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Business case 4: Oatley Depot Upgrade

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1 SUMMARY

Ausgrid is proposing to rebuild a replacement depot at Oatley, in the southern area of Sydney. The Oatley Depot is approaching 60 years old and is facing property end-of-life issues and accommodation constraints.

Four possible options were considered for the provision of suitable depot and office accommodation in the Sydney South area.

Following our assessment, the option to rebuild Oatley Depot at the existing site (Option 2) was found to be the most prudent and cost-effective option. It is the most viable out of all identified options as an alternative site for relocation (Option 3) has not been found and unlikely to be cost effective. Refurbishing the existing Depot (Option 4) will not mitigate the constraints at the site. Rebuilding at Oatley is more cost effective than refurbishing the depot (Option 4) over a 40-year period. Consolidating the buildings on the current depot site may result in surplus land. The proposed development requires a capital commitment of [REDACTED].

Any surplus land at the site may be sold with the proceeds netted from the Regulatory Asset Base. In the longer run, this will benefit customers by helping to reduce prices.

The key benefits of this are summarised in Table 1 below.

Table 1. Summary of benefits of preferred option

Benefits	Description
Support	Maintains proximity and capacity to support the Sydney South area. It is envisaged that the new development will improve business efficiency and staff morale.
Functionality	Replaces a depot that is at the end of its life expectancy (fully depreciated). Provides a fit for purpose facility with security of tenure.
Location	Addresses current and future growth demands of the Sydney South area. Located in close proximity to the major arterial road networks and public transport hubs in the area.
Consolidation	Consolidation of business unit activities through the implementation of revised depot typology. This may result in surplus land at the site.
Capital	Efficient capital recycling of the Regulated Asset Base non-network Property Portfolio. Surplus land may be sold and removed from the Regulatory Asset Base.
Cost effective	Most cost-effective option given that a suitable site has not been found and refurbishment option is more costly as it would require a rebuild in 10 years.

The cost of the Oatley Depot upgrade was developed in the masterplan. (This amount of capital expenditure represents the portion allocated to standard control services).

The project has been contracted to be built by external contractors and will undergo a market tender process to ensure the best value for money.

2 CONTEXT

Ausgrid's depot at 33-45 Judd Street, Oatley, services Sydney's southern region. The Oatley Depot was identified in the 2014/19 regulatory proposal for the commencement of a phased redevelopment of a replacement depot due to property end of life issues and accommodation constraints.

The site, located in the Georges River Council area, is zoned under the Kogarah Local Environmental Plan 2012 (LEP) as SP2 Infrastructure and is near residential and educational land uses.

The proposal to redevelop a replacement depot is designed to meet the regions field operations and logistic requirements as informed by the ongoing transformation program.

The evolution of the functional brief and master plan will continue to refine the requirements for the depot to enable the lodgment of a development application with the objective of having the depot operational by Q4 FY2023.

This project maintains a replacement field operations service depot facility in the region, with significant ongoing operating and capital expenditure programs, many of which operate 24 hours a day.

Figure 1. Aerial view of Oatley Depot



Source: Ausgrid

The facilities at the Oatley Depot include warehousing, an office component and associated stores.

The Sydney South area is serviced by regional support depots/corporate offices at Homebush and Oatley, with satellite depots at Menai and Potts Hill and a learning centre at Silverwater.

3 PROJECT NEED

3.1 Building quality

The Oatley Depot is approaching 60 years old and is facing property end-of-life issues and accommodation constraints. Further, parts of the accommodation do not meet Building Code of Australia requirements.

A recent Building Code of Australia audit has revealed significant non-compliance within Building 1 (the main administration building on the site). The key areas for improvement are non-compliances of travel distances and paths of travel, fire door, hydrants, firefighting equipment, fire compartment separation, emergency lighting, exit signage, balustrade/handrails to stairs and provisions for people with disabilities.

Regarding end of life failures, the building air conditioning, fire and electrical systems are in need of replacement.

In alignment with the Property Plan to rationalise staff accommodation, there is a need to provide additional space in order to remove the existing temporary demountable buildings.

3.2 Workforce

The workforce plan for the Oatley Depot comprises circa 70 office and 180 field/blend staff. The workforce plan accounts for employee exits and has been assessed against the capital and maintenance requirements of the area and reconfirmed by management.

