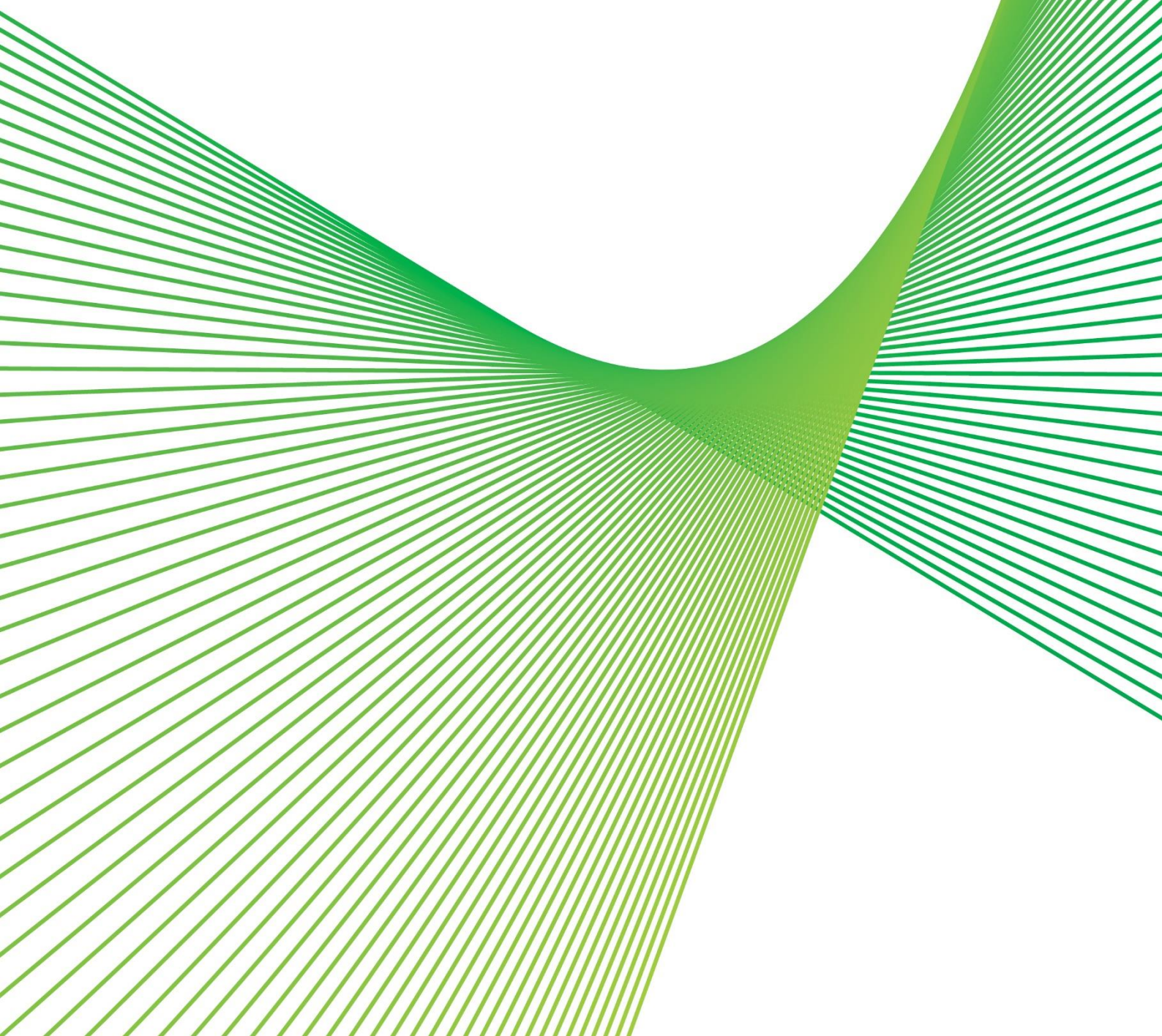


# Summary: Managing risk on Line 94U

RIT-T Project Specification Consultation Report

Issue date: 17 May 2024



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## Summary

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We are applying the Regulatory Investment Test for Transmission (RIT-T) to options for mitigating safety, environmental (bushfire) and financial (high reactive maintenance) risks caused by the deteriorating condition of certain components of the 132 kV line running between Parkes 132 kV and Forbes 132 kV substations on the NSW network ('Line 94U'). Publication of this Project Specification Consultation Report (PSCR) represents the first step in the RIT-T process.

