

5.20

Non-network property plan 2019-24

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EXECUTIVE SUMMARY

We are continuing a program of consolidating and modernising our non-network property portfolio. The priority is to ensure we provide safe and efficient workplaces for our staff and provide timely and reliable services to meet the needs of our customers.

This Property Strategy Plan sets out a five-year view of the needs for non-network property, aligning to the 2019-24 regulatory period. The primary drivers of investment in non-network property as outlined in this Strategy Plan are the consolidation and modernisation of our portfolio of property assets.

The Strategy Plan has been prepared in light of the objectives and direction of Ausgrid's new owners and of our transformation program. Our priority is to be more strategic in investing in property and to co-locate depot and office facilities where efficient and feasible. The benefits of this strategy include more efficient co-ordination between network and corporate functions, lower overheads with fixed costs spread over more staff, better use of space, and greater information sharing and innovation by bringing together different types of staff.

On the back of Ausgrid's transformation program and a change in business ownership, we have identified the need for eight projects involving the replacement, upgrading or refurbishment of property during the five-year forecast period of this plan.

The underlying change in our business model has altered the need for investment and allowed for consolidation opportunities across our portfolio through new developments.

In addition, there remains an ongoing need to replace deteriorating non-network property assets, including those that no longer comply with statutory requirements. This need stems from the large number of older depots in our portfolio, many of which were constructed in the 1960s and 1970s, which now require renewal to meet modern day compliance standards.

This Strategy Plan reports on works completed to date and provides a framework for the works proposed to ensure that non-network property supports Ausgrid's evolving business direction.

We have proposed total non-network property capex of \$208 million (real FY19) in the 2019-24 regulatory period. The majority of the capex is related to renewing aged depots and offices. We also anticipate that some projects may result in surplus land that may be sold. In total, we expect to dispose of around [REDACTED] worth of property in the 2019-24 period.

Our capital forecast for the 2019-24 period is summarised in the following table.

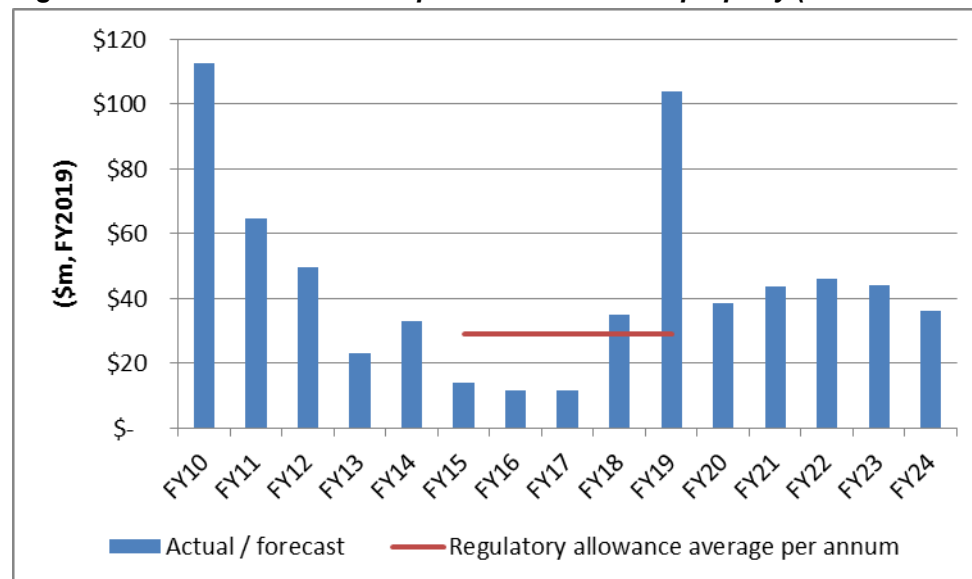
Table 1. Capital forecast for the 2019-24 period (\$ million, real FY19)

Category	FY20	FY21	FY22	FY23	FY24	Total
Office Accommodation	17.4	15.2	1.5	1.5	1.5	37.1
Depots	24.3	28.9	43.5	41.5	32.7	170.9
Specialist sites	0	0	0	0	0	0
Total non-network capital (real FY19)	41.7	44.1	45.0	43.0	34.2	208.0

The proposed capex of \$208 million is \$33 million (19%) higher than our actual/forecast of \$176 million (Real FY19) in the 2014-19 period.

Our actual capex for the 2014-19 period is more than \$31 million (22%) higher than the AER allowance made in the 2015-19 period. The trend in non-property capex is shown in Figure 1 below.

Figure 1. Actual and forecast capex for non-network property (2009/10 – 2023/24)



During the 2014-19 regulatory period we responded to changing business requirements related to a reduction in network capital requirements that resulted in the deferral of some non-network property investments until later in the period. This is shown in the above figure with an increase in capex expected in 2017/18 and 2018/19.

Further supporting material can be found in the business cases including:

- Homebush Depot Upgrade: Business Case 1 (ID1143)
- Hornsby Depot Replacement: Business Case 2 (ID1144)
- General Depot Refurbishment Program: Business Case 3 (ID1145)
- Oatley Depot Replacement: Business Case 4 (ID1146)
- Wallsend Depot Upgrade: Business Case 5 (ID1147)
- Wallsend Office Replacement (carry over): Business Case 6 (ID1148)
- Zetland Depot Replacement (Alexandria) (carry over): Business Case 7 (ID1149)
- Future Workplace Program: Business Case 8 (ID1150).

1 BACKGROUND

1.1 Context

Non-network property includes offices and depots located throughout Ausgrid's distribution area, enabling Ausgrid to house staff and is critical to supporting our network and corporate functions.

The Property Strategy Plan is designed to support the network capital program and upgrade existing non-network property to provide consistent and equitable standards of accommodation across the portfolio while improving the utilisation of facilities. The strategy is reviewed and updated on an annual basis to ensure it remains aligned with Ausgrid's Corporate Plan and comprises the six regional plans: Northern, Central, Sydney North, Sydney CBD, Sydney South and Sydney West.

This Strategy Plan aims to report on works completed to date and provide a framework for the works proposed to ensure that non-network property supports the organisation's evolving business direction.

1.2 Why we require non-network property

The purpose of non-network property is to provide 'fit for purpose' accommodation facilities to our corporate and field staff. In turn, this provides the business with critical support to perform our network and corporate functions, and thereby fulfil our responsibilities as a Distribution Network Service Provider (DNSP). Non-network property does not include network property assets which directly house our electricity network assets. Our property portfolio includes an array of building assets that we either own or lease.

The core types of non-network building assets we own or lease are:

- Office accommodation - which is located across our franchise area and is required to house staff involved in direct planning of the network and project management of network investments. In addition, office accommodation enables our staff to perform our corporate functions in our role as a DNSP such as finance, reporting, and governance
- Depots - which are located across our franchise area and enable our staff to construct new network assets, undertake preventative and corrective maintenance on network assets, and respond to reliability incidents. For this reason, depots are essential for maintaining the reliability and safety of the electrical network in accordance with our compliance obligations
- Specialist sites - such as warehouse and pole/transformer yards that enable us to house network equipment, test facilities to certify/verify high voltage equipment, and learning facilities to train and maintain the skills of our staff.