The workforce numbers should be seen within the context that depots are designed to sustain a 50-year life and to cater for the business changes and climatic events (resulting in emergencies) occurring throughout that period.

3.3 Inventory and storage

The Oatley Depot would be an inventory hub for the Sydney South area serving Ausgrid's staff and contractors whose ratio and numbers will vary over time.

4 OPTIONS AND ASSESSMENT

4.1 Assessment process

In assessing the preferred option to address the issues with Oatley Depot, we identified a range of plausible options, developed assessment criteria relevant to the situation, rated each option by the criteria, undertook a more detailed cost assessment for the two most suitable options and selected the overall best option. This process is discussed in more detail below.

4.2 Identifying options to address need

The first step to address the issues with the Oatley Depot was to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the Sydney's southern region.

Four possible options were identified and each one is described in brief below:

- Option 1 – Do nothing. This involves no capital expenditure
- Option 2 – Rebuild Oatley at existing site. The cost of this is estimated to be [REDACTED] [REDACTED] (See the attachment for explanation of how costs are derived)¹.
- Option 3 – Replace Oatley at new site
- Option 4 – Refurbish Oatley. This would involve capital works that would address end-of-life issues. However, further capital works would be required in around 10 years to address all the issues at the site.

The next step was to undertake a qualitative assessment of each of the options against a list of operational objectives. The operational objectives are used to decide which of the options are feasible and should be further considered. Only feasible options are considered in a cost effectiveness calculation.

The primary operational objectives to address our needs for this project include:

- Maintains proximity and capacity to support the Sydney South area
- Replaces a depot that is at the end of its life expectancy (fully depreciated)
- Provide a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of revised depot typology
- Addresses current and future growth demands of the Sydney South area
- Located in close proximity to the major arterial road networks and public transport hubs in the area
- Efficient capital recycling of the Regulated Asset Base non-network Property Portfolio.

Each of the four identified options was assessed against operational criteria and given a score to determine the options that are feasible.

The qualitative assessment of the options was undertaken by subject matter experts in the property area. A review of the possible options based on the operational objectives is presented in Table 2 below.

Table 2. Assessment of options against operational criteria

Objective	Option 1 DO NOTHING	Option 2 REBUILD OATLEY AT EXISTING SITE	Option 3 REPLACE OATLEY AT NEW SITE	Option 4 REFURBISH OATLEY
Proximity to support the Sydney South area	5	5	1	5
Replacement of a depot that is at the end of its life expectancy	1	5	5	1
Provide a fit for purpose facility with security of tenure	1	5	5	5
Consolidation of business unit activities through the implementation of revised depot typology	1	5	5	1
Located to suit current and future growth demands of Sydney South area	5	5	1	5
Located in close proximity to major arterial road networks and public transport hubs in the area	5	5	1	5
Provide a cost effective capital solution	1	5	1	5
TOTAL	19/35	35/35	19/35	27/35

NOTE: Scale of 1 to 5, where 1 = does not meet objective and 5 = fully meets objective

Options 1 and 3 do not meet many of the operational objective. Option 2 fully meets the objectives and is ranked first, while Option 4 meets a number of the objectives and is ranked second.

4.3 Assessment of options

We have compared the Net Present Cost (NPC) of Option 2 and Option 4. These were the two highest ranked options. NPC is an appropriate assessment in cases where not all benefits can be quantified.

Our assessment the qualitative and quantitative assessment of each option is presented in Table 3 below.

Table 3. Assessment of options

Description	Assessment	Ranking
Option 1 Do nothing.	<p>This option provides for remaining at Oatley Depot and not carrying out any capital works.</p> <p>This option provides for the maintenance of the status quo. Any deferral/cancellation inherent in remaining at the existing Oatley Depot is impacted by the ongoing property end-of-life issues and accommodation constraints.</p> <p>Further, Building 1 does not satisfy the current Building Code of Australia requirements.</p>	Option 1 does not address the identified need and is not considered a viable option.

