations@transgrid.com.au. In the subject field, please reference 'Ingleburn secondary systems PACR.'

⁸ In accordance with NER clause 5.16.4(z1)(4), the exemption from producing a PADR will no longer apply if TransGrid considers that an additional credible option that could deliver a material market benefit is identified during the consultation period. No additional credible options were identified.

⁹ As per clause 5.16.1(c)(6)

¹⁰ Additional days have been included to cover public holidays.

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1. Introduction

TransGrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for maintaining a reliable secondary systems at Ingleburn substation. TransGrid has commenced this RIT-T to examine and consult on options to address the need - mitigate and alleviate the deterioration of the secondary systems at Ingleburn substation and the risk from technology obsolescence. As investment is intended to maintain compliance with NER requirement, Transgrid considers this a reliability corrective action RIT-T.

1.1. Purpose of this report

The purpose of this PACR¹¹ is to:

- describe the identified need
- describe and assess credible options to meet the identified need
- describe the assessment approach used
- provide details of the proposed preferred option to meet the identified need.

1.2. Exemption from preparing a Project Assessment Draft Report (PADR)

Publication of a Project Assessment Draft Report (PADR) is not required for this RIT-T as TransGrid considers its investment in relation to the preferred option to be exempt from that part of the process under NER clause 5.16.4(z1). Production of a PADR is not required due to:

- the estimated capital cost of the proposed preferred option being less than \$46 million¹²;
- the PSCR stating:
 - the proposed preferred option (including reasons for the proposed preferred option)
 - that the RIT-T is exempt from producing a PADR
 - that the proposed preferred option and any other credible option will not have material market benefits¹³ except for voluntary load curtailment and involuntary load shedding
- the RIT-T proponent considers that there were no PSCR submissions identifying additional credible options that could deliver a material market benefit; and
- the PACR addressing any issues raised in relation to the proposed preferred option during the PSCR consultation.

1.3. Next steps

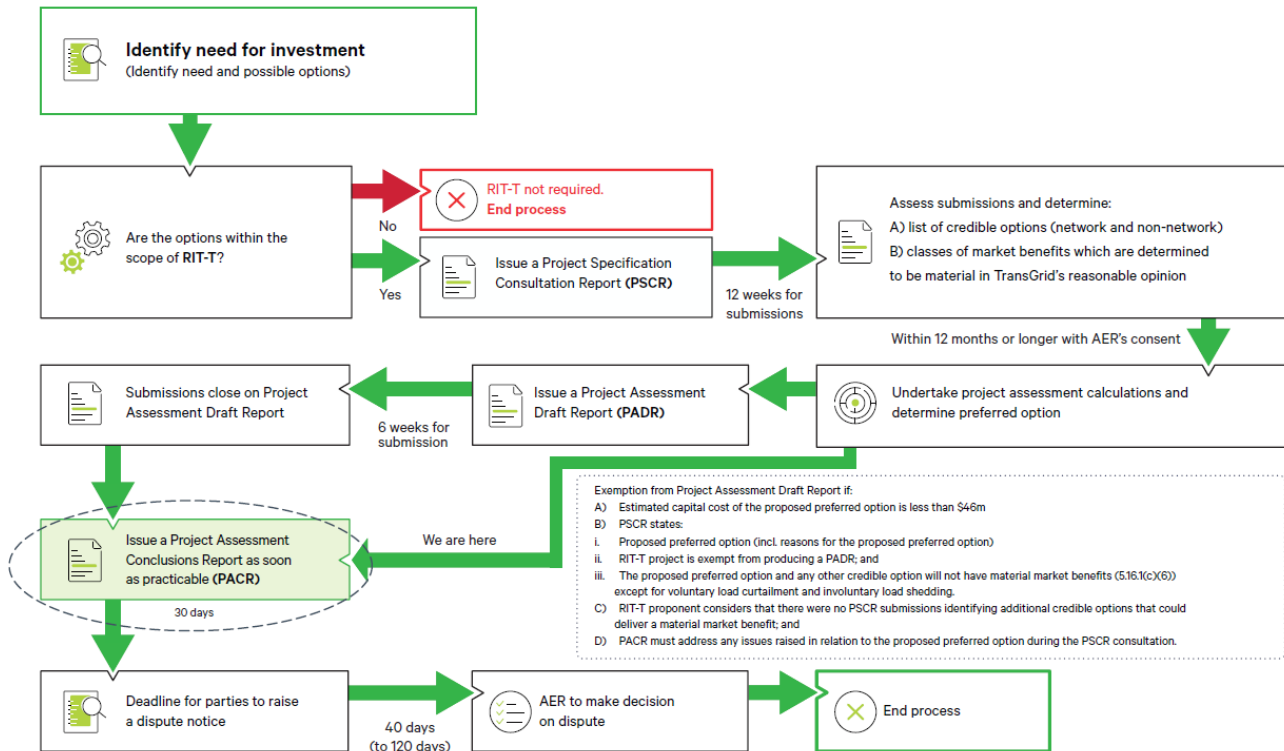
This PACR represents the third and final step of the consultation process in relation to the application of the Regulatory Investment Test for Transmission (RIT-T) process undertaken by Transgrid. It follows a Project Specification Consultation Report (PSCR) released in November 2021. No submissions were received in response to the PSCR.

¹¹ See Appendix A for the National Electricity Rules requirements.

¹² Varied from \$43m to \$46m based on the AER Final Determination: Cost thresholds review November 2021. <https://www.aer.gov.au/netw orks-pipelines/guidelines-schemes-models-review s/cost-thresholds-review -for-the-regulatory-investment-tests-2021/final-decision>

¹³ As per clause 5.16.1(c)(6)

Figure 1-1 This PACR is the third stage of the RIT-T process¹⁴



Parties wishing to raise a dispute notice with the AER may do so prior to 2 August 2022 (30 days after publication of this PACR). Any dispute notices raised during this period¹⁵ will be addressed by the AER within 40 to 120 days, after which the formal RIT-T process will conclude.

Further details on the RIT-T can be obtained from TransGrid's Regulation team via RIT-TConsultations@transgrid.com.au. In the subject field, please reference 'Ingleburn Secondary Systems PACR'.

¹⁴ Australian Energy Market Commission. "Replacement expenditure planning arrangements, Rule determination". Sydney: AEMC, 18 July 2017.65. Accessed 19 November 2019.

<https://www.aemc.gov.au/sites/default/files/content/89fbf559-2275-4672-b6ef-c2574eb7ce05/Final-rule-determination.pdf>

¹⁵ Additional days have been included to cover public holidays.