1.3 Make up of non-network property

Ausgrid's non-network property portfolio is located throughout the Ausgrid franchise area which covers 22,275 square kilometres across Sydney, Central Coast, Newcastle and the Hunter region. Our non-network properties are illustrated in Figure 1 below.

The non-network properties include:

- 19 primary depots that generally house our field staff involved in constructing or maintaining network assets
- Four primary offices and five secondary offices that generally accommodate our office staff

- Six specialist sites including a central store, three primary pole stores, a learning/technology centre and a test/certification facility.

Our facilities are located strategically across our franchise area in a manner that enables us to fulfil our network and corporate objectives.

Figure 2. `Ausgrid non-network properties and franchise areas



1.4 Capital expenditure drivers

We invest in non-network property to replace, renew or create assets. When making decisions to replace or renew assets we are guided by regulatory obligations, guidelines and policies including:

- Regulatory Compliance – National Construction Code, Australian Standards, Building Code of Australia standards, Workplace Health and Safety Act, Environmental Planning Act, Heritage Act
- NSW Government Workplace Guidelines
- Ausgrid Policies – such as the “Be Safe” programs
- Ausgrid Guidelines – such as Office Accommodation and Depot Typology.

We may also invest in assets as a result of an underlying change in our business environment or as a result of changes in our external circumstances. For example, changes in:

- Staff numbers (business environment) - We may invest in new facilities to house staff in response to changes in the capital/opex programs or we may consider opportunities to efficiently consolidate existing facilities

- Council zoning (external circumstances) - We may consider relocating our facilities in response to zoning changes associated with Local Environmental Plans or Development Control Plans or to avoid encroaching residential development.

Ausgrid seeks the most efficient solution to address multiple needs. For example, we may retire (rather than replace) an asset if we consider that optimising space utilisation can result in staff being accommodated within other existing premises. We also consider opex-capex substitution possibilities in our decision making.

The property program drives benefits for Ausgrid through savings on the operation and maintenance costs of buildings. The majority of these savings are from efficiencies gained through the implementation of modern energy efficient systems above those currently installed, which although regularly upgraded and maintained are of a significant age and accordingly less efficient. All new elements within the building will be under warranty for periods of between 12 months for minor items such as fittings and furniture and up to 10 years for glazed curtain walls and similar furnishings.

There are also savings in time and other efficiencies that the building and property program achieves through the consolidation of properties. There are additional unquantifiable savings in respect of staff wellbeing and a more efficient use of space leading to productivity increases.

Where there is surplus property as a result of the replacement of land, Ausgrid undertakes an assessment of whether to sell or retain the property.

1.5 Capital expenditure drivers

We incur opex to maintain the standard of non-network properties or as an alternative to owning the premises (i.e. leasing). Maintenance costs include planned or routine maintenance¹, condition based repairs and operating costs such as rent, electricity, water and statutory taxes and rates.

There is an inherent substitution possibility between capex and opex. Our planning processes are directed at achieving the most efficient cost, with regard to long term factors such as security of tenure and asset life cycles.

This document is focused on our proposed non-network capital program, but we note that the program will have an impact on the calculation of forecast opex in the 2019-24 period.

For example:

- The development of new assets may result in incremental opex, as a result of new maintenance and operating costs
- The renewal or refurbishment of a building may offset some of our existing maintenance opex
- A decision to own rather than lease a building, will lead to substitution of costs between opex and capex.

Each investment decision balances the opex and capex requirements to achieve the least cost option.

1.6 Our planning principles

We have developed planning principles that provide an overarching framework for investment decisions related to the non-network property portfolio. The principles are aimed

¹ For instance, cleaning and grounds maintenance, fire systems and emergency management, air conditioning, electrical and plumbing, and pest and graffiti control.

at providing safe facilities to support the necessary business functions at the most efficient cost:

- Right size the property portfolio to match the workforce end state
- Consolidate staff from leased to owned strategic properties by region
- Co-locate Ausgrid network and non-network property functions where feasible
- Ensure that the primary function of depots is to accommodate the workforce, fleet and logistics resources required to maintain the assets of the region served
- Develop depots that are designed to suit internal (in-sourced), blended and external (out-sourced) business delivery models
- Ensure depots are located within employment zones and/or designed to co-exist with residential development
- Ensure that the strategic value of non-network property is regularly assessed against the highest and best use for the site and pursue optimisation strategies where appropriate.

1.7 Our business drivers

In justifying our expenditure, our business drivers of continual improvement, efficiency and productivity aim at delivering optimised services at lesser costs to align with our objective of being a commercially focused service provider.

To support Ausgrid's vision to be a leading energy solutions provider recognised both locally and globally, we have:

- Reset our levels of service delivery to that of a commercial business
- Consolidated, reduced standardised and automated reporting to focus on our business needs
- Reviewed, simplified and enhanced procedures, policies and practices to focus on our business needs
- Broadened roles to adapt to new technology and respond to growing customer expectations for greater transparency and engagement.

2 CAPITAL EXPENDITURE DURING 2014-2019

2.1 Introduction

Over the 2014-19 period, Ausgrid made inroads into renewing aged non-network facilities, and constructing new facilities to accommodate our staff.

In the sections below, we provide more detail on the 2014-19 investment program, and the reasons for changes during the period.

2.2 Outcomes

The 2014-19 period continued the renewal journey commenced in the 2009-14 period with the renewal of aged facilities. The renewal process did meet with statutory planning constraints, latent land conditions and compulsory acquisitions that have impacted the planned delivery timetable. By way of example, the Sydney East depot renewal project for the relocation of Zetland Depot to Alexandria was set back with the statutory acquisition by Sydney Water of access rights and easements associated with trunk drainage on the Alexandria property; the Lower Hunter depot renewal project from Rutherford to Beresfield was setback with the identification of unrecorded abandoned mining leases requiring extensive revaluation of the land and proposed structures. Both projects whilst now on track will be completed later than forecast in our 2014-19 regulatory proposal.

Also, during the period the depot consolidation strategy has managed the significant decrease in staff numbers – from a base of 5,500 to approximately 4,000. Much of this decrease impacted the depot facilities with lower levels of field and support staff required to deliver the system capital program and maintain the network.

These changes required some adjustments to the original investment plan and saw some leasehold solutions extended to meet the immediate need and avoid capital expenditure pending the stabilisation of the workforce which has contributed to the capital underspend situation.