The purpose of this PSCR is to set out the reasons we propose that action be taken, present the options that address the identified need, outline the technical characteristics of the identified need that a non-network option would be required to deliver, and allow interested parties to make submissions and provide input to the RIT-T assessment.

Line 94U was commissioned in 1986 as Line 94K between Wellington and Forbes. It was cut into Parkes substation in 1992. The northern section, Wellington to Parkes retained 94K line number whilst the southern section, Parkes to Forbes was given the new number 94U. When 94H Manildra to Parkes was built in 2011, the 94U Parkes outlet was rebuilt. The first seven (7) structures out of Parkes are now concrete pole. There are 138 structures between those concrete poles and Forbes.

Detailed analysis of asset condition information indicates that the line has several condition issues which require refurbishment to address its health and maintain appropriate risk levels across the network. These issues primarily concern the wood pole structures which are approaching an end of life condition. This is despite of the relatively low age, having experienced an accelerated deterioration in asset condition due to use of early vintage Pressure Impregnated (PI) poles on the line.

Given the extent of condition issues across the wood pole structures on Line 94U, it is considered that the entire line is approaching the end of its serviceable life. In 2025, the asset will have reached 39 years of age. While this is a relatively low age, the use of early vintage Pressure Impregnated (PI) poles has contributed to an accelerated deterioration in asset condition.

### Identified need: managing risks on Line 94U

If action is not taken, the condition of Line 94U is expected to expose us and our customers to increasing levels of risk going forward, as the likelihood of failure increases. There are safety and bushfire risks under the 'do nothing' base case, as well as higher expected costs associated with reactive maintenance that may be required under emergency conditions ('financial risks'). The proposed investment will enable us to manage safety, environmental, reliability and financial risks on Line 94U.

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 the lines will continue to deteriorate.

We manage and mitigate safety and bushfire risk to ensure they are below risk tolerance levels or 'As Low As Reasonably Practicable' ('ALARP'), in accordance with our obligations under the *New South Wales Electricity Supply (Safety and Network Management) Regulation 2014* and our Electricity Network Safety Management System (ENSMS).<sup>1</sup>

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<sup>1</sup> Our ENSMS follows the International Organization for Standardization's ISO31000:2018 Risk Management framework which requires following a hierarchy of hazard mitigation approach.

The proposed investment will enable us to continue to manage and operate this part of the network to a safety and risk mitigation level consistent with 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.

We note that the risk cost estimating methodology adopted for this RIT-T aligns with that used in our Revised Revenue Proposal for the 2023-28 period. It reflects feedback from the Australian Energy Regulator (AER) on the methodology initially proposed in our original revenue proposal.

## Credible options considered

In this PSCR, we have considered two credible options that would meet the identified need from a technical, commercial, and project delivery perspective.<sup>2</sup> This option is summarised in Table E-1.

Table E-1 Summary of credible options

Option	Description	Capital costs (\$m +/- 25%, Real \$2023-24)
Option 1	Replace known wood pole structures exhibiting ground line degradation with steel or concrete pole structures only	6.0 (±25%)
Option 2	Replace all wood pole structures with steel or concrete poles.	22.1 (±25%)

The preferred option is Option 2, as it has the highest weighted NPV result of the technically and commercially feasible options which have been considered at this stage of the RIT-T.

## Non-network options are not expected to be able to assist with this RIT-T

We do 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 deteriorating wood pole condition.

## The options have been assessed against three reasonable scenarios

The RIT-T is focused on identifying the top ranked credible option in terms of expected net benefits. However, uncertainty exists in terms of estimating future inputs and variables (termed future 'states of the world').

To deal with this uncertainty, the NER requires that costs and market benefits for each credible option are estimated under reasonable scenarios and then weighted based on the likelihood of each scenario to determine a weighted ('expected') net benefit. It is this 'expected' net benefit that is used to rank credible options and identify the preferred option.

