



TransGrid

Managing safety and environmental risks on Line 18 (Kangaroo Valley – Dapto)

RIT-T Project Specification Consultation Report

Region: Southern

Date of issue: 28 May 2021

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TransGrid is bound by the *Privacy Act 1988 (Cth)*. In making submissions in response to this consultation process, TransGrid will collect and hold your personal information such as your name, email address, employer and phone number for the purpose of receiving and following up on your submissions.

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Executive summary

TransGrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for mitigating safety and environmental risks caused by the deteriorating condition of Line 18. Publication of this Project Specification Consultation Report (PSCR) represents the first step in the RIT-T process.

Commissioned in 1974, the 43 km single circuit 330 kV transmission line is comprised of 107 steel tower structures between Kangaroo Valley switching station and Dapto 330 kV substation. The section from Kangaroo Valley to Robertson was built in 1974 whilst the remaining section to Dapto substation was built in 1962, previously part of a Yass-Dapto connection. Line 18 forms a key link between the Shoalhaven and Wollongong regions and supports the transmission of electricity from existing generators in southern NSW to the major load centres of Sydney, Newcastle and Wollongong.

The line will continue to play a central role in supporting the flow of energy to take advantage of naturally diverse weather patterns, and in the safe and reliable operation of the power system throughout and after the transition to a low-carbon electricity future.

The transmission line mainly traverses farmland and Morton National Park – after leaving Dapto, it climbs from the coastal plain up the Illawarra Escarpment.

Condition issues that will impact the safe and reliable operation of the network have been found on the line. These raise a number of risks associated with asset failure, including safety and environmental (bushfire) risks.

Table E-1 Condition issues along Line 18 and their consequences

Issue	Consequences if not remediated
Corrosion of tower steel members	Steel corrosion, particularly of critical members, can lead to structural failure of tower
Corroded fasteners	Structural failure
Corroded insulators and conductor attachment fittings	Conductor drop
Corrosion of earth wire and earthwire attachment fittings	Public safety risk increase in case of fault
Condition of conductor and earthwire vibration dampers	Accelerated conductor fatigue due to vibration
Condition of conductor spacers	Damaged spacers can lead to conductor clashing
Buried legs and ground level steel corrosion	Foundation failure

As the asset condition deteriorates over time the likelihood of failure and subsequent risks will increase should these issues not be addressed.

Identified need: managing safety and environmental risks from corrosion on Line 18

The proposed investment will enable TransGrid to manage safety and environmental risks on Line 18. Options considered under this RIT-T were assessed relative to a base case. Under the base case, no proactive capital investment is made and the condition of Line 18 will continue to deteriorate.

TransGrid calculates that the safety and environmental risk costs associated with the condition deterioration and corrosion of Line 18 are approximately \$0.7 million per year. Condition deterioration of the affected assets due to corrosion would mean an increase in bushfire and safety risks along Line 18 as the likelihood of failure increases. If left untreated, corrosion of some of the vital components of the steel towers could result in incidents such as conductor drop and tower collapse. Such incidents could have serious safety consequences for nearby residents and members of the public, as well as TransGrid field crew members who may be working on or near the assets.

TransGrid manages and mitigates bushfire and safety risks to ensure they are below risk tolerance levels or 'As Low As Reasonably Practicable' ('ALARP'), in accordance with TransGrid's obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's Electricity Network Safety Management System (ENSMS).¹

Using TransGrid's Risk Assessment Methodology², the risks on safety and environment are sufficient such that their mitigation is warranted. The safety and environmental risk costs from corrosion of steel components of the structures, or 'members', insulators and fittings are estimated to be approximately \$0.7 million per year.³

Under the ALARP test with the application of a gross disproportionate factor⁴, 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. Consequently, it is considered a reliability corrective action under the RIT-T.

Applying the ALARP principle to manage and mitigate bushfire and safety risks, TransGrid determines that its obligations under the New South Wales *Electricity Supply (Safety and Network Management) Regulation 2014* and TransGrid's ENSMS will be met by implementing Option 1 by 2022/23. Under this principle, risks are mitigated unless it is possible to demonstrate that the costs involved in further reducing the risk would be grossly disproportionate to the benefits gained. Using the ALARP principle, all scenarios under Option 1 are NPV positive.

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. 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.

Credible options considered

In this PSCR, TransGrid has put forward for consideration credible options that would meet the identified need from a technical, commercial, and project delivery perspective.⁵

These are summarised in the following table.

¹ TransGrid's ENSMS follows the International Organization for Standardization's ISO31000 risk management framework which requires following hierarchy of hazard mitigation approach

² Appendix B provides an overview of the risk assessment methodology adopted by TransGrid.

³ 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.

⁴ In accordance with the framework for applying the ALARP principle, a disproportionality factor of 6 has been applied to risk cost figures. 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 PSCR is in line with the principles and examples presented in the AER Replacement Planning Guidelines and is consistent with TransGrid's Revised Revenue Proposal 2018/19- 2022/23.

⁵ As per clause 5.15.2(a) of the NER.

Table E-2 Summary of credible options

Option	Description	Capital costs (\$m 2020/21)	Operating costs (\$ per year)	Remarks
Option 1	Line refurbishment	8.66 (+/- 25%)	25,000	Most economical and preferred option
Option 2	Line dismantling	~12.8	0	Not progressed due to technical infeasibility. Dismantling Line 18 will reduce the supply capability from the Southern network to Greater Sydney significantly, which may lead to reliability of supply issues.
Option 3	New transmission line from Kangaroo Valley switching station to Dapto substation	> 100	Not considered	Due to significant costs of this option, a new 330 kV transmission line from Kangaroo Valley switching station to Dapto substation is not commercially feasible.

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

TransGrid does not consider non-network options to be commercially and technically feasible to assist with meeting the identified need for this RIT-T, as non-network options will not mitigate the safety and environment risk posed as a result of corrosion-related asset deterioration.

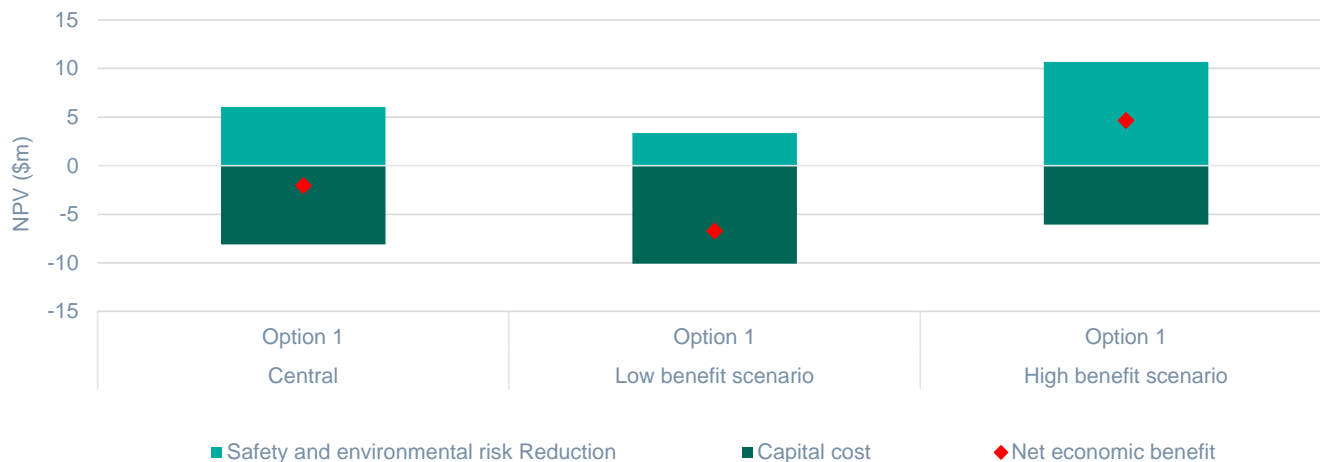
Implementing Option 1 will meet relevant regulatory obligations

Applying the ALARP principle to manage and mitigate bushfire and safety risks, TransGrid determines that its obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's ENSMS will be met by implementing Option 1 by 2022/23. Under this principle, risks are mitigated unless it is possible to demonstrate that the costs involved in further reducing the risk would be grossly disproportionate to the benefits gained.

