



Townsville Training Facility Redevelopment

Business Case

31 January 2024



Part of Energy Queensland

CONTENTS

1	Executive Summary	3
2	Overview	4
2.1	Purpose and scope	4
2.2	Background	4
2.2.1	Site Summary	4
2.2.2	Since 2020-25 Submission	4
2.3	Identified Need	5
2.3.1	End-of-life Assets	5
2.3.2	Demand	10
2.3.3	Workplace Health and Safety	11
2.3.4	Fit-for-purpose	12
2.4	Customer importance	12
2.5	Compliance	12
3	Options analysis	14
3.1	Options overview	14
3.2	Counterfactual analysis (Base case)	15
3.2.1	Summary	15
3.2.2	Assumptions	16
3.2.3	Risks	16
3.3	Option A: Redevelop Current Site (Preferred)	17
3.3.1	Summary	17
3.3.2	Assumptions	18
3.3.3	Benefits	19
3.3.4	Risks	19
3.4	Option B: Relocate to a Greenfield Site	20
3.4.1	Summary	20
3.4.2	Assumptions	20
3.4.3	Benefits	21
3.4.4	Risks	21
3.5	Financial Summary	22
3.5.1	Expenditure summary 2025-30	22
3.5.2	NPV analysis	22
4	Recommendation	24

4.1	Deliverability	25
4.2	Change Impacts	25
Appendices		26
Appendix 1: Alignment with the National Electricity Rules		26
Appendix 2: Reconciliation Table		27
Appendix 3: Alignment to EQL Property Strategy		28
Appendix 4: Glossary		29

List of Tables

Table 1: Buildings & Defect Summary	6
Table 2: Growth Summary	10
Table 3: Business Case Assumptions	14
Table 4: Other Leased Locations	15
Table 5: Capital and operating expenditure summary 2025-30	22
Table 6: NPV Analysis	22
Table 7: Sensitivity analysis	23
Table 8: Options Analysis Scorecard	24
Table 9: Recommended Option's Alignment with the National Electricity Rules	26
Table 10: Reconciliation of business case to AER capex model/Reset RIN	27
Table 11: Alignment to Property Strategy	28

List of Figures

Figure 1: Townsville Training Facility	4
Figure 2: Growth in training hours since April 2021	11
Figure 3: Possible first floor arrangement - subject to change. Ground floor not shown.	18

1 EXECUTIVE SUMMARY

Title	Townsville Training Facility Redevelopment																							
DNSP	Ergon																							
Expenditure category	<div><input type="checkbox"/> Replacement<input type="checkbox"/> Augmentation<input type="checkbox"/> Connections<input type="checkbox"/> Tools and Equipment</div> <div><input type="checkbox"/> ICT<input checked="" type="checkbox"/> Property<input type="checkbox"/> Fleet</div>																							
Identified need (select all applicable)	<div><input type="checkbox"/> Legislation<input checked="" type="checkbox"/> Regulatory compliance</div> <div><input checked="" type="checkbox"/> Reliability<input type="checkbox"/> CECV<input checked="" type="checkbox"/> Safety<input checked="" type="checkbox"/> Environment<input checked="" type="checkbox"/> Financial<input type="checkbox"/> Other</div> <p>The Townsville Training Facility operates as a Registered Training Organisation (RTO) and provides industry courses, technical training, and apprenticeship programs relevant to the internal workforce and the electricity industry externally. These courses ensure Ergon Energy’s workforce is adequately skilled and competent to safely and efficiently maintain the electricity network for our community.</p> <p>The training facility was built in 1984 and the buildings have suffered several major defects which impact in the building’s foundation and structure. Training demand has out-grown the original design and has had to be supplemented with a leased demountable. Demand is forecast to grow well-beyond the site’s capacity resulting from 2023/24 resulting in restrictions being placed on external placement. The facility is not at a standard expected of contemporary Registered Training Organisations (RTOs).</p> <p>Why now?</p> <p>While the main buildings have been in a poor condition with major structural defects for several years (with band-aids implemented), demand in training from internal & external parties has created a secondary driver which will reach critical mass during the 2023/24 FY. The site is physically unable to train all of the participants requiring training due to the demand outstripping the availability of training rooms. Temporary limits will need to be put in place until the site can be redeveloped.</p>																							
Summary of preferred option	<p>Option A – Redevelop current site</p> <p>Construct a modern fit-for-purpose training building to meet the current & future training demand while resolving the various defects on the existing buildings. Demolish and remove the existing buildings once staff & facilities are relocated.</p>																							
Capital Expenditure	<table><tr><th>Year</th><th>Previous period</th><th>2025-26</th><th>2026-27</th><th>2027-28</th><th>2028-29</th><th>2029-30</th><th>2025-30</th></tr><tr><td>\$m, direct 2022-23</td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td><td><div></div></td></tr></table> <p>The capital expenditure forecast above sourced from the NPV model is provided in \$m, 2022-23. See Appendix 2 for a conversion table which shows how this forecast is represented in the capex model and reset RIN.</p>								Year	Previous period	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	\$m, direct 2022-23	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>
Year	Previous period	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30																	
\$m, direct 2022-23	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>	<div></div>																	
NPV	\$0.5m (compared to counterfactual)																							
Benefits	<p>Compliance - Alignment with standards for Registered Training Organisations (RTO). Aged buildings past Useful Life replaced with modern, fit-for-purpose building.</p> <p>Consolidation of standalone buildings from 4 into 1 – resulting in operating efficiencies</p> <p>Meet forward demand in line with internal & external expectations</p>																							
Customer importance	Reduced operating costs in the long term applies downward pressure on customer bills. Maintains the skill & training requirements of apprentices and staff to work on the Ergon distribution network.																							

2 OVERVIEW

2.1 Purpose and scope

This is a preliminary business case describing the required investment to proceed with the redevelopment of the Townsville Training Facility.

The purpose of this document is to provide a forecast of the investment required in coordination with the Australian Energy Regulator (AER). Prior to investment, a Gate 3 business case will be prepared with further detail to be assessed in accordance with the established Energy Queensland investment governance processes.

2.2 Background

2.2.1 Site Summary

The Townsville site is a standalone specialised training facility located at 4-28 Hartley Street, within Garbutt's industrial area, opposite Ergon Energy's major depot in Townsville. The 15,950m² facility was established in 1984 with the site layout suitable for Ergon Energy's training delivery in the 1980s and 1990s. The training site includes a training yard with two small buildings inside the yard boundaries.

