

OPTIONS EVALUATION REPORT (OER)



Line 88 330kV Transmission Line Renewal

OER 000000001317 revision 4.0

Ellipse project no.: P0007699

TRIM file: [TRIM No]

Project reason: Reliability - To meet overall network reliability requirements

Project category: Prescribed - Replacement

Approvals

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Date submitted for approval	7 December 2016	

Change history

Revision	Date	Amendment
0	19 June 2016	Initial issue
1	22 June 2016	Revised for Updated Commercial Evaluation
2	20 September 2016	Revised for Updated Risk Cost
3	27 October 2016	Revised for New SFAIRP/ALARP Methodology
4	7 December 2016	Update to format

1. Need/opportunity

Line 88 is a steel tower 330kV transmission line between Muswellbrook and Tamworth 330kV Substations, with a route length of 127 km. The transmission line forms a key link between Queensland, Northern NSW and the Hunter region generators. This transmission line was constructed in 1969 and consists of 276 structures.

Network Asset Condition Assessment (NACA) [NACA 1317](#) performed in November 2015 has identified a number of corrosion related issues with Line 88 which require rectification in the short – medium term (within the 2018-2023 Regulatory Control Period) to ensure that asset risk levels remain within an acceptable level in the longer term.

In addition to the condition issues identified, the single circuit transmission line structures used on Line 88 are known to contain particular deficiencies due to the design philosophies used at the time of its installation. Although the structures were designed to the standards at that time, following a number of structure failures in extreme wind events, investigations found that the towers were designed to a lower set of criteria with inadequacies in the governing load combinations when compared to more recent design philosophies and standards. A program to strengthen structures with utilisation over 85% at road crossings and public areas has occurred; however, not all structures have been strengthened. Due to this, it is considered essential that condition issues on these towers be addressed so that their capacity, and as a consequence, the security of supply, are not further reduced.

2. Related Needs/opportunities

No related Needs/opportunities have been identified.

3. Options

All dollar values in this document are expressed in un-escalated 2016/17 dollars.

Base Case

Network Asset Condition Assessment (NACA) [NACA 1317](#) has identified existing issues with the line which require rectification. A summary of these can be found in Need/Opportunity Statement (NOS) [NS 1317](#).

Under a Base Case 'run-to-fail' option, the associated risk cost from the issues identified in Table 1 is \$1.08m per annum. A breakdown of the Base Case risk cost by category is shown in Table 1.

Table 1 – Base Case risk cost by category (\$ million)

Risk Category	Annual Risk Cost
Reliability (System)	0.60
Financial	0.02
Operational/Compliance	0
People (Safety)	0.01
Environment	0.45
Reputation	0
Total	1.08

It can be seen from Table 1 that the category with the highest risk cost is the ‘reliability (system)’ category, due to the high consequence of losing a key connection between the Hunter Valley generators and northern NSW, and subsequently, the Queensland to NSW Interconnector. The other significant contributor to the risk cost is the ‘environment’ category due to high consequence of a bushfire event resulting from conductor drop.

The risk cost per kilometre of line is \$0.010m per annum.

Option A — Line Refurbishment [[OFR 1317A](#), [OFS 1317A](#)]

This option involves the refurbishment of Line 88 by treating corrosion to tower steelwork which could lead to asset failure and replacement of components which have reached end of life due to corrosion. The scope of this option is summarised in Table 2.

Table 2 – Transmission Line 88 Option A scope of works

Issue	Qty	Remediation
Buried concrete foundations	69 towers	<ul style="list-style-type: none"> > Dig out tower legs, abrasive blast cleaning of steelwork to remove any corrosion product, application of Zinga paint and establishment of drainage channel > Note approximately 15% of structures have grillage foundations
Corrosion of tower main members	59 towers	<ul style="list-style-type: none"> > Abrasive blast cleaning of steelwork to remove any corrosion product and application of Zinga paint > Assume 5% of main members per tower
Corrosion of tower members	59 towers	<ul style="list-style-type: none"> > Replacement of tower steel members > Assume 5% of minor and crossarm members per tower
Corrosion of tower fasteners	59 towers	<ul style="list-style-type: none"> > Replacement of fasteners > Assume 5% of fasteners per tower
Insulator pin corrosion	19 insulator strings	<ul style="list-style-type: none"> > Replacement with composite longrod insulators
Corrosion of conductor fittings	17 fittings	<ul style="list-style-type: none"> > Replacement of cold end fittings
Corrosion of earthwire fittings	11 fittings	<ul style="list-style-type: none"> > Replacement of earthwire fittings
Damaged conductor vibration dampers	2% of line	<ul style="list-style-type: none"> > Replacement of Stockbridge vibration dampers
	132 dampers	<ul style="list-style-type: none"> > Assumed 16 vibration dampers per full tension span per phase