Option 1 delivers highest net economic benefits

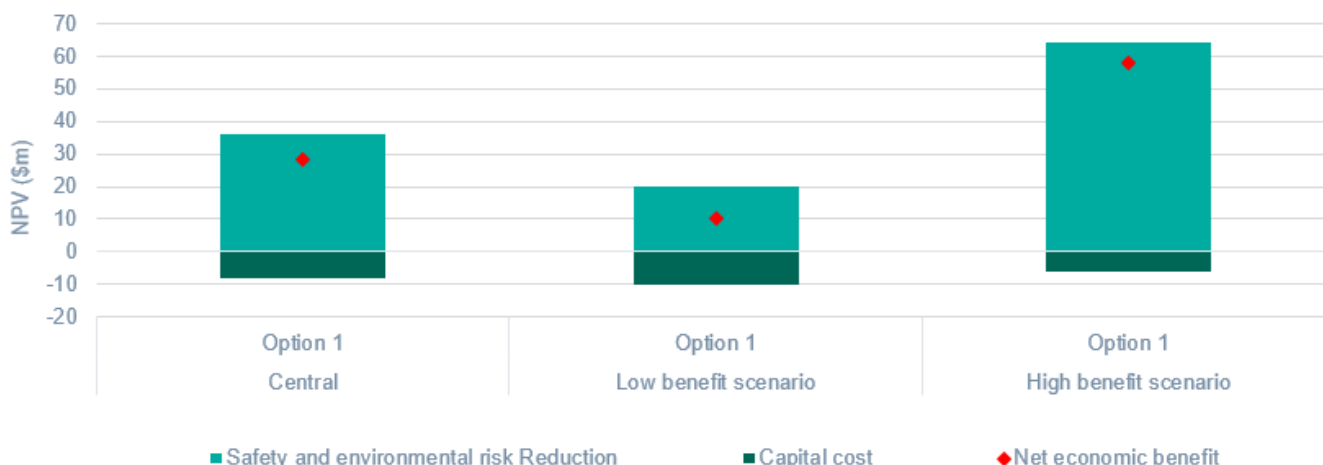
Only the high benefit scenario and sensitivities under Option 1 are NPV positive. Figure E-1 shows that the costs of mitigating the bushfire and safety risks for Option 1 in only one of three scenarios is less than the benefit of avoiding those risks. The total weighted net economic benefit assessment is negative.

Figure E-1 Net economic benefits, present value (\$m 2020/21)



Using the ALARP principle, where disproportionality factors have been applied on the bushfire and safety risks, the disproportionate benefits from the risk reduction outweigh the costs under all scenarios. This is shown in Figure E-2. It is noted that, in accordance with the ALARP principle, the disproportionality factors have been selected to a level just below where the community, government and law would consider risk reduction expenditure to be grossly disproportionate.

Figure E-2 Net economic benefits, present value with ALARP applied (\$m 2020/21)



Draft conclusion

The optimal commercially and technically feasible option presented in this PSCR – Option 1 (line refurbishment) – is the preferred option to meet the identified need.

Moving forward with this option is the most prudent and economically efficient solution to manage and mitigate safety and environmental risk to ALARP. Consequently, it will ensure TransGrid’s obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid’s Electricity Network Safety Management System (ENSMS) are met.

The estimated capital expenditure associated with this option is \$8.66 million +/- 25 per cent. Routine operating and maintenance costs relating to planned checks by TransGrid field crew are approximately \$25,000 per year

– similar to the cost under the base case. TransGrid calculates that the avoided risk cost by undertaking Option 1 is approximately \$3.4 million⁶ per year.

This preferred option, Option 1, is found to have positive net benefits only for the high benefit scenario at \$4.4 million. Using the ALARP principle, where disproportionality factors have been applied on the bushfire and safety risks, the disproportionate benefits from the risk reduction outweigh the costs under all scenarios for Option 1 and on a weighted basis will deliver \$30.9 million in net economic benefits. 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, positive net benefits are expected from refurbishing Line 18.

The works will be undertaken between 2020/21 and 2021/22. Planning and procurement (including completion of the RIT-T) commenced in 2020/21 and is due to conclude in 2021/22, while project delivery and construction will occur in 2022.

All works will be completed in accordance with the relevant standards by 2022 with minimal modification to the wider transmission assets. Necessary outages of affected line(s) in service will be planned appropriately in order to complete the works with minimal impact on the network.

Exemption from preparing a Project Assessment Draft Report

Subject to additional credible options being identified during the consultation period, 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 \$43 million⁷;
- > the PSCR states:
 - the proposed preferred option (including reasons for the proposed preferred option)
 - RIT-T is exempt from producing a PADR
 - the proposed preferred option and any other credible option will not have material market benefits⁸ except for voluntary load curtailment and involuntary load shedding
- > RIT-T proponent considers that there were no PSCR submissions identifying additional credible options that could deliver a material market benefit; and
- > the PACR must address any issues raised in relation to the proposed preferred option during the PSCR consultation.

Submissions and next steps

The purpose of this PSCR is to set out the reasons TransGrid proposes that action be taken, present the options that address the identified need, outline the technical characteristics that non-network options will need to provide, and allow interested parties to make submissions and provide input to the RIT-T assessment.

⁶ Including the ALARP disproportionality factor.

⁷ Varied from \$35m to \$43m based on the AER Final Determination: Cost threshold review November 2018.14. Accessed 20 May 2020 <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/cost-thresholds-review-for-the-regulatory-investment-tests-2018>

⁸ As per clause 5.16.1(c)(6)

TransGrid welcomes written submissions on materials contained in this PSCR. Submissions are particularly sought on the credible options presented and from potential proponents of non-network options that could meet the technical requirements set out in this PSCR. Submissions are due on 21 August 2021⁹.

Submissions should be emailed to TransGrid's Regulation team via RIT-TConsultations@transgrid.com.au.¹⁰ In the subject field, please reference 'Line 18 PSCR.'

At the conclusion of the consultation process, all submissions received will be published on TransGrid's website. If you do not wish for your submission to be made public, please clearly specify this at the time of lodgement.

Should TransGrid consider that no additional credible options were identified during the consultation period, TransGrid intends to produce a Project Assessment Conclusions Report (PACR) that addresses all submissions received including any issues in relation to the proposed preferred option raised during the consultation period.¹¹ Subject to additional credible options being identified, TransGrid anticipates publication of a PACR by October 2021.

⁹ Consultation period is for 12 weeks, additional days have been added to cover public holidays.

¹⁰ TransGrid is bound by the Privacy Act 1988 (Cth). In making submissions in response to this consultation process, TransGrid will collect and hold your personal information such as your name, email address, employer and phone number for the purpose of receiving and following up on your submissions. If you do not wish for your submission to be made public, please clearly specify this at the time of lodgement. See Privacy Notice within the Disclaimer for more details.

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1. Introduction

TransGrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for mitigating safety and environmental risks caused by the deteriorating condition of Line 18, a single circuit 330 kV transmission line between Kangaroo Valley and Dapto.

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 TransGrid's obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's Electricity Network Safety Management System (ENSMS).¹²

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. Consequently, it is considered a reliability corrective action under the RIT-T.

1.1 Purpose of this report

The purpose of this PSCR¹³ is to:

- > set out the reasons why TransGrid proposes that action be undertaken (the 'identified need')
- > present the options that TransGrid currently considers to address the identified need
- > outline the technical characteristics that non-network options would need to provide, whilst outlining how these options are unlikely to be able to contribute to meeting the identified need for this RIT-T
- > allow interested parties to make submissions and provide inputs to the RIT-T assessment.

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

Subject to additional credible options being identified during the consultation period, 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 \$43 million¹⁴;
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- > RIT-T proponent considers that there were no PSCR submissions identifying additional credible options that could deliver a material market benefit; and

¹² TransGrid's ENSMS follows the International Organization for Standardization's ISO31000 risk management framework, which requires following hierarchy of hazard mitigation approach.

¹³ See Appendix A for the National Electricity Rules requirements.

¹⁴ Varied from \$35m to \$43m based on the AER Final Determination: Cost threshold review November 2018. 14. Accessed 20 May 2020 <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/cost-thresholds-review-for-the-regulatory-investment-tests-2018>

¹⁵ As per clause 5.16.1(c)(6)

- > the PACR must address any issues raised in relation to the proposed preferred option during the PSCR consultation.

