



31 January 2023

Attachment 5.11: Property plan for 2024-29

Ausgrid's 2024-29 Regulatory Proposal

Empowering communities for a resilient,
affordable and net-zero future.



Contents

1.	Executive summary	3
2.	Background	5
3.	Our 2024-29 proposal	9
4.	Customer Impact – NPV Analysis	14
5.	Project Governance and Delivery.....	19

1. Executive summary

1.1 Overview

Ausgrid is proposing nominal \$168 million in non-network property capital expenditure (\$158 million in real FY24 dollars) for the forthcoming 2024-29 regulatory period. The standard control services (**SCS**) component of this proposal is \$145 million, after applying Ausgrid's approved cost allocation methodology (**CAM**).

The forecast property capex program aims to deliver a property portfolio which, by FY29, is flexible and adaptive to rapid shifts in customer requirements, while also maintaining safety for our workforce and the community.

1.2 What is Non-Network Property?

Non-network property includes offices and depots located throughout Ausgrid's distribution area and enables Ausgrid to house office and field staff who are critical to supporting our network and corporate functions.

The core types of non-network property owned or leased by Ausgrid include:

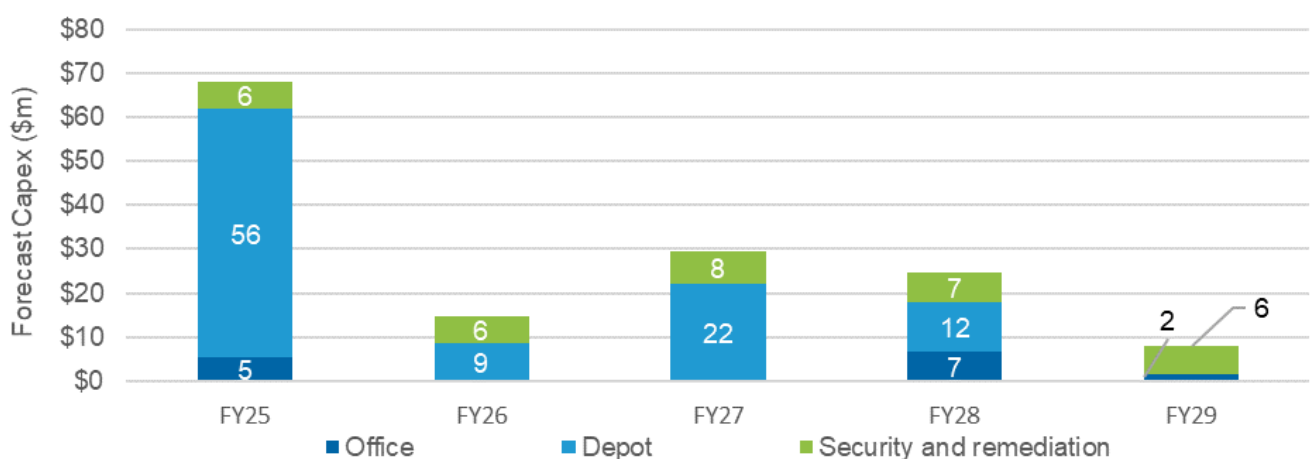
- Office accommodation: To house office staff involved in the direct planning of the network and project management of network investments;
- Depots: To enable our field staff to construct new network assets, undertake preventative and corrective maintenance on network assets and respond to reliability incidents;
- Other: Such as training/testing facilities, warehouses and storage yards.

1.3 What is our forecast expenditure for Non-Network Property?

Our 2024-29 non-network property SCS forecast of \$145 million (real, FY24) is 17% less than the actual/estimated \$174 million (real, FY24) spend in the 2019-24 regulatory period.

Figure 1 shows the forecast SCS component of capital expenditure on non-network property over the 2024-29 regulatory period, by project type.

Figure 1: Forecast non-network SCS property capex in the 2024-29 period (\$m, real FY24)



1.4 What is driving our forecast expenditure?

The 2024-29 non-network property capex forecast is driven by the following key objectives:

- Maintaining the security and effectiveness of Ausgrid's property portfolio;

-
- Remediating identified and emerging workplace health and safety risks;
 - Managing the uncertainty and risk associated with community or economic shifts; and
 - Optimising the use of property assets, including the rationalisation and consolidation of depots and other sites, particularly considering recent transformation initiatives and the commercial and operating impacts of the COVID-19 pandemic.

One of the key transformation initiatives driving the forecast expenditure is the Accommodation Strategy initiative which aims to optimise the existing depot portfolio, and align Ausgrid's depots with workforce planning, fleet and supply chain requirements.

The Accommodation Strategy has identified and proposed a hybrid 'hub and spoke' depot and office portfolio framework. This provides an optimised footprint of a small number of larger depot 'hubs' (referred to as 'Main Depots'), such as the recently completed Artarmon Depot, supported by a group of efficiently located, smaller spoke-type depots (referred to as 'Satellite Depots').

The completion of Phase 2 of the Accommodation Strategy design process has resulted in the recommended acquisition and construction of Main Depots in the South Sydney and Newcastle regions, the repurposing or acquisition of several Satellite Depots, and the closure of a number of underutilised and suboptimal depot sites across the portfolio.

1.5 What are the outcomes of our forecast expenditure?

The proposed non-network property capital expenditure will allow for:

- The investment in 5 new depots;
- The extension/refurbishment of 9 existing sites; and
- Security, safety and workplace improvements across the wider non-network portfolio.

The proposed rationalisation of the non-network property footprint will result in 7 surplus sites, representing 300,000 square metres of land. The surplus sites will then be analysed for disposal, repurposing, or reduction — minimising the impact of rising property costs (such as land tax) and generating sales revenue that can be used to pay down debt.