Description	Assessment	Ranking
Option 2 Rebuild Oatley at the existing site.	<p>This option provides for the rebuilding of the existing depot at the Oatley site.</p> <p>The preliminary cost of the rebuilds set out in the master plan is ████████ real FY19).</p>	Option 2 fully meets all the operational criteria and is the preferred option.
Option 3 Replace Oatley at a new site.	<p>This option provides for the replacement of the existing depot at a new (unknown) site.</p>	Option 3 is not viable as a suitable site for a new depot has not been found.

Description		Assessment	Ranking
Option 4 refurbish Oatley.	<p>This option provides for a refurbishment of the existing Depot.</p> <p>To overcome the property end of life deficiencies and Building Code of Australia requirements, this option would involve changes to travel distances and paths of travel, fire doors, hydrants, firefighting equipment, fire compartment separation, emergency lighting, exit signage, balustrade/handrails to stairs and provisions for people with disabilities.</p> <p>It would also require an upgrade/replacement in 10 years to address all issues.</p>	<p>This option would overcome the property end of life deficiencies and Building Code of Australia requirements.</p> <p>However, the scope of the work would not necessarily overcome the accommodation constraints nor enable the release of surplus lands.</p> <p>The NPC of this option is \$50 million making it less cost effective than Option 2.</p>	Option 4 is not preferred as it does not fully meet operational requirements and is not cost effective.

4.4 Summary of findings

Based on the operational review and options analysis, Option 2 rebuilding Oatley at the existing site, is the preferred option.

A summary of the benefits is presented in table 4 below.

Table 4. Summary of benefits of preferred option

Benefits	Description
Support	Maintains proximity and capacity to support the Sydney South area. It is envisaged that the new development will improve business efficiency and staff morale.
Functionality	Replaces a depot that is at the end of its life expectancy (fully depreciated). Provides a fit for purpose facility with security of tenure.
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Cost effective	Most cost effective option given that a suitable site has not been found and refurbishment option is more costly as it would require a rebuild in 10 years.

Rebuilding Oatley depot at the existing site (Option 2) is the most prudent and cost effective option. It is the most viable out of all identified option as an alternative site for relocation (Option 3) has not been found and unlikely to be cost effective and refurbishing existing Depot (Option 4) will not mitigate the constraints at the site. Option 2 is more cost effective than Option 4 over a 40-year period. Consolidating the buildings on the current depot site may result in surplus land.

It is likely to result in surplus land at the site which may be sold with the proceeds removed from the asset base. In the longer run, this will benefit customers by helping to reduce prices.

5 DELIVERY MODEL

The evolution of the functional brief and master plan would continue to refine the requirements for the depot to enable the lodgement of a development application with the objective of having the depot operational by Q4 2019/20.

The project will be contracted to be built by external contractors (and will undergo a market tender process to ensure the best value for money).

The project will be delivered via a managing contractor who would engage the required services to deliver the project.

The managing contractor model has been reviewed as part of the current business transformation and supported as an efficient, commercial contracting model.

The model provides for early contractor involvement by the managing contractor who is responsible for the management of the design and construction process via a series of milestone hold-points. Subject to satisfactory milestone performance review, the managing contractor receives a management fee to subcontract their design and construction obligations on a fully transparent, competitively tendered, direct cost basis (verified by an independent quantity surveyor) to a guaranteed maximum price contract.

6 METHOD TO FORECAST COSTS

The preliminary cost of rebuilding the Oatley Depot at the existing site is set out in the master plan is [REDACTED] (real FY19). The cost of this option has been developed as follows:

- Fees – Based on a nominal percentage of the construction costs declared to Council at the time of development application submission
- Professionals – An amount allocated by Ausgrid in the managing contractor tender documents to cover the design aspects of the project. The amount is based on master planner estimates
- Contractors – An amount allocated by Ausgrid in the managing contractor tender documents to cover the construction aspects of the project. The amount is based on master planner estimates and assumes the value engineering component of the proposed delivery model
- FFE - An amount allocated by Ausgrid in the managing contractor tender documents to cover the fittings, fixtures and equipment aspects of the project. The amount is based on master planner estimates
- Ausgrid Services – An amount which includes internal services provided by Ausgrid divisions and in particular by Finance, Field Services, and Business Improvement
- Contingency – An amount allocated proportionally based on industry standards and known risks.

The evolution of the functional brief and master plan will continue to refine the requirements for the depot to enable the lodgement of a development application.