

Attachment 6.04

Property operating expenditure plan

May 2014



Contents

1.	Executive Summary	3
2.	Introduction.....	4
3.	Outcomes last period	6
4.	Property strategy for 2014-19	7
5.	Forecast approach	11
6.	Forecast outcomes.....	13
7.	Supporting Analysis	15

1. Executive Summary

This document provides an overview of our proposed opex to support our property assets during the 2014-19 regulatory period. In total, we propose property opex of \$296.74 million over the 2014-19 regulatory period, comprising of expenditure relating to:

- payment of statutory charges including taxes and utility charges; and
- property maintenance.

The total opex by financial year is provided in the table below.

\$m (FY2013/14 real)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	62.83	63.36	65.22	52.72	52.61	296.74

The focus of our overall property strategy for the 2014-19 regulatory period is to:

- Continue capital investment in renewing our depots based on sound business case justifications in order to reduce escalating opex on preventative and reactive maintenance.
- Achieve operating efficiencies through the grouping together of assets services including property, security, fleet and garage within one business unit.

The proposed opex is 16.6 percent higher (FY2013/14 real) than the 2009-14 period. This reflects the continuance of business as usual operations with the following step changes and efficiency savings:

- Ausgrid Head Office Building sale and lease back;
- increased land tax; and
- reduction in rent for other non-system property.

The following sections further elaborate on this information and are structured as follows:

- Section 2: introduction to the Property Opex Plan
- Section 3: Property Opex Plan outcomes last period
- Section 4: property strategy for 2014-19
- Section 5: forecasting approach used to estimate property opex
- Section 6: forecast outcomes
- Section 7: supporting analysis

2. Introduction

The purpose of this document is to provide an overview of our forecast opex to meet our obligations in delivering the Property Opex Plan for the 2014-19 period. The model used to forecast the expenditure requirement for the Property Opex Plan is also provided and accompanies this overview (Property forecast opex model ID00067).

The introduction below provides some background on the characteristics of our property related operations and the reasons why we are required to undertake them in order to achieve Ausgrid's overall objectives.

2.1 Objectives of the property opex program

The objectives of the Property Opex Plan are to pay statutory charges including taxes and utility charges and to maintain our property portfolio in line with legislated compliance obligations. The first two components of taxes and utility charges make up the majority of expenditure under the Property Opex Plan.

2.2 Scope of activities

The scope of activities that fall under the Property Opex Plan can be broadly classed as facilities management. Ausgrid's operating model for the delivery of facilities management is based on outsourcing agreements with specialist's contractors who are coordinated and managed by Ausgrid facilities management. This operating model enables Ausgrid to maintain cost control of scope whilst having the flexibility to balance planned and reactive maintenance.

Activities are undertaken across our non-system property portfolio of depots, offices, warehouses and specialist properties. These activities enable Ausgrid to accommodate staff, fleet, plant, equipment inventory and materials who undertake network and operational functions. The facilities management team uses the property management information system PMIS and property sharepoint site to maintain asset information, track and pay for all of the associated expenses with property ownership/tenure inclusive of taxes, rates, utilities and statutory charges.

2.3 Requirement for activities

We are required to undertake these activities to:

- Meet regulatory compliance requirements of the Building Code of Australia, Australian Standards, Work Health and Safety, local environmental plans, development plans and environmental legislation.
- Ensure reliability of the buildings that house these activities with regular inspections and maintenance of roofing/ gutters, facade, hydraulic systems, mechanical systems, electrical systems, storage systems, security fencing, hardstand, landscaping, overhead cranes and the like.
- Ensure safety through audit compliance of fire and life safety systems.

- Administer and pay for the delivery of utilities, land tax, council rates and statutory charges.
- Mitigate risk through environmental audit and maintenance of pollution control systems, air handling systems, traffic management, perimeter security and office accommodation reviews.

2.4 Operational constraints

The organisation faces the following operational constraints in delivering these services:

- More than half of the operating expenditure under the Property Opex Plan is non discretionary and relates to statutory obligations in holding system and non-system property. The value of these holdings in high density areas in recent years have been impacted by significant increases in land valuation and subsequent increases in the rates and taxes.
- The majority of Ausgrid's non-system property portfolio is 40 to 50 years old. The current drive to defer capital expenditure on replacement depots continues to place pressure on operating maintenance budgets.

2.5 Meeting the Rules

The purpose of this section is to demonstrate that our proposed opex for the Property Opex Plan meets the opex objectives and criteria, with regard to the opex factors in the Rules.