Ausgrid's proposed consolidation of our non-network property portfolio to a more efficient level is anticipated to drive a bill saving for our customers, with any asset disposal being reflected as an adjustment to our regulatory asset base.




2. Background

2.1 What is Non-Network Property?

Non-network property includes offices and depots that house Ausgrid's office and field staff, supporting the critical network and corporate functions. Non-network property does not include network property assets that contain our electricity network assets.

The core types of non-network property assets that we own or lease are outlined in **Table 1**.

Table 1: Core types of non-network property

	Office	Office accommodation is required to house office staff involved in the direct planning of the network and project management of network investments. The office accommodation also enables our staff to perform our office functions as a DNSP, such as finance, reporting and governance.
	Depot	Depots enable our field staff to construct new network assets, undertake preventative and corrective maintenance on network assets and respond to reliability incidents. Depots are critical for maintaining the reliability and safety of the electrical network across our distribution area in accordance with our compliance obligations.
	Other	Other non-network properties may include learning/training facilities, warehouses and pole/transformer yards which enable us to house the network equipment and test facilities to certify/verify high voltage equipment.

In 2022, the Accommodation Strategy provided an opportunity to take a longer-term, strategic review of our non-network property requirements. This longer-term view incorporates the 2024-29 regulatory period which will be a pivotal time for the consolidation of our existing property requirements into an optimised portfolio that is better suited to meeting the needs of our business and the expectations of our customers.

2.2 Make up of Non-Network Property

Non-network property includes offices and depots located throughout Ausgrid's distribution area, which covers approximately 22,275 square kilometres across Sydney, Central Coast, Newcastle and the Hunter region. Ausgrid currently has 29 operational non-network properties, comprising 24 depot sites, 4 corporate offices, 1 logistics facility and other support facilities located across the Newcastle and the Hunter region, Sydney North, Sydney South & West and Sydney East & Central Business District (CBD).

Our accommodation needs have evolved over time with the result that some sites are no longer suited to changes in our delivery model and consolidation of our operations. This presents disposal opportunities, with the disposal value able to provide a benefit to customers.

The location of non-network properties across the distribution area is intended to enable us to fulfil our network and corporate objectives. However, recent transformation initiatives such as restructuring and the commercial and operating impacts of the COVID-19 pandemic have highlighted opportunities for improvement in the non-network property portfolio which have been addressed in the 2024-29 forecast capex program.

2.3 Capital expenditure drivers

Business decisions relating to capital expenditure on non-network properties focus on replacing, refurbishing or building new assets. These decisions are guided by several regulatory obligations, guidelines and policies, including:

- **Regulatory compliance obligations** – such as National Construction Code, Australian Standards, Building Code of Australia standards, Workplace Health and Safety Act, Environmental Planning Act and Heritage Act, NSW

Government Workplace Guidelines; **Ausgrid Policies** – such as the Health and Safety Management System – previously known as ‘Be Safe’, COVID-19 Protocols and Electrical Safety Rules; and

- **Ausgrid Guidelines** – such as the Health and Safety Strategy, which has the key objective of ‘continually improving control effectiveness to reduce the health and safety hazards and risks across our operations so far as is reasonably practicable’.

The planned capex for the 2024-29 period must also align with the key business objectives and any changes to the business environment now and into the future. This may be impacted by internal and external factors such as:

- Staff numbers (internal factor) which may result in the consolidation of non-network properties;
- Business transformation initiatives (internal factor) to improve and maintain the network service delivery which requires an optimised non-network property portfolio;
- Surrounding land uses and planning controls (external factor) which may dictate the land use typology into the future (such as the encroachment of residential development); and
- Improved technology and connectivity (external factor) may promote further non-network property portfolio consolidation.

The focus for Ausgrid’s non-network property capex program remains implementing the most efficient solution to address the most pressing needs. Cost savings, for example, can be unlocked by installing modern energy efficient systems. Furthermore, all new elements within a new non-network building will be under warranty for periods of between 12 months (for minor items such as fittings and furniture) and up to 10 years.

Where efficient, we look to retire older assets rather than replace them – provided that space utilisation can be optimised and staff can be accommodated in other premises. The subsequent reduction in operational expenditure highlights the interrelationship between opex and capex in our decision-making.

The non-network property capex program is also driven by a number of other qualitative benefits such as staff well-being, productivity, collaboration and knowledge share through co-location.

2.4 Operational expenditure drivers

To maintain the non-network properties that Ausgrid owns, significant operational expenditure (**opex**) is incurred.

Opex may include the following:

- Planned or routine maintenance (such as cleaning and grounds maintenance, fire systems and emergency management, air conditioning, electrical and plumbing, and pest and graffiti control);
- Condition based repairs; and
- Operating costs (such as rent, electricity, water and statutory taxes and rates).

The non-network property strategy aims to achieve the most efficient cost for long term factors such as security of tenure and asset life cycles. This requires efficient capex and opex tradeoffs to determine the most cost-effective solution over the long term.

Whilst this strategy document focuses on the proposed non-network capital expenditure program, it will inherently have an impact on our opex. The tenure of these opex benefits correspond to the expected usefulness of a new depot or office accommodation, which can be 40+ years. For this reason, the bulk of any opex savings, while significant, are likely to reside outside of the 2024-29 period.

These savings, as well as offsetting increases in opex, include:

- The refurbishment or renewal of an existing non-network property or building, which may lead to a reduction in some existing maintenance opex;
- The disposal of any non-network property, which will reduce the current opex;
- The development or acquisition of new assets, which may result in an increase to current opex; and

- A decision to own rather than lease a non-network building, which will lead to a substitution of costs between opex and capex (e.g. no rental payments).

Each investment decision made regarding Ausgrid's non-network properties considers the balance of opex and capex requirements to achieve the most cost-effective option over the long term.