It is estimated that the capital expenditure associated with the refurbishment outlined in this option is \$2.80m ±25%. Details can be found in Section 6 of Option Feasibility Study (OFS) [OFS 1317A](#).

Following the refurbishment under this option, the risk cost associated with the remediated line is \$0.85m per annum. A breakdown of the Option A risk cost by category is shown in Table 3.

Table 3 – Option A Risk cost by category (million \$)

Risk Category	Annual Risk Cost
Reliability (System)	0.48
Financial	0.02
Operational/Compliance	0
People (Safety)	0.01
Environment	0.35
Reputation	0
Total	0.85

The total projected risk reduction as a result of implementing Option A is \$0.23m per annum. It can be seen from Table 3 that the main components of this reduction are under the ‘reliability (system)’ and ‘environment’ categories.

The total projected risk reduction per kilometre of line is \$0.002m per annum.

Both the Base Case option and Option A outlined in Section 3 are considered to be technically feasible¹.

4. Evaluation

4.1 Commercial evaluation

The commercial evaluation of the technically feasible options is set out in Table 4. Details of the Net Present Value (NPV) calculation for Option A are provided in Attachment 1.

Table 4 — Commercial evaluation (\$ million)

Option	Description	Total capex	Annual opex	Annual post project risk cost	Economic NPV @10%	Financial NPV @10%	Rank
Base Case	Run-to-fail	N/A	N/A	1.08	N/A	N/A	2
A	Line refurbishment	2.80	-	0.85	(0.75)	(4.60)	1

The commercial evaluation is based on:

- > A 10% discount rate
- > A life of the investment of 20 years and a corresponding residual/terminal value

Discount rate sensitivities based on TransGrid’s current AER-determined pre-tax real regulatory Weighted Average Cost of Capital (WACC) of 6.75% and 13% appear in Table 5.

¹ An option is technically feasible if TransGrid reasonably considers that there is a high likelihood that the option, if developed, will provide the relevant service while complying with all relevant laws.

Table 5 — Discount rate sensitivities (\$ million)

Option	Description	Economic NPV @13%	Economic NPV @6.75%
A	Line refurbishment	(0.95)	(0.37)

4.2 SFAIRP/ALARP evaluation

In the context of the Network Asset Risk Assessment Methodology, the SFAIRP (So Far As Is Reasonably Practicable)/ALARP (As Low As Reasonably Practical) principle is applicable to the following Key Hazardous Events:

- > Structure failure
- > Conductor / earthwire drop

Options to reduce the network safety risk as per the risk treatment hierarchy have been considered in other lifecycle stages of the asset, and it has been determined that no reasonably practicable options exist to reduce the risk further than those capital investment options listed in Table 6.

Evaluation of the proposed options has been completed against the SFAIRP (So Far As Is Reasonably Practicable)/ALARP (As Low As Reasonably Practical) obligation, as required by the Electricity Supply (Safety and Network Management) Regulation 2014 and the Work Health and Safety Act 2011. The Key Hazardous Events and the disproportionality multipliers considered in the evaluation are as follows:

- > Structure failure – 6 times the environment (bushfire) risk, 6 times the safety risk and 10% of the reliability risk (applicable to safety)
- > Conductor / earthwire drop – 6 times the environment (bushfire) risk, 6 times the safety risk and 10% of the reliability risk (applicable to safety)

Table 6 – Feasible options (\$ thousand)

Option	Description	CAPEX	Expected Life	Annualised CAPEX
Base	Run-to-fail	N/A	N/A	N/A
A	Line refurbishment	2,800	20 years	140

Table 7 – Annual risk calculations (\$ thousand)

Option	Annual Residual Risk			Annual Risk Savings		
	Safety Risk	Reliability Risk	Bushfire Risk	Safety Risk	Reliability Risk	Bushfire Risk
Base	7	602	445	N/A	N/A	N/A
A	6	476	353	1	126	93

Table 8 – Reasonably practicable test (\$ thousand)

Option	Network Safety Risk Reduction ²	Annualised CAPEX	Reasonably practicable ³ ?
A	577	140	Yes

From the above evaluation, it is considered that Option A is reasonably practicable.

