



TransGrid

# Maintaining compliance with performance standards applicable to Haymarket substation secondary systems

RIT-T – Project Specification Consultation Report

Region: Greater Sydney

Date of issue: 27 May 2019



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# Executive summary

TransGrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for maintaining reliable secondary systems at Haymarket substation. Publication of this Project Specification Consultation Report (PSCR) represents the first step in the RIT-T process.

TransGrid has identified that the secondary systems at Haymarket substation have reached a condition that reflects the end of serviceable life. As it is superseded by new technology at the manufacturer level and the existing technology becomes obsolete, spare parts become scarce and the ability of the any primary asset connected to the substation to reliably operate will be at risk.

Haymarket substation will continue to play a central role in supporting the flow of energy to Sydney Central Business District (CBD).

## Identified need: continue meeting network performance rules requirements

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Secondary systems are used to control, monitor, protect and secure communication to facilitate safe and reliable network operation.<sup>1</sup> They are necessary to operate the transmission network and prevent damage to primary systems when adverse events occur.

The Network Performance Requirements, Schedule 5.1 of the National Energy Rules (NER) place an obligation on Transmission Network Service Providers (TNSPs) to provide redundant protection schemes to ensure the transmission system is adequately protected. Schedule 5.1.9(c) of the NER specifically requires a TNSP to provide sufficient primary and back-up protection systems. This includes any communications facilities and breaker fail protection systems needed to ensure that a fault of any type anywhere on its transmission system is automatically disconnected.

Additionally, TNSPs are required to disconnect the unprotected primary systems where secondary systems fault lasts for more than eight hours (for planned maintenance) or 24 hours (for unplanned outages). TNSPs must also ensure that all protection systems for lines at a voltage above 66 kV are well-maintained so as to be available at all times other than for short periods (less than eight hours), while the maintenance of protection systems is being carried out.<sup>2</sup> In the event of an unplanned outage, AEMO's Power System Security Guidelines require that the primary network assets must be taken out of service within 24 hours.<sup>3</sup>

Furthermore, as per clause 4.11.1 of the NER, remote control and monitoring are required to be maintained in accordance with the standards and protocols determined and advised by the Australian Energy Market Operator (AEMO).<sup>4</sup>

A failure of the secondary systems would involve repair or replacement of the failed component or taking the affected primary assets, such as lines and transformers, out of service.

Though repair of failed secondary systems is a possible interim measure, the approach is not sustainable as spare components will deplete due to the technology no longer being manufactured or supported. Once all spares are used, repair will cease to be a viable option to meet performance standards applicable to Haymarket substation secondary systems.

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<sup>1</sup> As per Schedule 5.1 of the NER.

<sup>2</sup> As per S5.1.2.1(d) of the NER.

<sup>3</sup> Australian Energy Market Operator. "Power System Security Guidelines, 31 December 2018." Melbourne: Australian Energy Market Operator, 2018. Accessed 20 March 2019. [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security\\_and\\_Reliability/Power\\_System\\_Ops/Procedures/SO\\_OP\\_3715---Power-System-Security-Guidelines.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Power_System_Ops/Procedures/SO_OP_3715---Power-System-Security-Guidelines.pdf)

<sup>4</sup> As per clause 4.11.1 of the NER.

If the failure to provide functional secondary systems due to technology obsolescence is not addressed by a technically and commercially feasible credible option in sufficient time (ie by 2022/23), the likelihood of not recovering from secondary systems faults and not maintaining compliance with the NER performance requirements will increase.

Continued deterioration of the secondary systems at Haymarket substation will accelerate the depletion of spares. This will lead to a situation where TransGrid is unable to operate the secondary system in accordance with clause 4.6 of the NER.<sup>5</sup>

Categorised as a reliability corrective action under the RIT-T, the proposed investment will enable TransGrid to continue to meet the standards for secondary systems availability set out in the NER, and to avoid the impacts of taking primary assets out of service.

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.<sup>6</sup>

These are summarised in the following table.

**Table E-1 – Summary of the credible options**

Option	Description	Capital cost	Operating cost and maintenance	Remarks
Option 1	Combined on-site replacement of protection and control systems	\$12.2 million	\$7,000 per year	Most economical and preferred option
Option 2	Independent on-site replacement of protection and control systems	\$13.5 million	\$7,000 per year	Less efficient

## 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 enable TransGrid to continue meeting its NER obligation to provide redundant secondary systems and ensure that the transmission system is adequately protected.

## Options assessed under three different scenarios

TransGrid has considered three alternative scenarios – a low net economic benefits scenario, a central scenario, and a high net economic benefits scenario – all involve a number of assumptions that results in the

<sup>5</sup> As per clause 4.6.1 of the NER.

<sup>6</sup> As per clause 5.15.2(a) of the NER.

lower bound, the expected, and the upper bound estimates for present value of net economic benefits respectively.