2.2.1 Office accommodation

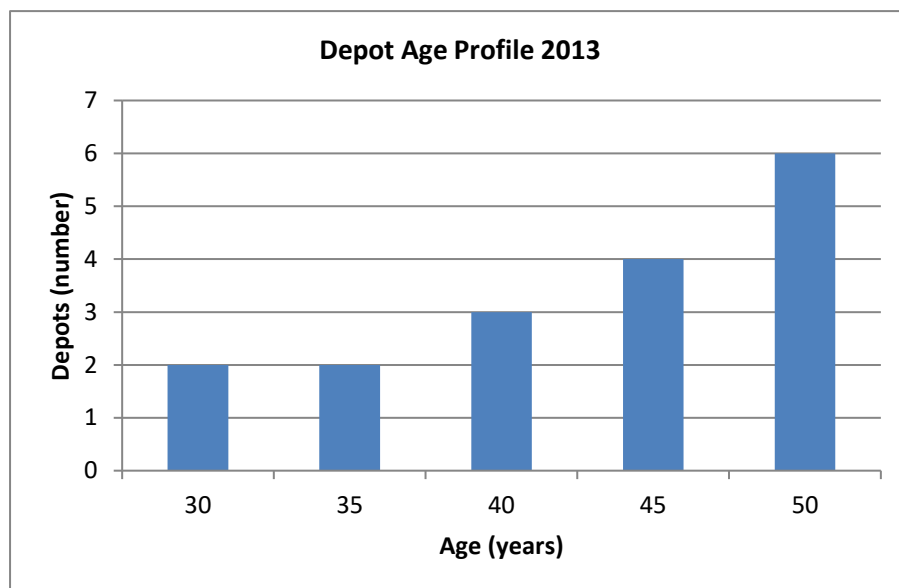
At the beginning of the 2014-19 period, a significant proportion of our office accommodation required renewal to meet modern day compliance standards.

The 2014-19 period saw the upgrade of four office buildings and the closure of one.

2.2.2 Depots

At the beginning of the 2014-19 period, a significant proportion of our depots required renewal to meet modern day compliance standards. This was largely a result of having a significant number of aged assets. Figure 3 below illustrates the depot age profile in 2013.

Figure 3. `Depot age profile areas



The 2014-19 period saw the upgrade of 10 depots, the closure of nine depots, the opening of one depot and the purchase of two sites for future depots.

2.2.3 Specialist sites

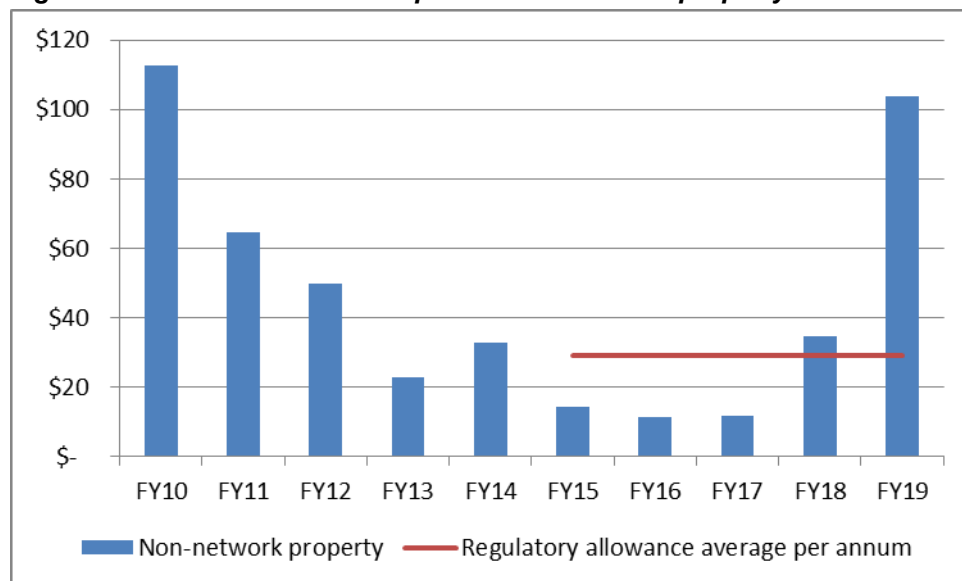
Ausgrid invested in testing and storage facilities in response to ageing assets and the need to vacate existing facilities.

The 2014-19 period saw the upgrade of two specialist sites and augmentation of one.

2.3 Actual capex expenditure against the AER allowance

Ausgrid's actual/ forecast capital expenditure is \$31 million (or 22%) higher (in real terms) than the final determination allowance made by the AER as shown in the table below.

Figure 4. `Actual and forecast capex for non-network property 2009/10 – 2018/19 (\$m, real FY19)



Ausgrid realigned its program of works over the period in response to changes in our business ownership. These changes required some adjustments to the original investment plan, including:

- Deferral of projects - Some projects programmed for the last period have been completed in the current period such as Ourimbah Depot and Roden Cutler House minor works
- Decrease in staff numbers – Over the period staff numbers decreased from 5,500 to approximately 4,000 which led to a re-prioritisation of the depot investment program. In some instances, additional space was re-leased to accommodate the decrease, which enabled deferral of certain projects
- Opex/capex substitution – More detailed planning revealed safety issues with keeping some facilities operational, which required a change in the programmed delivery
- End of short-term leases - In some instances, additional temporary leased space was not able to be re-leased, which required the acceleration of certain refurbishment and fitout projects.

2.4 Status of capital expenditure

The status of non-network property capital expenditure is presented in the following sections.

2.4.1 Projects completed

The following tables summarise the projects that have been completed in 2014-19.

Table 2. Office accommodation projects completed 2014-19

Office Accommodation	Description
Head office Sydney	Fitout and tenancy churn
Roden Cutler House	Refurbishment of three floors, establish basement end of trip facilities, and upgrade of base building plant and equipment
Tuggerah Offices	Fitout and tenancy churn
Wallsend Admin	Tenancy churn, replacement of main switchboard, and fitout to accommodate ex-Charlestown and ex-Elernmore Vale

Table 3. Depot projects completed 2014-19

Depots	Description
Chatswood Depot	Demolition of Bryson Street building, remediation of adjoining vacant land, and establish hardstand parking
Dee Why Depot	Redevelopment of Building 2 and fitout to accommodate partial ex-Chatswood and ex-Olympic Park operations
Gore Hill Depot	Refurbishment and fitout to accommodate partial ex-Chatswood operation
Homebush Depot	Fitout and tenancy churn of Buildings 2, 3, 5 and 6 to accommodate partial ex-Chatswood and ex-Olympic Park operations
Hornsby Depot	Refurbishment of Buildings 2 and 3

Depots	Description
Meadowbank Depot	Redevelopment of existing depot
Muswellbrook Depot	Establishment of satellite store, and pole storage facility
Potts Hill Depot	Redevelopment of existing depot and fitout to accommodate ex-Regents Park operation
Pymble Depot	Redevelopment of existing depot and fitout to accommodate partial ex-Chatswood operation
Ourimbah Depot	Establishment of new green-field depot
St Leonards Depot	Fitout and tenancy churn to accommodate partial ex-Chatswood operations
Various Depots	Compliance improvements across various sites including Dee Why, Homebush, Hornsby, Oatley, Zetland Improvement to depot security through the 'Shut the Gate' program at various sites including Dee Why, Green Square, Maitland and Zetland

Table 4. Specialist sites completed 2014-19

Specialist sites	Description
Green Square	Establishment of materials storage bins, and after-hours depot facility
Lane Cove	Redevelopment to accommodate partial ex-Chatswood operation
Silverwater Learning Centre	Augmentation and fitout to accommodate ex-Homebush Business Village and partial ex-Chatswood operations

2.4.2 Projects underway

The following tables summarise the projects are underway in 2014-19.