The objectives of the Property Opex Plan are to pay statutory charges and to maintain our property portfolio. The property portfolio accommodates the resources required to meet the expected demand for standard control services over the 2014-19 regulatory period.

In accommodating the standard control services the property opex program has the systems, specialist managers and contracted services in place to comply with all applicable regulatory obligations and requirements of staff in the provision of standard control services.

The systems, specialist managers and contracted services maintain the quality, reliability and security of the property portfolio to ensure the business can reliably supply standard control services.

Our forecast opex of \$296.74 million is required to deliver standard control services and meet the additional regulatory objectives set out in Section 2.3 above. This forecast also represents expenditure that is properly allocated to standard control services in accordance with the principles and policies set out in Ausgrid's cost allocation method approved by the AER on 1 May 2014.

Our forecast opex reflects the efficient costs that we would require to deliver the outcomes we are required to deliver by the National Electricity Rules. It also reasonably reflects the prudent costs that a prudent operator would require and a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

3. Outcomes last period

During the 2009-14 period, Ausgrid spent \$254.49 (nominal) million on property opex to deliver its objectives.

The purpose of this section is to identify the outcomes of opex in the 2009-14 period and the reasons for variation to forecasts. Examination of previous expenditure can provide critical insights on the level of forecast opex, and the veracity of previous forecasting approaches.

3.1 Circumstances during 2009-14 period

Significant pressure was placed on operating expenditure during the 2009 - 14 period primarily because of a higher than forecast change to statutory charges such as taxes in combination with a reduction in property related capital expenditure. A change to the land tax regime was the main driver in operating expenditure exceeding budget and was unforeseeable at the time that we submitted its last regulatory proposal.

This increase in expenditure was partly mitigated with the short term strategy of adjusting the balance between planned and reactive maintenance. Whilst the decrease in planned maintenance can increase degradation in the condition of our assets, judgements on the appropriate risk threshold were balanced against a tighter tolerance with regulatory obligations such as the Workplace Health and Safety Act and Building Code of Australia to achieve savings.

3.2 Opex outcomes during the 2009-14 period

The table below shows that during the current regulatory period, Ausgrid incurred \$254.49 million (nominal) on opex relating to property.

\$m (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	46.8	49.7	50.4	52.8	54.8	254.5
Allowance	47.7	48.7	49.1	50.2	48.2	243.8
Variance to Allowance	-0.9	1.0	1.3	2.6	6.6	10.7

3.3 Variations to allowance

During the 2009-14 period, expenditure for the Property Opex Plan is estimated to have exceeded its allowance by \$10.7 million (nominal). The main driver for this variance was higher land tax than forecast. In 2008, the land tax rate changed from 1.6 percent to 2.0 percent. In addition to this other key reasons for the variations were:

- higher council rates; and a
- reduction in capex which has accelerated opex for building maintenance and expenses related to additional property purchases not utilised this period.

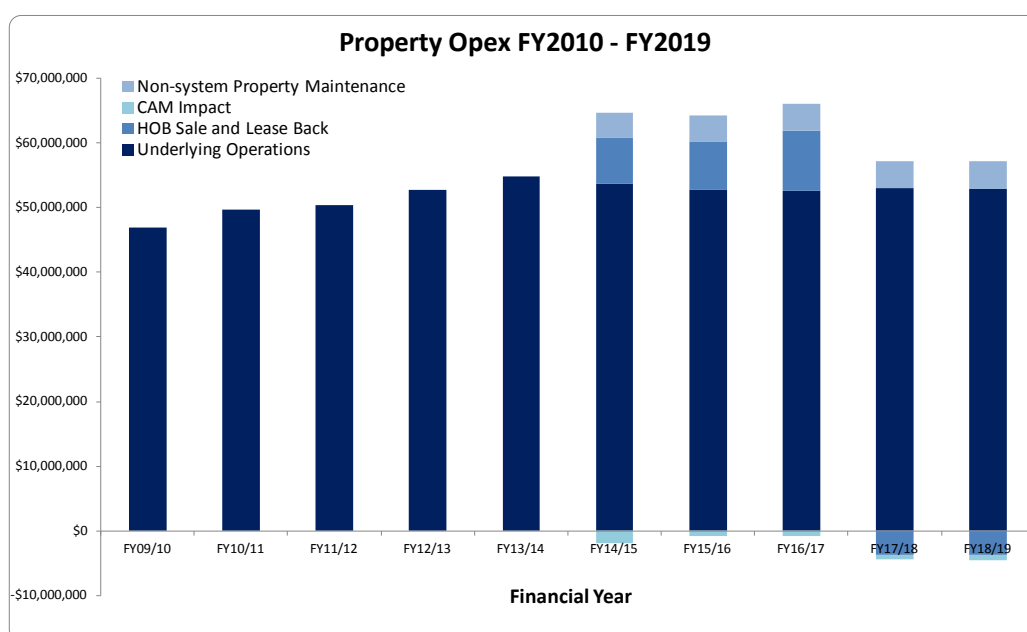
Section 5 of our proposal provides further information on how we have addressed these issues in developing our proposal for the 2014-19 period.

