

5.21.7

# Business case 7: Wallsend office replacement

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# 1 SUMMARY

Ausgrid is proposing to finalise the replacement of the Zetland Depot at Alexandria, in the Sydney region. The project is continuing from the current regulatory period and is scheduled to be completed in 2020.

The current Zetland Depot was established in 1960 in an industrial area. The Zetland Depot is within close proximity to Sydney’s CBD and has provided an efficient and effective base for field services.

The total cost of the project is ██████████ (real FY19) and we expect to spend \$15 million in the 2019-24 period. The relocation to Alexandria will result in current Zetland site being surplus to our requirements. This project is expected to result in an asset disposal of around ██████████ (in real terms). The value of the disposal will be reduced from the Regulatory Asset Base, which will contribute to lower costs to customers.

While we considered a range of options to address Ausgrid’s need in this area, in this case, the only viable option was to relocate from Zetland to a new site. This was driven by the need to overcome the NSW Environment Protection Authority’s (EPA’s) operation restrictions to mitigate complaints from nearby residents. Relocation (Option 2) is the most prudent option as it meets key operational objectives and improves proximity and capacity to support the Sydney CBD/Eastern Suburbs/Lower North Shore areas and providing access major arterial road and rail networks in the area.

This option is likely to result in the Zetland site being surplus property and sold during the 2019-24 period with the proceeds removed from the Regulatory Asset Base. In the longer run, this will help to reduce prices to customers.

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

**Table 1. Summary of benefits of preferred option**

Benefits	Description
Compliance	Meet EPA and local resident issues with respect to the incompatibility of current depot operations encroaching on the expanding residential neighbourhood.
Support	Supports the corporate strategy of co-locating depots with infrastructure and improves proximity and capacity to support the Sydney CBD/Eastern Suburbs/Lower North Shore areas. 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. Addresses current and future growth demands of the Sydney CBD/Eastern Suburbs Sydney Airport, Port Botany and associated expanding high tech employment zones.
Location	Consolidates business unit activities in the vicinity of existing network facilities (substation) at Green Square. Location suits the current and future growth demands of the area, near major arterial road networks and within walking distance of existing and proposed rail stations. Meets EPA and local resident issues with respect to the incompatibility of current depot operations with the nearby residential use zoning.
Consolidation	Potential may exist for future opportunities to provide an addition and develop the depot airspace for staff office accommodation.
Capital	When Alexandria is completed, the surplus site land at Zetland will be sold with the proceeds removed from the regulated asset base. The lower value of the regulatory asset base will provide opportunity for reducing prices to customers in the future.
Cost effective	Most cost-effective life cycle cost over a 40-year period.

The cost of the relocation to Alexandria 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 130 Joynton Avenue, Zetland, serves Sydney's CBD and east region. The Zetland Depot was established in the 1960s and some of the buildings are over 50 years old. It was identified in the 2014-19 regulatory proposal for relocation due to the encroachment of high density residential development associated with the NSW State Government Green Square Urban Redevelopment plan.

In anticipation of this relocation requirement two properties were purchased at 15 O'Riordan Street and 60 Bourke Road Alexandria, both of which adjoin an existing decommissioned zone substation at 70 Bourke Road. The properties are situated within a designated employment zone encouraging mixed use development.

The proposed development for Alexandria at a capital commitment of [REDACTED] (real FY19) is designed to meet the regions ongoing field operations and logistic requirements as informed by the ongoing transformation program.

The project is continuing from the current regulatory period and is expected to be completed in mid-2020. The ongoing development of the functional brief and master plan will continue to refine the requirements for the Alexandria Depot to enable the lodgement of a development application as a business priority, with the primary objective of having the new Alexandria Depot operational by Q4 2019/20.

This project delivers a new operations field service depot facility to the region, with significant ongoing operating and capital expenditure programs, many of which operate across 24-hour day.

The current field operations at Zetland are in part restricted by NSW Environment and Protection Authority (EPA) orders instigated by resident noise complaints due to the operation of the depot outside of normal business hours. The zoning of the new Alexandria Depot enables this issue to be addressed for the foreseeable future, noting substantial warehouse and commercial office development is situated to the east with the remainder of the site fronting a public road or Sydney Water road reserve.

**Figure 1. Aerial view of new Alexandria Depot site**



Source: Ausgrid

A facilities plan has been completed to map the relocation of the Zetland Depot staff and assets field operating requirements in conjunction with a master plan for the new depot at Alexandria to confirm functional relationships, operational logistics and the identification and management of infrastructure and planning requirements.