2.5 Our planning principles

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

The following principles aim to provide 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; and
- 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.

2.6 Our business drivers

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

To support Ausgrid's vision for communities to have the power in a resilient, affordable and net zero future, we have:

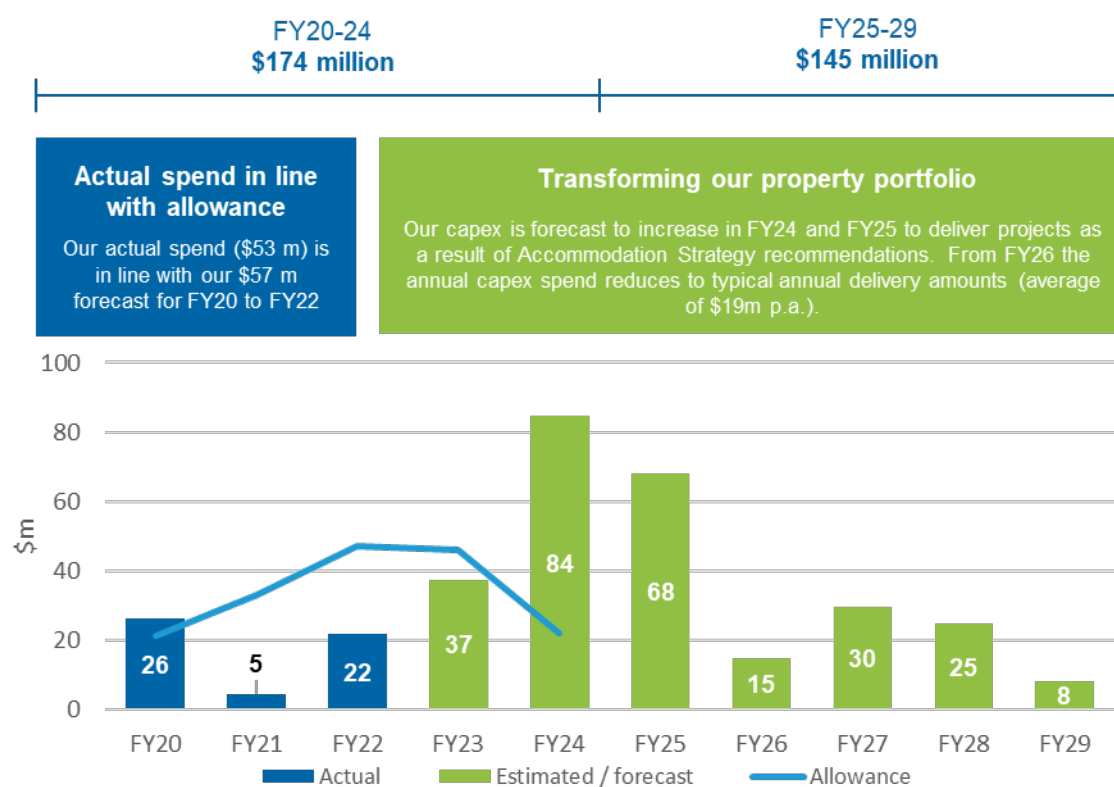
- Reset our levels of service delivery to that of a commercial business;
- Consolidated, reduced, standardised and automated reporting to focus on our business needs;
- Reviewed, simplified and enhanced procedures, policies and practices to focus on our business needs; and
- Broadened roles to adapt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

2.7 Trend in our non-network property spend

Our forecast non-network property capex in the upcoming 2024-29 regulatory period is \$145 million (real, FY24) or 17% less than our expected spend in the 2019-24 period. This trend is set out in **Figure 2** below, which shows our spend in the opening three years of the 2019-24 period was generally lower than our allowance due to the impact of the COVID-19 pandemic and associated market conditions.

We are forecasting an increase in investment in the remaining years of the 2019-24 regulatory period and first year of the next regulatory period to deliver the Accommodation Strategy recommendations, including the planned Southern Regional Strategy. After this, our 2024-29 capex declines per annum relative to the peak in FY24.

Figure 2: Trend in SCS non-network property capex spend (\$m, real FY24)



3. Our 2024-29 proposal

3.1 Overview

Ausgrid is proposing \$168 million (real FY24) in non-network property capital expenditure for the forthcoming 2024-29 regulatory period. The SCS component of this proposal is \$145 million (real FY24), after applying Ausgrid's approved CAM.

The forecast property capex program will continue a program of consolidating and modernising the non-network property portfolio. The overarching goal is to provide safe, secure and fit-for-purpose workplaces for staff, which are flexible and adaptive to rapid shifts in customer requirements and provide reliable and timely services to meet customer needs.

The capex program is largely driven by the Accommodation Strategy initiative, which seeks to align the non-network property portfolio to operational and workforce requirements.

3.2 Accommodation Strategy

Over the course of FY22 Ausgrid conducted a review of all Ausgrid sites being utilised to accommodate staff. Its aim was to develop a new accommodation strategy that:

- Reduced accommodation costs over useful life of these assets(up to 40 years);
- Maintained operational performance and existing service levels for customers; and
- Supported improvements in Ausgrid's culture by enhancing the spaces our teams work in.

The Accommodation Strategy comprised 3 phases:

- **Phase 1:** Strategic options analysis and strategy selection;
- **Phase 2:** Development of a Minimum Viable Product (**MVP**) and individual accommodation reports; and
- **Phase 3:** Implementation and sequencing.

Phase 1 of the Accommodation Strategy considered the 7 options outlined in **Table 2** below. The analysis found Option 3 (Targeted Hub & Spoke model) to be the preferred option due to its minimization of travel time. It also preserves more option value compared to other models, as its 'targeted' approach allows for modification in the future if our customer needs or operations change.