4. Property strategy for 2014-19

Our focus for the 2014-19 period is to continue capex spend to renew depots based on sound business case justification to reduce escalating opex on preventative and reactive maintenance. Also the grouping together of assets services – property, security, fleet and garage within one business unit to secure operating efficiencies.

4.1 Introduction to Strategy

The purpose of this section is to identify the key circumstances driving Ausgrid's Property opex in the 2014-19 period. At a high level, it can be seen that the underlying opex forecast is consistent with the 2009-14 period (real 2013/14).



Key reasons for this trend are:

- Reduced utilities costs as a result of implemented measures, partly offsetting the increasing costs of charges.
- The increased focus of our capital programs to incorporate greater reuse of existing assets to achieve cost savings in both capital and opex.
- The increased number of and pace of, property disposals decreasing incremental opex associated with holding these properties. Improving property market conditions will be the primary driver to this being a successful strategy.

The focus of our opex strategy is to maintain compliance and reliability, and to continue to support network activities and the delivery of outcomes in particular functional areas. At the same time we have sought to minimise price pressures to the full extent possible by

investigating avenues of efficiency either in scope or delivery of the forecast activity or investment in capital. These issues are discussed below.

4.2 Key circumstances during 2014-19 period

During the 2014-19 period it is expected that the key drivers of opex will be a:

- Continued drive to reduce capital expenditure on new depots whilst renewing an aging property portfolio.
- Continued drive to reduce non core property holdings, to reduce holding costs associated with taxes, utilities, statutory charges and maintenance.
- Continued drive to improve inventory and materials management at depots and warehouses to reduce requirement for additional space, and where possible reduce property holdings.
- Continued drive to reduce fleet size to reduce requirement for property allocated to housing fleet as well as a focus on reducing size of new depots and or property holdings to reduce long term costs where possible.

These key drivers will assist Ausgrid in evening out the impact of increases in non discretionary expenditure in excess of forecast and the escalation in property values which continue to drive non discretionary expenditure.

4.3 Key operational drivers and variables

The key operational drivers and variables that will have an impact on the opex requirement for the 2014-19 period are:

- The progressive transition from a large system capex program during the 2009-14 regulatory period to more reliance on planned and reactive maintenance will potentially lead to a reduction in leased properties required for large works programs.
- Alterations to space requirements and storage systems for inventory and material.
- An increased focus on reducing the fleet count housed within depots.
- The reorganisation of the management structure, subsequent impact on workflows, team compositions, subsequent reduction in staff numbers and outsourcing of services will potentially lead to reduced commercial office accommodation and the relocation/consolidation of business teams.

4.4 Operational strategies

As a result of these circumstances and drivers the following strategies have been developed:

- Strategy 1: planning for new property capital expenditure adjusted for the type and quantity of capital system work programs with subsequent adjustments to opex expenditure.
- Strategy 2: planning associated with staff numbers and locations has been factored into determining non core property assets, the property disposal plan, the realisation of these sales and end leases, and adjustments to opex on completion of disposals.

- Strategy 3: planning associated with staff numbers and locations has been factored into determining property utilisation rates and the associated opex to operate these properties.

4.5 Relationship with capex program

The most efficient option to address our needs is the one that poses the least cost in order to address issues across the property portfolio. This cost may be booked to capex or opex depending on the specific circumstances of the required solution. 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) if we are able to re-locate staff to an existing facility as a result of reductions in head count. The criteria used to prioritise expenditure are:

- Geographic location: in relation population density and the time taken to service.
- Town planning: compatibility with zoning changes. For example, high density residential development is not compatible with a CBD depot that performs significant night work, or a zoning change to previous 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 to relocate or the expansion of existing facilities.
- Infrastructure design/ condition: the design and construction methodology utilised in the 1960-70 in which many of our depots were built does not accommodate an efficient operating depot today.
- Co-location: the renewal of one or both non-system and system assets based on the same site can lead to simultaneous projects. For example, the renewal of a distribution/ zone substation and depot that are collocated.
- Strategic location of functions: the location of specialist fleet maintenance garage facilities, satellite stores and refuelling facilities that service large geographic areas.