2. The identified need

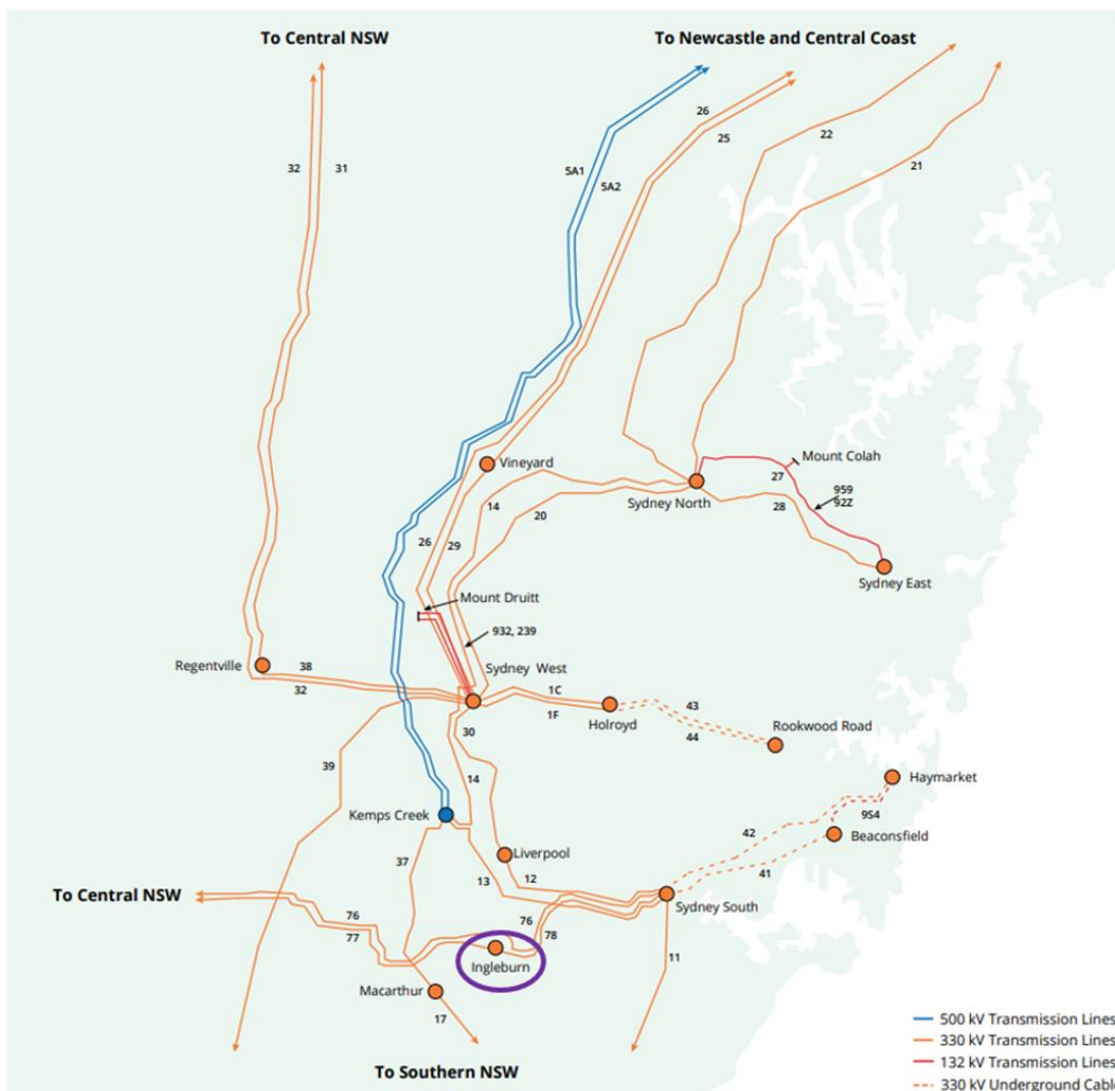
This section outlines the identified need for this RIT-T, as well as the assumptions and data underpinning it. It first sets out background information related to Greater Sydney network and existing electricity supply arrangements.

2.1. Background to the identified need

Ingleburn substation was commissioned in 1984 and forms part of Transgrid’s network that serves the South Western Sydney area.

The location of Ingleburn substation on the Greater Sydney transmission network is provided in Figure 2-1 below.

Figure 2-1 Location of Ingleburn substation on the Greater Sydney transmission network



Ingleburn substation is supplied via two 330 kV transmission lines which connect at Sydney South (Line 78) and Wallerawang (Line 77). Ingleburn substation comprises two 330/66/11 kV transformers which feed five 66kV feeders operated by Endeavour Energy. These 66kV feeders run between Ingleburn substation and

Endeavour Energy substations in the surrounding area. These substations include Macquarie Fields, Bow Bowing and Minto.

Ingleburn substation will continue to play a central role in the safe and reliable operation of the power system throughout and after the transition to a low-carbon electricity future. It forms part of the Greater Sydney network which supports the flow of energy between generation in Central West NSW and the southern suburbs of Sydney.

Ingleburn substation is a customer connection point supplying the Endeavour Energy 66 kV network in the area inclusive of Macquarie Fields and Minto. It supports the flow of electricity to significant infrastructure including a major hospital, two major tertiary education facilities, regional sporting facilities and major transport links, as well as a growing residential population of more than 171,000¹⁶.

Regarded as the fastest growing corridor in the state, demand growth in Western Sydney is primarily concentrated to the north-west and south-west sectors of the region. A series of major transport developments (including Sydney's second airport at Badgerys Creek and the metro train links), in addition to a number of health and education projects planned for the region over the current demand forecast period¹⁷ provides a platform for strong economic growth for these areas¹⁸. Demand is forecast at 131 MW for the summer of 2022/23¹⁹.

The secondary systems components at Ingleburn were installed between 1970 and 2013 to support the safe and reliable operation of the substation. This arrangement is necessary to ensure that all electricity users in south-western Sydney, whether they be large industrial customers directly connected to Transgrid's network or residential consumers connected via Endeavour Energy's distribution network, are able to receive the level of support they require. The load for Ingleburn substation is currently a mix of residential, commercial and industrial.²⁰

2.2. Description of identified need

Secondary systems are used to control, monitor, protect and secure communication to facilitate safe and reliable network operation²¹. They are necessary to ensure the secure operation of the transmission network and prevent damage to primary assets when adverse events occur.

The Network Performance Requirements, set out in Schedule 5.1 of the NER, place an obligation on TNSPs to provide redundant protection schemes to ensure the transmission system is adequately

¹⁶ Population in the region is currently 171,240 and projected to grow by 62% by 2036. Campbelltown City Council. "Reimagining Campbelltown City Centre Master Plan", Campbelltown: Campbelltown City Council, 2020.21. Accessed 7 September 2021. <https://www.campbelltown.nsw.gov.au/files/assets/public/document-resources/business/reimaginingcampbelltown/reimaginingcampbelltownmasterplanendorsed.pdf>

¹⁷ Based on Endeavour Energy Transmission and zone substation peak demand forecasts for the 2020-2024 period.

¹⁸ Endeavour Energy. "2020 Distribution Annual Planning Report- December 2020." Seven Hills: Endeavour Energy, 2020.40. Accessed 7 September 2021.

https://dapr.endeavourenergy.com.au/endeavour_data/Endeavour%20Energy%202020%20DA%20PR.pdf

¹⁹ Transgrid. "Transmission Annual Planning Report 2021." Sydney: Transgrid, 2021. 118. Accessed 23 September, 2021. <https://www.transgrid.com.au/media/211f1u/transmission-annual-planning-report-2021.pdf>

²⁰ Endeavour Energy. "2020 Distribution Annual Planning Report- December 2020." Seven Hills: Endeavour Energy, 2020.40. Accessed 7 September 2021.

https://dapr.endeavourenergy.com.au/endeavour_data/Endeavour%20Energy%202020%20DA%20PR.pdf

²¹ As per Schedule 5.1 of the NER.

protected. Schedule 5.1.9(c) of the NER requires a TNSP to provide sufficient primary and back-up protection systems, including any communications facilities and breaker fail protection systems, to ensure that a fault of any type anywhere on its transmission system is automatically disconnected.