This process has been informed by relevant specialist planning, design and cost consultants lead by a managing contractor who has coordinated Ausgrid's field operations, logistics, fleet and property development requirements.

The Ausgrid strategy that guides the development and location of the depot portfolio strongly promotes co-locating network and non-network functions at strategic locations. This led to the previous strategic decision to acquire the O'Riordan Street site in the vicinity of the now ex-Alexandria zone substation and the Green Square zone substation.

## 3 PROJECT NEED

### 3.1 Building quality

At over 50 years old, the Zetland Depot is approaching the end of its economic life. The existing Zetland Depot is located within the NSW State Government Green Square Urban Redevelopment Area. As a result of these state planning changes, the site is affected by the encroaching development of adjoining high density residential/commercial towers, community facilities and the planned diversion of link road/trunk drainage infrastructure.

*Figure 2. Inefficient Poorly laid out Office Space*



Source: Ausgrid

These issues need to be addressed to ensure safe and healthy workplaces for staff and to meet the EPA requirements.

### 3.2 Workforce

The workforce plan for the proposed Alexandria Depot comprises approximately 80 office and 230 field/blend staff. The workforce plan 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 occurring throughout that period.

### 3.3 Inventory and storage

The new Alexandria Depot would be an inventory hub for the Sydney CBD/Eastern Suburbs area serving Ausgrid's staff and contractors.

## 4 OPTIONS AND ASSESSMENT

### 4.1 Assessment process

In assessing the preferred option to address the issues with Zetland 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 Zetland Depot was to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the inner Sydney East 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 – Relocate Depot at a new site. (See the attachment for explanation of how costs are derived)<sup>1</sup>
- Option 3 – Rebuild Zetland Depot
- Option 4 – Refurbish Zetland Depot. 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 that it:

- Supports the corporate strategy of co-locating depots with network infrastructure and improves proximity and capacity to support the Sydney CBD/Eastern Suburbs/Lower North Shore areas
- Replaces a depot that is at the end of its life expectancy (fully depreciated)
- Provides a fit for purpose facility with security of tenure
- Facilitates consolidation of business unit activities in a location adjacent to existing network facilities
- Facilitates implementation of revised depot typology
- Addresses current and future growth demands of the Sydney CBD/Eastern Suburbs Sydney Airport, Port Botany and associated expanding high-tech employment zones
- Is located on the major arterial road networks in the area

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<sup>1</sup> This amount of capital expenditure represents the portion allocated to standard control services.

- Has close proximity to heavy rail and bus public transport hubs Green Square, Redfern and Sydney Metro City station at Waterloo
- Minimises impact on staff during construction
- Facilitates efficient capital recycling of the Regulated Asset Base non-network Property Portfolio
- Meets EPA and local resident commitments with respect to the incompatibility of current depot operations and existing noise complaints
- Provides potential to develop the depot airspace for staff office accommodation or external leasing at a later stage.

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 REMAIN AT EXISTING ZETLAND DEPOT	Option 2 ESTABLISH ALEXANDRIA	Option 3 REFURBISH ZETLAND	Option 4 REFURBISH ZETLAND
Compliance with the corporate strategy	1	5	1	1
Replacement of a depot that is at the end of its life expectancy	1	5	5	5
Provide a fit for purpose facility with security of tenure	1	5	1	1
Consolidation of business unit activities in a location adjacent to existing network facilities	1	5	5	5
Implementation of revised depot typology	1	5	1	1
Located to suit current and future growth demands of Sydney CBD/Eastern Suburbs area	5	5	5	5
Located on the major arterial road networks in the area	5	5	5	5
Located within walking distance of existing and proposed rail stations	5	5	5	5
Minimise impact on staff during construction	1	5	1	1
Provide a cost-effective capital solution	5	5	1	5
Meet EPA and local resident commitments with respect to incompatibility of current depot operations	1	5	1	1

Objective	Option 1 DO NOTHING REMAIN AT EXISTING ZETLAND DEPOT	Option 2 ESTABLISH ALEXANDRIA	Option 3 REFURBISH ZETLAND	Option 4 REFURBISH ZETLAND
Provide future opportunities to further develop or lease the remainder of the O’Riordan Street site	1	5	5	1
<b>TOTAL</b>	<b>28/60</b>	<b>60/60</b>	<b>36/60</b>	<b>36/60</b>

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

Options 1, 3 and 4 do not meet many of the objectives while Option 2 (establish new depot at Alexandria) fully meets the objectives.

### 4.3 Assessment of options

In this case, we have been driven to relocate to a new site due to the incompatibility of the current Zetland Depot with residential encroachment and to address EPA compliance issues. Therefore, there was no option other than to relocate. Ausgrid was fortunate to be able to secure a site in a more semi-industrial area in nearby Alexandria. As such we have not prepared a quantitative assessment of options as the relocate option was the only viable one.