The site operates as a Registered Training Organisation (RTO) and provides industry courses, technical training and apprenticeship programs relevant to its workforce and the energy industry. Its training operation ensures that Ergon Energy's workforce is adequately skilled and competent to safely and efficiently operate and maintain the electricity network, thereby ensuring safe and reliable electricity supply for the community. Ergon Energy delivers high-quality vocational training courses and nationally accredited qualifications, as well as safety awareness sessions at the training facility in Townsville.

The facility serves a significant role in educating internal staff, authorised contractors, external parties and the community on critical safety aspects when working in an environment that exposes a person to the medium and high voltage network. This includes electricians working on a switchboard at a customer's premises and network connection officers connecting new customers. As Queensland's regional Distribution Network Service Provider (DNSP), Ergon Energy is uniquely positioned to educate staff and the community regarding the safe operation of the electricity network.

2.2.2 Since 2020-25 Submission

The Townsville Training Facility was presented in the 2020-25 regulatory submission as a proposed investment, which was rejected by the AER. Since submission of the previous business case Ergon Energy has completed some priority minor works on site, including the removing of all accessible asbestos containing material (ACM) and the construction of Block 5, which is a tooling workshop to provide

Figure 1: Townsville Training Facility



statutory training for employees working on our network, who would otherwise need to travel to Brisbane to complete the course. Block 5 is *excluded* from this proposed RPD2025-30 investment.

It remains the position of Ergon Energy that a ground-up redevelopment of the administration building and supporting training demountables is the most cost-effective long-term solution for our customers, as detailed in this business case. Rejection of the proposed investment again will result in higher operational and capital costs over the next twenty years, as we strive to manage aged buildings with significant structural defects as well as the growth of our training requirements for internal and external participants in a less than efficient manner.

2.3 Identified Need

2.3.1 End-of-life Assets

The training facility has been in operation for 39 years old with all four buildings at or nearing the end of their useful life. Block 1 in particular is in an advance state of disrepair, beyond what its age suggests. Block 5 (not pictured) is a recent addition and is excluded from this investment.

Block 1 is the main administration building, containing the office area, amenities and 5 of the 7 training rooms. It is made up of a combination of two building wings joined by an external walkway. The largest building wing is approximately 380m² and the smaller wing is ~220m². Both wings are single level brick masonry construction with a traditional concrete slab on ground. The buildings are joined by a covered external walkway. There is also a paved outdoor covered break out area adjoining the largest building. 'Block 1 is in structurally poor condition with major structural defects identified. The finishes are aged and worn in need of some cosmetic repairs/upgrades. The building has evidence of concrete bond beam expansion cracking/ movement of masonry walls, timber rot and water ingress. There is no disabled access to the building'.¹

Block 2 is a leased demountable established in 2007 and provides an additional two training rooms to support the capacity of Block 1. The demountable has now surpassed the end of its useful life and due for renewal.² It is assessed as being non-compliant to disability standards, fire separation requirements and lacks appropriate stormwater infrastructure.

Block 3 is a storage shed established as part of the original build in 1984 and holds equipment and tools for the use of the training facility. It will reach the end of its useful life in 2024 and will be due for renewal.³ It is assessed as being non-compliant to disability standards, fire separation requirements and lacks appropriate stormwater management infrastructure.

Block 4 is a storage and workshop shed established as part of the original build in 1984 and is used for managing tools, equipment and testing of HV equipment, which has different storage and management requirements to that of Block 3. It will reach the end of its useful life in 2024 and will be due for renewal.⁴ It is assessed as being non-compliant to disability standards, fire separation requirements and lacks appropriate stormwater management infrastructure.

¹ As per Building Condition Report pg 17

² As per ATO Taxation ruling TR2020/3 as at Sep 2023 – See Portable Structures
[https://www.ato.gov.au/law/view/document?LocID=%22TXR%2FTR20203%2FNAT%2FATO%2fatTABLE-P%22&PiT=99991231235958#TABLE-P](https://www.ato.gov.au/law/view/document?LocID=%22TXR%2FTR20203%2FNAT%2FATO%2FatTABLE-P%22&PiT=99991231235958#TABLE-P)

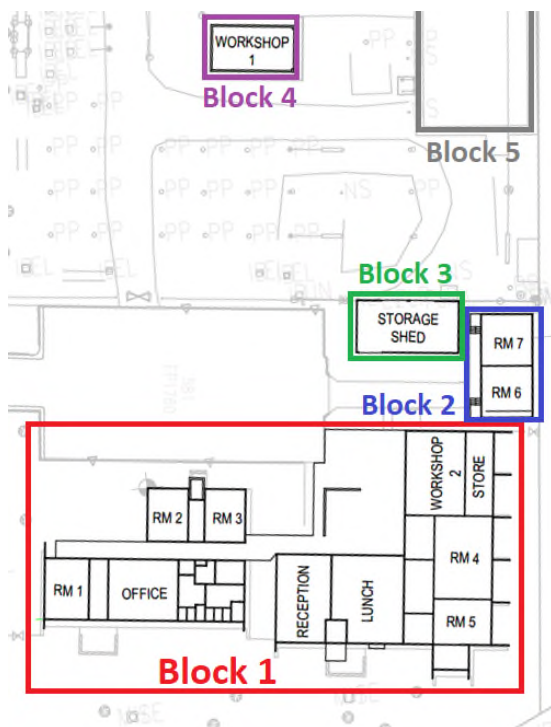
³ As per ATO Taxation ruling TR2020/3 as at Sep 2023 – See Storage Sheds

⁴ As per ATO Taxation ruling TR2020/3 as at Sep 2023 – See Storage Sheds

Table 1: Buildings & Defect Summary

Site Asset	Age (years) ⁵	Priority 1 (Highest)	Priority 2	Priority 3-5	Description
Block 1	39	6	4	14	Administration & Training Rooms 600sqm
Block 2	16	3	1	15	Training Demountable 72sqm
Block 3	39	3	1	9	Storage Shed 60sqm
Block 4	39	2	1	9	HV Equipment Shed/Workshop 45sqm
Block 5	4	Nil concerns, recently constructed			
External	39	3	1	7	External areas (excluding training yard)

Select photos from Building Condition Report showing state of the infrastructure on site:



BCR Block Designation across Site



Block 1 – Water ingress & related damage.
Common throughout Block 1

⁵ As at 2023



Block 1 - Timber rot within structural support beams from termite damage



Block 1 - Timber rot within structural support beams from termite damage



Block 1 - Timber rot within structural support beams from termite damage



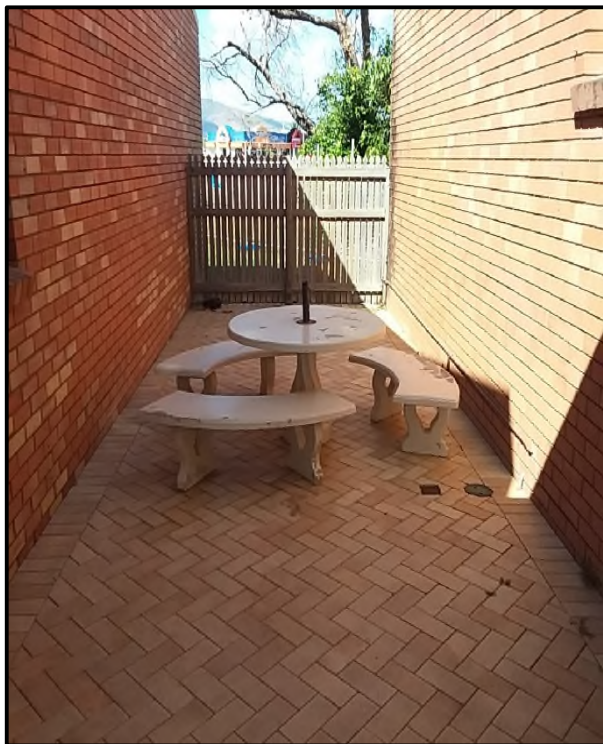
Block 1 Amenities – Vertical cracking down brick walls indicate slab movement



Block 1 Office – Cracks causing ceiling damage and misalignment



Block 1 Training Room – Warped ceiling tiles across all training rooms show signs of age and disrepair



Block 1 – Outdoor amenities showing age and site limitations



Block 1 – Vertical cracking in tiles & brick work



Block 2 Demountable – Training room shared with noisy comms rack and electrical switchboard. Ceiling starting to bow



Block 4 – Disrepair on brick work from requirements over time. Rust in electrical switchboard, considerable wear across this building



Block 4 – Roofline in disrepair, lack of flashing, uneven ceiling



Block 4 – Ceiling panels pulling apart and coming away from beams



External – Driveway suffers from considerable break-up and erosion. Not sealed



External – Car parking areas show disrepair, considerable cracking, broken guttering and uneven surfaces

2.3.2 Demand

The Townsville Training Centre at Hartley Street has steadily increased the training it provides for internal and external participants across all metrics. The number of courses run, the length of those courses, the number of participants and the revenue generated from external organisations have shown a year-on-year increases since 2017 when the first point-in-time report was run.

Table 2: Growth Summary

Training Demand – Hartley St Townsville	2017	2021/22	2022/23	2023/24*	2024/25	2025/26	2026/27	2029/30
	Actuals				Forecast			
Training Sessions #	288	398	519	996	1,404	1,812	2,220	2,720
Training Session Days #	803	839	1,129	1,837	2,231	2,625	3,020	3,397
Participants #	1,270	1,952	2,826	3,274	4,135	4,996	5,857	8,908
Total Training Hours	25,009	31,638	46,546	74,800	99,620	124,440	149,261	198,666
Room Utilisation^	46%	48%	65%	105%	128%	151%	173%	195%

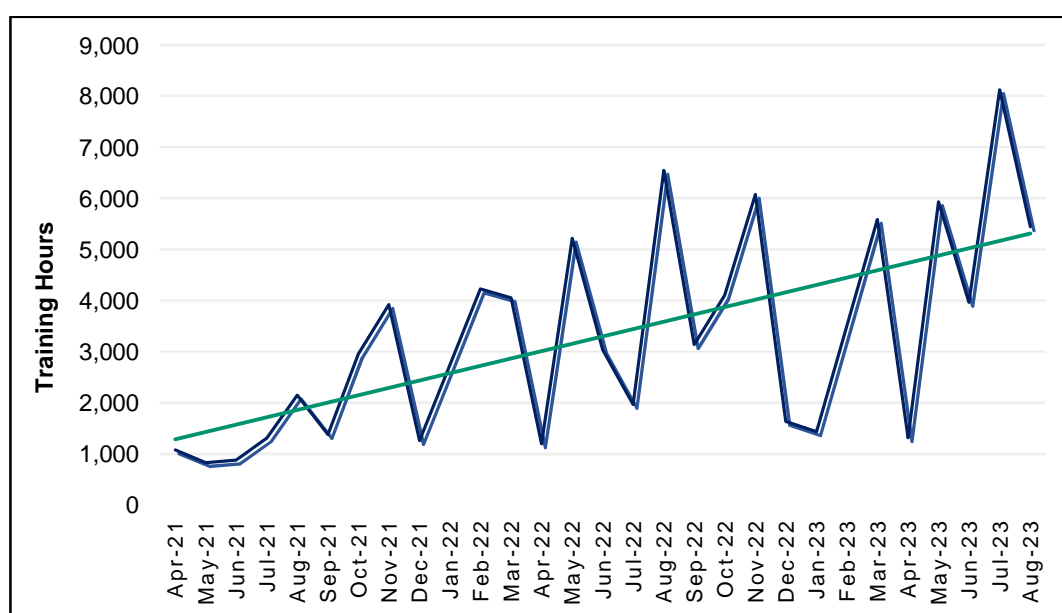
* 2-months extrapolated with seasonal adjustment (reduction for Dec/Jan).

^ Utilisation is a measure of actual Training Session Days against the maximum available daily sessions for 7 training rooms which is 1,743 (assumed 249 business days per year). It does not consider participation.

Between 2017 and 2023/24, the number of Training sessions run yearly is increasing at 41% p.a., while the number of participants is increasing at 26% p.a. year-on-year. While internal documentation indicates these increases will widen further, the forecast above simply continues this historical trend up to 2026/27 and then adjusts to a more conservative growth of 7% year on year, based on the continuing apprentice intake commitment up to 2029/30 and the on-going 'refresh' training all apprentices must complete once full-time employees.

The preferred option includes building expansion opportunities to mitigate this future risk in case the conservative estimates are found to underestimate the growth curve (see option A for more detail).

Figure 2: Growth in training hours since April 2021



Importantly, utilisation of the 7 training rooms is expected to reach 100% utilisation during the 2023/24 financial year. Before the end of the 2023/24 financial year, it is expected that external training participants will be capped, to prioritise internal staff training. This is represented in the base case by limiting the training revenue gained beyond 2023/24. Growth in internal training provision will still need to be addressed in a reactive manner, until the planned redevelopment is complete.