**Table E-2 – Summary of the scenarios**

Variable/Scenario	Central	Low net economic benefit	High net economic benefit
Scenario weighting	50%	25%	25%
Network capital costs	Base estimate	Base estimate + 25%	Base estimate - 25%
Discount rate	5.9%	7.2%	4.6%

## Implementing Option 1 will meet relevant regulatory obligations

Implementation of Option 1 will enable TransGrid to continue meeting its regulatory obligations set out in clauses 4.11.1, 4.6.1(b),<sup>7</sup> and Schedule 5.1 of the NER. Consequently, it will also ensure the performance standards applicable to Haymarket substation secondary systems are met.

## Draft conclusion

The implementation of Option 1, the combined on-site replacement of the protection and control systems is the most efficient technically and commercially feasible option at this draft stage of the RIT-T process. Option 1 can be implemented in sufficient time to meet the identified need by 2022/23, and is therefore the preferred option presented in this PSCR.

The estimated capital cost of this option is approximately \$12.2 million. The total capital cost for this option has a weighted present value of \$9.1 million. Routine and operating maintenance costs are approximately \$7,000 per year – the same as the base case.

The work will be undertaken over the three-year period until 2022/23, with all works expected to be completed by 2022/23.

Necessary outages of relevant assets in service will be planned appropriately in order to complete the works with minimal impact on the network.

## 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 options presented and from potential proponents of non-network options that could meet the technical requirements set out in this PSCR. Submissions are due on 26 August 2019.

<sup>7</sup> As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

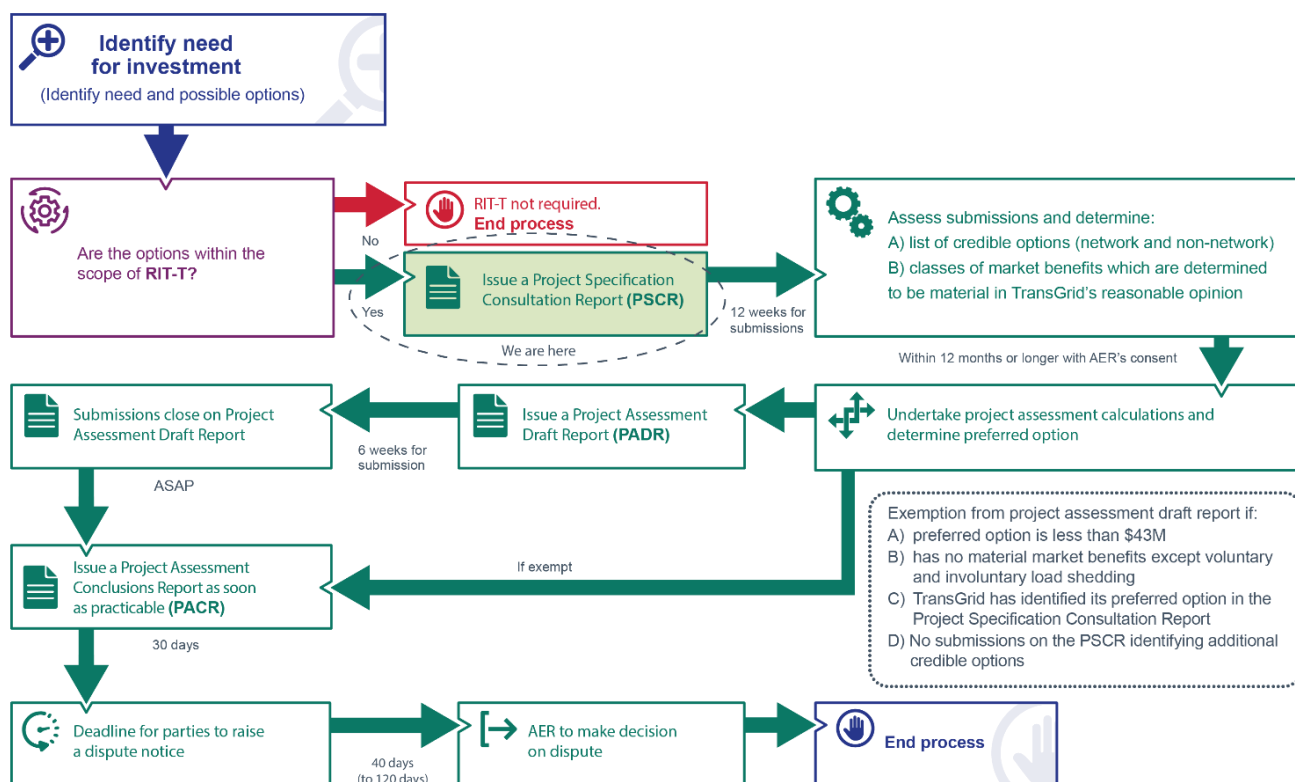
Submissions should be emailed to TransGrid’s Prescribed Revenue & Pricing team via [RIT-TConsultations@transgrid.com.au](mailto:RIT-TConsultations@transgrid.com.au).<sup>8</sup> In the subject field, please reference ‘PSCR Haymarket secondary systems project.’