Table 5. Office accommodation projects underway in 2014-19

Office Accommodation	Description
Nil	

Table 6. Depot projects underway in 2014-19

Depots	Description
Beresfield Depot	Establishment of new green-field depot (ex-Maitland)
Potts Hill Depot	Augmentation to accommodate transmission (partial ex-Chullora) operation

Table 7. Specialist sites projects underway in 2014-19

Specialist Sites	Description
Mt Kuring-gai Poles	Augmentation to accommodate transmission (partial ex-Chullora) operation

Specialist Sites	Description
Ourimbah ZS	Establishment and fitout to accommodate training (ex-Somersby) operations
Silverwater Learning Centre	Augmentation and fitout to accommodate system control (ex-Head Office) operations
Somersby Training	Refurbishment and fitout to accommodate network connections (ex-Tuggerah) operations

2.4.3 Projects planned

The following tables outline the projects currently planned for 2014-19.

Table 8. Office accommodation projects planned for 2014-19

Office Accommodation	Description
Roden Cutler House	Refurbishment and fitout of all floors, augmentation of ground floor entry and retail, upgrade of base building plant and equipment, refurbishment of external facade

Table 9. Depot projects planned for 2014-19

Depots	Description
Alexandria Depot	Establishment of new green-field depot (ex-Zetland)
Artarmon Depot	Establishment of new green-field depot (ex-Chatswood)
Oatley Depot	Upgrade of base building plant and equipment

Table 10. Specialist projects planned for 2014-19

Specialist Sites	Description
Green Square	Establishment of distribution centre
Somersby Store	Refurbishment of base building fabric

2.4.4 Projects deferred

The following tables list the projects currently deferred until 2019-24 period.

Table 11. Office accommodation projects deferred until 2019-24 period

Office Accommodation	Description
Nil	

Table 12. Depot projects deferred until 2019-24 period

Depots	Description
Homebush Depot	Replacement of aging facility
Oatley Depot	Replacement of aging facility

Depots	Description
Wallsend Depot	Replacement of aging facility

Table 13. Specialist sites projects deferred until 2019-24 period

Specialised Sites	Description
Nil	

2.5 Status of asset disposal

The status of non-network property asset disposals is presented in the following sections.

2.5.1 Disposals completed

The following tables outline asset disposals that have been completed in 2014-19.

Table 14. Office accommodation asset disposals completed in 2014-19

Office Accommodation	Description
Nil	

Table 15. Depot asset disposals completed in 2014-19

Depots	Description
Chatswood Depot	TfNSW compulsory acquisition
Morisset Depot	Surplus land
Olympic Park Depot	Put and Call Option

Table 16. Specialist sites asset disposals completed in 2014-19

Specialised Sites	Description
Mason Park Storage Yard	Surplus land
West Gosford Pole Yard	Surplus land

2.5.2 Disposals planned

The following tables outline the asset disposals are currently planned for 2014-2019.

Table 17. Office accommodation asset disposals planned for 2014-19

Office Accommodation	Description
Tuggerah Office	Surplus facility

Table 18. Office accommodation asset disposals planned for 2014-19

Depots	Description
Maitland Depot	Decommissioned
Noraville Depot	Decommissioned
Singleton Depot	Decommissioned
West Gosford Depot	Decommissioned

Table 19. Office accommodation asset disposals planned for 2014-19

Specialised Sites	Description
Nil	

3 FORECAST PROCESS FOR NON-NETWORK PROPERTY

The purpose of this section is to provide an overview of the process used to derive the proposed capex for the 2019-24 periods. Ausgrid has a 10-year planning horizon for non-network property investments which enables us to develop an efficient forecast of capex in the medium term. Our process is focused on identifying needs and selecting the most efficient option to address those needs.

Ausgrid's approach to managing the non-network property portfolio is aimed at promoting the well-being and safety of staff and efficient and timely operations. Each proposed investment undergoes a rigorous assessment and sign-off process to ensure the least cost and most suitable option is selected.

The ultimate objective of the Strategy Plan is to ensure safety, reliable services and promote efficient investment to meet the long term benefit of electricity consumers. This is in line with the National Electricity Objective.

3.1 Identifying need

We conduct a review of the non-network property portfolio on an annual basis. This review considers the current state of the property portfolio, and how changes in the underlying business environment or external circumstances are likely to drive requirements on the portfolio.

In line with best practice, our approach is to determine:

- Can service delivery be made less dependent on accommodation needs?
- Are accommodation assets fully used in service delivery?
- Are accommodation assets appropriately located for effective service delivery?
- Have accommodation assets sufficient capacity to provide the required service delivery?
- Are accommodation assets suitable for optimal service delivery?

When addressing these high-level planning principles, we identified key drivers that trigger a more detailed assessment of need. These high-level investment drivers are presented in the table below.

Table 20. Investment drivers

Investment Driver	Description
Mandatory	Shareholder, compliance or regulatory driven
Risk Based	Safety or essential upgrade to avoid asset failure
Strategic	Initiative which aligns with key corporate objectives
Business Improvement	Improvement to operational efficiency and effectiveness

As part of developing a forecast for the 2019-24 periods, our review of needs identified the following factors:

- The impact of staff reductions as a result of business transformation

- Opportunities for consolidation of property assets;
- Changes in the network capital program
- Condition of aged depots
- The relocation of staff from leased to owned properties.

Depots are planned for a lifetime of 40 years and need to take into account changes in the location of network assets to ensure timely access in the event of an outage. We aim to locate offices and depots near major road to reduce travel time for staff to and from the office and depots. This is to ensure more efficient operations.

In addition, depots are planned for workforce plus the weather incident response, which is space for around 10% on top of the workforce at the depot.

3.2 Select efficient option

We have followed our business as usual process to select the most efficient option to address our needs in the 2019-24 period. Our underlying philosophy is to find the least-cost life-cycle solution to address the issues across the portfolio. We look at a range of feasible options, including 'do nothing', replacement, refurbish-in-situ and construction of new facilities.

In some cases, we may identify that an option can optimally address joint needs, or result in deferral of expenditure. For example, we may retire an aged facility (rather than replace it) if we are able to relocate staff to an existing facility as a result of a reduction in staffing levels.