<sup>2</sup> As per clause 5.15.2(a) of the NER.

The credible options have been assessed under three scenarios as part of this PSCR assessment, which differ in terms of the key drivers of the estimated net market benefits (ie, the estimated risk costs avoided).

Given that wholesale market benefits are not relevant for this RIT-T, the three scenarios implicitly assume the most likely scenario from the Draft 2024 ISP (ie, the ‘Step Change’ scenario). The scenarios differ by the assumed level of risk costs and unserved energy, given that these are key parameters that may affect the ranking of the credible options. Risk cost assumptions do not form part of AEMO’s ISP assumptions, and have been based on Transgrid’s analysis, as discussed in section 2.

We developed the Central Scenario around a static model of demand scenarios, described further in Section A.3 of our [Network Asset Criticality Framework](#). We consider that this approach is appropriate since it materially reduces the computational effort required, and since differences in demand forecasts will not materially affect the ranking of the credible options.

How the NPV results are affected by changes to other variables (including the discount rate and capital costs) has been investigated in the sensitivity analysis. We consider this is consistent with the latest AER guidance for RIT-Ts of this type (ie, where wholesale market benefits are not expected to be material).<sup>3,4,5</sup>

A summary of the key variables in each scenario is provided in the table below.

Table E-2 Summary of scenarios

Variable / Scenario	Central	Low risk cost scenario	High risk cost scenario risk
Scenario weighting	1/3	1/3	1/3
Discount rate	7%	7%	7%
Network capital costs	Base estimate	Base estimate	Base estimate
Operating and maintenance costs	Base estimate	Base estimate	Base estimate
Safety, environmental and financial risk benefit	Base estimate	Base estimate – 25%	Base estimate +25%

The sensitivity analysis has investigated how the NPV results are affected by changes to other variables, including the discount rate and capital costs.

<sup>3</sup> AER, *Application Guidelines Regulatory Investment Test for Transmission*, October 2023, pp. 43-44.

<sup>4</sup> We consider the approach to scenarios and sensitivities to be consistent with the AER guidance provided in November 2022 in the context of the disputes of the North West Slopes and Bathurst, Orange and Parkes RIT-Ts. See: AER, *Decision: North West Slopes and Bathurst, Orange and Parkes Determination on dispute - Application of the regulatory investment test for transmission*, November 2022, pp. 18-20 & 31-32, as well as with the AER’s RIT-T Guidelines.

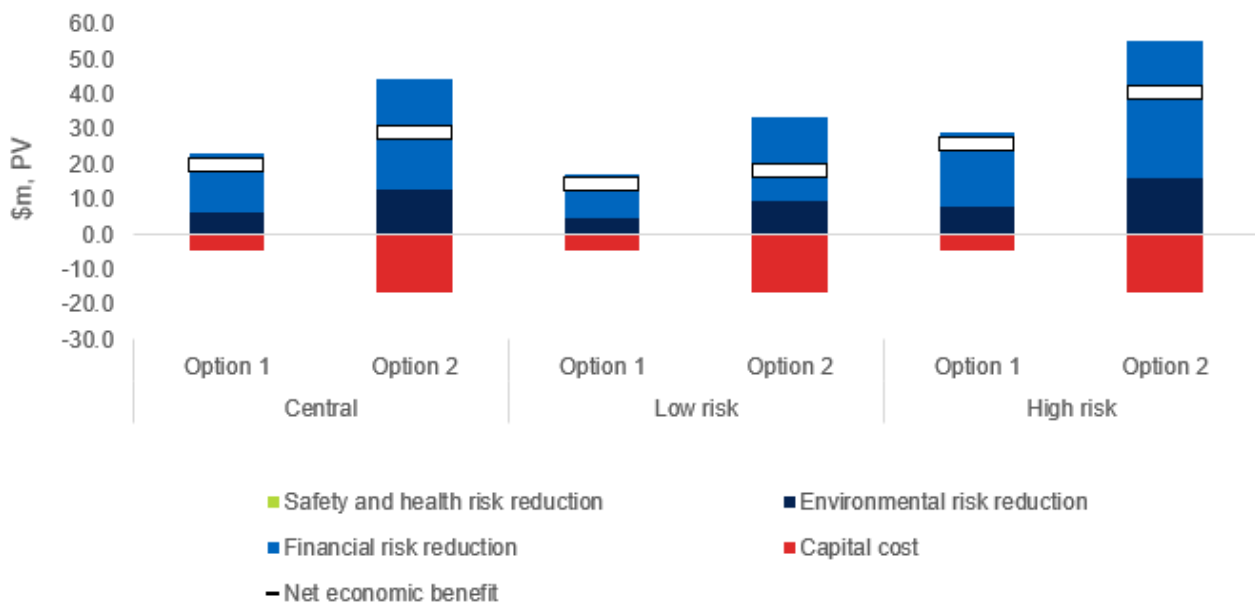
<sup>5</sup> AEMO '2023 Inputs, Assumptions and Scenarios Report', July 2023, p 123-124