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

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 as per NER clause 5.16.4(z1). Therefore, the next step in this RIT-T, following consideration of submissions received via the 12-week consultation period and any further analysis required, will be publication of a Project Assessment Conclusions Report (PACR). TransGrid anticipates publication of a PACR by 26 September 2019.

In accordance with NER clause 5.16.4(z1)(4), the exemption from producing a PADR will no longer apply if TransGrid considers that an additional credible option that could deliver a material market benefit is identified during the consultation period. Accordingly, if TransGrid considers that any additional credible options are identified, TransGrid will produce a PADR which includes a net present value (NPV) assessment of the net economic benefits of each additional credible option.

Figure E-1: This PSCR is the first stage of the RIT-T process<sup>9</sup>



<sup>8</sup> 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 section 1.2 for more details.

<sup>9</sup> Australian Energy Regulator, “Final determination on the 2018 cost thresholds review for the regulatory investment tests,” accessed 15 March 2019. <https://www.aer.gov.au/communication/aer-publishes-final-determination-on-the-2018-cost-thresholds-review-for-the-regulatory-investment-tests>

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# 1. Introduction

TransGrid is applying the Regulatory Investment Test for Transmission (RIT-T) to options for maintaining a reliable secondary systems at Haymarket substation. This publication represents the first step in this RIT-T.

TransGrid has identified that the secondary systems at Haymarket substation have reached a condition that reflects the end of serviceable life. As it is superseded by new technology at the manufacturer level and the existing technology becomes obsolete, spare parts become scarce and the ability of the any primary asset connected to the substation to reliably operate will be at risk.

As Haymarket substation will continue to play a central role in supporting the flow of energy to Sydney CBD, the deterioration of the secondary systems must be addressed to support a functional substation.

TransGrid has commenced this RIT-T to examine and consult on options to mitigate and alleviate the deterioration of the secondary systems at Haymarket substation and the risk from technology obsolescence. As investment is intended to maintain compliance with NER requirements, TransGrid considers this a reliability corrective action RIT-T.

## 1.1 Purpose of this report

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The purpose of this PSCR is to:

- > set out the reasons why TransGrid proposes that action be undertaken (ie the 'identified need')
- > present the options that TransGrid currently considers to address the identified need
- > outline how non-network options are unlikely to contribute to meeting the identified need for this RIT-T
- > allow interested parties to make submissions and provide inputs to the RIT-T assessment.

## 2. The identified need

TransGrid's Haymarket 330/132 kV substation was commissioned in 2004. Along with other key substations including Rookwood Road and Beaconsfield, Haymarket substation forms part of TransGrid's network that serves the Sydney Central Business District. Haymarket substation supplies the Inner Sydney area including Sydney CBD, whereas Beaconsfield substation supplies Sydney's Eastern suburbs.

Haymarket substation is supplied by Sydney South substation through underground cable 42 and is also connected to fourteen 132 kV feeders owned by Ausgrid. It also employs three 330/132 kV transformers and one 132 kV reactor. The secondary systems components were installed from 2003 through to 2015 to further support the safe and reliable operation of the substation. This arrangement is necessary to support the growing need<sup>10</sup> of Australia's biggest commercial district.

The load for Haymarket substation is predominantly commercial and residential<sup>11</sup> which was approximately 486 MW in the summer of 2018/19 – almost half the load of the biggest smelter in New South Wales.

An overview of the Sydney transmission network is provided in Figure 2-1 below.

Figure 2-1 – Transmission network supplying Sydney



<sup>10</sup> TransGrid. "Transmission Annual Planning Report 2018." Sydney: TransGrid, 2018. 92. Accessed 15 March, 2019. <https://www.transgrid.com.au/news-views/publications/Documents/Transmission%20Annual%20Planning%20Report%202018%20TransGrid.pdf>

<sup>11</sup> Australian Energy Market Operator, "AEMO Visualisations Map," accessed 14 February, 2019. <http://www.aemo.com.au/aemo/apps/visualisations/map.html>

## 2.1 Description of the identified need

Secondary systems are used to control, monitor, protect and secure communication to facilitate safe and reliable network operation.<sup>12</sup> They are necessary to operate the transmission network and prevent damage to primary assets when adverse events occur.