Additionally, TNSPs are required to disconnect the unprotected primary systems where secondary systems fault lasts for more than eight hours (for planned maintenance) or 24 hours (for unplanned outages). TNSPs must also ensure that all protection systems for lines at a voltage above 66 kV are well-maintained so as to be available at all times other than for short periods (less than eight hours), while the maintenance of protection systems is being carried out²². In the event of an unplanned outage, AEMO's Power System Security Guidelines require that the primary network assets must be taken out of service within 24 hours²³.

Furthermore, as per clause 4.11.1 of the NER, remote monitoring and control systems are required to be maintained in accordance with the standards and protocols determined and advised by AEMO.

A failure of the secondary systems would involve replacement of the failed component or taking the affected primary assets, such as lines and transformers, out of service.

Though replacement of failed secondary systems component is a possible interim measure, the approach is not sustainable as spare components will deplete due to the technology no longer being manufactured or supported. Once all spares are used, replacement will cease to be a viable option to meet performance standards applicable to Ingleburn substation secondary systems.

If the failure to provide functional secondary systems due to technology obsolescence is not addressed by a technically and commercially feasible credible option in sufficient time (by 2023/24), the likelihood of not recovering from secondary systems faults and not maintaining compliance with NER performance requirements will increase.

The proposed investment will enable Transgrid to continue to meet the standards for secondary systems availability set out in the NER, and to avoid the impacts of taking primary assets out of service. Consequently, it is considered a reliability corrective action under the RIT-T.

A reliability corrective action differs from a 'market benefits'-driven RIT-T in that the preferred option is permitted to have negative net economic benefits on account of it being required to meet an externally imposed obligation on the network business.

2.3. Assumptions underpinning the identified need

2.3.1. Depletion of available spares due to no manufacturer support for technologically obsolete components

Though like-for-like replacement of a failed secondary systems at Ingleburn substation is possible as an interim measure, the approach is not sustainable as spare components will deplete due to the technology no longer being manufactured or supported. Once all spares are used, repair will cease to be a viable option and will not enable performance standards applicable to Ingleburn substation secondary systems to be met.

²² As per S5.1.2.1(d) of the NER.

²³ Australian Energy Market Operator. "Power System Security Guidelines, 7 April 2021." Melbourne: Australian Energy Market Operator, 2021.35. Accessed 22 June 2021. https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3715-power-system-security-guidelines.pdf?la=en

2.3.2. Deterioration of asset condition increases the risk of substation failure

Appendix B provides an overview of the Risk Assessment Methodology adopted by Transgrid. Transgrid has identified several critical issues with the secondary systems at Ingleburn substation. The issues outlined in Table 2-1 are expected to escalate until the asset is fully inoperable.

Table 2-1 Identified condition of Ingleburn substation secondary systems

Asset components	Issues	% of services at site
Energy Meters	<ul style="list-style-type: none"> Component technology obsolescence resulting in a lack of spares and no manufacturer support 	50% of all market meters on site
Protection Relays	<ul style="list-style-type: none"> Increasing numbers of faults across a range of models 	70% of all protection relays on site
Remote Monitoring and Control Equipment	<ul style="list-style-type: none"> End of serviceable life Manufacturer support withdrawn 	100% of all remote monitoring and control on site

3. Potential credible options

This section describes the options explored by Transgrid to address the need, including the scope of each option and the associated costs. Refer to section 6.1 for benefits of each option.

Transgrid considered three technically and commercially feasible options in this PSCR:

- **Option 1** – complete in-situ replacement of protection, market metering and control systems;
- **Option 2** – IEC-61850 replacement; and
- **Option 3** – strategic asset replacement of protection, market metering and control systems.

Transgrid expects coronavirus (COVID-19) to impact suppliers and disrupt their supply chains, although at this time the extent of the current or future impact is unknown. Consequently, some of the costs associated with the works outlined in this document may be affected.

All costs presented in this PACR are in 2021/22 dollars.

3.1. Base case

The costs and benefits of each option in this PACR were compared against those of a base case²⁴. Under this base case, no proactive capital investment is made to remediate the technological obsolescence, spares unavailability, discontinued manufacturer support, and components deterioration of the secondary systems. The asset will continue to operate and be maintained under the current regime. Annual maintenance costs are approximately \$3,000 per year. Increases to the regular maintenance regime will not be able to mitigate the risk of failure of the secondary systems at Ingleburn substation due to technological obsolescence and reduced reliability.

The table below provides a breakdown of the operating expenditure under the base case.

Table 3-1 Operating expenditure breakdown under the base case (\$ 2021/22)

Item	Operating expenditure (\$)
Annualised protection maintenance activities	3,000
Total operating cost	3,000 (+/-25%)

The majority of protection relays, remote control and monitoring devices at this site have limited spares, no manufacturer support, and will reach end of serviceable life by 2023/24. Repairs will become more difficult due to limited spares and this will lead to periods of unavailability. This increases the asset's risk of failure, difficulty to repair any failures, likelihood of a hazardous event, and periods of unavailability.

²⁴ As per the RIT-T Application Guidelines, the base case provides a clear reference point for comparing the performance of different credible options. Australian Energy Regulator. "Application guidelines Regulatory Investment Test for Transmission - August 2020." Melbourne: Australian Energy Regulator, 2020.21. Accessed 22 March 2021. <https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%202025%20August%202020.pdf>

Transgrid calculates the annual safety, environmental and financial risk costs associated with the Ingleburn substation secondary systems under the base case to be approximately \$1.78 million.²⁵

3.2. Option 1 – Complete in-situ replacement of protection and control systems

Option 1 involves replacement of all secondary systems assets at Ingleburn substation. This option will modernise the automation philosophy to current design standards and practices. This option also includes replacement of Direct Current (DC) supplies to account for an increase in secondary systems power requirements and remediation of the 415V Alternating Current (AC) distribution in the building and the switchyard.

The condition of various categories of automation assets such as protection relays, control systems, AC distribution, DC supply systems, and market meters creates a need for modernisation. This will deliver benefits such as reduced preventative maintenance requirements, improved operational efficiencies, better utilisation of our high speed communications network, improved visibility of all assets using modern technologies and reduced reliance on routine maintenance and testing.

There are also additional operational benefits available due to improved remote monitoring, control and interrogation, efficiency gains in responding to faults, and phasing out of obsolete and legacy systems and protocols.

This option also mitigates the risk posed by flooding at the site by replacing marshalling kiosks, LV AC systems, cabling and conduits with flood resilient alternatives.

The work will be undertaken over the two-year period with all works expected to be completed by 2023/24.

All works under all options will be completed in accordance with the relevant standards and components shall be replaced to have minimal modification to the wider transmission network. Necessary outages of relevant existing assets will be planned appropriately in order to complete the works with minimal impact on the network.

The estimated capital expenditure associated with this option is approximately \$8.6 million +/- 25 per cent. The table below provides a breakdown.

