

# OPTIONS EVALUATION REPORT (OER)



Line 16 330kV Transmission Line Renewal

OER 000000001353 revision 1.0

**Ellipse project no.:** P0007973

**TRIM file:** [TRIM No]

**Project reason:** Capability - Asset Replacement for end of life condition

**Project category:** Prescribed - Asset Renewal Strategies

## Approvals

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<b>Date submitted for approval</b>	2 December 2016	

## Change history

Revision	Date	Amendment
0	20 June 2016	Initial issue
1	20 September 2016	Revised for Updated Risk Cost
2	28 October 2016	Revised for New SFAIRP/ALARP Methodology
3	2 December 2016	Update to format

## 1. Need/opportunity

Line 16 is a single circuit steel tower 330kV transmission line between Marulan and Avon 330kV Substations, with a route length of 71 km. The transmission line is a major link between the Goulburn and Wollongong regions. Parts of this line were originally constructed in 1956 as the Yass to Dapto No. 1 and No. 2 330kV transmission lines until the line re-arrangements occurred in 1974 with the construction of Kangaroo Valley Power Station and later Marulan Substation. The total number of structures on the line is 160. The transmission line mainly traverses through farmland, national parks and Sydney Catchment Authority lands.

Network Asset Condition Assessment (NACA) [NACA 1353](#) performed in February 2016 has identified a number of corrosion related issues with Transmission Line 16 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 16 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 1353](#) has identified existing issues with the line which require rectification. A summary of these can be found in Need/Opportunity Statement (NOS) [NS 1353](#).

Under a Base Case 'run-to-fail' option, the associated risk cost from the issues identified in Table 1 is \$1.36m 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
Financial	0.02
Operational/Compliance	0
People (Safety)	0.07
Environment	1.26
Reputation	0

Risk Category	Annual Risk Cost
<b>Total</b>	<b>1.36</b>

It can be seen from Table 1 that the category with the highest risk cost is 'environment', mainly due to the significant consequences of a bushfire event resulting from conductor drop. Other contributors to the overall risk cost are the 'people (safety)' and 'financial' categories.

The risk cost per kilometre of line is \$0.019m per annum.

#### Option A — Line Refurbishment ([OFR 1353A](#), [OFS 1353A](#))

This option involves the refurbishment of Line 16 including the treatment of corrosion of 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 16 Option A scope of works**

Issue	Qty	Remediation
Corrosion of tower steel members	14 towers	> Abrasive blast cleaning of steelwork to remove any corrosion product, application of Zinga paint and concrete encasement to prevent future corrosion
Buried concrete foundations	8 towers	> Dig out tower legs, abrasive blast cleaning of steelwork to remove any corrosion product, application of Zinga paint and establishment of drainage channel
Corrosion of tower steel members	14 towers	> Abrasive blast cleaning of steelwork to remove any corrosion product and application of Zinga paint
Corrosion of tower fasteners	40 towers	> Replacement of fasteners > Assume 5% of fasteners per tower
Corrosion of conductor fittings	30 fittings	> Replacement of hot end fittings
Corrosion of earthwire fittings	19 fittings	> Replacement of earthwire fittings
Insulator pin corrosion – suspension insulators	379 insulator strings	> Replacement with composite longrod insulators
Corrosion of earthwire	8km (4km of route length)	> Like for like replacement of SC/GZ earthwire
Damaged conductor vibration dampers	10% of line  191 dampers	> Replacement of Stockbridge vibration dampers > Assumed 4 vibration dampers per full tension span per phase

It is estimated that the capital expenditure associated with the refurbishment outlined in this option \$2.02m ±25%. Details can be found in Section 6 of Option Feasibility Study (OFS) [OFS 1353A](#).