Table 2: Accommodation Strategy Phase 1 – Strategic Options

Option	Description
1. Traditional Hub & Spoke	This option has strategically located 'Hub' depots across Ausgrid's Distribution areas that are supported by an extensive dispersed spoke / satellite depot network.
2. Incremental Optimisation	This option minimises site closures to sites already tagged for divestment (e.g. Zetland and Ultimo) and maintains a strong depot footprint through a mix of Main and satellite sites and a new Main Depot located in close proximity to the CBD.
3. Targeted Hub & Spoke	This option has one strategically located Hub depot per distribution region that is supported by a small number of targeted satellite depots that seek to provide network coverage and to reduce travel time.
4. Centralisation	This option creates 'super depots' in a central location in each region that are supported by a small number of satellite depots.
5. Super Depots	This option is the MVP, comprised of only three 'super depots' and no satellite depots, not taking into account the existing property footprint. One super depot located in the North and one either side (north and south) of Sydney CBD.

6. Ultimate Optimal State	This option considers the establishment of a small number of 'Hub' depots supported by less than a dozen satellite depots, not taking into account the existing property footprint.
7. Depot Elimination	This option eliminates all operational depots, with field based resources working directly from home and/or from operational compounds where they need access to heavy fleet, plant & equipment.

Phase 2 of the Accommodation Strategy focused on the development of a MVP for main and satellite depots, and the application of the MVP to existing and new sites within the non-network portfolio. This resulted in a refined Targeted Hub & Spoke model with specific recommendations for each site (see **Figure 3**).

Figure 3: Accommodation Strategy Phase 2 – MVP Analysis Results

	Main	Satellite	Decommission	Corporate
Hunter / Newcastle	<ul style="list-style-type: none">• Beresfield• South Newcastle Dept*	<ul style="list-style-type: none">• Muswellbrook Depot• Singleton Depot• Cessnock Depot• Merriwa Depot• Salt Ash Depot	<ul style="list-style-type: none">• Wallsend Depot• Wallsend Administration	<ul style="list-style-type: none">• Newcastle Corporate Facility Lease*
Central Coast	<ul style="list-style-type: none">• Ourimbah Depot	<ul style="list-style-type: none">• Somersby (warehouse)	<ul style="list-style-type: none">• n/a	<ul style="list-style-type: none">• n/a
Sydney North	<ul style="list-style-type: none">• Artarmon Depot	<ul style="list-style-type: none">• Dee Why Depot^• Mt Kuring-gai Depot• Thornleigh Depot*	<ul style="list-style-type: none">• Hornsby Depot• Meadowbank Depot*• Lane Cove Testing Station*	<ul style="list-style-type: none">• Artarmon Depot• Roden Cutler House• Pymont***• Silverwater Learning Centre
Sydney CBD, South & East	<ul style="list-style-type: none">• Sydney South Depot*	<ul style="list-style-type: none">• Alexandria Depot*• Homebush Depot^• Shire Depot (Oatley replacement)*	<ul style="list-style-type: none">• Oatley Depot• Potts Hill Depot• Cronulla (DOps)^• Sefton (DOps)^• St Peters Zone (DOps)^• Menai Depot (PES)• Ultimo Mountain Street*• Zetland Depot**	
<div><div>*New site</div><div>*Site already tagged for decommission</div><div>**Site already sold</div><div>***Retain and lease, relocate workers to other sites</div></div>				
<div>^Site to be reconfigured to enable lease / sale of excess land</div>			<div>^^Impact on response times to be confirmed</div>	

Phase 3 of the Accommodation Strategy will develop an implementation and sequencing plan for the recommended strategy.

3.3 Outcomes of Accommodation Strategy

The proposed \$145 million (real FY24) in SCS non-network property capital expenditure for the recommended strategy under the Accommodation Strategy initiative will allow for the investment in:

- 5 new depots;
- 1 new office lease (Newcastle CBD); and
- 9 existing site modifications or refurbishments.

The proposed rationalisation of the non-network footprint will reduce the non-network portfolio by 7 sites, representing 300,000 square metres of land (38% of the non-network property portfolio), subsequently leading to operational efficiencies.

Despite the large reduction in sites and property footprint, there will be less than an average of 2 minutes impact to the response times to service customers, with 98% of the network still accessible in under 30 minutes. This analysis was undertaken by specialist consultants¹ through the detailed review of mapping and travel time data from operational depots to the customer base, including to major and minor network substations across the region and is forecast to be further mitigated through enhanced depot layout, warehousing and traffic management flows.

¹ KPMG, 2022

3.4 Total 2024-29 forecast capex for non-network property

The forecast property capex program aims to deliver a property portfolio which, by 2029, is flexible and adaptive to rapid shifts in customer requirements, while also maintaining safety and operational efficiency for our workforce and the community. Our proposed SCS capex program is outlined by project type in **Table 3** and by program in **Table 4** below. It can be summarised as follows:

- A transition to a targeted hub and spoke depot model, as recommended in the Accommodation Strategy analysis, providing Main Depots at regional hubs and Satellite Depots to ensure full distribution network coverage. This will include 5 new depots;
- The continued and staged roll-out of major capital works in the form of refurbishment of, or extensions to 9 non-network properties, to address issues at our ageing depots;
- Centralisation of office-based staff to ensure a collaborative future workplace environment and maximise co-location benefits;
- A new office lease (Newcastle CBD); and
- A number of general refurbishment and other minor capital works programs across our non-network properties to streamline operations and minimise underutilised landholdings.