The Network Performance Requirements, set out in Schedule 5.1 of the NER, place an obligation on Transmission Network Service Providers (TNSPs) to provide redundant protection schemes to ensure the transmission system is adequately protected. Schedule 5.1.9(c) of the NER requires a TNSP to provide sufficient primary and back-up protection systems, including any communications facilities and breaker fail protection systems, to ensure that a fault of any type anywhere on its transmission system is automatically disconnected.

Additionally, TNSPs are required to disconnect the unprotected primary systems where secondary systems fault lasts for more than eight hours (for planned maintenance) or 24 hours (for unplanned outages). TNSPs must also ensure that all protection systems for lines at a voltage above 66 kV are well-maintained so as to be available at all times other than for short periods (less than eight hours), while the maintenance of protection systems is being carried out.<sup>13</sup> In the event of an unplanned outage, AEMO's Power System Security Guidelines require that the primary network assets must be taken out of service within 24 hours.<sup>14</sup>

Furthermore, as per clause 4.11.1 of the NER, remote monitoring and control systems are required to be maintained in accordance with the standards and protocols determined and advised by the Australian Energy Market Operator (AEMO).<sup>15</sup>

TNSPs, as per clause 4.11.2 of the NER, are also required to provide and maintain necessary primary and back-up communications facilities for control, operational metering and indication from the relevant local sites to the appropriate interfacing termination as nominated by AEMO.<sup>16</sup>

In general, failures are becoming more difficult to diagnose and rectify due to obsolescence of equipment and supporting electronic and software tools, leading to longer recovery times. TransGrid estimates that the amount of time it takes to recover from secondary systems failure (eg malfunction of the 132 kV low impedance busbar protection relays) once spares are depleted, would exceed 16 hours – longer than acceptable.<sup>17</sup> During this period, the failed component of the secondary systems would need to be replaced with a new design and primary assets such as the lines or transformers connected to the substation would have to be taken out of service.

Though replacement of failed secondary systems component is a possible interim measure, the approach is not sustainable as spare components will deplete due to the technology no longer being manufactured or supported. Sourcing spares will continue to be a challenge as the technology and its supporting software has become obsolete. Cybersecurity risk from using unsupported and un-patchable configuration and diagnostic software are also present.

TransGrid considers spare parts will be exhausted by 2023. However, continued deterioration of the secondary systems at Haymarket substation will accelerate the depletion of spares. Once all spares are used and the asset becomes unserviceable, repair will cease to be a viable option to meet performance standards applicable to Haymarket substation secondary systems.

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<sup>12</sup> As per Schedule 5.1 of the NER.

<sup>13</sup> As per S5.1.2.1(d) of the NER.

<sup>14</sup> Australian Energy Market Operator. "Power System Security Guidelines, 31 December 2018." Melbourne: Australian Energy Market Operator, 2018. Accessed 20 March 2019. [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security\\_and\\_Reliability/Power\\_System\\_Ops/Procedures/SO\\_OP\\_3715---Power-System-Security-Guidelines.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Power_System_Ops/Procedures/SO_OP_3715---Power-System-Security-Guidelines.pdf)

<sup>15</sup> As per clause 4.11.1 of the NER.

<sup>16</sup> Australian Energy Market Operator. "Power System Data Communication Standard." Melbourne: Australian Energy Market Operator, 2018. Accessed 20 March 2019. [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Network\\_Connections/Transmission-and-Distribution/AEMO-Standard-for-Power-System-Data-Communications.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Network_Connections/Transmission-and-Distribution/AEMO-Standard-for-Power-System-Data-Communications.pdf)

<sup>17</sup> As per S5.1.2.1(d) of the NER.

Therefore, a technically and commercially feasible credible option must be implemented in sufficient time (ie by 2022/23) to maintain compliance with the NER requirement.

Categorised as a reliability corrective action under the RIT-T, the proposed investment will enable TransGrid to continue to meet the standards for secondary systems availability set out in the NER, and to avoid the impacts of taking primary assets out of service.

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.

## 2.2 Assumptions underpinning the identified need

### 2.2.1 Depletion of available spares due to no manufacturer support for technologically obsolete components

Though repair of failed secondary systems at Haymarket substation is possible as an interim measure, the approach is not sustainable as spare components will deplete due to the technology no longer being manufactured or supported. Once all spares are used, repair will cease to be a viable option and will not enable performance standards applicable to Haymarket substation secondary systems to be met.

### 2.2.2 Deterioration of control systems increases the risk of substation failure

TransGrid has identified several critical issues with the secondary systems at Haymarket substation. The issues outlined in Table 2-1 are expected to escalate until the asset is fully inoperable.

