



Submission to the AER on its
Preliminary Determination
Capital expenditure – Buildings
and property



Summary

This document sets out Ergon Energy's response to the Australian Energy Regulator (AER) on buildings and property capital expenditure.

Ergon Energy accepts the AER's Preliminary Determination in relation to:

- major property projects for Rockhampton, Maryborough and Toowoomba
- minor property program
- property disposals.

However, we reject the AER's decision with respect to the Garbutt redevelopment in Townsville. Ergon Energy believes the AER has taken an approach which only considers the short-term financial impact, regardless of the prudence of that decision and then justified its assessment using incorrect assumptions and circular reasoning. Ergon Energy has provided further commentary to support the holistic efficiency and prudence of this proposed item. We have also provided additional documentation to support our resubmission.

Outcomes

Ergon Energy requests that the AER reviews its decision with respect to the Garbutt redevelopment in Townsville based on the additional information and documentation provided as part of our revised Regulatory Proposal.

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1. Introduction

On 30 April 2015, the Australian Energy Regulator (AER) released its Preliminary Determination on Ergon Energy's Regulatory Proposal for the regulatory control period commencing on 1 July 2015 and ending on 30 June 2020.

This document details our response to the AER's Preliminary Determination on buildings and property capital expenditure (capex). We have made revisions to our October Regulatory Proposal and its supporting documents to reflect these positions, where necessary. No change was made to the originally submitted forecast for buildings and property capex.

Ergon Energy has structured this document in the following manner:

- Chapter 2 summarises the AER's Preliminary Determination in relation to buildings and property capex.
- Chapter 3 provides our response to the positions adopted by the AER.

2. AER's Preliminary Determination

Attachment 6 of the AER's Preliminary Determination details its positions on buildings and property capex (refer to section B.6.3). The following sections summarise these positions and the AER's rationale.

2.1. Major property projects

The AER has included the costs associated with the major property projects at Rockhampton, Maryborough and Toowoomba in its forecast. However, it excluded the Townsville major project.

The AER stated:

- While the documentation submitted by Ergon Energy generally provided sufficient justification to support the need, costs and timing of the proposed projects, Ergon Energy had excluded the 'do nothing' option of ongoing maintenance from its options ranking process for the Townsville major project.
- For this project, the 'do nothing' option (option E) is actually the highest Net Present Value (NPV) option of all options evaluated. In our view, it is not clear that the options evaluation process undertaken by Ergon Energy for the Townsville major property project necessarily supports the selection of the preferred option identified by Ergon Energy.
- We are therefore not satisfied that Ergon Energy's forecast capex for the Townsville property project is efficient, or that a prudent operator would necessarily proceed with Ergon Energy's preferred development option.
- Further, we note that Ergon Energy's proposed Townsville project is stage two of the redevelopment of its Dalrymple Road depot in Garbutt. In our view, in order to fully support the proposed stage two works in the 2015–20 regulatory control period, Ergon Energy's options analysis should be updated to consider the current development and 'do nothing' options assuming the successful completion of the stage one development.
- Ergon Energy's Shareholding Ministers provided approval to Ergon Energy to undertake stage one of the Garbutt redevelopment, but not stage two. The Shareholding Ministers conditionally approved stage two, subject to the confirmation of cost estimates and inclusion of the project in Ergon Energy's 2015–20 regulatory determination.
- We are therefore satisfied that stage two of the Garbutt redevelopment is not required to be completed as a necessary follow-on to the completion of stage one.

2.2. Minor property program

The AER accepted our forecast capex for minor property projects.

2.3. Property disposals

The AER has included the disposal revenue related to the three major projects that it has allowed, including Rockhampton, Maryborough and Toowoomba, valued at \$13.2 million.

3. Our response

The following sections detail our response to the AER's Preliminary Determination.

3.1. Major property projects

The AER's position in relation to the major property project section of the buildings and property capex was consistent with our October Regulatory Proposal, with the exception of the Garbutt Redevelopment (stage 2) in Townsville.

We accept the AER's preliminary decision on the major property projects for Rockhampton, Maryborough and Toowoomba. However, Ergon Energy does not agree with the AER's decision to exclude the major project at Townsville from its forecast capex of \$231.5 million, due to the following reasons:

- In assessing the business case, the AER evaluated the financial efficiency of the preferred option ('A') against the 'do nothing' option ('E') which does not address any of the fundamental risks and issues on the Garbutt site.
- The AER did not appear to review or consider the efficiency and prudence of any non-financial factors between the preferred option and the 'do nothing' option.
- The AER did not appear to consider any of the dependencies between stage one and two of the overall Garbutt Redevelopment project, including various planning compliance requirements.
- The AER justifies its position on 'stage 2' by referring to the Evans & Peck report, which considered stage 1 as 'stand-alone'.
- The AER also appears to justify its position by using circular reasoning (i.e. that as funding approval is required by the AER, the AER is satisfied that approval is not required).