The criteria used to prioritise options include:

- Geographic location – focusing on population density and the time taken to service customers
- Town planning – compatibility with zoning changes e.g. high density residential is not compatible with a CBD depot that performs significant night work, or a zoning change drives us from what was industrial land
- Depot size/land utilisation/consolidation – as population densities increase the capacity of a depot to house the required infrastructure changes. This can lead to acquiring additional adjacent land (if available) rather than relocation
- Infrastructure design/condition – the design and construction methodology utilised in the 1960s to 1970s does not accommodate an efficient operating depot today
- Co-location – the renewal of one or both non-network and network assets based on the same site can lead to simultaneous projects, e.g. the renewal of a distribution/zone substation and depot that are co-located
- Strategic location of functions – the location of specialist fleet maintenance garage facilities, and satellite stores that will service a large geographic area
- Business requirements - cost, timing, functionality and fit for purpose.

These criteria are applied to assessing options identified for each proposed property project. In each case the feasible options may include 'do nothing', replacement and construction of new facilities, refurbish-in-situ and upgrade of buildings on the site.

Each proposed project undergoes an assessment and decision-making by a gate-way review process.

3.3 Costing the proposed program

There are several methodologies Ausgrid uses to derive unit costs to support the capex forecasts in the regulatory proposal. While specific information on which method has been used to cost individual projects is identified in the business cases, the main methods used to cost the non-network property program are set out in the table below.

Table 21. Costing methodologies

Methodology	Description	Example
Bottom-up individual estimates	<p>This unit cost methodology is used for major projects (typically >\$0.2m) and utilise configuration-specific 'building blocks'.</p> <p>The costing model for major projects assumes the following delivery model:</p> <ul style="list-style-type: none"> • Ausgrid project director • Ausgrid or external project management • External design • External construction • External fitout • Ausgrid or external electrical services • Ausgrid ICT. <p>These estimates are derived from information provided by independent quantity surveyors.</p> <p>Land value calculations (where applicable) are provided by independent valuers.</p>	Major works projects (depots, offices accommodation, specialist sites).
Bottom-up estimates	<p>This unit cost methodology is used for minor projects (typically <\$0.2m) and utilise configuration-specific 'building blocks'.</p> <p>The costing model for minor projects assumes the following delivery model:</p> <ul style="list-style-type: none"> • Ausgrid project supervisor • External design • External construction • External fitout • Ausgrid electrical services • Ausgrid ICT. <p>These estimates are derived from whole of project estimates produced by independent quantity surveyors.</p>	Minor works projects (depots, office accommodation, specialist sites).
Average historical costs/estimates	<p>These estimates are used for projects where there are likely to be minor variations in the scope of each project.</p> <p>Depending on the project, either historical actual or planning costs are used in this methodology.</p> <p>Historical actual costs are obtained from the SAP system and, in most cases, can be broken down into project type and region.</p> <p>Historical planning estimates can be obtained from a number of different sources.</p>	Urgent compliance or service upgrades.

Each proposed investment undergoes a preliminary costing process based on best information available at the time. The aim is to ensure the most efficient cost is used in the forecast. The actual cost, however, depends on the prices received during Ausgrid's procurement process.

4 FORECAST CAPITAL EXPENDITURE FOR 2019-2024

4.1 Transformation program

In the 2014-19 period, the Ausgrid transformation program resulted in changing priorities for network capital works projects. The aim was to effect savings that will support the business drivers. For the 2019-24 period, the strategic property plan has been reviewed and the timing of the program of works has been adjusted accordingly.

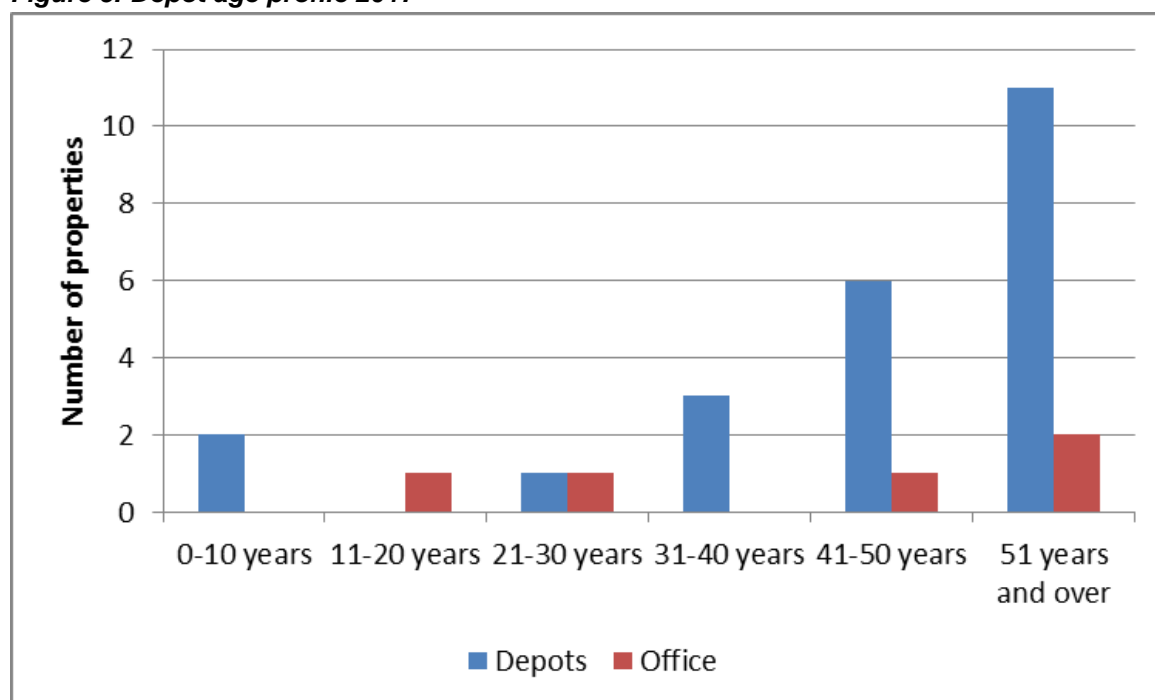
4.2 Circumstances in 2019-2024

The rightsizing of our workforce has changed occupancy levels and patterns within our buildings and the partial long-term lease of the business will drive further changes in the property portfolio. Each proposed capex project is assessed to ensure that it meets current and future workforce size requirements.

The age of our non-network property assets continues to be the key driver for a need to upgrade or replace facilities in addition to the need to align the portfolio to current business needs. This ensures network service delivery levels are maintained and the property assets remain compliant with changing building, safety and environmental legislative requirements.

Despite investment last period, we still have a number of aged depots in our franchise area which are in need of investment. Figure 1 illustrates the depot age profile in 2016.

Figure 5. Depot age profile 2017



As shown in Figure 4.1, there are 17 depots and three offices that are over 40 years old. Depots are built to be in use for 40 years, after which they become non-compliant with relevant codes and add risk to the ability of staff to efficiently and effectively service the network.

Aged depots are more expensive to maintain and often do not meet modern building standards. An audit conducted in 2017, found that a number of our depots and offices did not meet Building Code of Australia standards. Our capex program includes proposed projects to bring properties up to current building standards.