Table 3-2 Capital expenditure breakdown under Option 1 (\$m 2021/22)

Item	Capital expenditure (\$m)
FY22	1.7
FY23	6.2
FY24	0.7
Total capital cost	8.6 (+/- 25%)

²⁵ This determination of yearly risk costs is based on Transgrid's Network Asset Risk Assessment Methodology and incorporates variables such as likelihood of failure/exposure, various types of consequence costs and corresponding likelihood of occurrence. Financial risk captures the cost of reactive replacement and repairs in the case of unplanned equipment failures and the costs arising from damage to primary plant should the secondary systems not operate as required.

Routine operating and maintenance costs are approximately \$3,000 per year. The table below provides a breakdown.

Table 3-3 Operating expenditure breakdown under Option 1 (\$ 2021/22)

Item	Operating expenditure (\$)
Annualised protection maintenance activities	3,000
Total operating cost	3,000 (+/- 25%)

Transgrid calculates the annual safety, environmental and financial risk costs associated with the Ingleburn substation secondary systems under Option 1 to be approximately \$230,000.²⁶

3.3. Option 2 – IEC-61850 replacement

Option 2 involves a complete replacement of the secondary systems at Ingleburn substation with new IEC-61850 based secondary systems technology. This option will modernise the automation philosophy. It will implement the IEC-61850 protocol for unmanned substation site involving automation systems. By implementing this option Transgrid will be able to achieve savings through the reduction in the number of traditional copper-core cables by installing optical fibre cables between substation switchyards and relay rooms.

The condition of various categories of automation assets such as protection relays, control systems, AC distribution, DC supply systems, and market meters creates a need for modernisation. This will deliver benefits such as reduced preventative maintenance requirements, improved operational efficiencies, better utilisation of our high speed communications network, improved visibility of all assets using modern technologies and reduced reliance on routine maintenance and testing.

This option also mitigates the risk posed by flooding at the site by replacing marshalling kiosks, LV AC systems, cabling and conduits with flood resilient alternatives.

The work will be undertaken over the two-year period with all works expected to be completed by 2023/24.

All works under all options will be completed in accordance with the relevant standards and components shall be replaced to have minimal modification to the wider transmission network. Necessary outages of relevant existing assets will be planned appropriately in order to complete the works with minimal impact on the network.

The estimated total capital costs for the option is approximately \$12.7 million +/-25 per cent. The table below provides a breakdown.

²⁶ This determination of yearly risk costs is based on TransGrid's Network Asset Risk Assessment Methodology and incorporates variables such as likelihood of failure/exposure, various types of consequence costs and corresponding likelihood of occurrence.

Table 3-4 Capital expenditure breakdown under Option 2 (\$m 2021/22)

Item	Capital expenditure (\$m)
FY23	2.2
FY24	10.5
Total capital cost	12.7 (+/- 25%)

Routine operating and maintenance costs are approximately \$10,000 per year. This maintenance reflects the higher probability of secondary system component failure due to increase likelihood of inadvertent exposure to the weather with the secondary system being located in outdoor enclosures. It was based on the installed cost to annually replace one out of approximately 40 secondary system components. The table below provides a breakdown.

Table 3-4 Operating expenditure breakdown under Option 2 (\$ 2021/22)

Item	Operating expenditure (\$)
Annualised protection maintenance activities	10,000
Total operating cost	10,000 (+/- 25%)

Transgrid calculates the annual safety, environmental and financial risk costs associated with the Ingleburn substation secondary systems under Option 2 to be approximately \$350,000.²⁷ Option 2 poses a higher risk than Option 1 due to slightly lower reliability posed by the IEC-61850 technology. The reliance of IEC-61580 on multiple components to function correctly lowers the overall reliability of the technology compared to traditional copper based solutions.

3.4. Option 3 – Strategic asset replacement

Option 3 involves individual replacements of identified assets up to 2035. The option is based on a like-for-like approach whereby the asset is replaced by its modern equivalent. Additional system modifications or additional functionalities would not be deployed under this option. This option will lock Transgrid to a system architecture that cannot be expanded to match modern technology capabilities into the future.

This option does not mitigate the flooding risk at the site. Future flood events will continue to adversely impact on the secondary systems.

All works under all options will be completed in accordance with the relevant standards and components shall be replaced to have minimal modification to the wider transmission network. Necessary outages of relevant existing assets will be planned appropriately in order to complete the works with minimal impact on the network.

The estimated capital expenditure associated with this option is approximately \$7.8 million. The table below provides a breakdown.

²⁷ This determination of yearly risk costs is based on Transgrid's Network Asset Risk Assessment Methodology and incorporates variables such as likelihood of failure/exposure, various types of consequence costs and corresponding likelihood of occurrence.

Table 3-5 Capital expenditure breakdown under Option 3 (\$m 2021/22)

Item	Capital expenditure (\$m)
FY23	2.4
FY24 to FY28	4.6
FY29 to FY32	0.5
FY33 to FY35	0.3
Total capital cost	7.8 (+/- 25%)

Routine operating and maintenance costs are approximately \$3,000 per year. The table below provides a breakdown.

Table 3-6 Operating expenditure breakdown under Option 3 (\$ 2021/22)

Item	Operating expenditure (\$)
Annualised protection maintenance activities	3,000
Total operating cost	3,000 (+/- 25%)

Transgrid calculates the annual safety, environmental and financial risk costs associated with the Ingleburn substation secondary systems under Option 3 to be approximately \$690,000.²⁸

3.5. Options considered but not progressed

Transgrid determines that there is no other commercially and technically feasible option to meet the identified need.

3.6. No material inter-network impact is expected

Transgrid has considered whether the credible options listed above is expected to have material inter-regional impact²⁹. A 'material inter-network impact' is defined in the NER as:

"A material impact on another Transmission Network Service Provider's network, which impact may include (without limitation): (a) the imposition of power transfer constraints within another Transmission Network Service Provider's network; or (b) an adverse impact on the quality of supply in another Transmission Network Service Provider's network."

AEMO's suggested screening test to indicate that a transmission augmentation has no material inter-network impact is that it satisfies the following³⁰:

²⁸ *ibid.*

²⁹ As per clause 5.16.4(b)(6)(ii) of the NER.

³⁰ Inter-Regional Planning Committee. "Final Determination: Criteria for Assessing Material Inter-Network Impact of Transmission Augmentations." Melbourne: Australian Energy Market Operator, 2004. Appendix 2 and 3. Accessed 23

- a decrease in power transfer capability between transmission networks or in another TNSP's network of no more than the minimum of 3 per cent of the maximum transfer capability and 50 MW
- an increase in power transfer capability between transmission networks or in another TNSP's network of no more than the minimum of 3 per cent of the maximum transfer capability and 50 MW
- an increase in fault level by less than 10 MVA at any substation in another TNSP's network; and
- the investment does not involve either a series capacitor or modification in the vicinity of an existing series capacitor.

Transgrid notes that each credible option satisfies these conditions as it does not modify any aspect of electrical transmission assets. By reference to AEMO's screening criteria, there is no material inter-network impacts associated with any of the credible options considered.