Table 2-1 – Identified condition of Haymarket substation secondary systems

Asset components	Issues	% of services at site
Energy Meters	Components technology obsolescence resulting in a lack of spares and no manufacturer support	100% of all market meters on site
Protection Relays	Increasing numbers of faults across a range of models	83% of all line/feeder protection relays on site
		100% of all transformer protection relays on site
		100% of all reactor protection relays on site
Remote Terminal Unit (RTU) Condition	End of serviceable life	Remote Terminal Unit (RTU) Condition

# 3. Options that meet the identified need

TransGrid considers credible network options that would meet the identified need from a technical, commercial, and project delivery perspective.<sup>18</sup>

In identifying credible options, TransGrid has taken the following factors into account: energy source; technology; ownership; the extent to which the option enables intra-regional or intra-regional trading of electricity; whether it is a network option or a non-network option; whether the credible option is intended to be regulated; whether the credible option has proponent; and any other factor which TransGrid reasonably considered should be taken into account.<sup>19</sup>

## 3.1 The base case

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The costs and benefits of each option in this PSCR are compared against those of a base case. Under this base case, no proactive capital investment is made to remediate the technological obsolescence, spares unavailability, manufacturer non-support, and components deterioration of the secondary systems. The asset will continue to operate and be maintained under the current regime.

The majority of protection relays, remote control and monitoring devices at this site have limited spares, no manufacturer support, and will reach end of serviceable life by 2022/23. Repairs will become more difficult due to limited spares and this will lead to periods of unavailability. As a result, the likelihood of a hazardous event will increase.

Annual maintenance costs are approximated at \$7,000 per year. However, increases to the regular maintenance regime will not be able to mitigate the risk of substation failure.

## 3.2 Option 1 – Combined on-site replacement of protection and control systems

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Option 1 involves an on-site upgrade and renewal (replacement) of the protection and control systems at Haymarket substation to combined systems which eliminates the need for standalone remote monitoring and control units. Efficiencies will be leveraged by reusing the existing building, tunnel boards, and the cabling where practicable.

There are also additional operational benefits available due to improved remote monitoring, control and interrogation, efficiency gains in responding to faults, and phasing out of obsolete and legacy systems and protocols.

The estimated capital cost of this option is approximately \$12.2 million. This option has a weighted present value of \$9.1 million. Routine and operating maintenance costs are approximately \$7,000 per year – the same as the base case.

The work will be undertaken over the three-year period until 2022/23, with all works expected to be completed by 2022/23.

All works under all options will be completed in accordance with the relevant standards and components shall be replaced to have minimal modification to the wider transmission network.

Necessary outages of relevant assets in service will be planned appropriately in order to complete the works with minimal impact on the network.

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<sup>18</sup> As per clause 5.15.2(a) of the NER.

<sup>19</sup> As per clause 5.15.2(b) of the NER.

### 3.3 Option 2 – Independent on-site replacement of protection and control systems

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Option 2 involves on-site replacement of individual protection and control systems at Haymarket substation with modern equivalents utilising the same methodology and philosophy as currently installed. Efficiencies will be leveraged by reusing the existing building, tunnel boards, and the cabling where practicable. However, this option would not provide any additional benefits to consumers in leveraging new design standards with reduced asset quantities to deliver the same functionality.

The estimated capital cost of this option is approximately \$13.5 million. This option has a weighted present value of \$10.0 million. Routine and operating maintenance costs are approximately \$7,000 per year – the same as the base case.

The work will be undertaken over the three-year period until 2022/23, with all works expected to be completed by 2022/23.

All works under all options will be completed in accordance with the relevant standards and components shall be replaced to have minimal modification to the wider transmission network.

Necessary outages of relevant assets in service will be planned appropriately in order to complete the works with minimal impact on the network.

### 3.4 Options considered but not progressed

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At this draft stage of the RIT-T process, TransGrid determines that there is no other commercially and technically feasible option to meet the identified need.

### 3.5 No material inter-network impact is expected

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TransGrid has considered whether the credible options listed above is expected to have material inter-regional impact.<sup>20</sup> A ‘material inter-network impact’ is defined in the NER as:

*“A material impact on another Transmission Network Service Provider’s network, which may include (without limitation): (a) the imposition of power transfer constraints within another Transmission Network Service Provider’s network; or (b) an adverse impact on the quality of supply in another Transmission Network Service Provider’s network.”*

AEMO’s suggested screening test to indicate that a transmission augmentation has no material inter-network impact is that it satisfies the following:<sup>21</sup>

- > a decrease in power transfer capability between transmission networks or in another TNSP’s network of no more than the minimum of 3% of the maximum transfer capability and 50 MW
- > an increase in power transfer capability between transmission networks or in another TNSP’s network of no more than the minimum of 3% of the maximum transfer capability and 50 MW
- > an increase in fault level by less than 10 MVA at any substation in another TNSP’s network
- > the investment does not involve either a series capacitor or modification in the vicinity of an existing series capacitor.

TransGrid notes that each credible option satisfies these conditions as it does not modify any aspect of electrical or transmission assets. By reference to AEMO’s screening criteria, there is no material inter-network impacts associated with any of the credible options considered.