1.3 Submissions and next steps

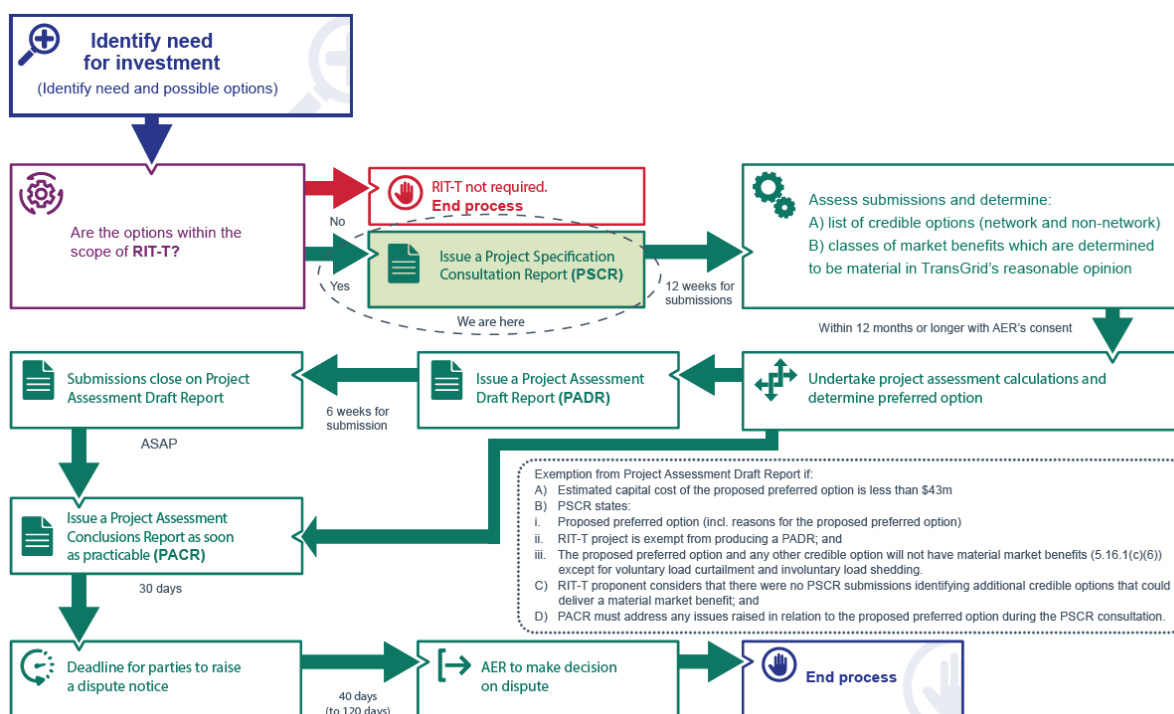
TransGrid welcomes written submissions on materials contained in this PSCR. Submissions are particularly sought on the credible options presented and from potential proponents of non-network options that could meet the technical requirements set out in this PSCR. Submissions are due on 21 August 2021¹⁶.

Submissions should be emailed to TransGrid’s Regulation team via RIT-TConsultations@transgrid.com.au.¹⁷ In the subject field, please reference ‘Line 18 PSCR.’

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Should TransGrid consider that no additional credible options were identified during the consultation period, TransGrid intends to produce a Project Assessment Conclusions Report (PACR) that addresses all submissions received including any issues in relation to the proposed preferred option raised during the consultation period.¹⁸ Subject to additional credible options being identified, TransGrid anticipates publication of a PACR by October 2021.

Figure 1-1 This PSCR is the first stage of the RIT-T process¹⁹



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¹⁸ In accordance with NER clause 5.16.4(z2).

¹⁹ Australian Energy Market Commission. “Replacement expenditure planning arrangements, Rule determination”. Sydney: AEMC, 18 July 2017.65. Accessed 14 May 2020. <https://www.aemc.gov.au/sites/default/files/content/89fbf559-2275-4672-b6ef-c2574eb7ce05/Final-rule-determination.pdf>

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 the Southern NSW network and existing electricity supply arrangements.

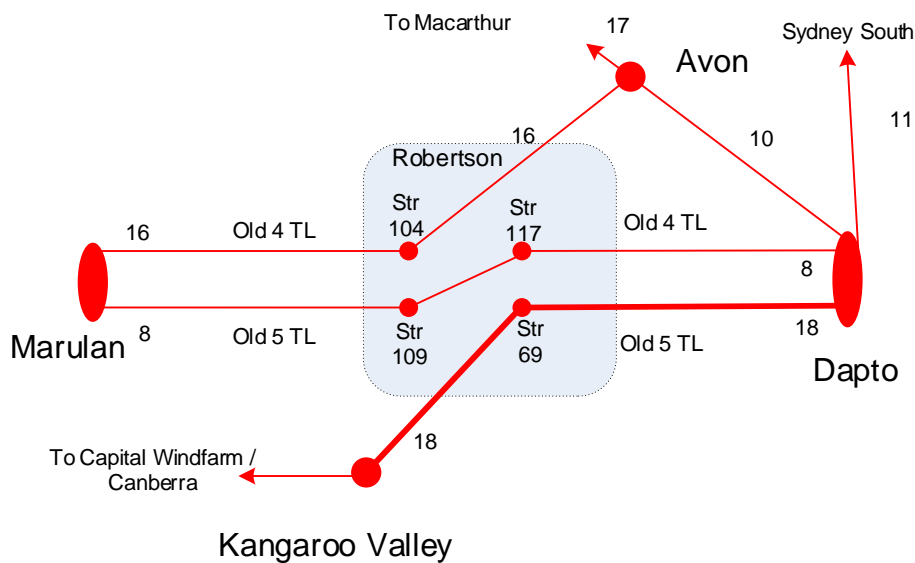
2.1 Background to the identified need

The transmission line referred to throughout this PSCR was commissioned in 1974. It has two sections. The section from Dapto to Robertson was originally built in 1961 as a Yass - Dapto transmission line.

In 1974, a new transmission line was built from Kangaroo Valley to Avon and rearranged with the existing Yass – Dapto lines (No's 4 and 5) at Robertson. These lines were eventually turned into Marulan substation on its commissioning in the early 1980's.

The current arrangement of the circuits between Dapto and Marulan is shown in Figure 2-1 below.

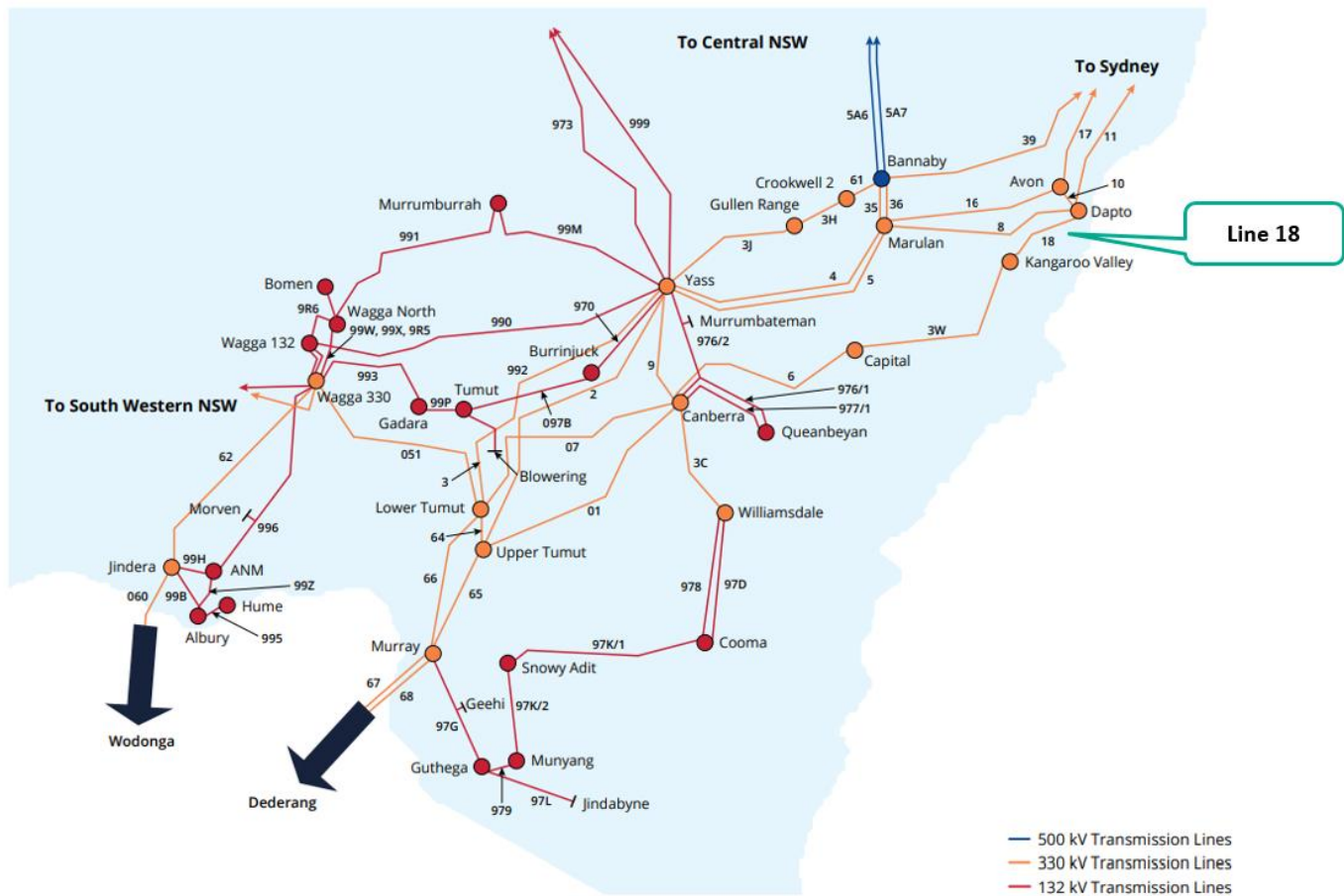
Figure 2-1 Current Arrangements of Line 18



Following this, Line 6 ran between Kangaroo Valley switching station and Canberra substation was commissioned. In 2009 Capital Wind Farm substation was commissioned and Line 6 then ran between Capital Wind Farm and Canberra substations. Line 18 continued to run between Kangaroo Valley switching station and Dapto substation and Line 3W was formed between Kangaroo Valley switching station and Capital Wind Farm.

