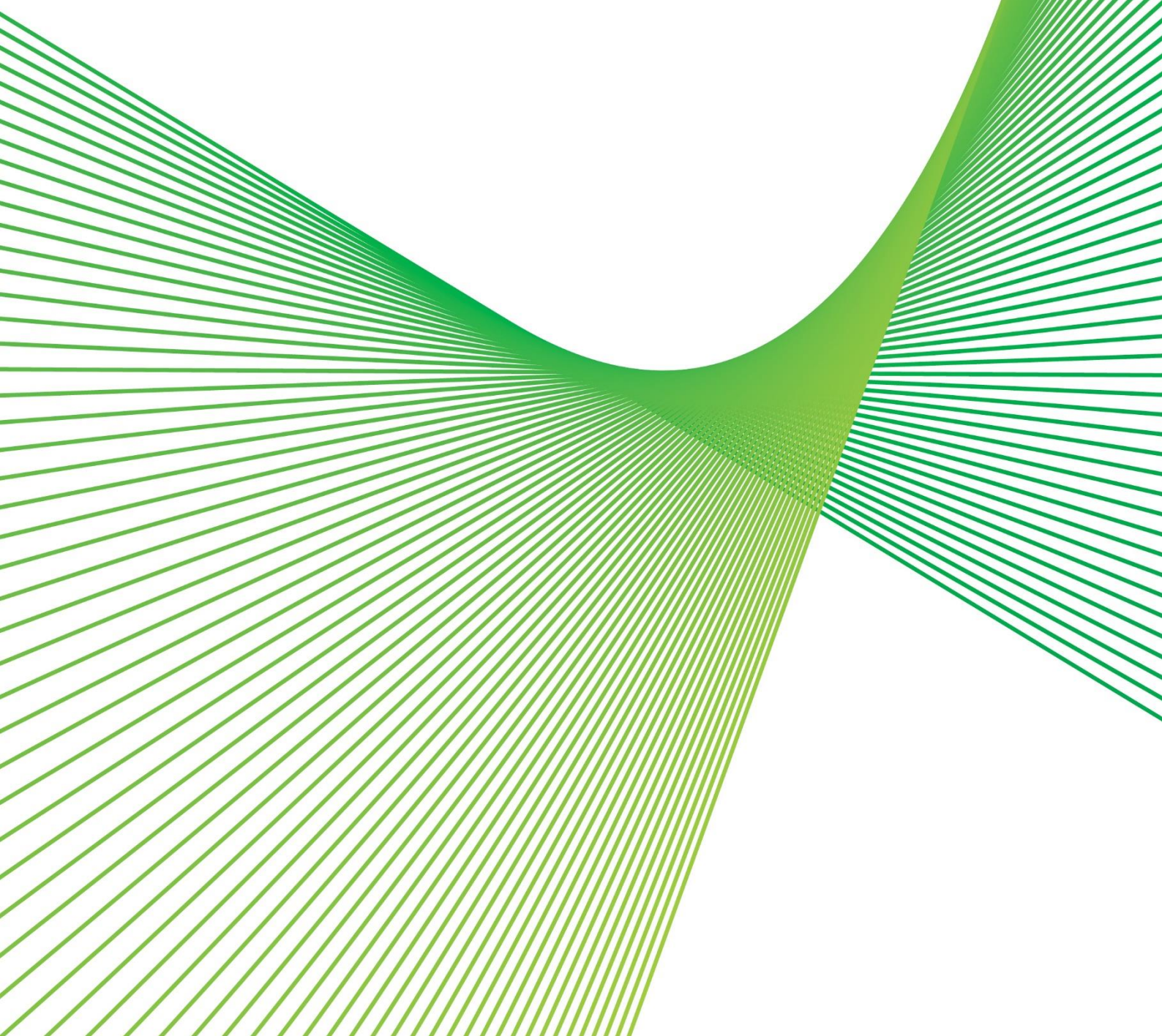


Summary: Managing safety and environmental risks on Line 24 (Vales Point – Eraring)

RIT-T Project Specification Consultation Report

Region: Newcastle and Central Coast

Date of issue: 10 December 2021



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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 24. Publication of this Project Specification Consultation Report (PSCR) represents the first step in the RIT-T process.