2.3.3 Workplace Health and Safety

Thousands of employees, contractors and personnel from the Department of Youth Justice, Employment, Small Business and Training (DESBT) access and utilise Hartley St, Townsville each year. The main building is an exposed cellular brick wall structure, which includes external brick facades and internal brick wall training room facilities. A typical issue with this type of construction, when aged, is that thin brick cracks and mortar joints deteriorate. In the event of heavy rainfall, the classroom walls absorb water through the thin cracks and mould residues subsequently emerge. Despite frequent mould removal works by professionals (most recent July 2023), training participants report feeling unwell when spending time in the classrooms over the day.

With the site located in an environment that records an average humidity level of 70% throughout the year, the Townsville site provides an ideal environment for bacteria and viruses to thrive.

2.3.4 Fit-for-purpose

The classrooms are functionally ineffective for modern training purposes due to their inflexible configuration, size and layout. The 1984 construction is based on relatively small, fixed rooms with seating capacity on a square meterage basis functional for 8-10 participants, well below the optimal capacity for growing class sizes. This is intended to be addressed in the proposed investment by raising the standard class size to 18 participants, and provisioning classroom which are back-to-back with operable acoustic walls, enabling two 18 participant rooms, to become a single 42+ classroom. This will put downward pressure on the utilisation of rooms, as fewer courses will be needed to train the same number of participants for a given course.

2.4 Customer importance

The Townsville Training Centre is our largest regional training facility across the portfolio. It trains approximately 2,826 (in 2022/23) staff and contractors each year to safely and effectively build, maintain and operate our diverse electricity network. Without this site and its functions, our staff will not be able to maintain their work licenses or compliance with current regulations. This will have a serious and wide-ranging impact on our ability to service our entire customer base state-wide.

2.5 Compliance

Legislation, Regulation or Code	Obligations	Relevance to Investment
Standard for Registered Training Organisations (RTOs) 2015	The Standard for Registered Training Organisations (RTO) form part of the Vocational Education and Training (VET) quality framework and ensures the integrity of nationally recognised qualifications. It sets out the requirements that an organisation must meet in order to qualify as an RTO.	<p>The sections of the standard relevant to this investment include:</p> <ul style="list-style-type: none"> Adequate facilities (Standard 1.3 b). The RTO must have, for all of its scope of registration and consistent with its training and assessment strategies, sufficient facilities, whether physical or virtual, and equipment to accommodate and support the number of learners undertaking the training and assessment. As a registered RTO, Ergon Energy has an obligation to respond to the individual needs of training participants whose age, gender, cultural or ethnic background, disability, sexuality, language skills, literacy or numeracy level or location may present a barrier to access, participation and the achievement of suitable outcomes.
Queensland Work Health and Safety Act 2011 and	We have a duty of care, ensuring so far as is reasonably practicable, the health and safety of our staff and other parties. This includes the suitable provision and	The proposed Townsville Training Facility redevelopment must ensure that staff, service providers and visitors are not

Legislation, Regulation or Code	Obligations	Relevance to Investment
Work Health and Safety Regulation 2011	maintenance of work environments, premises, plant and structures, such that workers are not exposed to risks to health and safety.	exposed to health and safety risks so far as is reasonably practicable.
The Disability Discrimination Act 1992. Disability (Access to Premises – Buildings) Standards 2010. Design for Access and Mobility AS1428.1-2009 and relevant supplements.	<p>We must comply with the act and the corresponding standard, to ensure that dignified, equitable, cost-effective and reasonably achievable access to buildings, facilities and services within buildings, is provided for people with a disability. This includes obligations related to:</p> <ul style="list-style-type: none"> • signage • lighting • emergency management systems • access ways, doorways, passing areas and manoeuvring areas • stairways, handrails and grab rails • toilets and sanitary facilities • lifts and controls • tactile ground surface indicators • car parking 	<p>Particular considerations for the Townsville Training Facility redevelopment include:</p> <ul style="list-style-type: none"> • Maintaining suitable office accessibility and facilities for people with a disability, while also increasing effectiveness of the site as a training facility.

3.1 Options overview

- Counterfactual Option – BAU Reactive Response to asset and demand issues
- Option A – Redevelop current site (preferred)
- Option B – Relocate to a Greenfield Site

The below assumptions are considered to be calculated at the point of investment, unless otherwise specified and are applied to all options assessed.

Table 3: Business Case Assumptions

Assumption	Value	Source
Standard Rates		
NPV Escalation Rate	2.75%	Based on EQL Corporate Assumptions
NPV WACC Rate	6.35%	Based on EQL Corporate Assumptions
Useful Life – Greenfield land	80	EQL standard useful life schedule
Useful Life – New Building	40	EQL standard useful life schedule & ATO definition ⁶
Useful Life – Recurring Capex	10	EQL standard useful life schedule (average)
Construction Cost Escalators		
Design Fees	8.0%	Calculated on top of pure construction costs (handbook or QS supplied). Includes all other cost categories common to EQL projects based on historical project sampling using supplied budgets. Not all cost categories are applied to every proposed investment or option considered. Sample reporting provided.
Authority Fees	2.5%	
Supplemental Suppliers/Trades	6.5%	
Material Allowances	4.5%	
Internal Management	3.5%	
Digital Office (IT)	6.0%	
Site Assumptions		
Administrative Employees	8	3 staff based at 420 Flinders St Townsville
Trainers	14	Growth from 11 in 2023
Training participants	4,996	Growth from 3,274 in 2023
Training participant hours	124,440	Growth from 74,800 in 2023
Portion of Ergon external training delivered by Hartley St, Townsville	32.0%	Based on location of participants
Hartley St Insurance value		

⁶ As per ATO Taxation ruling TR2020/3 – <https://www.ato.gov.au/law/view/document?LocID=%22TXR%2FTR20203%2FNAT%2FATO%2FatTABLE-P%22&PiT=99991231235958#TABLE-P>

Option	Nominated site	Size	Employees	Building Area
Counterfactual	4-28 Hartley St Townsville	15,940m ²	22	777m ²
Option A	4-28 Hartley St Townsville	15,940m ²	22	1,715m ²
Option B	New greenfield site	15,940m ²	22	1,715m ²

3.2 Counterfactual analysis (Base case)

3.2.1 Summary

The Base Case assumes the Townsville training facilities would be maintained in their current configuration and layout, with end-of-life assets addressed reactively in line with the assessed lifecycle condition and training demand meet with the continued use of demountables (similar to block 2). External training capacity will be capped at 2023/24 levels, due to room utilisation constraints, and demountables will be implemented reactively as training sessions

In September 2019, a physical assessment of the condition of each structure was conducted, identifying major structural defects amongst others. The assessment was performed by Ranbury Management Group.

