

# OPTIONS EVALUATION REPORT (OER)

Eraring–Kemps Creek 500 kV Smart Grid Controls

OER 000000001487 revision 2.0



**Ellipse project description:** Eraring–Kemps Creek 500kV Smart Grid Ctrl

**TRIM file:** [TRIM No]

**Project reason:** Imposed Standards - Control Systems to meet NER requirements

**Project category:** Prescribed - Augmentation

## Approvals

Author	Owen Crampton	Project Feasibility Engineer
Reviewed	Ronny Schnapp	Network & Connection Analysis Engineer
Endorsed	Vincent Ong	Network & Connection Analysis Manager
	Garrie Chubb	Investment Support Manager
	Azil Khan	Investment Analysis Manager
Approved	Andrew Kingsmill	Manager / Network Planning
Date submitted for approval	9 January 2017	

## 1. Need/opportunity

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In order to meet the National Electricity Rules (NER) requirements to protect the NSW high voltage transmission system against high impact low probability multiple simultaneous contingencies, there is an opportunity for TransGrid to implement control, protection or other systems to manage the stability of both frequency and voltage following these multiple contingencies.

TransGrid studies have identified critical non-credible contingencies of both the 500 kV pair of lines 5A1/5A2, Eraring to– Kemps Creek, could lead to cascading failures in the greater Sydney load area. Such a multiple multiple-contingency event could result in voltage collapse in the Sydney area.

Refer to [NS-1487](#) for further details.

## 2. Related needs/opportunities

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- > Need 1472 – Yass Area 330 kV Smart Grid Control
- > Need 1473 – North West 330kV Smart Grid Control
- > Need 1482 – Sydney South 330 kV Smart Grid Controls
- > Need 1484 – Snowy 330 kV Area Smart Grid Control
- > Need 1491 – Sydney North West 330 kV Smart Grid Control
- > Need 1522 – Sydney West Area 330 kV Smart Grid Control

## 3. Options

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### Base Case

The Base Case is to continue to operate the network using the status quo arrangements for managing multiple simultaneous contingencies.

The base case risk cost is estimated to be \$7.67 million, which is primarily made up of the value of unserved energy.

The risk cost was calculated using the Risk Tool, and considers the worst-case outage of multiple 500 kV lines within the Eraring Kemps Creek cut-set causing a loss of load of 5,000 MW<sup>1</sup>. The load restoration time is estimated to be 8 hours<sup>2</sup>. Furthermore, during works to restore the load, it is expected that the demand will decrease over time, as such a factor of 0.5 is used to account for this. The probability of such an event occurring is deemed to be 1 in 100 years<sup>3</sup>.

### Unserved Energy Risk Cost

Unserved energy is calculated as:

$$\text{Unserved Energy} = (\text{MW at risk} * 0.5 * \text{failure duration}) * (\text{overall failure rate})$$

$$\text{Unserved Energy} = (5000 \text{ MW} * 0.5 * 8 \text{ hrs}) * 1\%$$

$$\therefore \text{Unserved Energy} = 200 \text{ MWh}$$

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<sup>1</sup> This event is noted to occur during severe bushfires, and it is expected that the total NSW load will be at maximum demand, resulting in 5,000 MW load lost due to the outage of 5A1/5A2.

<sup>2</sup> Restoration time is based on TransGrid Control Room historical experience and OM666 Black Start.

<sup>3</sup> It is assumed that this type of outage is a 1 in 100 year event.