All of these criteria are considered when we form our decisions as to how we prioritise and commit non-system capex and minimise non-system opex for property. Examples include:

- The roll-off of the Transitional Services Agreement (TSA) will enable property leases to completed and owned property to be utilised for core business, and or leased to a commercial tenant.
- The business case to refurbish Roden Cutler House and relocate staff from the sold Head Office Building will significantly reduce opex associated with rates and taxes on this property.

4.6 Step changes and change factors between periods (if applicable)

During the 2014-19 period, the following step changes and change factors in activity has been incorporated into the forecast:

- Ausgrid Head Office Building (HOB) sale and lease back;
- non-system property maintenance previously booked in system maintenance; and
- Cost Allocation Method (CAM) Impact.

5. Forecast approach

We have relied on a base year/bottom up approach to forecast opex for the Property Opex Plan for the 2014-19 period.

5.1 Introduction to forecast approach

The purpose of this section is to provide an overview of the process we have used to derive the total opex forecast for the Property Opex Plan. In doing so, we have taken into account the business as usual operations carried forward from the 2009-14 period and the circumstances in the 2014-19 period as described in Section 4.2. We have included in Section 7 of this overview snapshots of supporting analysis used in calculating opex for the Property Opex Plan. The model used to forecast the expenditure requirement for the Property Opex Plan is also provided and accompanies this overview (Property forecast opex model ID00067).

5.2 General approach

Ausgrid has developed a separate plan for property activities. The plans have largely relied on high level models rather than detailed bottom up forecasting. Our forecasting methods across the plans are based on robust assumptions. Synergies with other plans such as capital programs and NERP initiatives are considered and are accounted for at a high level. The impact of material step changes and change factors has also been incorporated into the forecast.

A summary of our general method is set out below, with further information provided in Section 7.

5.3 Model approach

Ausgrid's business as usual Property Opex Plan forecast has been mostly based on a base year approach. This approach has taken Ausgrid's underlying budget for FY2014 as an adjustment of base year FY2013 and applied real escalations for labour hire and materials cost categories. The detailed forecast model calculations can be found in Section 7 and in the Property forecast opex model (ID00067).

5.4 Key assumptions

Our forecast approach is based on consistent and robust assumptions of the future. The key assumptions include:

- The land tax rate is to stay at 2.0 percent.
- For land tax calculation, we have assumed that existing property values will increase by assumed inflation of 2.0 percent per annum.
- Head Office Building sale to be finalised and lease back to start in FY2015.
- Head Office Building lease back will continue for three years, based on a two year lease with the option to extend another year.

- The cost for the Head Office Building lease is a net lease, consequently all maintenance and charges for Head Office Building are still borne by Ausgrid until the end of the lease.
- Cost escalation factors:
 - labour hire real escalation; and
 - material real escalation.

5.5 Impact of capital investment

Our total forecast opex has identified overlaps which will occur between operational activities and capital investment programs. A bottom up approach has been adopted in calculating the incremental costs and benefits which are further elaborated on in Section 7.

5.6 Impact of NERP initiatives

The consolidation of system property building maintenance is the main Network Energy Reform Program (NERP) initiative within this space. This program is underway and will result in the outsourcing of this activity within Ausgrid’s south region to match our delivery model in the north region.

5.7 Impact of step changes and change factors

As a consequence of the circumstances resulting in a step change or a change factor in underlying business operations, a bottom up approach has been adopted in calculating the incremental costs. These relate to:

- Ausgrid Head Office Building sale and lease back;
- non-system property maintenance previously booked in system maintenance; and
- the CAM.

Key Items	Total \$m (FY2013/14 real)
Property Branch management	175.2
Land Tax	89.9
HOB Sale and Lease Back	16.3
CAM Impact	-4.9
Non-system Property Maintenance	20.3
Total	296.7

6. Forecast outcomes

We have forecast \$296.74 million of opex for the Property Opex Plan

6.1 Introduction to forecast outcomes

The purpose of this section is to provide a more detailed breakdown of forecast outcomes.

6.2 Forecast outcomes

In total, the total forecast opex for property is \$296.74 million. The breakdown by cost component is provided in the table below. The split of the total forecast opex between distribution and transmission is provided in the second table.