3.7. Non-network options

In the PSCR, it was noted that non-network solutions will not enable Transgrid to continue meeting its Rules obligation under Schedule 5.1 and clause 4.11 of the NER to provide redundant secondary systems and ensure that the transmission system is adequately protected. Notwithstanding, as part of this consultation process, interested parties were able to make submissions regarding non-network options that satisfy, or contribute to satisfying, the identified need.

Transgrid did not receive any responses from proponents of non-network options to the PSCR.

June 2021. https://aemo.com.au/-/media/files/electricity/nem/network_connections/transmission-and-distribution/170-0035-pdf.pdf

4. Materiality of market benefits

This section outlines the categories of market benefits prescribed in the National Electricity Rules (NER) and whether they are considered material for this RIT-T.³¹

4.1. Wholesale electricity market benefits are not material

The AER has recognised that if the credible options considered will not have an impact on the wholesale electricity market, then a number of classes of market benefits will not be material in the RIT-T assessment, and so do not need to be estimated.³²

Transgrid determines that the credible options considered in this RIT-T will not address network constraints between competing generating centres and are therefore not expected to result in any change in dispatch outcomes and wholesale market prices. Transgrid therefore considers that the following classes of market benefits are not material for this RIT-T assessment:

- changes in fuel consumption arising through different patterns of generation dispatch
- changes in voluntary load curtailment (since there is no impact on pool price)
- changes in costs for parties other than the RIT-T proponent
- changes in ancillary services costs
- changes in network losses
- competition benefits
- Renewable Energy Target (RET) penalties.

4.2. No other classes of market benefits are material

In addition to the classes of market benefits listed above, NER clause 5.16.1(c)(4) requires Transgrid to consider the following classes of market benefits, listed in Table 5-1, arising from each credible option. Transgrid considers that none of the classes of market benefits listed are material for this RIT-T assessment for the reasons in Table 5-1.

Table 4-1 Reasons non-wholesale electricity market benefits are considered immaterial

Market benefits	Reason
Changes in involuntary load shedding	A failure of secondary systems element results in an extremely low chance of unserved energy.

³¹ The NER requires that all classes of market benefit identified in relation to the RIT-T are included in the RIT-T assessment, unless the TNSP can demonstrate that a specific class (or classes) is unlikely to be material in relation to the RIT-T assessment for a specific option – NER clause 5.16.1(c)(6). See Appendix A for requirements applicable to this document.

³² Australian Energy Regulator. “Application guidelines Regulatory Investment Test for Transmission - August 2020.” Melbourne: Australian Energy Regulator, 2020.29-30. Accessed 22 March 2021.
<https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%2025%20August%202020.pdf>

Market benefits	Reason
Differences in the timing of expenditure	<p>Options considered are unlikely to affect decisions to undertake unrelated expenditure in the network. Consequently, material market benefits will neither be gained nor lost due to changes in the timing of expenditure from any of the options considered.</p> <p>Options are being undertaken to mitigate, in isolation, the rising risk caused by the existing asset nearing its end of serviceable life.</p>
Option value	<p>Transgrid notes the AER's view that option value is likely to arise where there is uncertainty regarding future outcomes, the information that is available is likely to change in the future, and the credible options considered by the TNSP are sufficiently flexible to respond to that change.³³</p> <p>Transgrid also notes the AER's view that appropriate identification of credible options and reasonable scenarios captures any option value, thereby meeting the NER requirement to consider option value as a class of market benefit under the RIT-T.</p> <p>Transgrid notes that no credible option is sufficiently flexible to respond to change or uncertainty.</p> <p>Additionally, a significant modelling assessment would be required to estimate the option value benefits but it would be disproportionate to potential additional benefits for this RIT-T. Therefore, Transgrid has not estimated additional option value benefit.</p>

³³ Australian Energy Regulator. "Application guidelines Regulatory Investment Test for Transmission - August 2020." Melbourne: Australian Energy Regulator, 2020.53. Accessed 22 March 2021.
<https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%202025%20August%202020.pdf>

5. Overview of the assessment approach

This section outlines the approach that Transgrid has applied in assessing the net benefits associated with each of the credible options against the base case.

5.1. Description of the base case

The costs and benefits of each option in this document are compared against the base case. Under this base case, no investment is undertaken and Transgrid incurs regular and reactive maintenance costs, operational and safety related risks costs that are caused by the failure of secondary systems to operate when required.

Transgrid notes that this course of action is not expected in practice. However, this approach has been adopted since it is consistent with AER guidance on the base case for RIT-T applications.³⁴

5.2. Assessment period and discount rate

A 15 year post-commissioning assessment period from 2023/24 to 2037/38 was considered in this analysis. This period takes into account the expected asset life of the secondary systems.

Transgrid adopted a central real, pre-tax 'commercial' discount rate³⁵ of 5.50 per cent as the central assumption for the NPV analysis presented in this report. Transgrid considers that this is a reasonable contemporary approximation of a commercial discount rate and it is consistent with the central estimate discount rate adopted by AEMO in its 2021 IASR³⁶.

Transgrid also tested the sensitivity of the results to discount rate assumptions. A lower bound real, pre-tax discount rate of 2.30 per cent equal to the latest AER Final Decision for a TNSP's regulatory proposal at the time of preparing this document³⁷, and an upper bound discount rate of 8.70 per cent (a symmetrical adjustment upwards) were used to maintain consistency with the assessment approach used in the PSCR.

5.3. Approach to estimating option costs

Transgrid has estimated the capital costs of the options based on the scope of works necessary together with costing experience from previous projects of a similar nature. Transgrid estimates that the actual cost is within +/- 25 per cent of the central capital cost.

Routine operating and maintenance costs are based on works of similar nature.

³⁴ As per the RIT-T Application Guidelines, the base case is where the RIT-T proponent does not implement a credible option to meet the identified need, but rather continues its 'BAU activities'. The AER defines 'BAU activities' as ongoing, economically prudent activities that occur in the absence of a credible option being implemented. Australian Energy Regulator. "[Application guidelines Regulatory Investment Test for Transmission - August 2020.](#)"

³⁵ The use of a 'commercial' discount rate is consistent with the RIT-T and is distinct from the regulated cost of capital (or 'WACC') that applies to network businesses like Transgrid.

³⁶ AEMO, [2021 Inputs, Assumptions and Scenarios Report](#), July 2021.

³⁷ The lower bound discount rate is based on the WACC (pre-tax, real) in the most recent final decision for a TNSP revenue determination which was [Powerlink](#) in April 2022.

5.4. Three different scenarios have been modelled to address uncertainty

The assessment was conducted under three net economic benefits scenarios. These are plausible scenarios which reflect different assumptions about the future market development and other factors that are expected to affect the relative market benefits of the options being considered. All scenarios (low, central and high) involve a number of assumptions that result in the lower bound, the expected, and the upper bound estimates for present value of net economic benefits respectively.

A summary of the key variables in each scenario is provided in the table below.

Table 5-1 Summary of scenarios

Variable / Scenario	Central	Low benefit scenario	High benefit scenario
<i>Scenario weighting</i>	50%	25%	25%
Discount rate	5.50%	8.70%	2.30%
Costs			
Network capital costs	Base estimate	Base estimate + 25%	Base estimate - 25%
Operating and maintenance costs	Base estimate	Base estimate + 25%	Base estimate - 25%
Benefits (negative benefits)			
Reduction in safety and environmental risk costs	Base estimate	Base estimate - 25%	Base estimate + 25%
Reduction in operational risks	Base estimate	Base estimate - 25%	Base estimate + 25%

Transgrid considered that the central scenario was most likely since it was based primarily on a set of expected assumptions. Transgrid therefore assigned this scenario a weighting of 50 per cent, with the other two scenarios being weighted equally with 25 per cent each.