4.3 Key issues

Our customers, regulators and investors expect us to find efficiencies and improve our performance to keep our services affordable.

Accordingly, non-network property requirements have been impacted by the changing business environment in the following respects:

- The need to optimise our capital and operating costs over the period
- The need to prioritise our projects over the period
- The need to ensure that non-network property is regularly assessed against the needs of the business.

4.4 Total 2019-2024 forecast capex for non-network property

In preparing our forecast capital expenditure, we have sought to balance the need to renew old and deteriorated properties. Our program responds to changes in our circumstances, including staff reductions and efficiencies arising from the transformation process.

Our proposed investment can be summarised as follows:

- The relocation from Wallsend Administration Building to alternate Newcastle accommodation
- The program for the introduction of a collaborative future workplace environment across our sites
- The staged roll-out of major capital works to address issues at a number of our ageing depots including Homebush, Hornsby, Oatley, Wallsend and Zetland
- The program to address minor capital works across our depot sites.

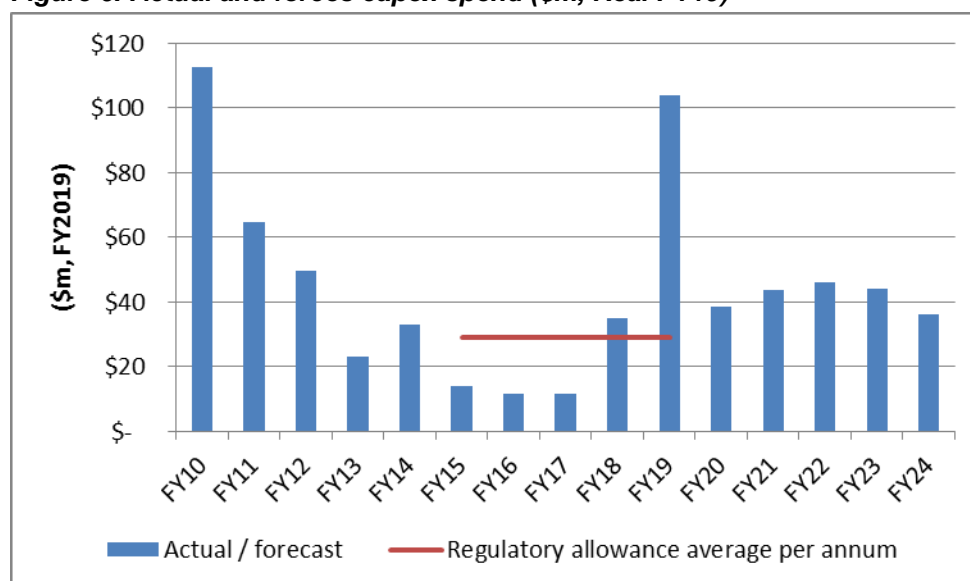
The capital forecast is summarised below.

Table 22. Forecast capex 2019-24 (\$m, Real FY19)

Category	FY20	FY21	FY22	FY23	FY24	Total
Office Accommodation	17.4	15.2	1.5	1.5	1.5	37.1
Depots	24.3	28.9	43.5	41.5	32.7	170.9
Specialist sites	0	0	0	0	0	0
Total non-network capital	41.7	44.1	45.0	43.0	34.2	208.0

The proposed capex at \$208 million is \$33 million (or 19%) higher than actual/forecast capex in the 2014-19 period of \$176 million (real FY19). Figure 6 illustrates the non-network property capex spend in the 2014-19 and 2019-24 regulatory periods.

Figure 6. Actual and forecast capex spend (\$m, Real FY19)



More detail on the forecast capex and the drivers in each of the specific category elements is provided in greater detail in the following sections.

4.5 Office accommodation

4.5.1 Proposed projects

Ausgrid is proposing to invest \$37.1 million (real FY19) in new or upgraded office accommodation.

The proposed office accommodation projects and key drivers are described in the following table.

Table 23. Proposed office accommodation projects

Project	Description	Key Driver
Wallsend office/depot consolidation	Construct a new office building adjoining the Beresfield substation and pole yard or Wallsend Depot in keeping with the Ausgrid policy of site consolidation to create regional facilities. The new office will be strategically located to support network operations within the greater Newcastle locality through the creation of a regional hub ultimately benefitting the customer base.	Strategic
Future workplace program	Program of works at various sites to support the cultural transformation by providing a collaborative work environment that sponsors productivity, growth and creativity.	Strategic

4.5.1 Forecast capex

The office accommodation capital forecast is detailed in Table 4.3 below.

Table 24. Forecast office accommodation investment (\$m, Real FY19)

Capex	FY20	FY21	FY22	FY23	FY24	Total
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The forecast cost of the office accommodation capex has been estimated using bottom-up individual estimates and bottom-up estimates respectively. The business case for each of these projects is shown in Attachment 5.21 (Non-network property business cases).

4.6 Depots

4.6.1 Proposed projects

We are planning the continuation of a staged roll-out of major capital works to address issues at a number of our aging depots including Homebush, Hornsby, Oatley, Wallsend and Zetland. The forecast capex for depot projects is \$183.9 million.

The proposed depot projects and key drivers are described in the following table.

Table 25. Proposed depot projects

Project	Description	Key Driver
Zetland depot replacement (Alexandria)	New green-field development to enable replacement of the existing Zetland depot due to aging assets, encroachment by residential development and local council infrastructure development.	Mandatory
General depot refurbishment program	Program of works at various minor sites to address aging assets and compliance requirements.	Mandatory
Homebush depot upgrade	Staged rebuild of the depot facilities at the existing Homebush site to provide fit for purpose facilities and replace aging assets.	Strategic
Hornsby depot replacement	New green-field development to enable replacement of the existing Hornsby depot due to aging assets.	Strategic
Oatley depot replacement	New green-field development to enable replacement of the existing Oatley depot due to aging assets.	Strategic
Wallsend depot upgrade	Staged rebuild of the depot facilities at the existing Wallsend site to provide fit for purpose facilities and replace aging assets.	Strategic

4.6.1 Proposed projects

The depots capital forecast is detailed below.

Table 26. Forecast depot investment (\$m, Real FY19

Capex	FY20	FY21	FY22	FY23	FY24	Total
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The forecast cost of the depots capex has been estimated using bottom-up individual estimates. The business case for each of these projects is provided in Attachment 5.21 (Non-network property business cases).

4.7 Specialist sites

Specialist sites will not require significant expenditure in the period.

4.7.1 Proposed projects

The proposed specialist sites projects and key drivers are described in the following table.

Table 27. Proposed Specialist Site projects

Project	Description	Key Driver
Nil		

4.7.2 Non-network property disposals

Disposals of property and buildings are treated in accordance with the AER roll forward model, where the regulated asset base is reduced by the disposal value of any asset. We forecast a single disposal of non-network property during the 2019-24 period with a forecast value of [REDACTED] million. This is for the sale of the Zetland depot site once Alexandria is built.