	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	8.5	8.9	9.1	9.3	9.4	45.3
Materials	0.4	0.4	0.4	0.4	0.4	2.1
Contracted Services	11.1	10.1	9.9	8.7	8.9	48.7
Labour Hire	0.5	0.5	0.5	0.5	0.5	2.5
Other	42.4	43.4	45.3	33.8	33.3	198.2
Total	62.8	63.4	65.2	52.7	52.6	296.7

	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Transmission	8.9	9.0	9.3	7.4	7.4	42.0
Distribution	53.9	54.4	56.0	45.3	45.2	254.8
Total	62.8	63.4	65.2	52.7	52.6	296.7

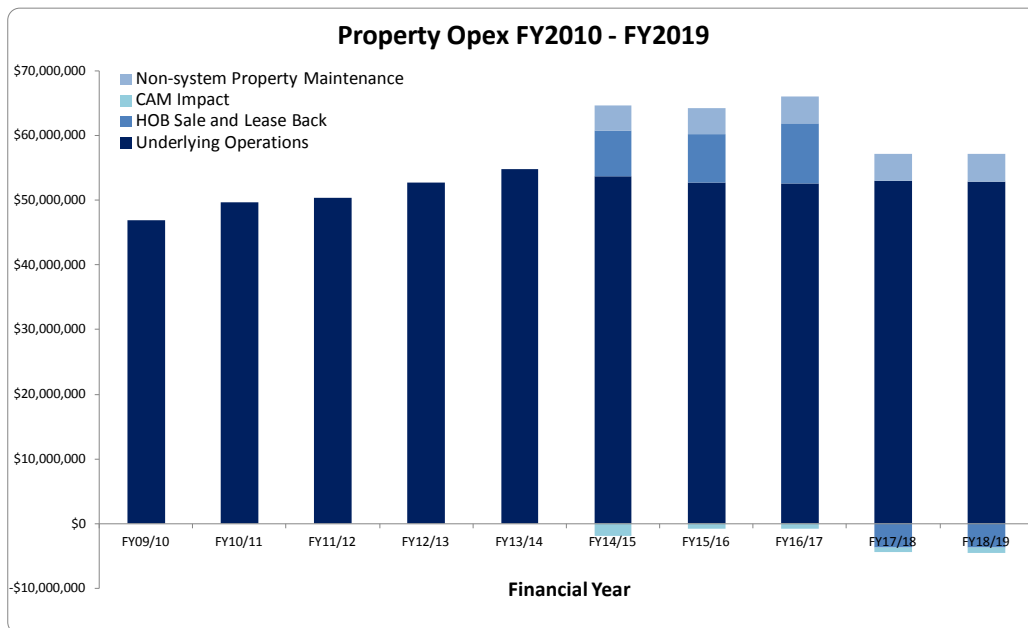
*Note: totals may not add up due to rounding.

6.3 Comparison to previous expenditure

The graph and table below shows that Ausgrid's property proposed opex is 16.6 percent higher (real 2013/14) than actual expenditure during the 2009-14 and 32.5 percent higher (nominal) than the allowance for the same period. As previously mentioned in section 4.6, the increase in opex from the 2009-14 period to the 2014-19 period has been influenced by the following factors:

- Ausgrid Head Office Building (HOB) sale and lease back;
- non-system property maintenance previously booked in system maintenance; and
- the impact of the CAM.

A ten year depiction of property opex is provided in the graph below. The graph shows that while Ausgrid’s property opex requirements have grown over time the underlying level of property opex forecast for the 2014-19 regulatory period is relatively consistent with the 2009-14 regulatory period.



7. Supporting Analysis

7.1 Forecast model

Excel has been used to setup up a forecasting operational expenditure model. The model uses FY2013 opex as a cost base escalated to June 2014 with adjustments to reflect the underlying budget for FY2014. The complete model can be found as an attachment to this overview (Property forecast opex model ID00067).

For property opex, the base year adjustments are mainly in relation to security operations. This group was previously assessed out to other divisions. Other adjustments involve excluding TSA loss of synergies of \$1.1m from the FY2014 base year which was allocated external lines of business prior to escalation.

Ausgrid profit centres that fall under the Property Opex Plan are as follows:

- 40088 – Property & Fleet Management
- 40040 – Property Branch Management
- 40041 – Property Portfolio Management
- 40042 – Administration Property
- 40043 – Network Property
- 40044 – Lease/Easements/Licences Management
- 40036 – Garage Services HOB
- 20004 – Security Operations
- 40045 – Environmental Remediation
- 20076 – Asset Services

The opex in each profit centre are classified as being labour, labour hire, contracted services, material and other. Land tax, which is a major expense is classified as other. The costs exclude those booked to Plant Maintenance Orders (PMO) as they are categorised as system maintenance.