Table 3: Forecast SCS non-network property capex by project type 2024-29 (\$m, real FY24)

Project Type	FY25	FY26	FY27	FY28	FY29	Total
Office	5	0	0	7	2	14
Depot	56	9	22	12	0	99
Security and remediation	6	6	8	7	6	33
TOTAL	68	15	30	25	8	145

Table 4: Forecast SCS non-network property capex by program 2024-29 (\$m, real FY24)

Program	FY25	FY26	FY27	FY28	FY29	Total
Southern Regional Strategy						
Newcastle Region						
Engineering Design and Collaboration Centre						
Security Upgrade						
Hunter Depot						
Sydney North						
General Remediation and Modernisation						
TOTAL	68	15	30	25	8	145

Current conditions forecast a downturn in the property market. However, this is anticipated to improve over the next regulatory period. Furthermore, while construction costs have increased significantly in recent years, these are anticipated to ease into the next regulatory period.

Although costs may increase in one particular project or location identified, these are anticipated to be offset by potential reductions in other projects or locations which will minimise any movement in overall forecast capex spend over this period.

3.5 Project Summaries

Table 5 and **Table 6** below provide overviews of the non-network property projects planned for the 2024-29 regulatory proposal, including projects that were previously identified in the 2019-24 regulatory proposal and new projects that have been identified. For detailed analysis of each program, see Feasibility Studies and Models Models prepared by JLL in **Attachment 5.11.a to 5.11.l**.

Table 5: Projects included in FY20-24 regulatory proposal

Project type	Project name	Description
Depot	Newcastle Region Project	Project to facilitate transfer of logistics, fleet and other primary services to larger site adjoining Beresfield Depot increasing operational efficiency and moving away from residential encroachment in Wallsend. Proposed closure and disposal of the Wallsend Depot and Admin sites following control room relocation (new project identified in 2024-29 submission).
	Somersby Logistics Warehouse Project	Required to replace dilapidated large logistics facility on Central Coast and relocate to improve supply chain efficiencies and enhance protection of stored equipment including pole storage and material handling across the portfolio.
	Thornleigh Region Project	Closure of the Hornsby Depot site identified in previous regulatory submission, with works to occur at alternative depot locations as part of the depot rationalization initiative. New depot to be purchased in Thornleigh to accommodate Hornsby Depot functions.
Security and Remediation	Security Upgrade Projects	General site hardening and monitoring centre.
	General Depot Refurbishment Project	General refurbishment works across portfolio to maintain ongoing depot safety and functionality.
	Future Workplace Project	Upgrade of retained depots to agile working facilities.
	Depot Rationalisation Project	Mandatory remediation of sites for closure.

Table 6: New projects identified for FY24-29 regulatory proposal

Project type	Project name	Description
Depot	Southern Region Hub	Proposed Main Depot in Riverwood/Kingsgrove region resulting in closure of Potts Hill, Oatley and the reduction of Homebush to a Satellite Depot. Capex cost includes property acquisition (see ' <i>Project Feasibility Analysis – Southern Regional Strategy</i> ').
	Newcastle South Depot	Project to relocate Field Operations teams to new facility to service Newcastle CBD and South Newcastle at existing Mayfield West Substation site or alternative location.

	Sutherland Satellite Depot	New project to create small efficient depot and facilitate closure of Oatley site which is no longer required in current location.
	Cessnock Depot Project	Replacement of aged and dilapidated depot site in Central Hunter region customer hub to improve operational efficiencies.
	Muswellbrook Depot Project	Replacement of aged and dilapidated depot site in Northern Hunter region customer hub to improve operational efficiencies.
	Artarmon Engineering and Operations Depot	Completion of Artarmon Engineering and Operations Depot project to reduce Sydney CBD staff footprint and centralise engineering staff from remote locations to enhance operating efficiencies.
	Newcastle Control Room Depot Project	Relocation of back-up control room from Wallsend Depot to new location (likely Beresfield).
Office	Newcastle Corporate Office	Capex lease for six years to relocate office staff to agile working location in Newcastle CBD (or surrounding area) close to public transport to facilitate new ways of working and enable closure of Wallsend Admin site, pending control room relocation to alternative location.
	RCH Collaboration Centre	Enhance office and meeting space capabilities to align with post pandemic workspace requirements. The meeting room and collaboration space project will support the decentralized depots.

4. Customer Impact – NPV Analysis

Net Present Value (**NPV**) calculations are in development for the 2024-29 Non-Network Property Capital Expenditure Program at a program level.

Ausgrid engaged specialist consultants JLL to prepare a Feasibility Study (**Attachment 5.11.a to 5.11.I**) for each of the identified programs including:

- Southern Region Program;
- Newcastle Region Program;
- Engineering Design and Collaboration Centre Program;
- Sydney North Program; and
- Hunter Depot Program.
- Security Upgrade Program; and
- General Depot Remediation and Modernisation Program.

Subsequently, specialist consultants Earnst & Young (**EY**) have been engaged to support with the regulatory NPV modelling of the programs, using Ausgrid's internal regulatory NPV model.

Due to the operational nature of the non-network properties, the NPV calculations do not consider the underlying value of the operations conducted from these properties. However, this assumption is kept consistent across all tested scenarios.

Despite this, the investment in non-network property is justified in relative terms compared to the base case scenario (minor repairs and refurbishments) as the base case results in an increasing maintenance cost base over time and hence a lower NPV outcome.

4.1 Overview

The NPV modelling conducted for the 2024-29 Non-Network Property Capital Expenditure Program considers the following cash and probabilistic benefits:

- Maintenance benefits;
- Disposal proceeds;
- Reliability and productivity;
- Safety benefits;
- Environmental benefits; and
- Protective security benefits.

Due to the indirect nature and the challenges to quantify, some benefits have been kept qualitative in the JLL analysis. Where possible, Ausgrid has worked with JLL and EY to quantify and allocate the remaining benefits across the various programs, with the methodologies outlined in the following sections.