Spanning a route of 30km, Line 24 is a 330 kV transmission line that runs between Vales Point and Earing substations. It was originally commissioned in 1969 as part of the line which ran from Vales Point substation to Newcastle substation. The section of Line 24 being addressed by this RIT-T is the single circuit section between the Earing cut-in and Vales Point substation, a length of approximately 28km. This section is comprised of 79 steel towers.

Line 24 is a key link between two generators on the NSW Central Coast. It 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 through semi-urban and forested areas. Two generators at Earing and Vales Point, which are connected to Transgrid's Earing and Vales Point substations, respectively, together contribute more than 4GW¹ to the National Electricity Market. Line 24 connects the two substations which are key nodes on the transmission network. Additionally, Vales Point substation is a customer connection point supplying Ausgrid's 132 kV network in the Western Lake Macquarie area.

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 1 Condition issues along Line 24 and their consequences

Issue	Impact
Corrosion of tower steel members, including buried legs and ground line steel corrosion	Steel corrosion, particularly of critical members, can lead to structural failure of tower
Tower asbestos paint	Potential asbestos related safety risks
Corroded fasteners	Structural failure
Deteriorated grillage foundation	Structural failure
Corroded insulators and conductor attachment fittings	Conductor drop
Corrosion of earthwire attachment fittings	Conductor drop
Deteriorated tower earthing	Public safety risk increase in case of fault
Deteriorated anti-climber and structure signage	Public safety risk

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

¹ Summation of approximate generation totals from Vales Point Power Station and Earing Power Station.

Identified need: managing safety and environmental risks from corrosion on Line 24

The proposed investment will enable Transgrid to manage safety and environmental risks on Line 24. 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 24 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 24 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 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).²

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.³

These are summarised in the following table.

Table 2 Summary of credible options

Option	Description	Capital costs (\$m 2021/22)	Operating costs (\$ per year)	Remarks
Option 1	Line refurbishment	8.9 (+/- 25%)	10,000	Most economical and preferred option
Option 2	Line dismantling	8.1	0	Line dismantling is not technically feasible. Dismantling Line 24 will reduce the supply capability from Northern NSW network to the Greater Sydney region, which may lead to reliability of supply issues.
Option 3	New transmission line from Sydney North substation to Sydney East substation	52.7	Not considered	Due to significant costs of this option, a new 330 kV transmission line from Eraring substation to Vales Point substation is not commercially feasible.

² Transgrid's ENSMS follows the International Organization for Standardization's ISO31000 risk management framework which requires following hierarchy of hazard mitigation approach.

³ As per clause 5.15.2(a) of the NER.

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.