4.3 Preferred option

From the SFAIRP/ALARP evaluation, Option A is considered to be reasonably practicable and is required to be undertaken in order to satisfy the organisation's SFAIRP/ALARP obligations. From the commercial evaluation, Option A is not considered to be commercially viable.

Based on the SFAIRP/ALARP evaluation, it is proposed that Option A be scoped in further detail.

Capital and operating expenditure

The estimated capital expenditure associated with the refurbishment outlined in this option is \$2.80m ±25%. The vast majority of this expenditure is proposed to be carried out in 2022-2023.

Should the Option A (Line Refurbishment) works not occur by the Need date, an increase in corrective maintenance and subsequent operating expenditure is expected.

Regulatory Investment Test

No Regulatory Investment Test for Transmission (RIT-T) analysis is required as the works are condition based.

5. Recommendation

Whilst Option A is not considered to be commercially viable (the result of the commercial evaluation is not NPV positive), from the SFAIRP/ALARP evaluation, it is recommended that detailed scoping for the refurbishment of Line 88 as outlined under Option A is undertaken.

² The Network Safety Risk Reduction is calculated as 6 x Bushfire Risk Reduction + 6 x Safety Risk Reduction + 0.1 x Reliability Risk Reduction

³ Reasonably practicable is defined as whether the annualised CAPEX is less than the Network Safety Risk Reduction

Attachment 1 – Commercial evaluation report

Option A NPV calculation

Project_Option Name		Line 88 Refurbishment			
1. Financial Evaluation (excludes VCR benefits)					
NPV @ standard discount rate	10.00%	-\$4.60m	NPV / Capital (Ratio)	-1.64	
NPV @ upper bound rate	13.00%	-\$3.88m	Pay Back Period (Yrs)	Not measurable	
NPV @ lower bound rate (WACC)	6.75%	-\$5.71m	IRR%	Not measurable	
2. Economic Evaluation (includes VCR benefits but excludes tax benefits from non-cash transactions, ENS penalty and overall tax cost)					
NPV @ standard discount rate	10.00%	-\$0.75m	NPV / Capital (Ratio)	0.25	
NPV @ upper bound rate	13.00%	-\$0.95m	Pay Back Period (Yrs)	12.43 Yrs	
NPV @ lower bound rate (WACC)	6.75%	-\$0.37m	IRR%	4.80%	
Benefits					
Risk cost	As Is	To Be	Benefit	VCR Benefit	\$0.60m
Systems (reliability)	\$0.60m	\$0.48m	\$0.13m	ENS Penalty	\$0.00m
Financial	\$0.02m	\$0.02m	\$0.00m	All other risk benefits	-\$0.38m
Operational/compliance	\$0.00m	\$0.00m	\$0.00m	Total Risk benefits	\$0.23m
People (safety)	\$0.01m	\$0.01m	\$0.00m	Benefits in the financial NPV*	-\$0.38m
Environment	\$0.45m	\$0.35m	\$0.09m	*excludes VCR benefits	
Reputation	\$0.00m	\$0.00m	\$0.00m	Benefits in the economic NPV**	\$0.23m
Total Risk benefits	\$1.08m	\$0.85m	\$0.23m	**excludes ENS penalty	
Cost savings and other benefits			\$0.00m		
Total Benefits			\$0.23m		
Other Financial Drivers					
Incremental opex cost pa (no depreciation)			\$0.00m	Write-off cost	\$0.00m
Capital - initial \$m			-\$2.80m	Major Asset Life (Yrs)	20.00 Yrs
Residual Value - initial investment			\$0.00m	Re-investment capital	\$0.00m
Capitalisation period			3.00 Yrs	Start of the re-investment period	0.00 Yrs