4.2 Maintenance Benefits

The closure and reduction of aged and dilapidated depots that are beyond their recommended useful life will minimise the anticipated increase in maintenance costs as the buildings continue to age and deteriorate through further occupation.

Construction of modern fit-for-purpose and code compliant facilities will minimise maintenance costs over the course of the buildings' useful life, with these benefits expected to be realised over forthcoming regulatory periods.

These maintenance benefits will not result in increased maintenance costs over the 2024-29 regulatory period, despite an environment of significant increases in construction and ongoing maintenance costs.

4.3 Disposal Proceeds

Investment of \$145 million (real FY24, SCS only) across 2024-29 is offset by property sales of [REDACTED] (real FY24, SCS only), resulting in a net capital investment of [REDACTED].

These cost reductions demonstrate the customer centricity of our non-network property forecast. It also underscores the prudence of our investment strategy. Once alternative sites have been developed, we will look to sell land surplus to our needs, which will deliver substantial benefits to our customers through the construction of modern, cheaper to operate buildings that address identified health and safety risks, at the lowest possible cost.

4.4 Reliability and Productivity Benefits

We use non-network property assets to support the delivery of reliable network services to 1.8 million customers.

The construction of 5 new depots and the upgrade of 9 existing depots will maintain operational efficiency and existing service levels for customers. The existing depots (some of which are up to 80 years old) also have a layout and general amenity that, in the absence of investment, will restrict the productivity of our workforce.

4.5 Safety Benefits

One of the key drivers of the forecast non-network property capex program is hazard reduction across the portfolio, for both our workers and our customers. The proposed projects for the 2024-29 period are anticipated to generate safety benefits by reducing injury risks at sites and reducing potential exposure to hazardous materials that are typically present in older dilapidated buildings.

By targeting the depots within our non-network portfolio that are most at risk of giving rise to a safety incident, the proposed capex plan intends to ensure sites are upgraded to align and comply with the current Building Code of Australia requirements. This will reduce safety risks associated with continued operations in non-compliant sites.

4.5.1 Injury reduction

Workplace injuries can occur in any environment, and this applies to Ausgrid's non-network properties. While workplaces such as depots and warehouses that involve manual tasks may have a higher incidence of injuries, they can also occur in office environments.

The development of new workplaces and the refurbishment of existing workplaces is anticipated to reduce the number of injuries through improved layout, safety systems and controls, as well as newer designs and technologies.

Table 7 below summarises the projected injury reduction benefit as a result of the proposed capex spend on non-network property.

Table 7: Injury reduction benefit summary (\$m, real FY24)

	Office	Depot	Warehouse
Average number of safety incidents (p.a.)	61	243	14
Average cost of safety incidents ¹ (p.a.)	\$1.03m	\$4.11m	\$0.24m
Incident reduction factor ² (%)	15%	20%	20%
Projected average incident reduction (p.a.)	9	49	3
Annual injury reduction benefit	\$0.15m	\$0.82m	\$0.05m

1: Based on average cost of \$16,932 per safety incident (calculated by dividing total FY22 cost of \$22.18m by 1,310 safety incidents).

2: Assumed safety improvement attributable to the projects in the proposed capex program for 2024-29. A lower incident reduction factor has been attributed to office projects due to the nature of activities that take place in office environments.

4.5.2 Asbestos management

Given the age and state of repair of several non-network property assets, asbestos poses a significant risk and cost for remediation, removal, management and compensation.

For example, addressing asbestos at the Hornsby depot in FY19 cost \$5.0 million (real FY24). This included the cost of removing the asbestos and remediating the site, medical assessments and internal resourcing for managing those exposed to asbestos – including Workers Compensation claims and welfare management.

As part of the planned non-network property capex program, a number of buildings containing asbestos are set to be replaced, including:

- Wallsend Admin;
- Wallsend Depot;
- Oatley;
- Meadowbank;
- Cessnock;
- Potts Hill;
- Homebush;
- Ultimo; and
- Camperdown.

By addressing the asbestos in these properties through proactive management and remediation in the 2024-29 period, the high asbestos related costs incurred at Hornsby may be significantly reduced or eliminated at these sites in the future.

To quantify the asbestos removal benefit through the non-network property capex program, the Hornsby remediation and management cost of \$5 million has been applied to each of the 9 sites identified above. A 20% asbestos related incident probability factor has been conservatively applied to derive a potential benefit of \$9 million (\$45 million impact costs multiplied by 20% incident probability factor).

4.6 Environmental Benefits

The forecast non-network property capex program is also designed to achieve environmental benefits, which benefit our workers and customers, as well as our neighbors surrounding our non-network property assets. The proposed projects for 2024-29 are anticipated to generate environmental benefits through noise and pest control reduction.

4.6.1 Noise reduction

The Accommodation Strategy initiative will eliminate depots in locations that are being encroached by residential development, and the new proposed depots will be designed to minimise disruption to surrounding areas and environments using new materials and well-considered layouts.

Existing depots located in areas that have been affected by residential encroachment have restricted operating hours imposed as a result of noise complaints. Restrictions on these operating hours would be eliminated through the proposed non-network property capex program, resulting in improved productivity and ability to respond to customer requirements. While the productivity benefits are difficult to quantify, there is a customer and reputational benefit by Ausgrid reducing its noise impact on the surrounding community.

4.6.2 Pest control

Each year, Ausgrid has significant pest control expenditure for our non-network depots and offices, including inspections and treatments for rodents, cockroaches and termites.

As a result of proposed asset disposals and the non-network property capex program over 2024-29 which will renew and refurbish existing sites, a reduction in pest exposure and therefore costs is anticipated. This represents an annual

benefit of ~\$28,000 per annum (\$139,000 in 2024-29) based on the sites identified for renewal/refurbishment or disposal.