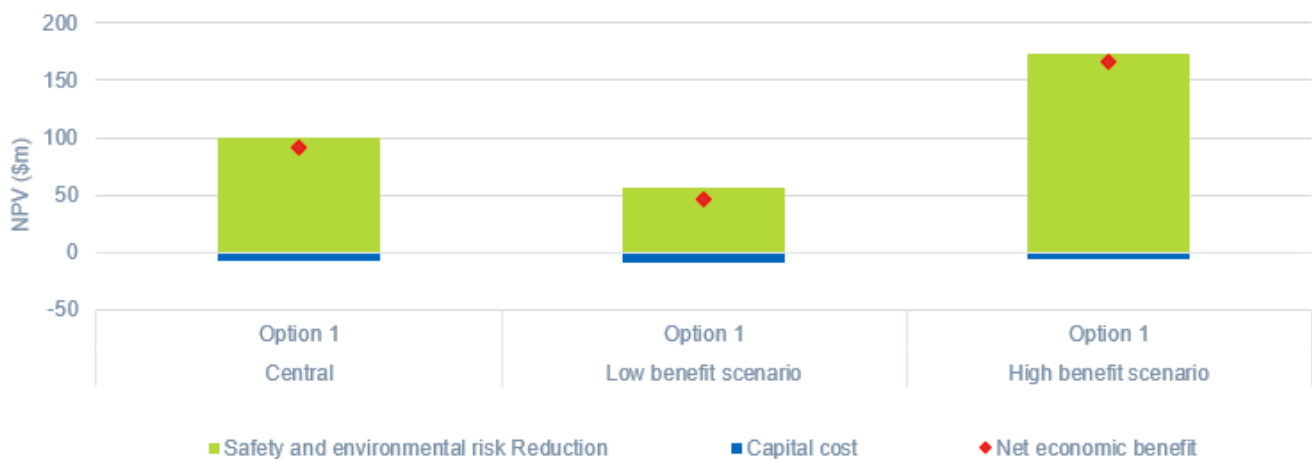
Implementing Option 1 will meet relevant regulatory obligations

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

All scenarios (except the low benefit scenario) and sensitivities under Option 1 are positive. Figure 1 shows that the costs of mitigating the bushfire and safety risks for Option 1 in all scenarios are less than the benefit of avoiding those risks. The total weighted net economic benefit assessment is positive.

Figure 1 Net economic benefits, present value (\$m 2021/22)



Under the ALARP test a gross disproportionate factor⁴ would typically be applied. Applying the factor in this case would only further enhance support for Option 1 as the outcome of the total weighted NPV analysis already demonstrates that the benefits are positive. Transgrid's analysis concluded that the costs are less than the weighted benefits from mitigating bushfire and safety risks. Accordingly, Transgrid has not repeated the assessment with the disproportionality factor multipliers.

⁴ In accordance with the framework for applying the ALARP principle, a disproportionality factor of 6 is typically applied to risk cost figures. The values of the disproportionality factors applied by Transgrid 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 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.

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 \$8.9 million +/- 25 per cent. Routine operating and maintenance costs relating to planned checks by Transgrid field crew are approximately \$10,000 per year – similar to the cost under the base case. Transgrid calculates that the avoided risk cost by undertaking Option 1 is approximately \$8.8 million per year.

This preferred option, Option 1, is found to have positive net benefits under all scenarios investigated and on a weighted basis will deliver \$99.6 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's analysis concluded that the costs are less than the weighted benefits from mitigating bushfire and safety risks. Only the low sensitivity results in net negative benefits, however under the ALARP principle Transgrid applies disproportionality factors to mitigate unacceptable risks. If applied, this further supports the justification of Option 1. Accordingly, Transgrid has not repeated the assessment with disproportionality factor multipliers.

The works will be undertaken between 2021/22 and 2022/23. Planning and procurement will conclude in 2021/22, while project delivery and construction will occur in 2022/23.

All works will be completed in accordance with the relevant standards by 2022/23 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 \$46 million⁵;
- the PSCR states:
 - 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 benefits⁶ except for voluntary load curtailment and involuntary load shedding

⁵ Varied from \$43m to \$46m based on the AER Final Determination: Cost threshold review November 2021.4. Accessed 19 November 2021

<https://www.aer.gov.au/netw/orks-pipelines/guidelines-schemes-models-review/s/cost-thresholds-review-for-the-regulatory-investment-tests-2021>

⁶ As per clause 5.16.1(c)(6)

- 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 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.

Transgrid welcomes written submissions on materials contained in this PSCR. Submissions are particularly sought on the credible option presented and from potential proponents of non-network options that could meet the technical requirements set out in this PSCR. Submissions are due on 30 March 2022⁷.

Submissions should be emailed to Transgrid's Regulation team via RIT-TConsultations@transgrid.com.au.⁸ In the subject field, please reference 'Line 24 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.⁹ Subject to additional credible options being identified, Transgrid anticipates publication of a PACR in April 2022.