The underlying budget for FY2014 for each cost category is aligned with Ausgrid's Statement of Corporate Intent (formal budget) excluding loss of synergies as a result of the TSA. These costs are escalated using real escalation for Labour Hire and Contracted Services. Resulting output of the model is in FY2014 Real dollars.

The following will discuss the calculation methodology of each step change or change factor.

7.2 Land tax

Land tax has been forecast using a bottom up methodology. The starting point of the calculation is the aggregated taxable land value as at December 2012 based on the 2013 Land Tax notice from the Office of State Revenue (OSR). The total land value was \$897,890,067.

To calculate the ending balance of land value for future years the existing property value was escalated by 2.0 percent. In addition, land values for property acquisitions were added and property disposals deducted to adjust the existing property value in recognition of Ausgrid's wider property strategy.

The list of system property acquisitions and disposals was obtained from Ausgrid's Sub-transmission Planning Group. It is assumed the acquisitions will be finalised in the middle of the

financial year whereas the disposals are to be settled at the end of the financial year. Figure 1 is an excel snapshot of this system property list

Figure 1: System property list for the 2014-19 regulatory period

Property Through to 22/23	Item	Capex 13/14	Driver	Capex 14/15	Capex 15/16	Capex 16/17	Capex 17/18	Capex 18/19	TOTAL
AT	Lidcombe			6					
	New Dalley Street (Site Investigations)		Repl.		2				
	Sydney University (Site Contribution)		Growth		4				
	New West Warnervale		Growth		1				
	Muswellbrook Zone	-0.52							
AD	Drummoyne (Enlarge Site)		Repl.	3					
	Future Sydney A		Repl.			8			
	Future Hunter A		Repl.			3			
	Future Sydney B		Repl.					3	
	Future Hunter B		Repl.					1	
	Future Sydney C		Repl.					8	
	Future Hunter C		Repl.					3	
	Whittingham		Growth			1			
	Lidcombe	8							
		9.52		9	7	4	11	15	46
DT	Ourimbah (Yates Rd cottages)	-1.2							
	Belmore Park (Residual)	-10							
DD	(D1) Balgowlah (State Heritage)			-2.80					
	(D2) Bexley			-2.40					
	(D4) Carlton (Ecole Street)			-2.70					
	(D6) Five Dock							-1.60	
	(D8) Nth Sydney							-4.70	
	(D9) Padstow				-0.80				
	(D10) Randwick (State Heritage)					-1.40			
	(D11) Ryde 66					-3.70			
	(D12) Sydney CBD (ex City Nth 33)			-8.00					
	(D13) Sydney CBD (183-185 Clarence)			-10.00					
	(D14) Aberdeen					-0.01			
	(D16) Anna Bay (ex Shortland Future)			-0.40					
	(D17) Broadmeadow 33					-0.70			
	(D18) Carrington 33							-0.03	
	(D19) Dudley				-0.05				
	(D20) East Maitland							-0.30	
	(D21) Edinglassie (ex Zone Site)			-0.01					
	(D22) Empire Bay (Regulator Site)				-0.90				
	(D23) Fountaindale (270 Peach Orchard)				-0.30				
	(D24) Kurrie (132kV Zone Residual)			-0.60					
	(D25) Kurrie (ex 33kV)			-0.60					
	(D26) Medowie (Kirrang Drive)			-0.30					
	(D27) Maitland Central					-1.00			
	(D28) Mayfield West (Residual)			-1.60					
	(D29) Mayfield 33				-0.80				
	(D30) Rathmine Temp					-0.40			
	(D31) Scone 33				-0.20				
	(D32) Shortland				-0.50				
	(D33) Toronto						-0.25		
	(D34) Valentine			-0.50					
	(D35) Wallsend				-0.50				
	(D36) Wamberal (Residual)				-1.80				
	Carlton 33kV	-1.3							
	Kurri 33kV			-0.60					
		-12.7		-30.51	-5.85	-7.21	-0.25	-6.63	-50.45

In calculating total land tax, \$406,000 is deducted from the ending balance for each year to get taxable land value. This amount is the exempted threshold in 2013 and is assumed to remain in place from 2014-19. Land tax is assumed to be 2.0 percent per annum applied to the ending balance which is equal to taxable land value minus property disposals. Land tax for the financial year is the average of this year and the previous year. To obtain land tax for Standard Control Services, an amount of \$970,709 was deducted. This was the amount of land tax allocated to external lines of business. A snapshot of non-system property disposals forecast for the 2014-19 regulatory period is provided in Figure 2.