The risk cost of unserved energy has been calculated as follows:

$$\text{Risk Cost of Unserved Energy} = \text{Unserved Energy} * \text{VCR}$$

$$\text{Risk Cost of Unserved Energy} = 200 \text{ MWh} * \$38,350/\text{MWh}^4$$

$$\therefore \text{Risk Cost of Unserved Energy} = \$7.67 \text{ million per year}$$

#### **Total Risk Cost**

$$\therefore \text{Total risk cost} = \$7.67 \text{ million per annum.}$$

#### **Option A — Eraring-Kemps Creek 500 kV Special Protection System <OFR-1487A, OFS-1487A>**

This option involves the implementation of a SCADA/Protection-based Hybrid Special Protection System (SPS) for Eraring – Kemps Creek 500 kV lines to prevent or minimise the effect of wide spread interruptions and a partial or full system collapse in the event of critical non-credible multiple contingencies.

The scope of works under this option can be found in [OFR-1487A](#).

The expected capital cost for this option is \$2.43 million  $\pm$  25% in un-escalated 2016-17 dollars, spread over 3 years. Refer to [OFS-1487A](#) for details.

The post-project risk cost of Option A is assessed to be \$2.61 million per year. The risk cost summary has been included in Appendix A.

The annual unserved energy has been calculated using the same data as in the Base Case, except the load lost is targeted to be reduced compared to the Base Case due to the selected load shedding by the Eraring – Kemps Creek smart grid control scheme<sup>5</sup>:

#### **Unserved Energy Risk Cost**

$$\text{Unserved Energy} = (\text{MW at risk} * 0.5 * \text{failure duration}) * (\text{overall failure rate})$$

$$\text{Unserved Energy} = (1700 \text{ MW} * 0.5 * 8 \text{ hrs}^6) * 1\%$$

$$\therefore \text{Unserved Energy} = 68 \text{ MWh}$$

The cost of unserved energy (which is included in the above risk cost) has been calculated as follows:

$$\text{Risk Cost of Unserved Energy} = \text{Unserved Energy} * \text{VCR}$$

$$\text{Risk Cost of Unserved Energy} = 68 \text{ MWh} * \$38,350/\text{MWh}$$

$$\therefore \text{Risk Cost of Unserved Energy} = \$2.61 \text{ million}$$

#### **Total Risk Cost**

$$\therefore \text{Total risk cost} = \$2.61 \text{ million per annum.}$$

#### **Option B – Construction of a parallel transmission path between Eraring-Kemps Creek**

This option involves the construction of a transmission line between Eraring-Kemps Creek substations to prevent the existing transmission path becoming overloaded. It is anticipated that the capital costs for this option would be in excess of \$100m and would reduce the risk cost to zero.

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<sup>4</sup> TransGrid's Investment Risk Tool bases the Value of Customer Reliability (VCR) on figures published by AEMO in its Value of Customer Reliability Review - Final Report, September 2014. In this case we use the mixed residential/industrial figure of \$38,350/MWh..

<sup>5</sup> Due to the selected load shedding by the Eraring – Kemps Creek smart grid control scheme – Load to be shed by tripping feeders at Sydney West, Liverpool and Regentville. The expected load to be shed is about 1700 MW.

<sup>6</sup> Restoration time is based on TransGrid Control Room historical experience and OM666 Black Start.

Due to the significantly larger expected capital cost, this option will not deliver value for money and has not been considered.

## Non-network Solutions

No feasible non-network solutions have been identified to address this Need.

## 4. Evaluation

Both the Base Case and Option A are technically feasible. However, as seen below, implementing the Base Case (i.e. refraining from making capital investment) would generate a total risk cost of \$7.67 million for every year that the Need is not addressed. In contrast, Option A will reduce TransGrid's average annual risk to \$2.61 million.

The commercial evaluation of the technically feasible options is set out in Table 1.

The full financial and economic evaluations are shown in Appendix A.