4.7 Protective Security Benefits

To ensure the ongoing security and stability of the Ausgrid network, the forecast non-network property capex program will also result in significant protective security benefits including reduced break-ins, increased surveillance and cyber risk mitigation.

4.7.1 Reduction in break-ins

Table 8 below summarises the potential break-in and theft reduction benefit attributable to the 2024-29 non-network property capex program. Each year, approximately \$300,000 worth of material is stolen from non-network properties (5-year average). Consequently, there are also investigation, repair and productivity loss costs.

With the proposed capex program, a conservative theft reduction of 60% has been assumed due to improved security systems and physical barriers to premises, resulting in an annual benefit of \$218,000.

Table 8: Break-in and theft reduction benefit summary (\$m, real FY24)

	5-year average cost
Average material loss through theft ¹ (p.a.)	\$300,000
Average theft investigation costs (internal and external) ² (p.a.)	\$23,000
Average repair costs (p.a.)	\$3,000
Average annual productivity loss through site closure ³ (p.a.)	\$38,000
Average break-in/theft costs (p.a.)	\$364,000
Theft reduction factor (%)	60%
Annual theft reduction benefit (p.a.)	\$218,400

1: Total material loss of \$1.5m over five years to 2022. Annual loss taken as average.

2: Includes costs for Security Operations, Reporting Person, Contract Guard Force

3: Based on loss productivity of 2 Full time equivalent (FTE) days per incident. Average 38 incidents per year and assumed \$500/FTE day.

4.7.2 Surveillance

Table 9 below outlines the security surveillance costs associated with the non-network properties that are subject to the 2024-29 capex program (renewed/refurbished buildings and proposed disposals). On average, the security and surveillance costs for these assets (for Ausgrid and external resources) is ██████ per annum. With an assumed reduction of 60% (as a result of improved cost circuit television and security systems), this represents a surveillance benefit of ██████ per annum.

Table 9: Surveillance benefit summary (\$m, real FY24)

	5-year average
Average external site security surveillance costs ¹ (p.a.)	██████
Average internal site security surveillance costs ² (p.a.)	██████
Average total site security surveillance costs (p.a.)	██████
Surveillance cost reduction factor (%)	60%
Annual surveillance cost reduction benefit (p.a.)	██████

1: Includes Chubb Monitoring of major sites and external security surveillance provider

2: Includes on-call technicians and security operations. Includes two working hours per incident (based on average 38 incidents per year).

4.7.3 Cyber Risk

To calculate the potential probabilistic cyber risk reduction benefit attributable to the non-network property capex program, the cyber threat consequences identified by Ausgrid's cyber security team have been referenced.

As a conservative assumption, an anticipated reduction of 5% in cyber threats due to the 2024-29 capex program has been adopted, driven by increased security/surveillance and newer facilities that are less vulnerable and accessible.

Table 10 below summarises the identified cyber threat consequences and applies the 5% reduction factor to calculate the cyber risk reduction benefit of the non-network property capex program.

Table 10: Cyber risk reduction benefit summary (\$m, real FY24)

	Full cyber threat cost	Assumed 5% of costs
Increase length of unplanned outage	\$23,981,925	\$1,199,096
Delays in being able to publish key data to the market	\$1,520,000	\$76,000
Unauthorised access to, or use of, personal data	\$163,800	\$8,190
Lost staff productivity due to reduced access to key corporate or operational systems	\$8,370,432	\$418,522
Delays to planned maintenance	\$5,585,760	\$279,288
Total cost reduction/ benefit	\$39,621,917	\$1,981,096

4.8 NPV Analysis Results

Table 11 below summarises the results of the NPV analysis. The green outlined cells indicate the preferred option, with consideration of both quantitative and qualitative benefits.

Individual program NPV models are provided in **Attachment 5.11.m to 5.11.o**.

Table 11: NPV Analysis Results (10yr Ausgrid Total NPV FY23-32)

Program	Option 1 NPV (Base Case)	Option 2 NPV	Option 3 NPV
Southern Region Program	-\$23.6	\$54.8m	\$55.9m
Newcastle Region Program	-\$7.0m	\$59.7m	
Sydney North Program	-\$3.2m	\$6.9m	

5. Project Governance and Delivery

5.1 Overview

The Strategic Property Team at Ausgrid will be responsible for the development, design, construction and handover of Ausgrid’s 2024-29 non-network property capital works program.

The Strategic Property team will be supported by internal and external professional consultants and contractors to ensure holistic project management services within the project constraints of scope, time, budget and quality. These resources generally have existing and long-lasting working relationships with Ausgrid with proven track records of delivery.

The below structure has been used in the successful delivery of non-network capital projects through the current and previous regulatory periods and this approach will leverage the relevant internal and external resource experience.

The Strategic Property team will also manage the interfaces between all internal Ausgrid groups to ensure alignment with the key program goals. By adopting this structure, the Strategic Property team will provide continuity across all projects and ensure coordination of delivery timelines and adequate resourcing.

All project delivery resourcing costs have been factored into overall 2024-29 proposed capex.

5.2 Governance Structure

The 2024-29 non-network capex program will establish a governance structure on an individual project basis. Given the varied nature of all projects identified in the capex program, this will ensure that the governance structure is appropriate. **Figure 4** below shows a typical project governance structure that will be adopted for each project.

Figure 4: Project Governance Structure



5.3 Accommodation Strategy Management Structure

The projects identified as part of the Accommodation Strategy (which also sit within the 2024-29 capital works program) will be administered by a specific Accommodation Strategy management structure (see Figure 5), under which:

- The established Accommodation Strategy Steer-Co will provide leadership oversight of the projects, with the Program Director ultimately responsible for the successful delivery of the Accommodation Strategy program;
- The Program Director will be supported by Ausgrid’s Strategic Property team, Ausgrid Business Partners and dedicated FTE resources to form the Project Management Office (PMO) and manage the overall program; and
- Project Managers will be assigned to each of the identified Accommodation Strategy projects and will be responsible for their successful delivery.