Figure 2: Non-system property disposals for the 2014-19 regulatory period

NON SYSTEM DISPOSALS	
FY2015	
9 Blakett St West Gosford - pole depot premises	1,240,000
22-48 Faunce St & Racecourse Rd West Gosford - depot premises	4,000,000
Brisbane St & Wilfred Barrett Dr Noraville - Wyong depot premises	583,000
	5,823,000
FY2017	
Subdivide & sell surplus (approx 20%) of Dee Why Depot land at Dympna St & 21 Middleton Rd Dee Why	
570 George St Sydney	3,840,000
FY2018	
71-85 Constitution Rd West Meadowbank training depot premises	1,250,000
570 George St Sydney	22,000,000
	23,250,000
FY2019	
130 Joynton Ave Zetland	12,300,000
	12,300,000

A version of the model is run without the property acquisitions and disposals. The difference between the two versions is presented as the step change and change factors due to property acquisitions and disposals. A snapshot of the wider workings of the model for estimating land tax expenditure is provided in Figure 3.

Figure 3: Snapshot of property opex model land tax calculation

	Opening balance	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
SYSTEM										
Acquisition		28,262,207	20,497,996	9,110,400	9,520,000	9,000,000	7,000,000	4,000,000	11,000,000	15,000,000
Disposal		139,182	6,578,409			12,700,000	30,510,000	5,850,000	7,210,000	250,000
		28,123,025	13,919,587	9,110,400	9,520,000	-3,700,000	-23,510,000	-1,850,000	3,790,000	14,750,000
OSR Assessed Land Values 2009	640,744,000									
Estimate of VG Portfolio Land Value Increase %		0.90%	0.20%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Cumulative factor for Land Acquisitions			1.00	1.00	1.02	1.04	1.06	1.08	1.11	1.13
Ending Balance		674,633,721	689,902,575	712,829,248	736,815,654	747,694,788	737,649,785	750,396,276	769,597,037	801,633,095
NON SYSTEM										
Acquisition		26,736,000	10,300,000							
Disposal						5,823,000		3,840,000	23,250,000	12,300,000
		26,736,000	10,300,000			-5,823,000		-3,840,000	-23,250,000	-12,300,000
OSR Assessed Land Values 2009	140,000,000									
Estimate of VG Portfolio Land Value Increase %		0.00%	0.20%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Cumulative factor for Land Acquisitions			1.00	1.00	1.02	1.04	1.06	1.08	1.11	1.13
Ending Balance		166,736,000	177,369,472	180,916,861	184,535,199	182,155,537	185,798,648	185,349,768	163,335,545	152,722,755
LAND TAX										
SYSTEM										
Exempt threshold		387,000	396,000	406,000	412,000	412,000	412,000	412,000	412,000	412,000
Residual valuation		674,246,721	689,506,575	712,423,248	736,403,654	747,282,788	737,237,785	749,984,276	769,185,037	801,221,095
Land tax rate		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
OSR Land Tax Assessment as at 31 Dec		13,484,934	13,790,132	14,248,465	14,728,073	14,945,656	14,744,756	14,999,686	15,383,701	16,024,422
Land Tax - System Prop			13,637,533	14,019,298	14,488,269	14,836,864	14,845,206	14,872,221	15,191,693	15,704,061
NON SYSTEM										
Exempt threshold										
Residual valuation		166,736,000	177,369,472	180,916,861	184,535,199	182,155,537	185,798,648	185,349,768	163,335,545	152,722,755
Land tax rate		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
OSR Land Tax Assessment as at 31 Dec		3,334,720	3,547,389	3,618,337	3,690,704	3,643,111	3,715,973	3,706,995	3,266,711	3,054,455
Land Tax - Non System Prop			3,441,055	3,582,863	3,654,521	3,666,907	3,679,542	3,711,484	3,486,853	3,160,583
Land Tax - Non System Prop	Deduct ELOB		-1,071,149	-970,709	-990,123	-993,479	-996,902	-1,005,557	-944,697	-856,300
TOTAL Land Tax NLOB			16,007,438	16,631,452	17,152,666	17,510,292	17,527,845	17,578,148	17,733,849	18,008,344

7.3 Maintenance of new and disposed non-system property

Furthermore, the model also calculates new and disposed non-system premises and their respective maintenance costs in order to adjust the base value of opex. A snapshot of this expenditure is provided in Figure 4.