**Table 1: Commercial Evaluation of Technically Feasible Options**

Option	Description	Total Capex (\$m)	Yearly Ongoing Opex (\$m)	Yearly Post Project Risk Cost (\$m)	Economic NPV (\$m)	Rank
<b>Base Case</b>	'Do nothing' – allow load to be lost and rely on manual restoration.	-	-	7.67	-	2
<b>A</b>	Eraring-Kemps Creek 500 kV Special Protection System	2.43	0.05	2.61	26.53	1

The commercial evaluation is based on:

- > a 10% discount, with sensitivities based on TransGrid's current AER-determined pre-tax real regulatory WACC of 6.75% for the lower bound, and 13% for the upper bound provided in Appendix A.
- > the applied sensitivities on the discount rate give the following economic NPVs for the preferred option, A:

Discount Rate (%)	Economic NPV (2018/19 \$m)
6.75	35.88
13.00	20.45

## ALARP Evaluation

An ALARP assessment is triggered by the following hazard with the associated disproportionate factor:

- > Unplanned outage of high voltage equipment – 3 times the safety risk reduction and taking 10% of the reliability risk reduction as applicable to safety.

However, as this will only produce 30% of the benefit derived in the commercial evaluation, a full ALARP evaluation will not produce an alternative preferred solution.

## Preferred Option

The preferred option is therefore Option A, as it significantly improves TransGrid's annual risk exposure, and yields the most benefits, as calculated using TransGrid's NPV Calculation Tool and Risk Tool (refer Appendix A).

### **Capital and operating expenditure**

The yearly incremental operating expenditure is estimated to be 2% of the upfront capital cost of the preferred option, which equates to \$0.05 million, escalated at a rate of 2.9% per annum.

### **Regulatory Investment Test-Transmission**

This Need is not subject to the RIT-T process as it does not exceed the \$6 million threshold requirement.

## **5. Recommendation**

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Based on the economic evaluation above, Option A is the preferred option to take this opportunity as it significantly reduces TransGrid's risk exposure and reduces the annual risk cost from \$7.67m to \$2.61m.

It is therefore recommended that a Request for Project Scoping (RPS) be issued for the implementation of a SCADA/Protection-based hybrid SPS for the Eraring – Kemps Creek 500 kV during the 2018/19 to 2022/23 Regulatory Control Period.

## Appendix A – Financial and Economic Evaluation Reports

Project\_Option Name

Eraring - Kemps Creek Smart Grid Control System

### 1. Financial Evaluation (excludes VCR benefits)

NPV @ standard discount rate	10.00%	-\$2.38m	NPV / Capital (Ratio)	-0.98
NPV @ upper bound rate	13.00%	-\$2.21m	Pay Back Period (Yrs)	Not measurable
NPV @ lower bound rate (WACC)	6.75%	-\$2.61m	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%	\$26.53m	NPV / Capital (Ratio)	10.92
NPV @ upper bound rate	13.00%	\$20.45m	Pay Back Period (Yrs)	Not measurable
NPV @ lower bound rate (WACC)	6.75%	\$35.88m	IRR%	89.44%

#### Benefits

Risk cost	As Is	To Be	Benefit	VCR Benefit	\$5.06m
Systems (reliability)	\$7.67m	\$2.61m	\$5.06m	ENS Penalty	\$0.00m
Financial	\$0.00m	\$0.00m	\$0.00m	All other risk benefits	\$0.00m
Operational/compliance	\$0.00m	\$0.00m	\$0.00m	Total Risk benefits	\$5.06m
People (safety)	\$0.00m	\$0.00m	\$0.00m	Benefits in the financial NPV*	\$0.00m
Environment	\$0.00m	\$0.00m	\$0.00m	*excludes VCR benefits	
Reputation	\$0.00m	\$0.00m	\$0.00m	Benefits in the economic NPV**	\$5.06m
Total Risk benefits	\$7.67m	\$2.61m	\$5.06m	**excludes ENS penalty	
Cost savings and other benefits			\$0.00m		
Total Benefits			\$5.06m		

#### Other Financial Drivers

Incremental opex cost pa (no depreciation)	-\$0.05m	Write-off cost	\$0.00m
Capital - initial \$m	-\$2.43m	Major Asset Life (Yrs)	15.00 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