6. Assessment of credible options

This section outlines the assessment Transgrid has undertaken of the credible network options. The assessment compares the costs and benefits of each credible option to the base case. The benefits of each credible option are represented by reduction in costs or risks compared to the base case.

No additional credible options were identified during the consultation period following publication of the PSCR. All costs presented in this PACR are in 2021/22 dollars.

6.1. Estimated gross benefits

The table below summarises the present value of the gross benefit estimates for each credible option relative to the base case under the three scenarios.

The benefits included in this assessment are:

- reduction in safety and environmental risks, and
- reduction in financial risks.³⁸

Table 6-1 Estimated gross benefits from credible options relative to the base case, present value (\$m 2021/22)

Option/scenario	Central	Low benefit scenario	High benefit scenario	Weighted
<i>Scenario weighting</i>	50%	25%	25%	
Option 1	13.3	7.8	21.9	14.1
Option 2	12.3	7.2	20.2	13.0
Option 3	9.3	5.5	15.4	9.9

6.2. Estimated costs

The table below summarises the capital and operating and maintenance costs of the options, relative to the base case, in present value terms. The cost of each credible option has been calculated for each of the three reasonable scenarios outlined in section 5.4.

Table 6-2 Estimated costs of credible options relative to the base case, present value (\$m 2021/22)

Option/Scenario	Central	Low benefit scenario	High benefit scenario	Weighted value
<i>Scenario weighting</i>	50%	25%	25%	
Option 1	8.3	10.1	6.4	8.3
Option 2	11.6	13.7	9.2	11.5
Option 3	5.8	6.7	4.7	5.8

³⁸ Financial risk captures the cost of reactive replacement and repairs in the case of unplanned equipment failures and the costs arising from damage to primary plant should the secondary systems not operate as required.

6.3. Estimated net economic benefits

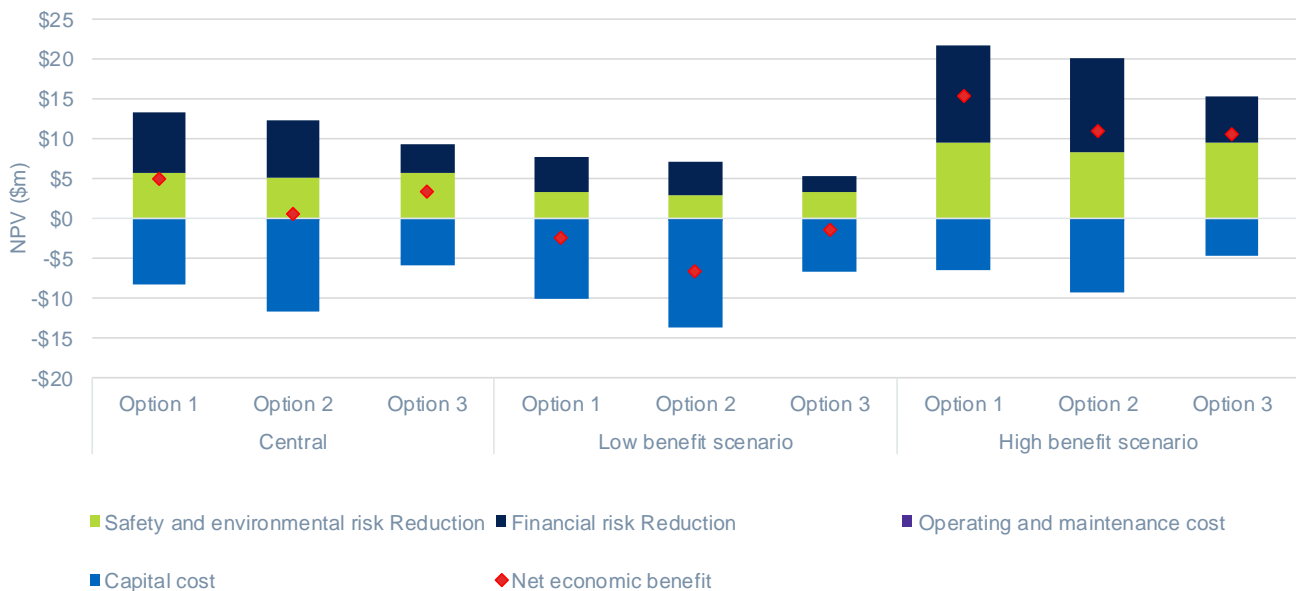
The net economic benefits are the differences between the estimated gross benefits less the estimated costs. The table below summarises the present value of the net economic benefits for each credible option across the three scenarios and the weighted net economic benefits.

As shown in the table and figure below Option 1 has the highest net economic benefit or least cost while also maintaining compliance with regulatory and safety obligations. Transgrid finds that under all scenarios Option 1 delivers the most net benefit.

Table 6-3 Estimated net economic benefits relative to the base case, present value (\$m 2021/22)

Option	Central	Low benefit scenario	High benefit scenario	Weighted value	Ranking
<i>Scenario weighting</i>	50%	25%	25%		
Option 1	5.0	-2.4	15.5	5.8	1
Option 2	0.7	-6.5	11.0	1.5	3
Option 3	3.5	-1.3	10.6	4.1	2

Figure 6-1 Net economic benefits, present value (\$M)



6.4. Meeting relevant regulatory obligations

Implementation of Option 1 will enable Transgrid to meet regulatory obligations set out under Schedule 5.1 and clauses 4.11.1 and 4.6.1(b)³⁹ of the NER to provide redundant secondary systems and ensure that the

³⁹ As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

transmission system is adequately protected. Consequently, it will also ensure the performance standards applicable to Ingleburn substation secondary systems are met.

Implementation of Option 1 is the most efficient option to ensure reliability of the secondary systems at Ingleburn substation and mitigate its risks of prolonged failure.

6.5. Sensitivity testing

Transgrid undertakes sensitivity testing to understand the robustness of the RIT-T assessment to underlying assumptions about key variables. In particular, Transgrid undertakes two sets of sensitivity tests, namely:

- Step 1 – testing the sensitivity of the optimal timing of the project ('trigger year') to different assumptions in relation to key variables
- Step 2 – once a trigger year has been determined, testing the sensitivity of the total NPV benefit associated with the investment proceeding in that year, in the event that actual circumstances turn out to be different.

Transgrid has not undertaken Step 1 of the sensitivity analysis to determine the optimal timing of the project as the investment is required to be undertaken as reliability corrective action by 2023/24. If the failure to provide functional secondary systems due to technology obsolescence is not addressed by a technically and commercially feasible credible option in sufficient time (by 2023/24), the likelihood of not recovering from secondary systems faults and not maintaining compliance with NER performance requirements will increase. The proposed investment will enable Transgrid to continue to meet the standards for secondary systems availability set out in the NER, and to avoid the impacts of taking primary assets out of service.