Figure 3: Proposed Accommodation Strategy Management Structure

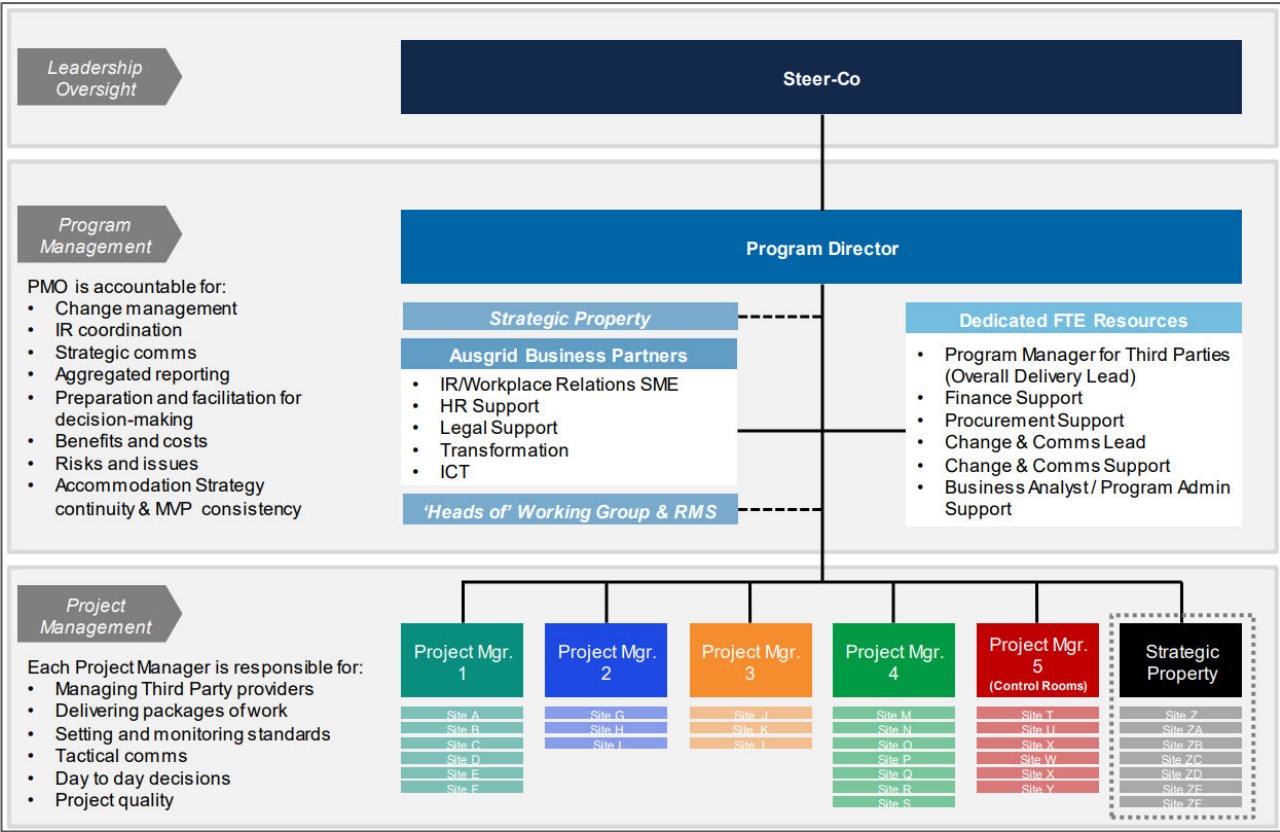


Table 12 below summarises the key activities to be undertaken by the PMO to ensure the non-network property capex program and Accommodation Strategy initiative are delivered in accordance with the planned objectives.

Table 12: Key PMO Activities

Activity	Description
Planning and tracking	Integrated programme plan: <ul style="list-style-type: none"> • Create and maintain program/project/task plans; • Optimise resource scheduling and requests/capacity; and • Track and manage all relevant documentation.
Benefit and cost management	Transparency of costs <ul style="list-style-type: none"> • Time and expense management; • Resource cost management; and • Program and project budget management.
Progress management	Early warning of slippage <ul style="list-style-type: none"> • Project status reporting; and • Creation of status reports.
Risk and issue management	Proactive risk management <ul style="list-style-type: none"> • Create and maintain issues register; • Create and maintain risks register; and • Update mitigation actions.
Decision support	Efficient decision making <ul style="list-style-type: none"> • Prepare the required Steer-Co updates and decision papers in order to ensure efficient decision making and setting priorities.
Stakeholder management and communication	Engaged stakeholders <ul style="list-style-type: none"> • Develop a comprehensive communication strategy and implementation planning for internal and external program stakeholders.
Change control	Clarity on the impact of change <ul style="list-style-type: none"> • Take a programmatic view on change requested, considering the implications on timelines/budgets of other projects, and Ausgrid's overall regulatory spend commitments.
Quality control	Assessment of programme maturity <ul style="list-style-type: none"> • Maintain a current assessment of the program management's maturity and ensure the desired target level of quality is being maintained.
Document control	Document control and sharing <ul style="list-style-type: none"> • Central project document repository management; and • Attaching documents against tasks, actions or deliverables.
Governance	Scaleable governance structure <ul style="list-style-type: none"> • Establish a governance structure that scaleable and appropriate to the programme size and complexity. This reinforces buy-in and sponsorship requirements.