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<sup>20</sup> As per clause 5.16.4(b)(6)(ii) of the NER.

<sup>21</sup> Inter-Regional Planning Committee. “Final Determination: Criteria for Assessing Material Inter-Network Impact of Transmission Augmentations.” Melbourne: Australian Energy Market Operator, 2004. Appendix 2 and 3. Accessed 15 March 2019. <https://www.aemo.com.au/-/media/Files/PDF/170-0035-pdf.pdf>

## 4. Non-network options

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 enable TransGrid to continue meeting its obligation under Schedule 5.1 and clause 4.11 of the NER to provide redundant secondary systems and ensure that the transmission system is adequately protected.

# 5. Materiality of market benefits

## 5.1 Wholesale electricity market benefits are not material

The AER has recognised that if the credible options considered will not have an impact on the wholesale electricity market, then a number of classes of market benefits will not be material in the RIT-T assessment, and so do not need to be estimated.<sup>22</sup>

TransGrid determines that the credible options considered in this RIT-T will not have an impact on the wholesale electricity market, therefore considers that the following classes of market benefits are not material for this RIT-T assessment:

- > changes in fuel consumption arising through different patterns of generation dispatch
- > changes in voluntary load curtailment (since there is no impact on pool price)
- > changes in costs for parties other than the RIT-T proponent
- > changes in ancillary services costs
- > changes in network losses
- > competition benefits
- > Renewable Energy Target (RET) penalties.

## 5.2 No other categories of market benefits are material

In addition to the classes of market benefits listed above, NER clause 5.16.1(c)(4) requires TransGrid to consider the following classes of market benefits, listed in Table 5-1, arising from each credible option.

The same table sets out the reason TransGrid considers these classes of market benefits to be immaterial.

**Table 5-1 – Reasons non-wholesale electricity market benefits are considered immaterial**

Market benefits	Reason
Changes in involuntary load curtailment	Since Haymarket substation forms part of a meshed network (N-1 and N-2 redundant) required to supply Sydney, a failure results in extremely low chance of unserved energy.
Differences in the timing of expenditure	Either option is being undertaken to mitigate, in isolation, the rising risk caused by the existing asset nearing its end of serviceable life.
Option value	TransGrid notes the AER's view that option value is likely to arise where there is uncertainty regarding future outcomes, the information that is available is likely to change in the future, and the credible options considered by the TNSP are sufficiently flexible to respond to that change. <sup>23</sup>  TransGrid also notes the AER's view that appropriate identification of credible options and reasonable scenarios captures any option value,

<sup>22</sup> Australian Energy Market Operator. "Power System Security Guidelines, 31 December 2018." Melbourne: Australian Energy Market Operator, 2018. Accessed 20 March 2019. [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security\\_and\\_Reliability/Power\\_System\\_Ops/Procedures/SO\\_OP\\_3715---Power-System-Security-Guidelines.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Power_System_Ops/Procedures/SO_OP_3715---Power-System-Security-Guidelines.pdf)

<sup>23</sup> Australian Energy Regulator. "Application guidelines Regulatory Investment Test for Transmission - December 2018." Melbourne: Australian Energy Regulator, 2018. Accessed 15 March 2019. [https://www.aer.gov.au/system/files/AER%20-%20Final%20RIT-T%20Application%20guidelines%20-%202014%20December%202018\\_0.pdf](https://www.aer.gov.au/system/files/AER%20-%20Final%20RIT-T%20Application%20guidelines%20-%202014%20December%202018_0.pdf)



Market benefits	Reason
	<p>thereby meeting the NER requirement to consider option value as a class of market benefit under the RIT-T.</p> <p>TransGrid notes that no credible option is sufficiently flexible to respond to change or uncertainty.</p> <p>Additionally, a significant modelling assessment would be required to estimate the option value benefit but it would be disproportionate to potential additional benefits for this RIT-T. Therefore, TransGrid has not estimated any additional option value benefit.</p>

# 6. Overview of the assessment approach

As outlined in section 3.1, all costs and benefits considered have been measured against a base case.

The analysis presented in this RIT-T considered a 20-year period, from 2018/19 to 2038/39. TransGrid considers that a 20-year period takes into account the size, complexity and expected service life of the options and provide a reasonable indication of the costs and benefits over a long outlook period. Since the capital components have asset lives greater than 20 years, TransGrid has taken a terminal value approach to ensure that the capital costs of long-lived assets is appropriately captured in the 20-year assessment period.

TransGrid has adopted a central real, pre-tax 'commercial'<sup>24</sup> discount rate of 5.9%<sup>25</sup> as the central assumption for the NPV analysis presented in this report. TransGrid considers that this is a reasonable contemporary approximation of a commercial discount rate, consistent with the RIT-T.