Ergon Energy has addressed each of the concerns raised by the AER in its decision on the Garbutt Redevelopment (stage 2) in detail below.

1. The AER noted that Ergon Energy had considered a 'do nothing' option of ongoing maintenance, although it excluded this option from its options ranking process.

Ergon Energy acknowledges that the 'do nothing' option ('E') was excluded from the financial rankings in the NPV analysis. This was a conscious decision by Ergon Energy at this phase of the business case submission (gate 3), and is applied consistently across property business cases where the 'do nothing' option is found to be contrary to what is expected by a prudent operator. The 'do nothing' option was left in the analysis but positioned to the right of the NPV analysis to demonstrate its contribution as a comparator to the range of valid options, and was never expected to be an option that could be genuinely executed, due to its risk score of -43, recognising the large volume of issues identified on the Garbutt site which would remain if the 'do nothing' option was executed.

The additional supporting documentation provided to the AER in February 2015 contains a range of documents which quantify the reasons why the 'do nothing' option can never be considered an adequate response to the identified issues at the Garbutt site.

These include:

- Dalrymple Road, Townsville Site Assessment Report, completed by Lend Lease.¹
 - The Dalrymple road, Garbutt site is poorly laid out; staff are accommodated in a mixture of new, very old and temporary buildings which are dispersed around the site resulting in lower efficiency and productivity to the workforce and operations of the business.
 - The site accommodates multiple organisational functions in dispersed areas of the Dalrymple Road site, in line with the structural arrangement of buildings. This results in inefficient processes and greater delays in achieving outcomes by the business for its customer base.
 - Due to the dispersed building configuration, staff have to move through heavy vehicle traffic areas to attend meetings, engage with the broader business and serve customers at the depot. Addendum: Ergon Energy notes that, the mixture of staff and operational traffic has resulted in several safety incidents and 'close calls' at the depot, which quantifies this point.
 - Access to and from the depot is constrained and high-risk as heavy vehicles exit onto a major arterial road, which currently suffers from congested traffic, with a high rate of accidents.
 - Lend Lease summarised with a recommendation that it is not advisable for Ergon Energy to continue in a 'business-as-usual' approach of expanding the existing mix of administrative, field and logistics operations as it will compound safety issues and inefficiencies.

Ergon Energy has taken the position from this report that due to the fixed nature of the buildings and road-ways across the site, a 'do nothing' approach consistent with 'business-as-usual' would do nothing to address these broader concerns for our workforce and customer base. A holistic approach is required to resolve all of the safety hazards and inefficiencies, and ensure the working environment is suitable for employees and customers to liaise without the risk of injury.

- Dalrymple Road, Townsville Condition Report, completed by Lend Lease.²
 - Generally, the incidental offices, workshops, vehicle maintenance sheds, and stores are substandard in terms of amenity, appointment and space on Dalrymple Road, Garbutt site.
 - The workshops, storage sheds and garages, with the exception of the OCCN, while continued to be marginally 'fit for purpose', are in quite poor condition.
 - All the office buildings on the site are currently being used to their maximum capacity and demountable offices being leased have been erected to compensate for the lack of available space within the main buildings.
 - Items of significant risk on site are the inadequate fire life safety systems through the site and individual buildings, the lack of rook fall protection on any of the buildings on site, the lack of structural design compliance to current cyclonic loading provisions (AS1170.2), the potential for roof corrosion throughout the site, and the non-compliance with current (2006) Building Code of Australia Standards.
 - Where a 'change of use' occurs at a site, the main legislative trigger is executed and a building requires reassessment against the current set of codes and legislation.

¹ Ergon Energy (2015), *Response to AER Information Request: AER Ergon 022*, 6 February 2015. Refer to Document 1, Garbutt Supporting Documents.

² Ergon Energy (2015), *Response to AER Information Request: AER Ergon 022*, 6 February 2015. Refer to Document 2, Garbutt Supporting Documents.

- Buildings 1, 3, 4, 5, 6, 7, 9, 11, 13, 14, 15 and their respective parking areas on site were found not to adhere to the retrospective Accessible Parking Provisions, which require independent access and associated parking for persons with disability.
- Buildings 1, 3, 4, 5, 6, 7, 9, 10, 11, 13, 14, 15 are not compliant with the current Prevention of Falls from Buildings or Structures legislation and are in breach of meeting this requirement on site.
- Buildings 1, 2, 7, 13, 14 are not compliant with current fire safety legislation and are in breach in various areas of the building structure and separation clauses.
- Building 7 was identified as not meeting legislation in relation to balustrades and handrails, stairs, and sanitary facilities, in addition to those previously mentioned.
- Architecturally, an assortment of issues and concerns were noted across every building on the Garbutt site. Of particular interest are the items in building 3 (part of stage 2 development) which included corrosion on louvres, poor condition of timber doors, no thermal protection on ceiling or walls, movement of floor in tiled areas, metal sheeted walls badly perforated, broken down window frames, and corroded or damaged roof sheeting.
- Structurally, an assortment of issues and concerns were noted across most buildings on the Garbutt site. Of particular significance is the lack of compliance to cyclonic load provisions in buildings 6, 10, 11, 14, and 15 (part of stage 2 development to demolish).
- Mechanically, most buildings were found to be well maintained and serviced, although inadequate air ventilation was identified in buildings 2, 3, 5, 7, 10, 11, 13, and 14.
- Fire services, while adequately maintained, did not generally meet current Australian standards in many areas of the site and individual buildings. Of particular consequence is the absence of fire sprinkler systems for any of the buildings on the Garbutt site, the lack of an adequate quantity of fire hydrants to provide full protection to the whole depot, and limitations in coverage of fire hoses and extinguishers in individual buildings.
- Hydraulic services, while maintained in a serviceable condition, are dated. Of particular importance are the lack of quality control devices within the storm-water collection systems and non-conformances in some isolated cross connections. Potential cross contamination of the water supply is considered a high risk as the majority of external hose taps are without any type of backflow prevention devices.