This Base Case, therefore, is not recommended. However, for the purposes of the business case analysis, the Base Case costs represent the minimal defect remediation and lifecycle replacement works identified by Ranbury, for the continued operation of the facility through the 2025-30 regulatory control period. The values presented by the BCR are not expected to address every issue or sustain the long-term life of the site but will see it through to 2030 where a further assessment will be made. Recurring capex and opex are maintained close to the average trend for this reason.

The counterfactual in this business cases includes a leasing option to manage current & future growth constraints. This is due to Energy Queensland having established a long-standing practise of leasing or licensing land, buildings or demountables (depending on the situation) at short notice where immediate demands are unable to be met through the existing infrastructure provision. The long-lead times required to establish new infrastructure outcomes is the main driver for this reactive response, coupled with the strategic unknowns of whether peaks in demand/growth will be sustained. As such, the counterfactual leverages this demonstrated BAU practise to assess its cost-effectiveness against other options which target longer-term strategic investments. Some examples where leasing options have been leveraged to manage demand prior to projects being implemented or awaiting future investment, include:

Table 4: Other Leased Locations

Site being supported	Leased Location	Purpose	Dates
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Site being supported	Leased Location	Purpose	Dates
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3.2.2 Assumptions

Specific assumptions applied to the base case are as follows:

- Defect rectification and asset replacement costs are based on the BCR escalated to \$2023. Timed to be implemented in 2023/24 and 2029/30 respectively. Asset replacement would likely have to be implemented sooner, however the latest financial year is used.
- Recurring Capex – based on 4-year historical trend (excluding the costs for the asbestos remediation project), project until the asset replacement in 2029/30.
 - Post-investment this is deferred 5 years to align with refurbished buildings housing assets with a minimum useful life of 5 years.
- Annual Maintenance – based on 3-year historical trend with reduction in corrective maintenance costs based on the assets addressed in the asset replacement.
- Annual Non-Maintenance (Property costs) – based on 3-year historical trend, no step change to rates or land tax expected.
- Three Training staff members based at Flinders Street, Townsville (due to not enough space & workstations at Hartley St) will remain there for the foreseeable future. Growth in staff will leverage 420 Flinders St. These costs are not mapped in the NPV due to their insignificance against the total investment cost.
- Leased 72sqm demountable (consistent with block 2) is [REDACTED] per annum. Additional demountables will be leased to accommodate internal training requirements in line with the existing room utilisation reaching 100%, forecast at 2025/26 and again in 2028/29.
- External training will be capped at 2023/24 levels to prioritise growth in internal requirements.

3.2.3 Risks

Compliance

Townsville Training Facility does not have adequate facilities to cater to training participants with disabilities and therefore is currently non-compliant with external standards as an RTO. This may have future financial consequences not quantified at this point in time.

As a registered RTO, Ergon Energy has an obligation to respond to the individual needs of training participants whose age, gender, cultural or ethnic background, disability, sexuality, language skills, literacy or numeracy level or location may present a barrier to access, participation and the achievement of training outcomes.

Physical Assets

While the building condition is having a minimal impact on the disruption of training sessions currently, the continued deterioration of structural elements in block 1 will in the near future trigger a critical failure resulting in partial collapse of the building skeleton. A mature and responsible organisation seeks to address these issues proactively rather than reactively and risk injury and illness to staff and the community.

Training Impacts

The impact on delivering training courses while defect remediation and asset replacement work will be substantial. While Option A & B seek to implement their respective solutions away from existing operations before relocating, the base case seeks to implement repairs to the existing buildings. The direct impact on training from rooms being offline for repairs and indirect impact from noise transfer, dust and other construction related risks will be enough that the site may have to be taken offline for the period of work.

3.3 Option A: Redevelop Current Site (Preferred)

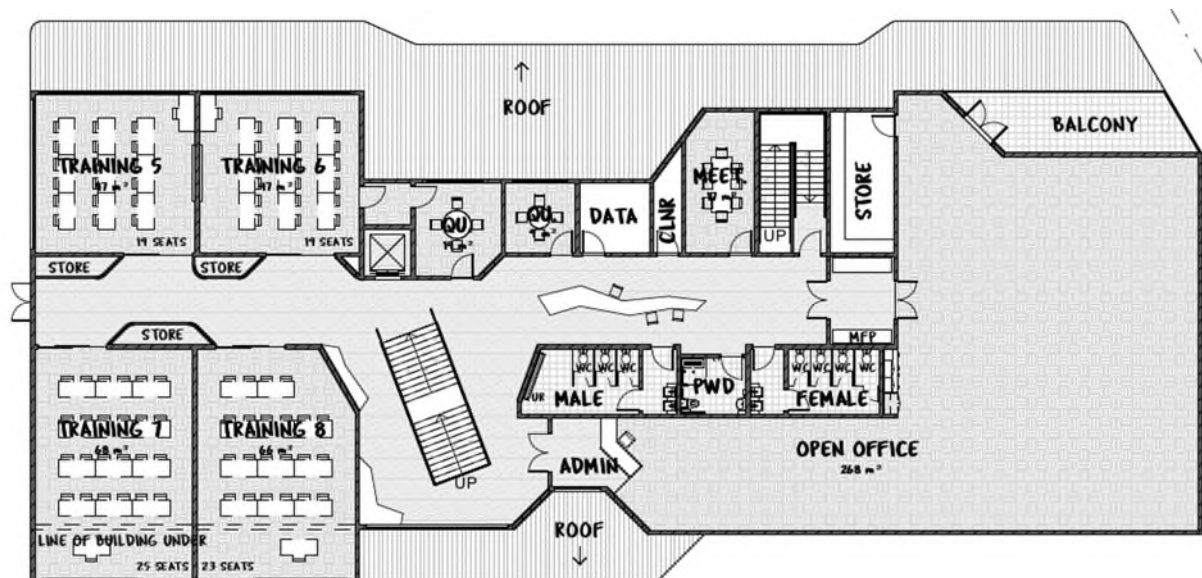
3.3.1 Summary

Option A plans to implement a site redevelopment which involves the replacement of blocks 1, 2, 3 & 4 with a new facility that meets Ergon Energy's current and future requirements, in accordance with modern building standards and codes.