## Option 2 delivers the greatest net economic benefits

Under all scenarios, the costs of mitigating the risks under Option 2 are found to be significantly outweighed by the expected benefit of avoiding the risks. This is also true for Option 1, however to a lesser extent.

The net economic benefits delivered by Option 2 are estimated at \$29.1 million.

Figure E-1 Net economic benefits (\$m, PV)



## Draft conclusion

Option 2 (replacing all wood pole structures with steel or concrete poles) is the preferred option to meet the identified need at this stage of the RIT-T. 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 our obligations under the *New South Wales Electricity Supply (Safety and Network Management) Regulation 2014* and our Electricity Network Safety Management System (ENSMS) are met.

The estimated capital expenditure associated with this option is \$22.1 million. Routine operating and maintenance savings relating to planned checks by our field crew are \$8,050 per year. We calculate that the avoided risk cost by undertaking Option 2 ranges from approximately \$1.4 million per year to \$17.8 million per year in real terms over the assessment period.

Option 2 is found to have positive net benefits under all scenarios investigated and, on a weighted basis, will deliver \$29.1 million in net economic benefits.

The works would be undertaken from 2023/24 to 2025/26. All works would be completed in accordance with the relevant standards with minimal modification to the wider transmission assets. Necessary outages

of affected line(s) in service would be planned appropriately in order to complete the works with minimal impact on the network.

## Exemption from preparing a 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 we consider 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 million<sup>6</sup>;
- the PSCR states:
  - > the proposed preferred option, together with the reasons for the proposed preferred option;
  - > the RIT-T is exempt from producing a PADR; and
  - > the proposed preferred option and any other credible option will not have a material market benefit for the classes of market benefit specified in clause 5.15A.2(b)(4), with the exception of market benefits arising from changes in voluntary and involuntary load shedding;
- 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.

We consider the investment in relation to Option 1 meets these criteria and therefore that we are exempt from producing a PADR under NER clause 5.16.4(z1).

In accordance with NER clause 5.16.4(z1)(4), the exemption from producing a PADR will no longer apply if we consider that an additional credible option that could deliver a material market benefit is identified during the consultation period.

Accordingly, if we consider that any additional credible options are identified, we will produce a PADR which includes an NPV assessment of the net market benefit of each additional credible option.

Should we consider that no additional credible options were identified during the consultation period, we intend to produce a PACR that addresses all submissions received, including any issues in relation to the proposed preferred option raised during the consultation period, and presents our conclusion on the preferred option for this RIT-T.

## Submissions and next steps

We welcome written submissions on materials contained in this PSCR. Submissions are due on 15 August 2024<sup>7</sup>.

<sup>6</sup> Varied from \$43m to \$46m based on the [AER Final Determination: Cost threshold review](#) November 2021.

<sup>7</sup> Consultation period is for 12 weeks, additional days have been added to cover public holidays.



Submissions should be emailed to our Regulation team via [regulatory.consultation@transgrid.com.au](mailto:regulatory.consultation@transgrid.com.au).<sup>8</sup> In the subject field, please reference 'Line 94U PSCR'.

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

Subject to additional credible options being identified during consultation, we anticipate publication of a PACR by October 2024.

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<sup>8</sup> We are bound by the *Privacy Act 1988 (Cth)*. In making submissions in response to this consultation process, we 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.