TransGrid has also tested the sensitivity of the results to discount rate assumptions. A lower bound real, pre-tax discount rate of 4.60% equal to the latest AER Final Decision for a TNSP's regulatory proposal at the time of preparing this PSCR,<sup>26</sup> and an upper bound discount rate of 7.2% (a symmetrical adjustment upwards) are investigated.

## 6.1 Approach to estimating project costs

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TransGrid has estimated the capital costs of the options by using scope from similar works. TransGrid considers the central capital cost estimates to be within  $\pm 25\%$  of the actual costs.

Routine operating and maintenance costs are based on similar to works of similar nature.

Reactive maintenance costs under the base case considers the:

- > level of corrective maintenance required to restore assets to working order following a failure
- > probability and expected level of network asset faults.

## 6.2 Three different scenarios have been modelled to address uncertainty

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RIT-T assessments are based on cost-benefit analysis that includes assessment under reasonable scenarios which are designed to test alternate sets of key assumptions and their impact on the ranking and feasibility of options.

TransGrid has considered three alternative scenarios, summarised in Table 6-1, to address uncertainty – namely:

- > a 'low net economic benefits' scenario, involving a number of assumptions that gives a lower bound and conservative estimates of net present value of net economic benefits
- > a 'central' scenario which consists of assumptions that reflect TransGrid's central set of variable estimates that provides the most likely scenario
- > a 'high net economic benefits' scenario that reflects a set of assumptions which have been selected to investigate an upper bound of net economic benefits.

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<sup>24</sup> The use of a 'commercial' discount rate is consistent with the RIT-T and is distinct from the regulated cost of capital (or 'WACC') that applies to network businesses like TransGrid.

<sup>25</sup> Electricity Networks Association. "RIT-T Economic Assessment Handbook." Melbourne: Electricity Networks Association, 2019. Accessed 15 March 2019. [https://www.energynetworks.com.au/sites/default/files/ena\\_rit-t\\_handbook\\_15\\_march\\_2019.pdf](https://www.energynetworks.com.au/sites/default/files/ena_rit-t_handbook_15_march_2019.pdf)

<sup>26</sup> See TransGrid's Post-tax Revenue Model (PTRM) for the 2018-23 period, available at: <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/transgrid-determination-2018-23>

**Table 6-1 – Summary of the scenarios**

<b>Variable/Scenario</b>	<b>Central</b>	<b>Low net economic benefit</b>	<b>High net economic benefit</b>
<i>Scenario weighting</i>	50%	25%	25%
Network capital costs	Base estimate	Base estimate + 25%	Base estimate - 25%
Discount rate	5.9%	7.2%	4.6%

TransGrid considers that the central scenario is most likely since it is based primarily on a set of expected/central assumptions. TransGrid has therefore assigned this scenario a weighting of 50%, with the other two scenarios being weighted equally with 25% each.

# 7. Assessment of credible options

## 7.1 Estimated costs

Table 7-1 summarises the present value of costs of all options relative to the base case under the three scenarios.

Table 7-1 – Present value of costs of all options relative to the base case, PV 2018/19 \$m

Option	Central	Low net economic benefit	High net economic benefit	Weighted value
<i>Scenario weighting</i>	50%	25%	25%	
Option 1	9.1	10.7	7.3	9.1
Option 2	10.1	11.9	8.1	10.0

## 7.2 Meeting relevant regulatory obligations

As per clause 4.11.1 of the NER, secondary systems are required to be maintained in accordance with the standards and protocols determined and advised by AEMO. They are also needed to meet the Network Performance Requirements imposed on TNSPs as per Schedule 5.1 of the NER.

Implementation of Option 1 is the cheapest option to ensure reliability of the secondary systems at Haymarket substation, mitigate its risks of prolonged failure, and enable TransGrid to continue to meet the regulatory obligations set out in clause 4.6.1(b)<sup>27</sup> and Schedule 5.1 of the NER.

<sup>27</sup> As per clause 4.6.1(b) of the NER, AEMO must ensure that there are processes in place, which will allow the determination of fault levels for normal operation of the power system and in anticipation of all credible contingency events and protected events that AEMO considers may affect the configuration of the power system, so that AEMO can identify any busbar which could potentially be exposed to a fault level which exceeds the fault current ratings of the circuit breakers associated with that busbar.

## 8. Draft conclusion and exemption from preparing a PADR

The implementation of Option 1, the combined on-site replacement of the protection and control systems is the most efficient technically and commercially feasible option to continue meeting Rules requirements at this draft stage of the RIT-T process. Option 1 can be implemented in sufficient time to meet the identified need by 2022/23, and is therefore the preferred option presented in this PSCR.

The estimated capital cost of this option is approximately \$12.2 million. This option has a weighted present value of \$9.1 million. Routine and operating maintenance costs are approximately \$7,000 per year – the same as the base case.