Figure 2-2 depicts the location of Line 18 on TransGrid's network.

Figure 2-2 Location of Line 18 on TransGrid’s network



Line 18 forms a key link between the Shoalhaven and Wollongong regions and supports the transmission of electricity from existing generators in southern NSW to the major load centres of Sydney, Newcastle and Wollongong.

The transmission line mainly traverses farmland and Morton National Park – after leaving Dapto, it climbs from the coastal plain up the Illawarra Escarpment.

It will continue to play a central role in supporting the flow of energy between regions to take advantage of naturally diverse weather patterns, and in the safe and reliable operation of the power system throughout and after the transition to a low-carbon electricity future.

A condition assessment performed by TransGrid in March 2016 identified a number of issues with Line 18. Further condition inspections were performed in late 2019 identified that a significant proportion of the steel transmission structures are impacted by various levels of deterioration and corrosion. The affected components include tower steelwork, foundations and earthing, insulators, conductor fittings, earthwire and vibration dampers, and increases the likelihood of transmission structure failures, conductor drop, and subsequent bushfire and safety risks.

Figure 2.3 – Figure 2.5 below demonstrate examples of the condition of various components of Line 18.

Figure 2-3 Corroded conductor and earthwire fittings



Figure 2-4 Damaged conductor spacers



Figure 2-5 Rust on Insulator Pins



2.2 Description of identified need

The proposed investment will enable TransGrid to manage safety and environmental risks on Line 18. Options considered under this RIT-T have been assessed relative to a base case. Under the base case, no proactive capital investment is made and the condition of Line 18 will continue to deteriorate.

Further condition deterioration of the affected assets due to corrosion would mean an increase in bushfire and safety risks along Line 18 as the likelihood of failure increases. If left untreated, corrosion of some of the vital components of the steel towers could result in incidents such as conductor drop and tower collapse. Such incidents could have serious safety consequences for nearby residents and members of the public, as well as TransGrid field crew members who may be working on or near the assets.

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 TransGrid's obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's Electricity Network Safety Management System (ENSMS).²⁰

²⁰ TransGrid's ENSMS follows the International Organization for Standardization's ISO31000 risk management framework which requires following hierarchy of hazard mitigation approach

Using TransGrid's Risk Assessment Methodology²¹, the risks on safety and environment are sufficient such that their mitigation is warranted. The safety and environmental risk costs from corrosion of steel components of the structures, or 'members', insulators and fittings are estimated to be approximately \$0.7 million per year.²²

Under the ALARP test with the application of a gross disproportionate factor²³, 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. Consequently, it is considered a reliability corrective action under the RIT-T.

Applying the ALARP principle to manage and mitigate bushfire and safety risks, TransGrid determines that its obligations under the New South Wales *Electricity Supply (Safety and Network Management) Regulation 2014* and TransGrid's ENSMS will be met by implementing Option 1 by 2022/23. Under this principle, risks are mitigated unless it is possible to demonstrate that the costs involved in further reducing the risk would be grossly disproportionate to the benefits gained. Using the ALARP principle, all scenarios under Option 1 are NPV positive.

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. 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

TransGrid adopts a risk cost framework to quantify and value the risks and consequences of increased failure rates. Appendix B provides an overview of the Risk Assessment Methodology adopted by TransGrid.

2.3.1 Deteriorating asset condition

Assessing the condition of the line using TransGrid's Risk Cost Framework revealed that the key asset condition issues, summarised in Table 2-1, suggest accelerated deterioration of the affected assets which will result in increase in line failure rates.

Table 2-1 Condition issues along Line 18 and their consequences

Issue	Consequences if not remediated
Corrosion of tower steel members	Steel corrosion, particularly of critical members, can lead to structural failure of tower
Corroded fasteners	Structural failure
Corroded insulators and conductor attachment fittings	Conductor drop

²¹ Appendix B provides an overview of the risk assessment methodology adopted by TransGrid.

²² 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.

²³ In accordance with the framework for applying the ALARP principle, a disproportionality factor of 6 has been applied to risk cost figures. 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 PSCR is in line with the principles and examples presented in the AER Replacement Planning Guidelines and is consistent with TransGrid's Revised Revenue Proposal 2018/19- 2022/23.

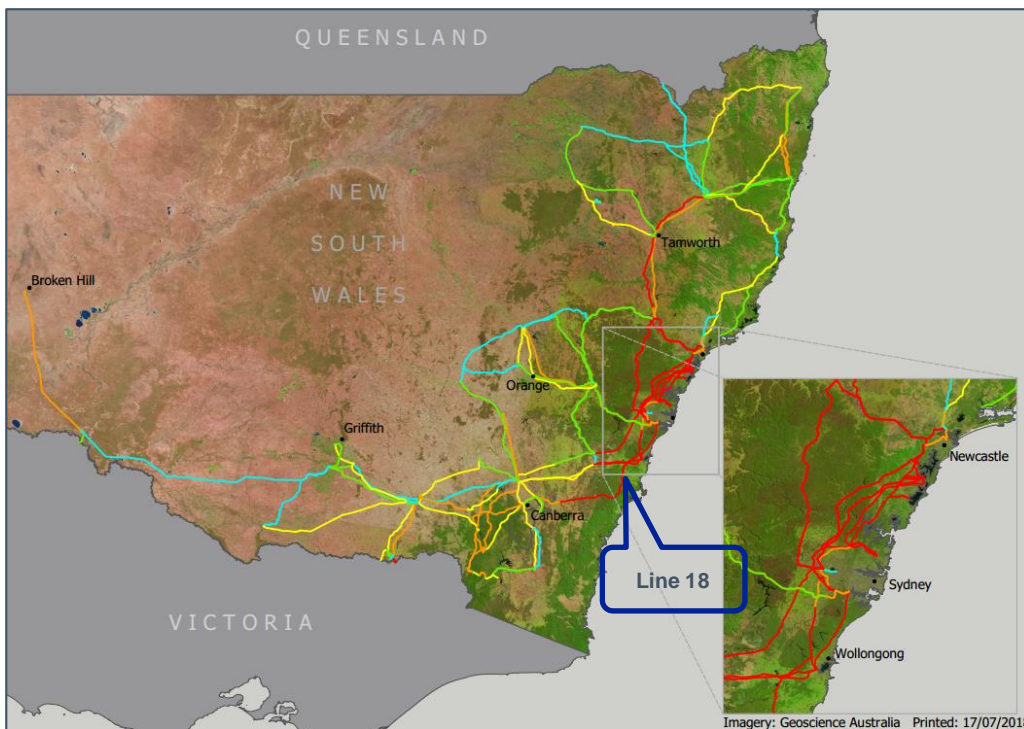
Issue	Consequences if not remediated
Corrosion of earth wire and earthwire attachment fittings	Public safety risk increase in case of fault
Condition of conductor and earthwire vibration dampers	Accelerated conductor fatigue due to vibration
Condition of conductor spacers	Damaged spacers can lead to conductor clashing
Buried steelwork and ground level corrosion	Foundation failure
Asbestos paint	Safety risks

2.3.2 Safety and environmental risk costs

Figure 2-6 below shows a heat map of transmission line risks. Transmission lines in red have the highest safety and environment risks. This has been developed based on an assessment of risk factors of specific locations.

The figure shows that Line 18 is a high-risk line. The transmission line mainly traverses farmland and Morton National Park – after leaving Dapto, it climbs from the coastal plain up the Illawarra Escarpment. The environmental and safety risks associated with this line are considered to be amongst the highest in TransGrid’s network.

Figure 2-6 TransGrid’s line risks heat map



*Line colours on Figure 2-6 represent the level of risk from highest risk to lowest risk respectively: red, orange, yellow, green, and blue.

The safety and environment risk costs from corrosion of steel members of the tower structures are approximately \$0.7 million per year. This figure will increase over time as the assets continue to deteriorate.

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 7.1 for benefits of each option.

TransGrid considers that there is one feasible option from a technical, commercial, and project delivery perspective which can be implemented in sufficient time to meet the identified need. Two other options were considered but not progressed for reasons outlined in Table 3-5.

TransGrid expects coronavirus (COVID-19) to impact its suppliers and disrupt their supply chains. TransGrid has preliminary advice that this is already occurring, 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 PSCR are in 2020/21 dollars.

3.1 Base case

The costs and benefits of each option in this PSCR are compared against those of a base case²⁴. Under this base case, no proactive capital investment is made to remediate the deterioration of Line 18, the line will continue to operate and be maintained under the current regime.