It is proposed that the new facility will be built on the east side of the site, allowing most of the current buildings to be utilised until such time the new office & training facility is constructed. Block 2 will be moved temporarily to allow this to occur and enable it to continue being utilised. The new building will be a 2-storey facility with a secure open office, meeting rooms, storage rooms, compliant amenities, and 10 training rooms in total: 5 x 18-participant rooms, 2 x 24 participant rooms and 2 x workshop training rooms for the more technical courses.

The new building is modest in scale at 1,715sqm across its total floor plan, and fulfills the growing demands of the training department. The existing buildings will then be demolished and the rented demountable returned to the lessor. The existing training yard and block 5 which is located inside the yard still meet the business requirements and are not in the scope of this investment proposal. Practical training in the yard facility will continue its operation during construction.

Figure 3: Possible first floor arrangement - subject to change. Ground floor not shown.



3.3.2 Assumptions

Specific assumptions applied to this option are as follows:

- Site Redevelopment – Based on Rawlinson’s Handbook pricing for a new 2-storey office building with standard finishes, medium quality fit-out and furniture with regional indices reflective of Townsville based pricing and standard internal escalation rates.
- Recurring Capex – based on 4-year historical trend (excluding the costs for the asbestos remediation and growth-related historical projects), apportioned by sqm.
 - Post-investment this is deferred 10 years to align with a brand new site housing assets with a minimum useful life of 10 years.
- Annual Maintenance – based on 3-year historical trend, apportioned by new floor plan (increase) with reduction of all non-recurring corrective maintenance items from trend.
- Annual Non-Maintenance (Property costs) – based on 3-year historical trend, reduced post-redevelopment by the consumption portion of electricity costs (due to PV solar array installation) and reduced by block 2 demountable lease.
- Three Training staff members based at Flinders Street, Townsville will be relocated to Hartley Street post-redevelopment. Negligible avoided cost in future by freeing up 3 workstations at that site.
- Leased 72sqm demountable will be returned to lessor post-redevelopment.
- External training will be capped at 2023/24 levels and then reinstated post-redevelopment from 2027/28 in line with 2024/25 external training forecast forward, capping at 2030/31.
- The new building will reflect more conservative growth forecasts than internal advice provides. However, it will be established to be expandable over time, into the space currently occupied by the existing building. This will mitigate this risk and reduce future costs to our customers.

3.3.3 Benefits

The following benefits will be realised if Option A is selected over the counterfactual.

Category	Benefits Identified	Type
Operational Costs	Reduction in operational costs on a square meter basis because of a new modern building and reduced floor area.	Financial
Lease Cost	Avoided lease cost related to the demountable building.	Financial
Asset Lifecycle Costs	Recurring capex will reduce based on a modern equivalent construction and consolidation of buildings into one structure.	Financial
Organisational Efficiency	<p>Fit for Purpose</p> <p>The redevelopment of the site will transform the training centre into a modern, fit-for-purpose facility with the capability of offering training and development in a safe and efficient site.</p> <p>Increased Operational Efficiency</p> <p>In addition to provisioning additional training rooms to meet the growing demands on Hartley Street Townsville, the rooms will hold additional participants. This reduces the number of total training session needed (for the same number of participants) thereby increasing the overall efficiency of training delivery.</p>	Financial and Non-Financial
Compliance	<p>All facilities will provide disability access and PWD amenities, in accordance with modern building standard and facility requirements of an RTO.</p> <p>Improved building sustainability as a result of alignment with the latest National Construction Code (NCC). This includes compliance with compulsory cyclone standards, such as mandatory design standards for wind loads as well as stormwater infrastructure requirements.</p>	Non-Financial

3.3.4 Risks

Training Impacts

One of the risks with proceeding with this option is the indirect impact on delivering training courses while constructing work is occurring. Noise transfer, increase in dust and some disruption is expected.

Construction Risk

The traditional risks associated with construction will exist including contractor availability, contractual disputes, price variations and construction delays. These issues are generally mitigated through a solid tender process and robust project management.

Risks proceeding with this option are expected to be minimised as the new facility can be built while the existing one operates, and then a direct transfer of functions to the new building.

3.4 Option B: Relocate to a Greenfield Site

3.4.1 Summary

Option B plans to implement a new training facility at a greenfield site in Townsville, with similar parameters to option A, before selling the current site. For the benefit of comparison, the new site is assumed to be equal in size (15,950m²) and the new building to be the same design as option A. A new training yard and workshop (block 5) will need to be established on the site similar to Hartley Street.

The existing site will continue to operate while a new site is acquired, prepared and the infrastructure built. Post-development the existing site will undergo a 'make good' process before selling to the market.

3.4.2 Assumptions

Specific assumptions applied to this option are as follows:

- Greenfield acquisition – Based on a market scan of available Townsville properties to acquire sqm value. It is assumed a suitable parcel of land will be available, although some compromise with size and arrangement may be required. Preparation costs based on Rawlinsons handbook rates to clear vegetation and ready soil for construction. Timed to occur in 2024/25 to enable consistent development timings.
- Site Redevelopment – Based on Rawlinson's Handbook pricing for a new 2-storey office building with standard finishes, medium quality fit-out and furniture with regional indices reflective of Townsville based pricing and standard internal escalation rates.
- Recurring Capex – based on 4-year historical trend (excluding the costs for the asbestos remediation and growth-related historical projects), apportioned by sqm.
 - Post-investment this is deferred 10 years to align with a brand-new site housing assets with a minimum useful life of 10 years.
- Annual Maintenance – based on 3-year historical trend, apportioned by new floor plan (increase) with reduction of all non-recurring corrective maintenance items from trend.
- Annual Non-Maintenance (Property costs) – based on 3-year historical trend, reduced post-redevelopment by the consumption portion of electricity costs (due to PV solar array installation) and reduced by block 2 demountable lease.
- Three Training staff members based at Flinders Street, Townsville will be relocated to new site post-development. Negligible avoided cost in future by freeing up 3 workstations at that site.
- Leased 72sqm demountable will be returned to lessor post-redevelopment.
- External training will be capped at 2023/24 levels and then reinstated post-redevelopment from 2027/28 in line with 2024/25 external training forecast forward, capping at 2030/31.
- Make good based on similar historical projects for office buildings at \$165/sqm.
- Relocation costs based on historical cost to relocate two staff between two nearby sites, plus the cost to hire a semi-trailer and small crane hire, plus 2 days labour of 4 Electrical Trade FTEs (8 hours a day at \$71 / hour) to disassemble, relocate and reassemble training equipment.
- Sale of Hartley Street, Townsville based on 2022/23 insurable value of [REDACTED]

3.4.3 Benefits

The following benefits will be realised if Option B is selected over the counterfactual.