Having assumed to have committed to the project by this date, Transgrid has also looked at the consequences of 'getting it wrong' under step 2 of the sensitivity testing. That is, if expected safety risks are not as high as expected, for example, the impact on the net economic benefit associated with the project continuing to go ahead on that date. The application of the second step to test the sensitivity of the key findings is outlined below.

The application of the second step to test the sensitivity of the key findings is outlined below.

6.5.1. Sensitivity of the overall net benefit

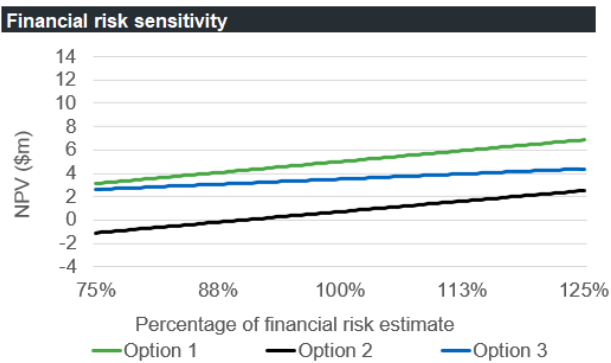
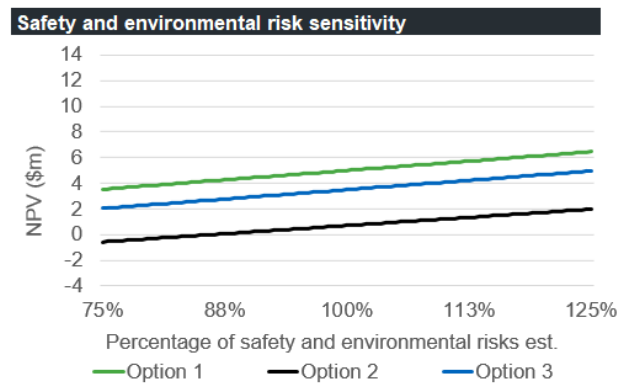
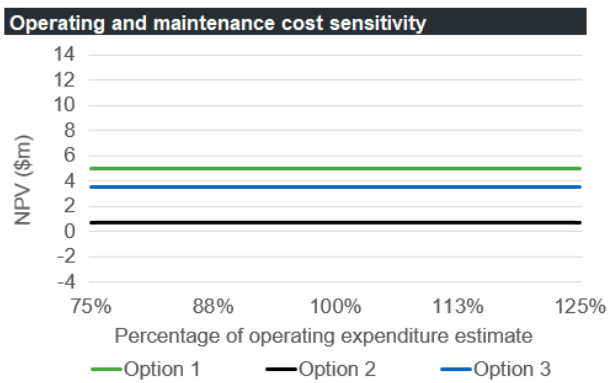
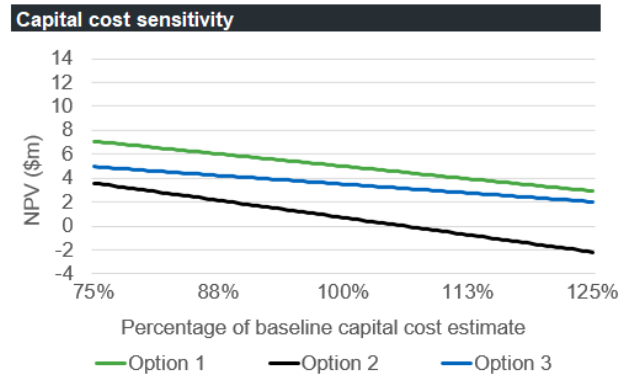
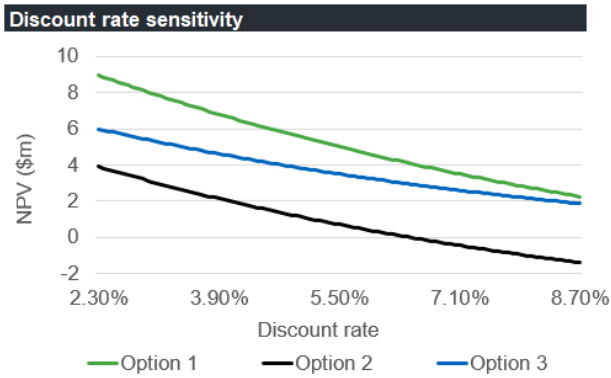
Transgrid has conducted sensitivity analysis on the present value of the net economic benefit, based on having to undertake the project by 2023/24. Specifically, Transgrid has investigated the following sensitivities:

- a 25 per cent increase/decrease in the assumed network capital costs
- lower discount rate of 2.30 per cent as well as a higher rate of 8.70 per cent
- lower (or higher) assumed operation and maintenance costs
- lower (or higher) assumed safety and environmental risks
- lower (or higher) assumed financial risk

All these sensitivities investigate the consequences of 'getting it wrong' having committed to a certain investment decision. The figures below illustrate the estimated net economic benefits for each option if

separate key assumptions in the central scenario are varied individually. Option 1 delivers the most benefit under all scenarios.

Figure 6-2 Sensitivities



7. Final conclusion on the preferred option

The optimal commercially and technically feasible option presented in the PSCR – Option 1 (complete in-situ replacement of protection and control systems) – remains the preferred option to meet the identified need. Option 1 can be implemented in sufficient time to meet the identified need by 2023/24, and is therefore the preferred option presented in this PACR.

Option 1 is the most prudent and economically efficient solution to enable TransGrid to continue meeting its regulatory obligations set out in clauses 4.11.1, 4.6.1(b),⁴⁰ and Schedule 5.1 of the NER. Consequently, it will ensure the performance standards applicable to Ingleburn substation secondary systems are met.

Option 1 involves an on-site renewal (replacement) of the protection relays, control systems, market meters, AC distribution, and DC supply systems at Ingleburn substation. This option also mitigates the risk posed by flooding at the site by replacing marshalling kiosks, LV AC systems, cabling and conduits with flood resilient alternatives.

The works will be undertaken over a two year period with all works expected to be completed by 2023/24. Planning (including commencement of the RIT-T) commenced in 2020/21 and is due to conclude in 2021/22. The procurement and delivery of the identified assets is planned to commence during 2022/23 with all works will be completed by 2023/24.

Necessary outages of relevant existing assets will be planned appropriately in order to complete the works with minimal impact on the network.

The estimated capital cost of this option is approximately \$8.6 million. Routine and operating maintenance costs are approximately \$3,000 per year.

Option 1 is the preferred option in accordance with NER clause 5.16.1(b) because it is the credible option that maximises the net present value of the net economic benefit to all those who produce, consume and transport electricity in the market. This preferred option, Option 1, was found to have the highest net economic benefit while also maintaining compliance with regulatory and safety obligations. TransGrid also conducted sensitivity analysis on the net economic benefit to investigate the robustness of the conclusion to key assumptions. Transgrid finds that under all sensitivities Option 1 delivers the most net benefit. The analysis undertaken and the identification of Option 1 as the preferred option satisfies the RIT-T.

⁴⁰ As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

Appendix A Compliance checklist

This appendix sets out a checklist which demonstrates the compliance of this PACR with the requirements of the National Electricity Rules version 182.