The regular maintenance regime will not be able to mitigate the risk of asset failure, which will expose TransGrid and end-customers to approximately \$0.702 million per year in safety and environmental risk costs.²⁵ The main contributor to the environmental and safety risk costs are primarily due to the consequences of a bushfire event resulting from a conductor drop or structure failure. Under the base case, all of these risks will continue to increase as the line continues to deteriorate, and increased reactive corrective maintenance will be required to address defects and/or asset failures in order to keep the line operating at the required standard. This has not been included in the NPV analysis.

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

Table 3-1 Operating expenditure breakdown under the base case (\$ 2020/21)

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

3.2 Option 1 – Line refurbishment

Option 1 involves the refurbishment of Line 18 to prevent further deterioration and corrosion to tower steelwork. Details of the scope of works under Option 1 are summarised in Table 3-2.

²⁴ TransGrid notes that the December 2018 AER RIT-T Guidelines state that 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 define 'BAU activities' as ongoing, economically prudent activities that occur in the absence of a credible option being implemented.

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. Under ALARP, a disproportionality factor is applied to this risk cost.

Table 3-2 Option 1 scope of works

Issue	Remediation
Corrosion of tower steel members	Replacement of tower members and/or blasting and painting of steelwork, nuts & bolts and structure ladders
Footing repairs	Repairs to cracked concrete footings; restoration of soil erosion including drainage improvements. Application of corrosion mitigations on buried steelwork grillage footings. Works on tower leg (earthworks and encasements) and tower leg painting.
Corroded fasteners	Replacement of fasteners
Corroded insulators and conductor attachment fittings	Replacement of complete insulator arrangement
Corrosion of earth wire and earthwire attachment fittings	Replacement of earthwire including fittings
Conductor and earthwire vibration dampers	Replacement of vibration dampers
Conductor spacers	Replacement of spacers
Asbestos paint	Safety risks
Site works	Site establishment and access

The works will be undertaken between 2020/21 and 2021/22. Planning and procurement (including completion of the RIT-T) commenced in 2019/20 and is due to conclude in 2020/21, while project delivery and construction will occur in 2022.

All works will be completed in accordance with the relevant standards by 2022 with minimal modification to the wider transmission assets. Necessary outages of affected line(s) in service 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 \$8.66 million +/-25%.

Table 3-3 Capital expenditure breakdown under Option 1 (\$m 2020/21)

Item	Capital expenditure (\$m)
Access & Site Establishment	1.17
Earthwire & Fittings Replacement	2.59
Insulator & Conductor Fittings Replacement	1.45

Tower Grillage Foundation & Asbestos Paint Remediation	0.25
Tower Refurbishment	1.43
TransGrid Labour and Expenses	1.77
Total capital cost	8.66 (+/- 25%)

Routine operating and maintenance costs will remain unchanged at approximately \$25,000 per year. The table below provides a breakdown. Following the remediation of condition issues, it is expected that the level of reactive corrective maintenance needed to keep the line operating at the required standard will remain in line with average historical levels. This has not been included in the NPV analysis.

Table 3-4 Operating expenditure breakdown under Option 1 (\$ 2020/21)

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

Following the refurbishment under this option, the risk reduction from remediating this line comes from environment and safety categories due to reduction in the likelihood of conductor drop. TransGrid calculates the annual safety, environmental and operational risk costs associated with Line 18 under Option 1 to be approximately \$0.133 million.²⁶

3.3 Options considered but not progressed

Table 3-5 summarises the reasons the following credible options were not progressed further.

Table 3-5 Options considered but not progressed

Option	Description	Reason(s) for not progressing
Option 2	Line dismantling	Dismantling Line 18 is not technically feasible, as it would significantly reduce supply capability from the Southern network to Greater Sydney, which may lead to a reliability supply issue.
Option 3	New transmission line from Kangaroo Valley switching station to Dapto substation	Due to significant costs of this option (> \$100 million), a new 330 kV transmission line from Kangaroo Valley switching station to Dapto substation is not commercially feasible.

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. Under ALARP, a disproportionality factor is applied to this risk cost.

3.4 No material inter-network impact is expected

TransGrid has considered whether the credible option listed above is expected to have material inter-regional impact.²⁷ 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 following:²⁸

- > a decrease in power transfer capability between transmission networks or in another TNSP’s network of no more than the minimum of 3% 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% 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
- > 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 or transmission assets. By reference to AEMO’s screening criteria, there is no material inter-network impacts associated with any of the credible options considered.

²⁷ As per clause 5.16.4(b)(6)(ii) of the NER.

²⁸ 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 14 May 2020. <https://www.aemo.com.au/-/media/Files/PDF/170-0035-pdf>

4. Non-network options

TransGrid does not consider non-network options to be commercially and technically feasible to assist with meeting the identified need for this RIT-T, as non-network options will not mitigate the safety and environment risk posed as a result of corrosion-related asset deterioration.

The maximum deferment benefit for Option 1 is valued at approximately \$510,940 per year (discount rate 5.9%) compared to the safety and risk costs – \$0.7 million per year. For non-network options to assist, they would need to provide greater net economic benefits than the network option. That is, non-network options would need to reduce the safety and bushfire risk related costs, which do not change with higher levels of non-network options (to the extent where the line is no longer required and decommissioning costs must be considered).

4.1 Required technical characteristics of non-network options

Line 18 forms a key link between the Shoalhaven and Wollongong regions on the Southern NSW transmission network. This part of the network has N-1 redundancy, therefore unserved energy is not a key driver for this RIT-T (in fact, it is expected to be immaterial under the base case and consequently has not been estimated).

The objective of this identified need is not load dependent. Therefore, non-network options are unable to technically reduce the safety and risk related costs associated with this need.

Any non-network solution is expected to only add to the costs of this option.

In summary, TransGrid consider that non-network options are unable to contribute to meeting the identified need for this RIT-T – this is based on:

- > the fact that the identified need for this investment is not driven by avoiding potential unserved energy and so no amount of demand reduction would defer the need – irrespective of the size, nature and location of the non-network option
- > any non-network solution for this need is expected to only add to the costs of this option. That is, non-network options would not provide any net benefits.

5. 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.²⁹

5.1 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.³⁰

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.

²⁹ The NER requires that all classes of market benefits 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.

³⁰ Australian Energy Regulator. "Application guidelines Regulatory Investment Test for Transmission - August 2020." Melbourne: Australian Energy Regulator. <https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%2025%20August%202020.pdf>

5.2 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 the table below.

Table 5-1 Reasons non-wholesale electricity market benefits are considered im material

Market benefits	Reason
Changes in involuntary load curtailment	Since Line 18 forms part of a meshed network (N-1 redundant) required to supply Greater Sydney Region, a failure due to the corroded assets results in low chance of unserved energy.
Differences in the timing of expenditure	Options considered will provide an alternative to meeting reliability requirements but 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.
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.³¹</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>

³¹ Australian Energy Regulator. "Application guidelines Regulatory Investment Test for Transmission - August 2020." Melbourne: Australian Energy Regulator. <https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%2025%20August%202020.pdf>

6. 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.

6.1 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, TransGrid incurs regular and reactive maintenance costs, and the line will continue to operate with an increasing level of risk.

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.³²

6.2 Assessment period and discount rate

A 20-year assessment period from 2020/21 to 2040/41 was considered in this analysis. This period takes into account the size, complexity and expected asset life of the options.

TransGrid adopted a central real, pre-tax 'commercial' discount rate³³ of 5.90 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 commercial discount rate calculated in the RIT-T Economic Assessment Handbook (Version 2.0) published by Energy Networks Australia (ENA) in October 2020³⁴.

TransGrid also tested the sensitivity of the results to discount rate assumptions. A lower bound real, pre-tax discount rate of 2.23 per cent equal to the latest AER Final Decision for a TNSP's regulatory proposal at the time of preparing this document³⁵, and an upper bound discount rate of 9.57 per cent (a symmetrical adjustment upwards) were used.

6.3 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.

Reactive maintenance costs under the base case considers the:

- > level of corrective maintenance required to restore assets to working order following a failure
- > probability and expected level of network asset faults

³² TransGrid notes that the AER RIT-T Guidelines state that 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 define '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." Melbourne: Australian Energy Regulator. <https://www.aer.gov.au/system/files/AER%20-%20Regulatory%20investment%20test%20for%20transmission%20application%20guidelines%20-%2025%20August%202020.pdf>

³³ 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.

³⁴ Av available at <https://www.energynetworks.com.au/resources/fact-sheets/ena-rit-t-handbook-2020/> Note the lower bound discount rate of 2.23 per cent is based on the most recent final decision for a TNSP revenue determination which was Directlink in June 2020.

³⁵ See 2020-25 Directlink's Post-tax Revenue Model (PTRM) cashflow derived pre-tax real WACC available at: <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/directlink-determination-2020-25/final-decision>

In either credible option, the asset failures are less frequent and restoration costs are reduced.