Following the refurbishment under this option, the risk cost associated with the remediated line is \$0.37m 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
Financial	0
Operational/Compliance	0.01
People (Safety)	0.02
Environment	0.34
Reputation	0
<b>Total</b>	<b>\$0.37</b>

The total projected risk reduction as a result of implementing Option A is \$1.00m per annum. It can be seen from Table 3 that that largest component of the reduction is in the ‘environment’ category, due to the reduced likelihood of the conductor drop event. Reductions in risk costs in the ‘people (safety)’ and ‘financial’ categories are also expected.

The total projected risk reduction per kilometre of line is \$0.014m per annum.

Both the Base Case option and Option A outlined in Section 3 are considered to be technically feasible<sup>1</sup>.

## 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
<b>Base Case</b>	Run-to-fail	N/A	N/A	1.36	N/A	N/A	2
<b>A</b>	Line refurbishment	2.02	-	0.37	4.84	4.82	1

The commercial evaluation is based on:

- > A 10% discount rate

<sup>1</sup> 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.

- > 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.

**Table 5 — Discount rate sensitivities (\$ million)**

Option	Description	Economic NPV @13%	Economic NPV @6.75%
<b>A</b>	Line refurbishment	3.43	7.17

## 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
<b>Base</b>	Run-to-fail	N/A	N/A	N/A
<b>A</b>	Line refurbishment	2,020	20 years	101

**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
<b>Base</b>	75	4	1,260	N/A	N/A	N/A
<b>A</b>	21	0	339	55	3	921

**Table 8 – Reasonably practicable test (\$ thousand)**

Option	Network Safety Risk Reduction <sup>2</sup>	Annualised CAPEX	Reasonably practicable <sup>3</sup> ?
A	5,856	101	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.

Option A is also considered to be commercially viable (as per the commercial evaluation). For the aforementioned reasons, 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 \$2.02m ±25%. The vast majority of this expenditure is proposed to be carried out in 2021-2022.

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

From the above SFAIRP/ALARP evaluation in accordance with the regulatory requirements, and the commercial and technical evaluation of the available options, it is recommended that detailed scoping for the refurbishment of Line 16 as outlined under Option A is undertaken.

<sup>2</sup> The Network Safety Risk Reduction is calculated as 6 x Bushfire Risk Reduction + 6 x Safety Risk Reduction + 0.1 x Reliability Risk Reduction

<sup>3</sup> 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 16 Refurbishment		
1. Financial Evaluation (excludes VCR benefits)					
NPV @ standard discount rate	10.00%	\$4.82m	NPV / Capital (Ratio)	2.38	
NPV @ upper bound rate	13.00%	\$3.41m	Pay Back Period (Yrs)	0.47 Yrs	
NPV @ lower bound rate (WACC)	6.75%	\$7.15m	IRR%	46.52%	
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%	\$4.84m	NPV / Capital (Ratio)	-1.61	
NPV @ upper bound rate	13.00%	\$3.43m	Pay Back Period (Yrs)	2.03 Yrs	
NPV @ lower bound rate (WACC)	6.75%	\$7.17m	IRR%	46.65%	
Benefits					
Risk cost	As Is	To Be	Benefit	VCR Benefit	\$0.00m
Systems (reliability)	\$0.00m	\$0.00m	\$0.00m	ENS Penalty	\$0.00m
Financial	\$0.02m	\$0.01m	\$0.02m	All other risk benefits	\$0.99m
Operational/compliance	\$0.00m	\$0.00m	\$0.00m	Total Risk benefits	\$1.00m
People (safety)	\$0.08m	\$0.02m	\$0.05m	Benefits in the financial NPV*	\$0.99m
Environment	\$1.26m	\$0.34m	\$0.92m	*excludes VCR benefits	
Reputation	\$0.00m	\$0.00m	\$0.00m	Benefits in the economic NPV**	\$1.00m
Total Risk benefits	\$1.36m	\$0.37m	\$1.00m	**excludes ENS penalty	
Cost savings and other benefits			\$0.00m		
Total Benefits			\$1.00m		
Other Financial Drivers					
Incremental opex cost pa (no depreciation)			\$0.00m	Write-off cost	\$0.00m
Capital - initial \$m			-\$2.02m	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