Rules clause	Summary of requirements	Relevant section
5.16.4(v)	The project assessment conclusions report must set out:	–
	the matters detailed in the project assessment draft report as required under paragraph (k); and	See below.
	a summary of, and the RIT-T proponent's response to, submissions received, if any, from <i>interested parties</i> sought under paragraph (q).	NA
5.16.4(k)	The project assessment draft report must include:	–
	a description of each credible option assessed;	3
	a summary of, and commentary on, the submissions to the project specification consultation report;	NA
	a quantification of the costs, including a breakdown of operating and capital expenditure, and classes of material market benefit for each credible option;	3, 4
	a detailed description of the methodologies used in quantifying each class of material market benefit and cost;	5
	reasons why the RIT-T proponent has determined that a class or classes of market benefit are not material;	4
	the identification of any class of market benefit estimated to arise outside the <i>region</i> of the <i>Transmission Network Service Provider</i> affected by the RIT-T project, and quantification of the value of such market benefits (in aggregate across all regions);	3, 4
	the results of a net present value analysis of each credible option and accompanying explanatory statements regarding the results;	6
	the identification of the proposed preferred option;	7
	for the proposed preferred option identified under subparagraph (8), the RIT-T proponent must provide: details of the technical characteristics; the estimated construction timetable and commissioning date; if the proposed preferred option is likely to have a <i>material inter-network impact</i> and if the <i>Transmission Network Service Provider</i> affected by the RIT-T project has received an augmentation technical report, that report; and a statement and the accompanying detailed analysis that the preferred option satisfies the <i>regulatory investment test for transmission</i> .	3, 7

Appendix B Risk Assessment Methodology

This appendix summarises the key assumptions and data from the risk assessment methodology that underpin the identified need for this RIT-T.

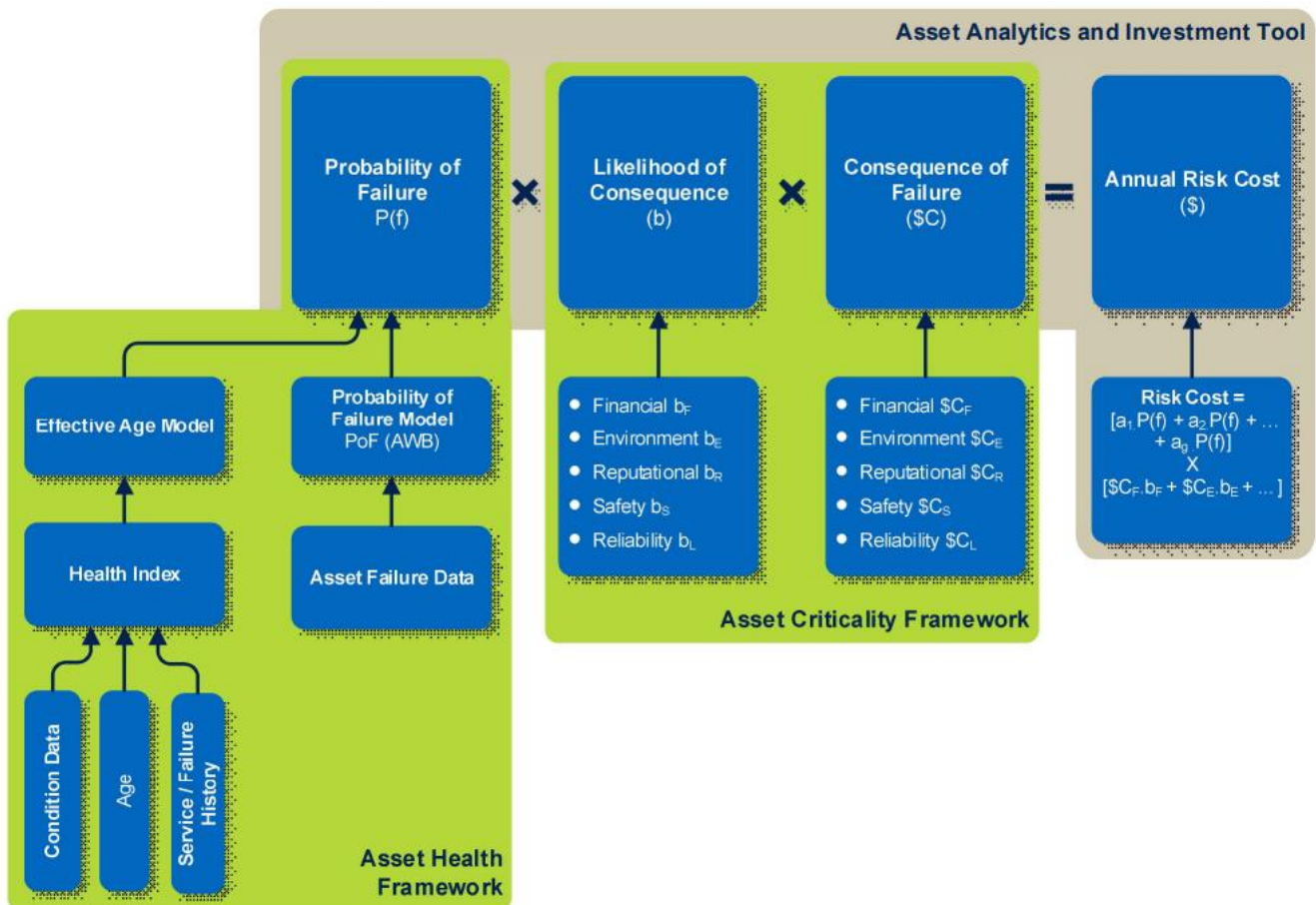
Transgrid has developed the Network Asset Risk Assessment Methodology to quantify asset risk. The risk assessment methodology:

- uses externally verifiable parameters to calculate asset health and failure consequences
- assesses and analyses asset condition to determine remaining life and probability of failure
- applies a likely worst-case asset failure consequence and significantly moderates this down to reflect the likely consequence in a particular circumstance, and
- identifies safety and compliance obligations with a linkage to key enterprise risks.

Our risk cost modelling is aligned with Chapter 5.4 of the AER's Asset Replacement Planning guideline. The monetary value of risk (per year) for an individual asset failure resulting in an undesired outcome is quantified by multiplying the probability of failure (in that year with respect to its condition) as determined through modelling the failure behaviour of an asset (Asset Health), with the consequence cost and the likelihood of that consequence, as determined through the consequence analysis (Asset Criticality).

Where multiple key hazards are applicable to an asset, the value of risk for each of these are summed to give the total value of risk associated with an asset as shown in Figure B-1.

Figure B-1 Overview of Transgrid's risk quantification methodology



The 'risk costs' are calculated based on the Probability of Failure (PoF), the Consequence of Failure (CoF),

and the corresponding Likelihood of Consequence (LoC).

In calculating the PoF, each failure mode that could result in significant impact is considered. For replacement planning, only life-ending failures are used to calculate the risk costs. PoF is calculated for each failure mode based on 'conditional age' (health-adjusted chronological age), failure and defect history, and benchmarking studies. For 'wear out' failures, a Weibull curve may be fitted; while for random failures, a static failure rate may be used.

In calculating the CoF, LoC and risks, Transgrid uses a moderated 'worst case' consequence. This is an accepted approach in risk management and ensures that high impact, low probability events are not discounted.