6.4 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 6-1 Summary of scenarios

Variable / Scenario	Central	Low benefit scenario	High benefit scenario
<i>Scenario weighting</i>	50%	25%	25%
Discount rate	5.90%	9.57%	2.23%
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%

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.

7. 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.

All costs presented in this PSCR are in 2020/21 dollars.

7.1 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.

Table 7-1 Estimated gross benefits from credible options relative to the base case, present value (\$m 2020/21)

Option/scenario	Central	Low benefit scenario	High benefit scenario	Weighted value
<i>Scenario weighting</i>	50%	25%	25%	
Option 1	6.0	3.4	10.7	6.5

Gross benefits have been calculated prior to application of disproportionality factors under the ALARP principle.

7.2 Estimated costs

The table below summarises the capital 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 6.4.

Table 7-2 Costs of credible options relative to the base case, present value (\$m 2020/21)

Option/Scenario	Central	Low benefit scenario	High benefit scenario	Weighted value
<i>Scenario weighting</i>	50%	25%	25%	
Option 1	8.3	10.4	6.2	8.3

7.3 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.

Only the high benefit scenario and sensitivities under Option 1 are NPV positive. Table 7-3 shows that the costs of mitigating the bushfire and safety risks for Option 1 in only one of three scenarios is less than the benefit of avoiding those risks. The total weighted net economic benefit assessment is negative.

Table 7-3 Net economic benefits for Option 1 relative to the base case, present value (\$m 2020/21)

Option	Central	Low benefit scenario	High benefit scenario	Weighted value	Ranking
Scenario weighting	50%	25%	25%		
Option 1	-2.3	-7.0	4.4	-1.8	1

Figure 7-1 Net economic benefits, present value (\$m 2020/21)



Using the ALARP principle, where disproportionality factors have been applied on the bushfire and safety risks, the disproportionate benefits from the risk reduction outweigh the costs under all scenarios. This is shown in Table 7-4. It is noted that, in accordance with the ALARP principle, the disproportionality factors have been selected to a level just below where the community, government and law would consider risk reduction expenditure to be grossly disproportionate.

Table 7-4 Net economic benefits for Option 1 relative to the base case, present value with ALARP applied (\$m 2020/21)

Option	Central	Low benefit scenario	High benefit scenario	Weighted value	Ranking
Scenario weighting	50%	25%	25%		
Option 1	27.9	9.7	57.8	30.9	1

Figure 7-2 Net economic benefits, present value with ALARP applied (\$m 2020/21)



7.4 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.

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 and environmental 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 two steps to test the sensitivity of the key findings is outlined below.

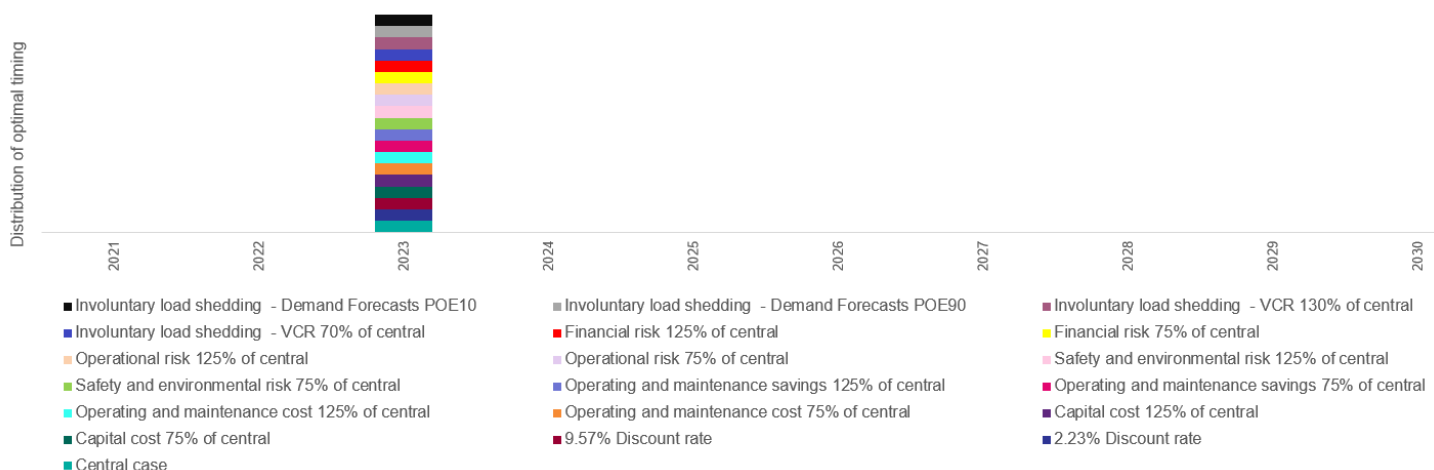
Step 1 – Sensitivity testing of the optimal timing

TransGrid has estimated the optimal timing for Option 1 based on the year in which the NPV is maximised. This process was undertaken for both the central set of assumptions and a range of alternative assumptions for key variables. This section outlines the sensitivity of the identification of the commissioning year to changes in the underlying assumptions. In particular, the optimal timing of the option is found to be invariant to the assumptions of:

- > a 25 per cent increase/decrease in the assumed network capital costs
- > lower discount rate of 2.23 per cent as well as a higher rate of 9.57 per cent
- > lower (or higher) assumed operation and maintenance costs
- > lower (or higher) assumed safety and environmental risks

Taking into account the ALARP disproportionality factors applied, the figure below outlines the impact on the optimal commissioning year, under a range of alternative assumptions. It illustrates that for Option 1, the optimal commissioning date is found to be in 2022/23 for all of the sensitivities investigated.

Figure 7-3 Optimal timing of Option 1



7.4.1 Step 2 – Sensitivity of the overall net benefit

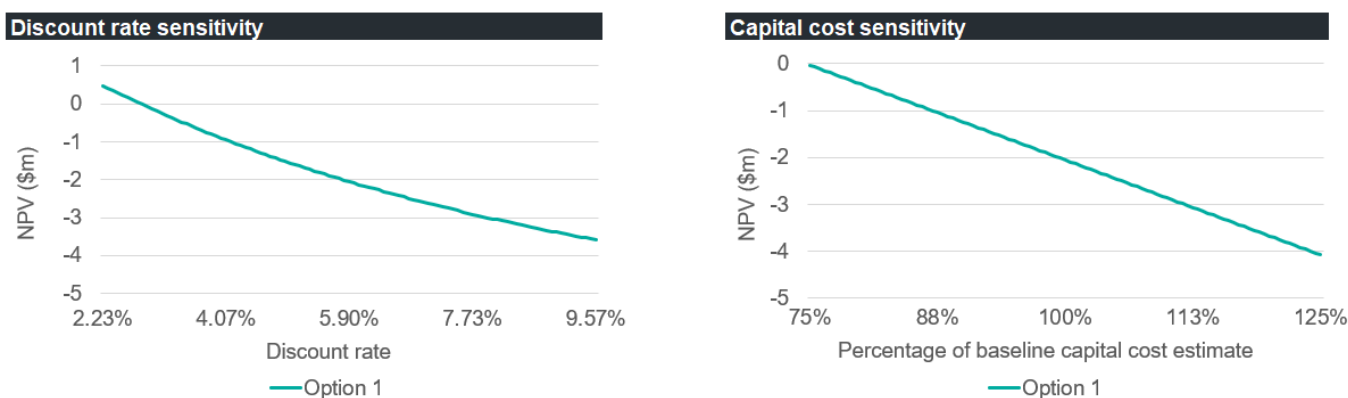
TransGrid has conducted sensitivity analysis on the present value of the net economic benefit, based on having to undertake the project by 2021/22. Specifically, TransGrid has investigated the same sensitivities under this step as in the first step:

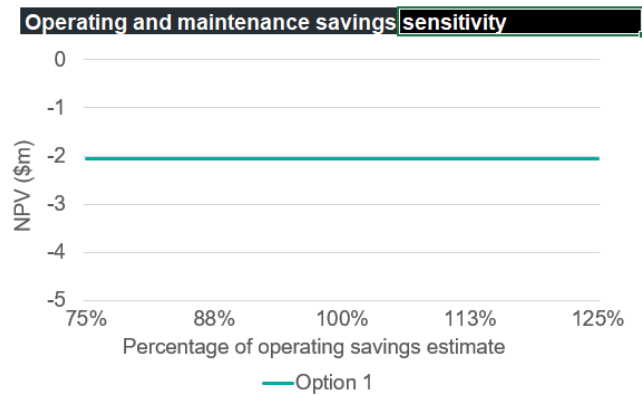
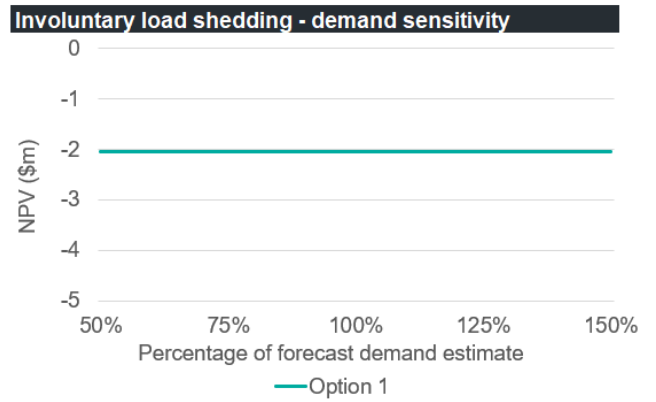
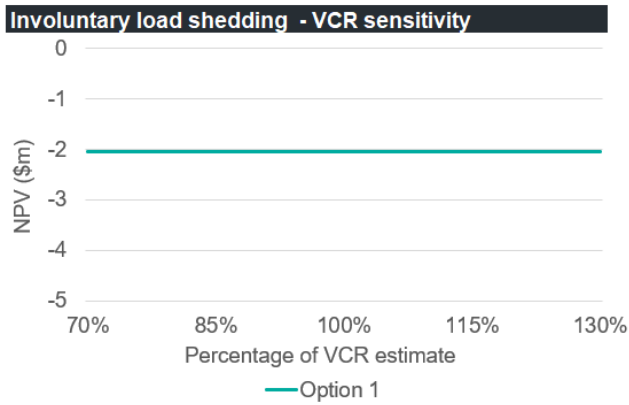
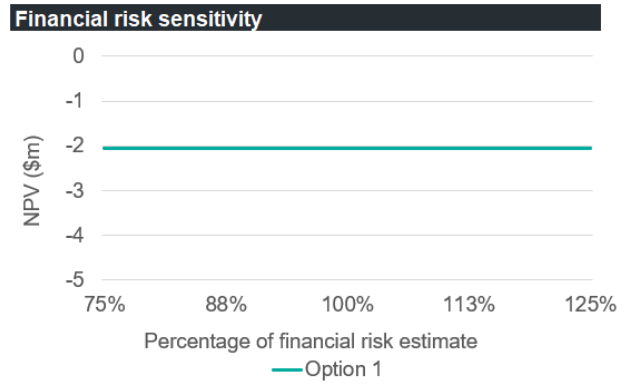
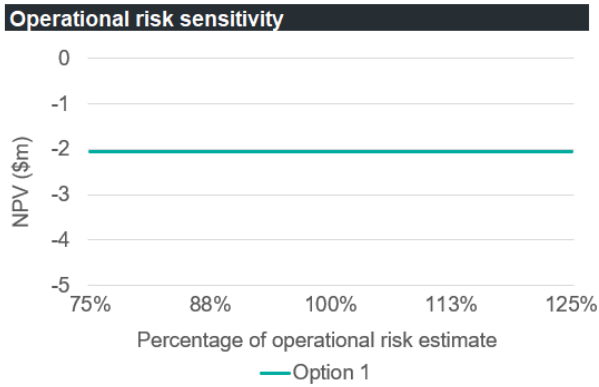
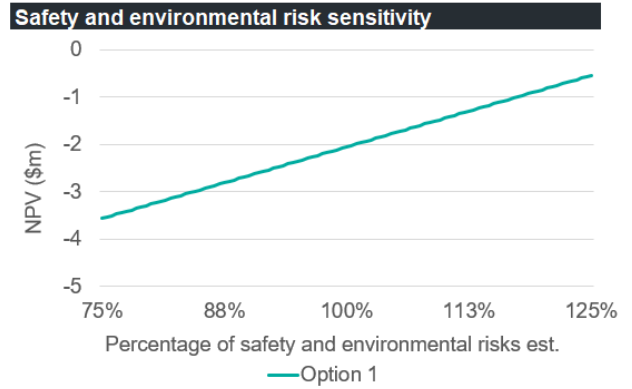
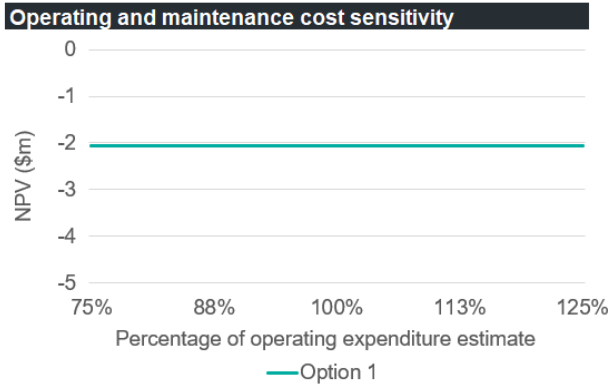
- > a 25 per cent increase/decrease in the assumed network capital costs
- > lower discount rate of 2.23 per cent as well as a higher rate of 9.57 per cent
- > lower (or higher) assumed operation and maintenance costs
- > lower (or higher) assumed safety and environmental risks

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 positive benefits under all scenarios. The figures below illustrate that while the results are most sensitive to the safety and environmental risk costs estimates and the discount rate, it is still reasonable to make investments to mitigate the risk.

Figure 7-4 Sensitivities





7.5 Meeting relevant regulatory obligations

TransGrid considers that the sensitivity assessment discussed in section 7.4 demonstrates that planning for any commissioning later than 2022/23 would be inconsistent with the ALARP obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014. In particular, due to higher risk cost associated with safety and environmental risk, there would be lower expected net market benefits (greater net market cost) if the replacement works were delayed.

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 TransGrid's obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's Electricity Network Safety Management System (ENSMS).³⁶

Under the ALARP test with the application of a gross disproportionate factor³⁷, 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.

Applying the ALARP principle to manage and mitigate bushfire and safety risks, TransGrid determines that its obligations under the New South Wales *Electricity Supply (Safety and Network Management) Regulation 2014* and TransGrid's ENSMS will be met by implementing Option 1 by 2022/23. Under this principle, risks are mitigated unless it is possible to demonstrate that the costs involved in further reducing the risk would be grossly disproportionate to the benefits gained. Using the ALARP principle, all scenarios under Option 1 are positive.

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. 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.

³⁶ TransGrid's ENSMS follows the International Organization for Standardization's ISO31000 risk management framework which requires following hierarchy of hazard mitigation approach.

³⁷ In accordance with the framework for applying the ALARP principle, a disproportionality factor of 6 has been applied to risk cost figures. 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 PSCR is in line with the principles and examples presented in the AER Replacement Planning Guidelines and is consistent with TransGrid's Revised Revenue Proposal 2018/19- 2022/23.

8. Draft conclusion and exemption from preparing a PADR

The optimal commercially and technically feasible option presented in this PSCR – Option 1 (line refurbishment) – is the preferred option to meet the identified need at this draft stage of the RIT-T process.

Moving forward with this option is the most prudent and economically efficient solution to manage and mitigate safety and environmental risk to ALARP. Consequently, it will ensure TransGrid's obligations under the New South Wales Electricity Supply (Safety and Network Management) Regulation 2014 and TransGrid's Electricity Network Safety Management System (ENSMS) are met.

The estimated capital expenditure associated with this option is \$8.66 million +/- 25 per cent. Routine operating and maintenance costs relating to planned checks by TransGrid field crew are approximately \$25,000 per year – similar to the cost under the base case. TransGrid calculates that the avoided risk cost by undertaking Option 1 is approximately \$3.4 million³⁸ per year. Further, a reduction in reactive corrective maintenance costs is also expected. This has not been included in the NPV analysis.

This preferred option, Option 1, is found to have positive net benefits only for the high benefit scenario at \$4.4 million. Using the ALARP principle, where disproportionality factors have been applied on the bushfire and safety risks, the disproportionate benefits from the risk reduction outweigh the costs under all scenarios for Option 1 and on a weighted basis will deliver approximately \$30.9 million in net economic benefits. 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, positive net benefits are expected from refurbishing Line 18.

The works will be undertaken between 2019/20 and 2021/22. Planning and procurement (including completion of the RIT-T) commenced in 2020/21 and is due to conclude in 2021/22, while project delivery and construction will occur in 2022.

All works will be completed in accordance with the relevant standards by 2022 with minimal modification to the wider transmission assets. Necessary outages of affected line(s) in service will be planned appropriately in order to complete the works with minimal impact on the network.

Subject to additional credible options being identified during the consultation period, 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 \$43 million³⁹;
- > the PSCR states:
 - the proposed preferred option (including reasons for the proposed preferred option)
 - RIT-T is exempt from producing a PADR
 - the proposed preferred option and any other credible option will not have material market

³⁸ Including the ALARP disproportionality factor

³⁹ Varied from \$35m to \$43m based on the AER Final Determination: Cost threshold review November 2018.14. Accessed 20 May 2020
<https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/cost-thresholds-review-for-the-regulatory-investment-tests-2018>

benefits⁴⁰ except for voluntary load curtailment and involuntary load shedding

- > RIT-T proponent considers that there were no PSCR submissions identifying additional credible options that could deliver a material market benefit; and
- > the PACR must address any issues raised in relation to the proposed preferred option during the PSCR consultation.