Unregulated income from the sale of property is governed by the AER's Shared Asset Guideline. If the revenue amount is material (defined as >1% of a distribution network service provider's total revenue) there is a revenue reduction, although this income does not impact the capex program. The threshold is not expected to be met in the forthcoming regulatory period.

Table 28. Forecast disposal projects

Project	Description	Key Driver
Zetland depot replacement (Alexandria)	<p>New green-field development to enable replacement of the existing Zetland depot due to aging assets, encroachment by residential development and local council infrastructure development.</p> <p>Disposal of existing Zetland depot land once replacement is complete.</p>	Mandatory

5 PROJECT GOVERNANCE AND DELIVERY

5.1 Responsibility

The Property Branch Major Capital Projects (MCP) section within Ausgrid is responsible for the development, design, construction and handover of the organisation wide non-network property major capital works program.

MCP provides internal clients with innovative and complete solutions tailored to their individual requirements.

The core team is supported by industry recognised internal and external professional consultant and trade contractor resources to ensure holistic project management service within the project constraints of scope, time, budget and quality.

5.2 Services

MCP provides a full range of project management services that gives Ausgrid the opportunity to achieve tangible benefits from their investments.

As project managers, MCP works in the organisation's best interest to ensure each project is planned, monitored and managed within the agreed scope to deliver the best possible outcome.

Recognising that each project is different, we tailor our solutions to suit. This means appropriate solutions for probity, funding, procurement, consultation, scheduling and delivery.

We are continually challenging the way we do business, ensuring that our practices, as envisioned in our processes, are at the forefront of industry best practice.

5.3 Governance

Project governance will be established on an individual project basis and is typically represented in Figure 7 below.

Figure 7. Typical project governance



5.3 Benefits

The delivery of capex in the 2014-19 period was due to time specific circumstances. Our new owners have addressed delivery constraints and we will deliver our capital plan in the 2019-24 period.

The governance arrangement is a refined process. It has been introduced during 2014-19 and it is expected to result in simpler processes, quicker decision making and better engagement with our stakeholders, resulting in an improved delivery of property projects compared to previous years.

6 RISK MANAGEMENT

6.1 Risk management

The delivery of the Non-network Property Plan will not be without challenges. A number of operational risks have been identified and will need to be managed during the period. Each project will be subject to its own risk assessment and a risk management plan will be put into place on an individual basis.

Ausgrid has risk management processes in place to minimise disruption and avoid cost overruns. General project risks are mitigated through:

- Risk identification and mitigation strategies are prepared for every project before commencement
- Formal project delivery strategies are adopted for each project
- Regular internal reporting on status both financial and progress
- Project review meetings are regularly carried out with internal and external stakeholders i.e. builder and relevant contractors and consultants
- Appropriate project governance implementation.

A high level risk register (see Table 29 below) has been developed for the Non-network Property Strategy Plan as a whole. The risk assessment process will help to mitigate delivery risk and reduce costs of projects.

Table 29. Non-network property risk register

Risk	Probability	Effect	Mitigation Strategy
Change in strategic direction	Medium	Major	The transformation program is likely to have greatest impact on the office accommodation and depot categories of the portfolio. The overall plan will be subject to ongoing review.
Availability of suitable sites	Medium	Major	This is most likely to occur in the highly urbanised locations within the franchise area. No existing site will be sold until a suitable alternative has been found.
Change in staff numbers	Medium	Moderate	The workforce transition program likely to have greatest impact on the office accommodation categories of the portfolio. The overall plan will be subject to ongoing review.
Construction costs	Medium	Moderate	Projects will be developed and financially evaluated as the program of works unfolds.
Project approval delays	Medium	Moderate	Projects will be actively managed to ensure approval requests include the likely impact of approval delays on the delivery of the plan.

Risk	Probability	Effect	Mitigation Strategy
Land sale or purchase costs	Medium	Minor	An Independent market assessment will be provided for each of the projects. The assessment will consider the prevailing market conditions.
Changes in work practices	Likely	Minor	Staff consultation will be actioned throughout the program to achieve stakeholder buy-in and the maximisation of operational efficiencies.
Project resourcing constraints	Unlikely	Major	Ongoing review ensures there will be an appropriate balance between internal and external resources to deliver the plan

7 ATTACHMENT A – CURRENT PROPERTY PORTFOLIO AND STRATEGY

7.1 Office accommodation

7.1.1 Owned properties

The following table lists the current office accommodation portfolio of owned properties.

Table 30. Owned properties – Office accommodation

Office Accommodation – Owned	Comment	Strategy
Charlestown ZS 6 Roberts St Charlestown	Part of substation facility.	Retain as minor facility subject to ongoing review.
Pymont ZS 138 Harris St Pymont	Part of substation facility.	Retain as minor facility subject to ongoing review.
Roden Cutler House (RCH) 24 Campbell St Sydney	Staged refurbishment and fitout to accommodate nominated staff from head office.	Retain as major accommodation and network facility subject to ongoing review.
Tuggerah (Ausgrid House) 14 Pioneer Ave Tuggerah	Vacated.	Surplus to requirements. Held for sale.
Wallsend Admin Building 145 Newcastle Rd Wallsend	Ongoing churn to maximise accommodation efficiency.	Potential disposal or alternate use once staff are relocated to a newly constructed facility..

7.1.2 Leasehold properties

Table 31 list the current office accommodation portfolio of leasehold properties.

Table 31. Leasehold properties – Office accommodation

Office Accommodation – Leased	Comment	Strategy
Head Office Building (HOB) 570 George St Sydney	Previously sold. Currently occupied on lease-back arrangement to June 2019 (including option).	Staged relocation of nominated staff to RCH in the short term pending the development of alternate Sydney accommodation.
Maitland 15 Church St Maitland	Leased property due to lack of space at Maitland (Rutherford) Depot.	Leased to January 2018 pending the establishment of Beresfield Depot.
Melbourne 286 Darebin Rd Fairfield	Leased property due to location outside franchise area.	Leased to August 2020. Sub-let to Plus ES for the duration of the existing term.