The work will be undertaken over the three-year period until 2022/23, with all works expected to be completed by 2022/23.

Necessary outages of relevant assets in service will be planned appropriately in order to complete the works with minimal impact on the network.

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 as per NER clause 5.16.4(z1). Therefore, the next step in this RIT-T, following consideration of submissions received during the 12-week consultation period and any further analysis required, will be publication of a Project Assessment Conclusions Report (PACR). TransGrid anticipates publication of a PACR by 26 September 2019.

As the investments are intended to continue meeting NER obligations and will not have material market benefit, TransGrid is exempt from producing a PADR for this RIT-T.

TransGrid welcomes written submissions on material contained in this PSCR. Submissions are due on or before 26 August 2019. Submissions should be emailed to TransGrid's Prescribed Revenue & Pricing team via [RIT-TConsultations@transgrid.com.au](mailto:RIT-TConsultations@transgrid.com.au). In the subject field, please reference 'PSCR Haymarket secondary systems project.'

NER clause 5.16.4(z1) provides for a TNSP to be exempt from producing a PADR for a particular RIT-T application, in the following circumstances:

- (a) if the estimated capital cost of the preferred option is less than \$43 million;
- (b) if the TNSP identifies in its PSCR its proposed preferred option, together with its reasons for the preferred option and notes that the proposed investment has the benefit of the clause 5.16.4(z1) exemption; and
- (c) if the TNSP considers that the proposed preferred option and any other credible options in respect of the identified need will not have a material market benefit for the classes of market benefits specified in clause 5.16.1(c)(4), with the exception of market benefits arising from changes in voluntary and involuntary load shedding.

TransGrid considers that the preferred option is 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 TransGrid considers that an additional credible option that could deliver a material market benefit is identified during the consultation period.

Accordingly, if TransGrid considers that any additional credible options are identified, TransGrid will produce a PADR which includes an NPV assessment of the net economic benefits of each additional credible option.

Should TransGrid consider that no additional credible options were identified during the consultation period, TransGrid intends to produce a PACR that addresses all submissions received including any issues in relation to the proposed preferred option raised during the consultation period.<sup>28</sup>

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<sup>28</sup> As per clause 5.16.4(z2) of the NER.

# Appendix A – Compliance checklist

This appendix sets out a compliance checklist which demonstrates the compliance of this PSCR with the requirements of clause 5.16.4(b) of the NER version 111.

Rules clause	Summary of requirements	Relevant section
5.16.4 (b)	A RIT-T proponent must prepare a report (the project specification consultation report), which must include:	–
	(1) a description of the identified need;	2
	(2) the assumptions used in identifying the need (including, in the case of proposed reliability corrective action, why the RIT-T proponent considers reliability corrective action is necessary);	2
	(3) the technical characteristics of the identified need that a non- network option would be required to deliver, such as:  (i) the size of load reduction of additional supply; (ii) location; and (iii) operating profile;	NA
	(4) if applicable, reference to any discussion on the description of the identified need or the credible options in respect of that identified need in the most recent National Transmission Network Development Plan;	NA
	(5) a description of all credible options of which the RIT-T proponent is aware that address the identified need, which may include, without limitation, alternative transmission options, interconnectors, generation, demand side management, market network services or other network options;	3
	(6) for each credible option identified in accordance with subparagraph (5), information about:  (i) the technical characteristics of the credible option; (ii) whether the credible option is reasonably likely to have a material inter-network impact; (iii) the classes of market benefits that the RIT-T proponent considers are likely not to be material in accordance with clause 5.16.1(c)(6), together with reasons of why the RIT-T proponent considers that these classes of market benefit are not likely to be material; (iv) the estimated construction timetable and commissioning date; and (v) to the extent practicable, the total indicative capital and operating and maintenance costs.	3 & 5

5.16.4(z1)	<p>A RIT-T proponent is exempt from paragraphs (j) to (s) if:</p> <ol style="list-style-type: none"> <li>1. the estimated capital cost of the proposed preferred option is less than \$35 million (as varied in accordance with a cost threshold determination);</li> <li>2. the relevant Network Service Provider has identified in its project specification consultation report: (i) its proposed preferred option; (ii) its reasons for the proposed preferred option; and (iii) that its RIT-T project has the benefit of this exemption;</li> <li>3. the RIT-T proponent considers, in accordance with clause 5.16.1(c)(6), that the proposed preferred option and any other credible option in respect of the identified need will not have a material market benefit for the classes of market benefit specified in clause 5.16.1(c)(4) except those classes specified in clauses 5.16.1(c)(4)(ii) and (iii), and has stated this in its project specification consultation report; and</li> <li>4. the RIT-T proponent forms the view that no submissions were received on the project specification consultation report which identified additional credible options that could deliver a material market benefit.</li> </ol>	8
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