Our assessment the qualitative outcomes of each option is presented in the following table.

**Table 3. Assessment of options**

Description	Assessment	Ranking
Option 1 Do nothing.	<p>Remaining at the existing Zetland depot is impacted by ongoing issues with the EPA responding to noise complaints by local residents.</p> <p>The depot operations are incompatible with the emerging residential development and the nearby residential use zoning.</p> <p>Further, the depot is at the end of its life expectancy.</p>	Option 1 does not address the identified need and is not considered a viable option.
Option 2 establish Alexandria Depot and sell Zetland site.	<p>This option addresses issues associated with EPA restrictions on hours of operation and use stemming from complaints by local residents.</p> <p>Ausgrid owns suitable land and the strategic purchase of the new site was well-timed in light of the tightly held properties and high property prices in the area.</p> <p>This option provides for a rebuilding of the depot to overcome the end-of-life deficiencies at Zetland. Alexandria is an industrial estate in the heart of the Sydney</p>	Therefore Option 2 is viable.

Description	Assessment	Ranking	
	<p>CBD/Eastern Suburbs area. It has access to the M1 and M5 Freeways. It provides backup access to the Lower North Shore area and is generally considered an ideal location to support the existing and future growth of the area.</p> <p>The new site meets all the key objectives required by Ausgrid for current and future use. The Zetland site will be surplus upon completion enabling its sale which is a further benefit.</p>		
Option 3 rebuild Zetland	This option provides for a rebuilding of the depot to overcome the end-of-life deficiencies.	Remaining at the existing Zetland Depot is impacted by the ongoing site restrictions imposed by the EPA due to local resident noise complaints. The need for 24 hour operations of the Depot are incompatible with the nearby residential use zoning.	Therefore Option 3 is not viable as it would not address the EPA orders limitations due to impinging residential development
Option 4 Refurbish Zetland Depot	This option involves refurbishing the existing Depot at Zetland.	<p>As with option 3, remaining at the existing Zetland Depot is impacted by the ongoing site restrictions imposed by the EPA due to noise complaints by local residents.</p> <p>The need for 24-hour operations of the Depot is incompatible with the nearby residential use zoning.</p>	Option 4 is not preferred as it would not address the EPA noise issues.

## 4.4 Summary of findings

Based on the operational review and options analysis, Option 2, being the establishment of the Alexandria Depot and selling the surplus Zetland 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
Compliance	Meet EPA and local resident issues with respect to the incompatibility of current depot operations encroaching on the expanding residential neighbourhood.
Support	<p>Supports the corporate strategy of co-locating depots with infrastructure and improves proximity and capacity to support the Sydney CBD/Eastern Suburbs/Lower North Shore areas.</p> <p>It is envisaged that the new development will improve business efficiency and staff morale.</p>

Benefits	Description
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. Addresses current and future growth demands of the Sydney CBD/Eastern Suburbs Sydney Airport, Port Botany and associated expanding high tech employment zones.
Location	Consolidates business unit activities in the vicinity of existing network facilities (substation) at Green Square. Location suits the current and future growth demands of the area, near major arterial road networks and within walking distance of existing and proposed rail stations. Meets EPA and local resident issues with respect to the incompatibility of current depot operations with the nearby residential use zoning.
Consolidation	Potential may exist for future opportunities to provide an addition and develop the depot airspace for staff office accommodation.
Capital	When Alexandria is completed, the surplus site land at Zetland will be sold with the proceeds removed from the regulated asset base. The lower value of the Regulatory Asset Base will provide opportunity for reducing prices to customers in the future.
Cost effective	Most cost-effective life cycle cost over a 40-year period.

In this case, the only viable option is to relocate from Zetland to a new site (Option 2) in order to overcome the EPA restrictions and mitigate complaints from nearby residents. Option 2 is the most prudent option as it meets key objectives and improves proximity and capacity to support the Sydney CBD/Eastern Suburbs/Lower North Shore areas and provides sufficient access to major arterial road networks in the area.

It is likely to result in Zetland site being surplus land and sold with the proceeds removed from the Regulatory Asset Base. In the longer run, this will help to reduce prices to customers.

## 5 DELIVERY MODEL

The evolution of the functional brief and master plan will continue to refine the requirements for the Alexandria Depot to enable the lodgement of a development application with the objective of having the Alexandria 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 relocating to Alexandria is set out in the master plan is [REDACTED] (real FY19) (This is for the standard control services component of the project). 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.