7.2 Depots

7.2.1 Owned properties

The current depot portfolio of owned properties comprises:

Table 32. Owned properties - Depots

Depot - Owned	Comment	Strategy
Alexandria 15 O’Riordan St Alexandria	Vacant land awaiting development for replacement of Zetland depot	Retain for development of new green-field depot facility
Alexandria 56 Burke Rd Alexandria	Tenanted commercial building awaiting development of replacement Zetland depot	Retain for development of new green-field depot facility
Alexandria ZS 70 Burke Rd Alexandria	Decommissioned substation awaiting development of replacement Zetland depot	Retain for development of new green-field depot facility
Artarmon Lot 2 Broadcast Way Artarmon	Vacant land awaiting development for replacement of Chatswood depot	Retain for development of new green-field depot facility
Belmont 1 Railway Pde Belmont	Vacated	Surplus to requirements. Held for sale
Beresfield 53 Weakleys Dr Beresfield	Vacant land awaiting development for replacement of Maitland (Rutherford) depot	Retain for development of new green-field depot facility
Blackwattle Bay ZS 20 Bulwara Rd Blackwattle Bay	Part of substation facility	Retain as minor facility subject to ongoing review
Camperdown 15 Lambert St Camperdown	Part of substation facility	Retain as minor facility subject to ongoing review
Castle Cove ZS 11 Victoria Ave East Chatswood	Part of substation facility	Retain as minor facility subject to ongoing review
Cessnock ZS 23 South Ave Cessnock	Part of substation facility	Retain as minor facility subject to ongoing review
Dee Why 21 Middleton Rd Dee Why West	Upgrade works complete	Retain as minor facility subject to ongoing review
Gore Hill 86 Reserve Rd Gore Hill	Fitout works complete	Retain as minor facility subject to ongoing review
Gwawley Bay ZS 210 Box Rd Miranda	Part of substation facility	Retain as minor facility subject to ongoing review
Haberfield 11 St Davids Rd Haberfield	Vacated	Surplus to requirements. Held for sale
Homebush 16 Underwood Rd Homebush	Aged asset identified for replacement.	Retain for rebuilding as major facility
Hornsby 51 Bridge Road Hornsby	Aged asset identified for replacement.	Surplus to requirements following completion of new Mt Kuring-gai depot
Maitland 84 Green St Rutherford	Aged asset identified for replacement.	Surplus to requirements following completion of new Beresfield depot.

Depot - Owned	Comment	Strategy
Meadowbank 71 Constitution Road West Meadowbank	Aged asset identified for upgrade.	Retain as minor facility subject to ongoing review.
Menai 824 Old Illawarra Rd Menai	Part of substation facility.	Retain as minor facility subject to ongoing review.
Merriwa 175 Bettington St Merriwa	Upgrade works complete.	Retain as minor facility subject to ongoing review.
Morisset 20 Mandalong Rd Morisset	Part of substation facility.	Retain as minor facility subject to ongoing review.
Muswellbrook 41 Thomas Mitchell Dr Muswellbrook	Upgrade works complete.	Retain as major facility subject to ongoing review.
Noraville 12 Brisbane St Noraville	Vacated.	Surplus to requirements. Held for sale.
Oatley 33 Judd Street Oatley	Aged asset identified for replacement.	Retain for rebuilding as major facility
Ourimbah 7 Ourimbah Creek Rd Ourimbah	Establishment of new depot complete.	Retain as major facility subject to ongoing review.
Potts Hill 36E Brunner Rd Potts Hill	Upgrade works complete.	Retain as minor facility subject to ongoing review.
Pymble ZS 982 Pacific Hwy Pymble	Part of substation facility.	Retain as minor facility for local work groups subject to ongoing review.
Salt Ash 4 Lemon Tree Passage Rd Salt Ash	Upgrade works complete.	Retain as minor facility subject to ongoing review.
Sefton ZS 51 Wellington Rd Birrong	Part of substation facility.	Retain as minor facility subject to ongoing review.
Singleton 44 Magpie Street Singleton	Establishment of new depot complete.	Retain as minor facility subject to ongoing review.
St Peters ZS 231 Mitchell Rd St Peters	Part of substation facility.	Retain as minor facility subject to ongoing review.
Ultimo 41 Mountain St Ultimo	Part of substation facility.	Retain as minor facility subject to ongoing review.
Wallsend 78 Abbott St Wallsend	Aged asset identified for replacement.	Surplus to requirements following completion of new office building
West Gosford 22 Racecourse Rd Gosford	Vacated.	Surplus to requirements. Held for sale.
Zetland 130 Joynton Ave Zetland	Aged asset identified for replacement.	Surplus to requirements following completion of new Alexandria Depot.

7.2.2 Leasehold properties

The following tables list the current depot portfolio of leasehold properties.

Table 33. Leasehold properties - Depots

Depot – Leased	Comment	Strategy
St Leonards 12 Frederick Street St Leonards	Leased property due to lack of space on the Lower North Shore.	Leased to June 2019 pending the establishment of Artarmon Depot.

7.3 Specialist properties

7.3.1 Owned Properties

The current specialist sites portfolio of owned properties is set out in the following table.

Table 34. Owned properties – Specialist properties

Specialist Sites – Owned	Comment	Strategy
Caves Beach Cables 4 Kayuga Close Caves Beach	Part of substation facility	Retain as storage facility subject to ongoing review.
Green Square Transformers 102 Bourke Rd Alexandria	Part of substation facility	Retain as storage facility subject to ongoing review.
Lane Cove Testing 18 Mars Rd Lane Cove West	Upgrade works complete	Retain as storage facility subject to ongoing review.
Mason Park Transformers Underwood Rd Homebush	Part of substation facility	Retain as storage facility subject to ongoing review.
Mason Park Poles Underwood Rd Homebush	Currently leased to third party to July 2018	Retain as storage facility subject to ongoing review.
Matraville Training 8 McCauley Street Matraville	Part of substation facility	Retain as minor facility subject to ongoing review
Mt Kuring-gai Poles 1 Woodland Wy MT Kuring-gai	Establishment of new specialist site complete	Retain as storage facility subject to ongoing review.
Ourimbah Training 4 Yates Rd Ourimbah	Upgrade works complete	Retain as training facility subject to ongoing review
Silverwater Learning Centre 48 Holker St Silverwater	Establishment of new specialist site complete	Retain as specialist facility subject to ongoing review.
Somersby Store 33 Kangoo Rd Somersby	Upgrade works complete	Retain as storage facility subject to ongoing review.
Somersby Transformers Pile Rd Somersby	Vacated	Surplus to requirements. Held for sale.
Thornton Poles 55 Weakleys Dr Beresfield	Part of substation facility	Retain as storage facility subject to ongoing review.

7.3.2 Leasehold Properties

Specialist Sites – Leased	Comment	Strategy
Homebush Data Centre 4 Figtree Dr Homebush	Leased property due to business continuity requirements	Retain as specialist site subject to ongoing review.
North Ryde Data Centre 23 Waterloo Rd Macquarie Park	Leased property due to business continuity requirements	Retain as specialist site subject to ongoing review.

8 ATTACHMENT B – LIST OF SUPPORTING DOCUMENTS

8.1 Supporting documents

Table 35 sets out the supporting documents used in this plan.

Table 35. Supporting documentation

Document Type	Document Name
Attachment	Homebush Depot Upgrade: Business Case 1 (ID1143)
	Hornsby Depot Replacement: Business Case 2 (ID1144)
	General Depot Refurbishment Program: Business Case 3 (ID1145)
	Oatley Depot Replacement: Business Case 4 (ID1146)
	Wallsend Depot Upgrade: Business Case 5 (ID1147)
	Wallsend Office Replacement (carry over): Business Case 6 (ID1148)
	Zetland Depot Replacement (Alexandria) (carry over): Business Case 7 (ID1149)
	Future Workplace Program: Business Case 8 (ID1150)