Category	Benefits Identified	Type
Operational Costs	Reduction in operational costs on a square meter basis because of a new modern building and reduced floor area.	Financial
Lease Cost	Avoided lease cost related to the demountable building.	Financial
Asset Lifecycle Costs	Recurring capex will reduce based on a modern equivalent construction and consolidation of buildings into one structure.	Financial
Organisational Efficiency	<p>Fit for Purpose</p> <p>The new site development will transform the training centre into a modern, fit-for-purpose facility with the capability of offering training and development in a safe and efficient site.</p> <p>Increased Operational Efficiency</p> <p>In addition to provisioning additional training rooms to meet the growing demands on the current Hartley Street Townsville, the rooms will hold additional participants. This reduces the number of total training session needed (for the same number of participants) thereby increasing the overall efficiency of training delivery.</p>	Financial and Non-Financial
Compliance	<p>All facilities will provide disability access and PWD amenities, in accordance with modern building standard and facility requirements of an RTO.</p> <p>Improved building sustainability as a result of alignment with the latest National Construction Code (NCC). This includes compliance with compulsory cyclone standards, such as mandatory design standards for wind loads as well as stormwater infrastructure requirements.</p>	Non-Financial

3.4.4 Risks

Operational Efficiency Risk

Hartley Street, Townsville is currently within 500m of the Townsville major hub depot at Garbutt. Proximity to the major depot creates efficiencies in staff travelling between the sites and relocation of goods and services. It is very unlikely the new site will be positioned so efficiently to other sites in the portfolio.

Construction Risk

The traditional risks associated with construction will exist including contractor availability, contractual disputes, price variations and construction delays. These issues are generally mitigated through a solid tender process and robust project management.

3.5 Financial Summary

3.5.1 Expenditure summary 2025-30

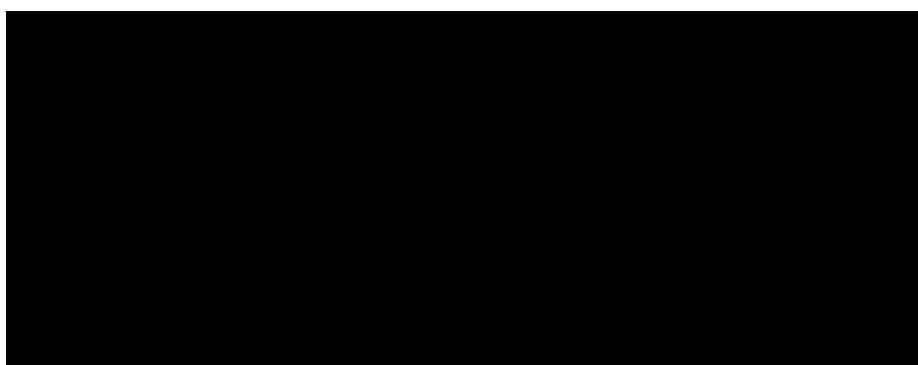
Table 5: Capital and operating expenditure summary 2025-30

Capital expenditure (\$m, direct 2022-23)	2025-26	2026-27	2027-28	2028-29	2029-30	Total 2025-30
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Operating expenditure (\$m, direct 2022-23)	2025-26	2026-27	2027-28	2028-29	2029-30	Total 2025-30
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3.5.2 NPV analysis

The NPV was conducted over a 20-year post-investment time horizon.

The sum result is displayed in the table and graph below, with Option A identified as the least cost to EQL over the 20-year period.



To simplify analysis, the NPV of the counterfactual option is assumed to be \$0 – with options presented in reference to this:

- A positive (+) figure represents an additional benefit (reduced cost) to the counterfactual option.
- A negative (-) figure represents an additional cost (reduced benefit) to the counterfactual option.

Counterfactual vs Options

Option A provides \$0.5m in benefits over the 20-year evaluation period.

Option	Counterfactual (Base)	Option A – Townsville Training Facility Redevelopment	Option B – Relocate to a Greenfield Site
Financial benefit	0	\$0.5m	-\$0.9m

A sensitivity analysis has been conducted, based on category assumptions affecting NPV outcomes of each option. The counterfactual option is assumed to be NPV \$0.

Table 7: Sensitivity analysis

Option	Discount rate (WACC) $\pm 25\%$		Capital Investment of Options	
	4.76%	7.94%	-25%	+25%
A – Townsville Training Facility Redevelopment	\$1.2m	\$0.04m	\$2.4m	-\$1.3m
B – Relocate to a Greenfield Site	\$0.2m	-\$1.7m	\$2.3m	-\$4.1m

After conducting a sensitivity analysis, Option A remains the preferred option.

4 RECOMMENDATION

Option A – Redevelop Current Site: is the recommended option based on the analysis conducted.

- NPV of \$0.5m compared to the counterfactual.
- It is aligned with Energy Queensland's property strategic principles (see Appendix 3 for additional details).
- Investment provides additional benefits, including:
 - The new building will be a modern, fit-for-purpose training facility with the appropriate long-term capacity to deliver training
 - A safe and compliant RTO site with PWD facilities.

Table 8: Options Analysis Scorecard

Criteria	Counterfactual – Reactive Response	Option A – Redevelopment Current Site	Option B – Relocate to a Greenfield Site
Net Present Value (compared to counterfactual)	\$0	\$0.5m	-\$0.9m
Investment cost (TCO)*	████	████	████
Benefits	<p>Maintains the status-quo, limited change management required.</p> <p>No changes to layout, staff continue to operate from a known location & setup.</p>	<p>Replaces heavily aged assets of low quality and standards compared to other training centres.</p> <p>Long term, sustainable solution to training needs in the Northern region.</p> <p>Provides a modern fit-for-purpose facility with sufficient capacity for growth in training needs.</p> <p>Safe and compliant with modern construction codes and alignment with RTO standards.</p> <p>Lower cost option than a greenfield approach.</p> <p>Redevelopment timeline shorter than a greenfield construction.</p> <p>Redeveloped site to provide benefits far longer than the counterfactual base case</p>	<p>Replaces heavily aged assets of low quality and standards compared to other training centres.</p> <p>Long term, sustainable solution to Training needs in the Northern region.</p> <p>Provides a modern fit-for-purpose facility with sufficient capacity for growth in training needs.</p> <p>Safe and compliant with modern construction codes and alignment with RTO standards.</p> <p>Brand new greenfield site offers up a blank canvas to configure the site to suit requirements.</p> <p>No impact during construction.</p>
Risks	<p>Buildings will continue to age beyond their useful life. Minor investments will prolong them, but a significant investment will be needed in future. In the interim, assets will decay and operate more inefficiently, possibly creating future safety hazards.</p>	<p>Training delivery impacts.</p> <p>Construction risks and delays.</p>	<p>Operational efficiency risks</p> <p>Construction risks and delays.</p>

**Investment cost is equal to the sum of Capex and Opex costs during the 2025-2030 Regulatory Period*

4.1 Deliverability

Internal resourcing is available to deliver this project within the timeframe required. External consultants and contracting partners are also assumed to be available to implement this project scope. See Property Plan 2025-30 for more details.