TransGrid welcomes written submissions on material contained in this PSCR. Submissions are particularly sought on the credible options presented and from potential proponents of non-network options that could meet the technical requirements set out in this PSCR. Submissions are due on or before 21 August 2021⁴¹. Submissions should be emailed to TransGrid's Regulation team via RIT-TConsultations@transgrid.com.au. In the subject field, please reference 'Line 18 PSCR'.

At the conclusion of the consultation process, all submissions received will be published on the TransGrid's website. If you do not wish for your submission to be made public, please clearly specify this at the time of lodgement.

Should TransGrid consider that no additional credible options were identified during the consultation period, TransGrid intends to produce a Project Assessment Conclusions Report (PACR) that addresses all submissions received including any issues in relation to the proposed preferred option raised during the consultation period.⁴² Subject to additional credible options being identified, TransGrid anticipates publication of a PACR by October 2021.

⁴⁰ As per clause 5.16.1(c)(6)

⁴¹ Consultation period is for 12 weeks.

⁴² In accordance with NER clause 5.16.4(z2).

Appendix A – Compliance checklist

This appendix sets out a checklist which demonstrates the compliance of this PSCR with the requirements of the National Electricity Rules version 164.

Rules clause	Summary of requirements	Relevant section
5.16.4 (b)	A RIT-T proponent must prepare a report (the project specification consultation report), which must include:	–
	(1) a description of the identified need;	2
	(2) the assumptions used in identifying the identified need (including, in the case of proposed reliability corrective action, why the RIT-T proponent considers reliability corrective action is necessary);	2
	(3) the technical characteristics of the identified need that a non-network option would be required to deliver, such as: (i) the size of load reduction of additional supply; (ii) location; and (iii) operating profile;	4
	(4) if applicable, reference to any discussion on the description of the identified need or the credible options in respect of that identified need in the most recent National Transmission Network Development Plan;	NA
	(5) a description of all credible options of which the RIT-T proponent is aware that address the identified need, which may include, without limitation, alternative transmission options, interconnectors, generation, demand side management, market network services or other network options;	3
	(6) for each credible option identified in accordance with subparagraph (5), information about: (i) the technical characteristics of the credible option; (ii) whether the credible option is reasonably likely to have a material inter-network impact; (iii) the classes of market benefits that the RIT-T proponent considers are likely not to be material in accordance with clause 5.16.1(c)(6), together with reasons of why the RIT-T proponent considers that these classes of market benefit are not likely to be material; (iv) the estimated construction timetable and commissioning date; and (v) to the extent practicable, the total indicative capital and operating and maintenance costs.	3 & 5

5.16.4(z1)	<p>A RIT-T proponent is exempt from [preparing a PADR] (paragraphs (j) to (s)) if:</p> <ol style="list-style-type: none"> 1. the estimated capital cost of the proposed preferred option is less than \$35 million⁴³ (as varied in accordance with a cost threshold determination); 2. the relevant Network Service Provider has identified in its project specification consultation report: (i) its proposed preferred option; (ii) its reasons for the proposed preferred option; and (iii) that its RIT-T project has the benefit of this exemption; 3. the RIT-T proponent considers, in accordance with clause 5.16.1(c)(6), that the proposed preferred option and any other credible option in respect of the identified need will not have a material market benefit for the classes of market benefit specified in clause 5.16.1(c)(4) except those classes specified in clauses 5.16.1(c)(4)(ii) and (iii), and has stated this in its project specification consultation report; and 4. the RIT-T proponent forms the view that no submissions were received on the project specification consultation report which identified additional credible options that could deliver a material market benefit. 	8
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⁴³ Varied to \$43m based on the AER Final Determination: Cost threshold review November 2018.14. Accessed 20 May 2020 <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/cost-thresholds-review-for-the-regulatory-investment-tests-2018>

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 and the assessment undertaken for the Revenue Proposal.⁴⁴

As part of preparing its Revenue Proposal for the current regulatory control period, TransGrid developed the Network Asset Risk Assessment Methodology to quantify risk for replacement and refurbishment projects. The risk assessment methodology:

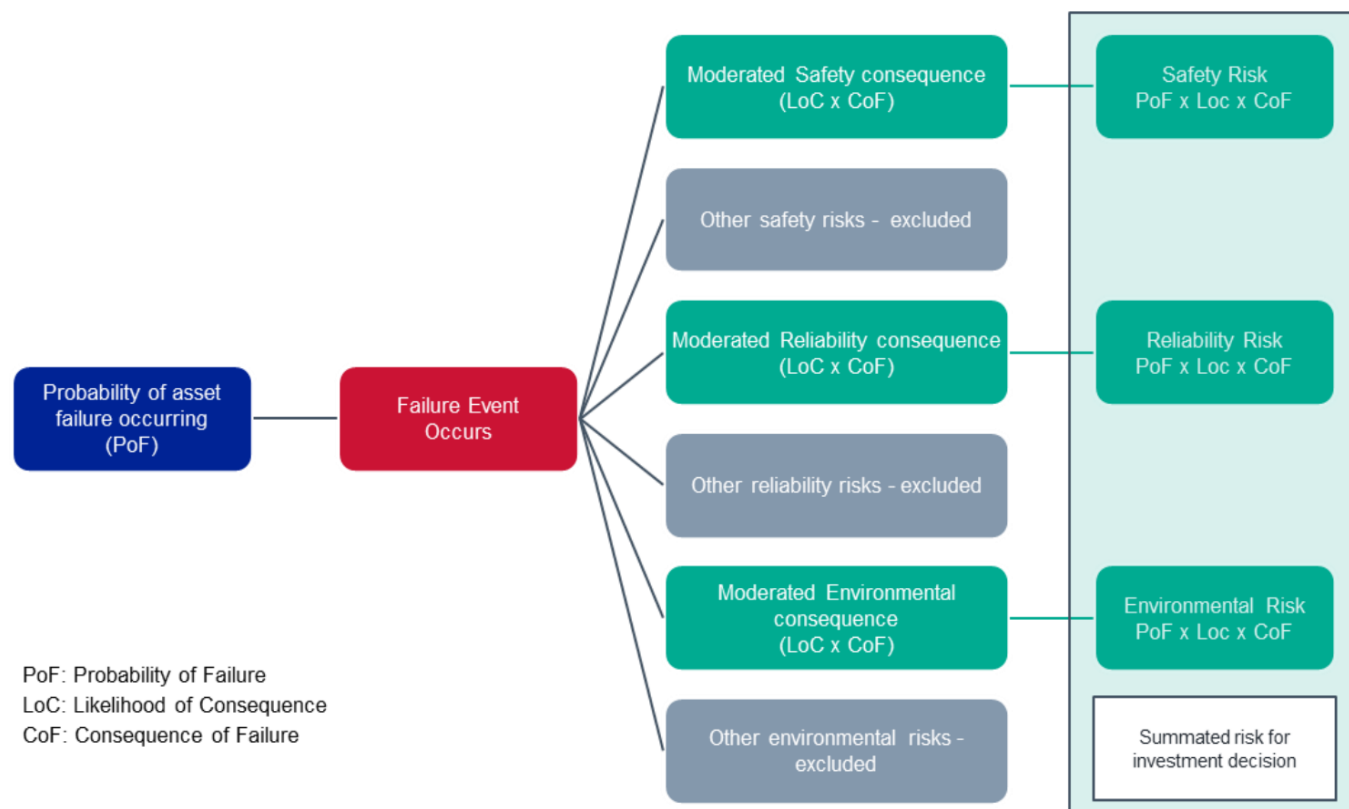
- > uses externally verifiable parameters to calculate asset health and failure consequences
- > assesses and analyses asset condition to determine remaining life and probability of failure
- > applies a worst-case asset failure consequence and significantly moderates this down to reflect the likely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

B.1 Overview of the risk assessment methodology

A fundamental part of the risk assessment methodology is calculating the ‘risk costs’ or the monetised impacts of the reliability, safety, environmental and other risks.

The figure below summarises the framework for calculating the ‘risk costs’, which has been applied on TransGrid’s asset portfolio considered to need replacement or refurbishment.

Figure B-1 Overview of TransGrid’s ‘risk cost’ framework



⁴⁴ TransGrid. “Revised Regulatory Proposal 2018/19-2022/23.” Melbourne: Australian Energy Regulator, 2017. 63-69. Accessed 15 March 2019. <https://www.aer.gov.au/system/files/TransGrid%20-%20Revised%20Revenue%20Proposal%20-%201%20December%202017.pdf>

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 (HILP) events are not discounted. The approach excludes the risk costs of low impact, high probability (LIHP) which would result in lower calculated risk.