Figure 4: Maintenance costs for new and disposed premises

	Contracted Services	Other	Total
New Premises			
Creek Rd Ourimbah FY2016	200,000	205,000	405,000
O Riordan St Alexandria FY2017	309,000	430,000	739,000
Brunker Rd Potts Hill (50% Additional Opex) FY2017	85,000	96,000	181,000
	594,000	731,000	1,325,000
Disposed Premises			
Racecourse Rd West Gosford FY2016	179,000	161,000	340,000
9 Blackett St West Gosford FY2016	7,000	9,000	16,000
Brisbane St & Wilfred Barrett Dr Noraville FY2016	110,000	50,000	160,000
Carter St Homebush FY2017	135,000	150,000	285,000
Constitution Rd Meadowbank FY2018	128,000	41,000	169,000
130 Joynton Ave Zetland FY2019	321,000	345,000	666,000
	880,000	756,000	1,636,000

These costs are added or deducted in applicable years depending on the status of the property at that point in time. As the costs are in FY2012 dollars, they have been escalated to FY2014 dollars. A snapshot of the wider workings of the model for estimating maintenance costs is provided in Figure 5.

Figure 5: Snapshot of property opex model maintenance calculation

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	Total
Escalator CPI by year	1.0113	1.0367	1.0000	1.0000	1.0000	1.0000	1.0000	
Escalator Contracted Services- Index	1.0039	1.0406	1.0465	1.0576	1.0752	1.0940	1.1139	
Escalator Other - Index	1.0078	1.0251	1.0000	1.0000	1.0000	1.0000	1.0000	
	Contracted Services	Other	Total					
New Premises								
Creek Rd Ourimbah FY2016	200,000	205,000	405,000	202,500	405,000	405,000	405,000	1,417,500
O Riordan St Alexandria FY2017	309,000	430,000	739,000		739,000	739,000	739,000	2,217,000
Brunker Rd Potts Hill (50% Additional Opex) FY2017	85,000	96,000	181,000		181,000	181,000	181,000	543,000
	594,000	731,000	1,325,000	202,500	1,325,000	1,325,000	1,325,000	4,177,500
Disposed Premises								
Racecourse Rd West Gosford FY2016	179,000	161,000	340,000	170,000	340,000	340,000	340,000	1,190,000
9 Blackett St West Gosford FY2016	7,000	9,000	16,000	8,000	16,000	16,000	16,000	56,000
Brisbane St & Wilfred Barrett Dr Noraville FY2016	110,000	50,000	160,000	80,000	160,000	160,000	160,000	560,000
Carter St Homebush FY2017	135,000	150,000	285,000		142,500	285,000	285,000	712,500
Constitution Rd Meadowbank FY2018	128,000	41,000	169,000			84,500	169,000	253,500
130 Joynton Ave Zetland FY2019	321,000	345,000	666,000				666,000	666,000
	880,000	756,000	1,636,000	258,000	658,500	885,500	1,636,000	3,438,000
Admin Premises - 570 George St Sydney FY2018	1,681,000	1,866,000	3,547,000			3,547,000	3,547,000	7,094,000
2012 dollars								
Non System property maintenance changes								
New Premises	Contracted Services			100,000	594,000	594,000	594,000	1,882,000
	Other			102,500	731,000	731,000	731,000	2,295,500
				202,500	1,325,000	1,325,000	1,325,000	4,177,500
Disposed Premises	Contracted Services			148,000	363,500	495,000	880,000	1,886,500
	Other			110,000	295,000	390,500	756,000	1,551,500
				258,000	658,500	885,500	1,636,000	3,438,000
Maintenance changes - Other	Contracted Services			-50,763	247,836	108,310	-318,575	-13,192
	Other			-7,500	436,000	340,500	-25,000	744,000
				-58,263	683,836	448,810	-343,575	730,808

7.4 Rent changes

In addition to maintenance costs, rent forecast for future years is also factored into the model and these costs are obtained from Ausgrid's Property Group as per lease agree terms. Similar to the maintenance costs calculation above, the rent forecast is escalated to real FY2014 dollars from FY2012/13 dollars. The difference between escalated base year rent and rent forecast is presented as a rent step change/change factor. Ausgrid has considered the continuation of these lease arrangements prior to factoring them into its property opex forecast. More information and workings can be found in the Property forecast opex model (ID00067).

7.5 Head Office Building sale and lease back

Finally, due to the sale of Ausgrid's Head Office Building in the 2009-14 regulatory period, we have factored in the lease back of the Head Office Building into our property opex forecast. The lease back includes the net lease for the first two years in the period with the option to extend one year. Included also is the 'make good costs' and adjustments to reflect savings from not having to maintain Head Office Building after the lease is finished. More information and workings can be found in the Property forecast opex model (ID00067).