Preferred Option Milestones	Approximate Commencement
Design Townsville Training Centre	July 2025
Construct Townsville Training Centre	May 2026
Relocate to new building	March 2027
Demolish current building	April 2027

4.2 Change Impacts

Change impacts are expected to be relatively minimal. Proposed change management activities for Option A may include:

- Stakeholder engagement,
- Tender process management,
- Relocation of staff to the new site once construction is complete.

APPENDICES

Appendix 1: Alignment with the National Electricity Rules

Table 9: Recommended Option's Alignment with the National Electricity Rules

NER capital expenditure objectives	Rationale
A building block proposal must include the total forecast capital expenditure which the DNSP considers is required in order to achieve each of the following (the capital expenditure objectives):	
6.5.7 (a) (1) meet or manage the expected demand for standard control services over that period	<p>The preferred investment supports training required to enable the delivery of expected standard control services over the 2025-30 period.</p> <p>The preferred investment supports staff training in accordance with statutory training requirements and Ergon Energy's workforce needs.</p> <p>The training facilities will ensure that Ergon Energy's workforce is adequately skilled and competent to safely and efficiently operate and maintain the electricity network. This ensures the safe and reliable electricity supply for the community.</p>
6.5.7 (a) (2) comply with all applicable regulatory obligations or requirements associated with the provision of standard control services;	
6.5.7 (a) (3) to the extent that there is no applicable regulatory obligation or requirement in relation to: (i) the quality, reliability or security of supply of standard control services; or (ii) the reliability or security of the distribution system through the supply of standard control services, to the relevant extent: (iii) maintain the quality, reliability and security of supply of standard control services; and (iv) maintain the reliability and security of the distribution system through the supply of standard control services	
6.5.7 (a) (4) maintain the safety of the distribution system through the supply of standard control services.	
NER capital expenditure criteria	Rationale
The AER must be satisfied that the forecast capital expenditure reflects each of the following:	
6.5.7 (c) (1) (i) the efficient costs of achieving the capital expenditure objectives	<p>Costs for the investments have been forecast based on a combination of estimates from independent specialists (Ranbury Management Group, AECOM Quantity Surveyors), historical data and previous industry experience.</p> <p>Prior to investment, a Gate 3 business case will be prepared with further details to be assessed in accordance with the established investment governance processes.</p> <p>Ergon Energy undertakes competitive market procurement processes to ensure efficiency in capital expenditure.</p> <p>The preferred investment has been selected following a detailed assessment of options (including both financial and non-financial considerations). The investment selected is considered the most prudent option to address the identified need.</p>
6.5.7 (c) (1) (ii) the costs that a prudent operator would require to achieve the capital expenditure objectives	
6.5.7 (c) (1) (iii) a realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objectives	

Appendix 2: Reconciliation Table

Table 10: Reconciliation of business case to AER capex model/Reset RIN

Expenditure	DNSP	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30
Expenditure in business case (\$m, 2022-23)	Ergon	■	■	■	■	■	■
Allocation to DNSP (where applicable)							
DNSP capex (\$m, 2022-23)	Ergon	■	■	■	■	■	■
Allocation to SCS capex							
SCS capex (\$m, 2022-23)	Ergon	■	■	■	■	■	■
Add escalation adjustments							
Escalation from \$2022-23 (Dec 2022) to \$2024-25 (June 2025)	Ergon	■	■	■	■	■	■
Expenditure in AER capex model/ Reset RIN \$m, 2024-25	Ergon	■	■	■	■	■	■

Appendix 3: Alignment to EQL Property Strategy

This investment aligns to the following Strategic Principles as defined in the EQL Property Strategy.

Table 11: Alignment to Property Strategy

Strategic Principles	How this investment contributes	Impact
1. We are a critical enabler, delivering property and infrastructure related services to all of Energy Queensland in service of our communities	Townsville Training is a regulated service within the Ergon DNSP area of operations. Property is responsible for delivering this outcome to the business.	Medium
2. The Property portfolio prioritises the safety of our people, the compliance of our assets and the cost-effectiveness of our solutions	The Hartley St Townsville Redevelopment will reduce operating costs and embed the teams and their training courses into permanent, modern and compliant buildings. It enables the continued increase in external training revenue.	High
3. Portfolio growth is planned and justified while retaining flexibility, thereby reducing the long-term cost impact to our customers.	The Hartley St Townsville Redevelopment is planned to reduce the long-term cost impact on our customers. Flexibility is in-built to expand building in future if the demand targets deem it required.	Medium
4. Our infrastructure goals are consistent across the portfolio, but solutions are tailored to meet the unique context of each challenge	This solution has considered the various requirements, unique & common, to the Training function state-wide. The solution is tailored to leverage the existing value offered by Hartley St but enhance it to meet future requirements.	High

Appendix 4: Glossary

Term	Definition
ACS	Alternate Control Service
AER	Australian Energy Regulator
BCR	Building Condition Report
CEMT	Corporate Emergency Management Team
CPI	Consumer Price Index
DMS	Distribution Management System
DNSP	Distribution Network Service Provider
EQL	Energy Queensland Limited
HV	High Voltage
LCC	Lifecycle Costing
LUEZ	Loading and Unloading Zone
LV	Low Voltage
NetOps	Network Operations
NOC	Network Operations Centre
NPV	Net Present Value
QEJP	Queensland Energy and Jobs Plan
QS	Quantity Surveyor
RIN	Regulatory Information Notice
RTO	Registered Training Organisation
SCADA	Supervisory Control and Data Acquisition
SCS	Standard Control Service
SEQ	South East Queensland
SoCI	Security of Critical Infrastructure
WACC	Weighted Average Cost of Capital