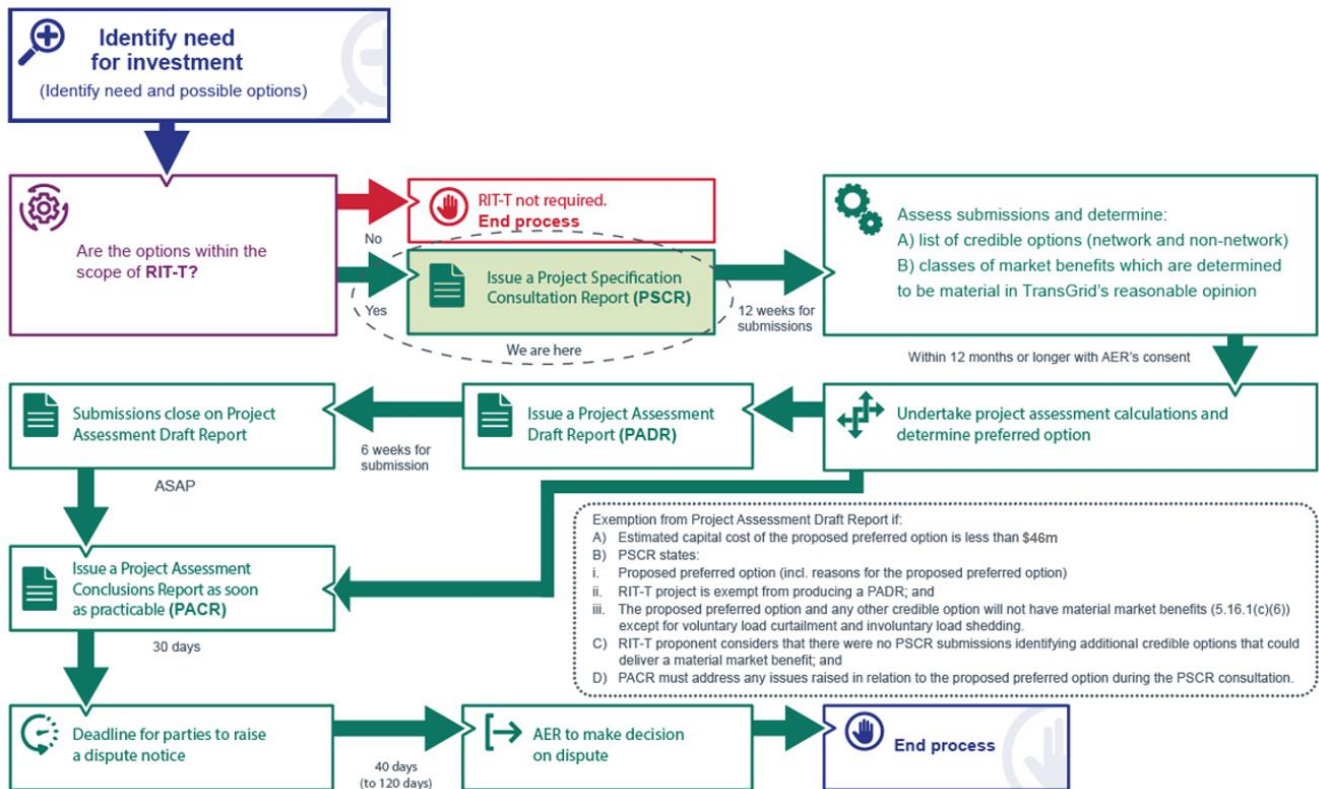
To read the full [Project Specification Consultation Report](#) visit Transgrid's website.

⁷ Consultation period is for 12 weeks, additional days have been added to cover public holidays

⁸ 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.

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

Figure 2 ThisPSCR is the first stage of the RIT-T process¹⁰



¹⁰ 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>