Ergon Energy has taken the position based on this report that no prudent operator would continue in a 'business-as-usual' or 'do nothing' mode and therefore not address these significant issues. Due to the broad and widespread nature of the issues identified, plus the general aged and deteriorated state of the buildings at present, a comprehensive approach is required to resolve the many areas of non-compliance, safety risk and general asset deficiency. These items need to be addressed in the most cost-effective manner, which as analysed in the provided NPV, results in Option A being the most prudent and efficient means.

- Dalrymple Road, Townsville Asbestos Registers, completed by Octief.³
 - Octief completed three individual Asbestos Site Inspection Reports, covering the Warehouse (building 3 – stage 2), the ARK Homes site buildings (stage 1 expansion area), and the various buildings known as the administration buildings and various workshops and offices across the site (stage 1 and 2).

³ Ergon Energy (2015), *Response to AER Information Request: AER Ergon 022*, 6 February 2015. Refer to Documents 15, 16 and 17, Garbutt Supporting Documents.

- No asbestos containing material (ACM) was found in the assessed areas of the Warehouse (building 3) during the site inspection report.
- ACM was identified in buildings 1, 5, 6, 9, 12 and 13. One of these buildings will be addressed as part of 'stage 1' while the remainder of the buildings will be addressed as part of the 'stage 2' works.
- While most ACM was assessed at an 'unlikely' likelihood rating (two instances of 'possible'), all consequence ratings were assessed as 'major'. This means if the material is disturbed outside of proper handling processes, there is a risk of 'irreversible health effects or disabling illness to one of more persons'.

Ergon Energy has taken the position based on this report that a prudent operator would seek to address and remove all of the identified ACM within a suitable timeframe and at an efficient cost where the impact on normal operations can be mitigated. The combination of asset deficiency and general building age across the Garbutt site contributes to an increasing risk that the likelihood of asbestos fibres being disturbed through natural deterioration of building material is real and should be addressed sooner rather than later. Therefore, Ergon Energy recognises our duty to remove the ACM from site as part of the proposed Redevelopment in line with Queensland Workplace Health and Safety Regulations.

In summary, Ergon Energy acknowledges that the 'do nothing' option was excluded from the financial rankings within the NPV analysis, and that this was a conscious decision. The 'do nothing' option as detailed within the Assumptions & Calculations spreadsheet provided to the AER does not directly address any of the issues raised within the site assessment report, site condition report or the asbestos inspection report. An efficient and prudent operator cannot be expected to retain these known risks using a business-as-usual approach as it risks the health and safety of its employees, clients, and customers, as well as the long-term operational effectiveness of the business.

2. The AER noted on the basis of Ergon Energy's 20 year NPV analysis of construction and lifecycle costs and benefits, that the 'do nothing' option does not appear to result in larger costs at a later date in present value terms.

Ergon Energy acknowledges that the 'do nothing' option is more economically efficient over a 20 year NPV analysis, although the option was identified early on not to be an acceptable response by Ergon Energy (as detailed above). For the purposes of comparison only, Ergon Energy has extended the NPV past the 20 year default and identified that Option A does in fact become more cost-efficient at year 25. This is important, as while the standard NPV period for a business case is 20 years, the depreciation rate that Ergon Energy adopts for new buildings is 2.5%, or 40 years.⁴ By extending the original NPV to a 30 year limit, Option A is more cost-effective and aligns to Ergon Energy's original position that this option is the most prudent and efficient (within the useful life of the redeveloped assets), notwithstanding all of the non-financial factors.

Ergon Energy has provided an updated version of the *Assumptions & Calculations* spreadsheet for the Garbutt Redevelopment with a 30 year lifespan which quantifies this outcome.⁵

⁴ The Rawlinsons industry standard is a more generous 50 year useful life.

⁵ This is in addition to the spreadsheet provided to the AER as part of Information Request: AER Ergon 022, which reflects a 20 year period. Refer to 'Garbutt Townsville_Assumptions Calculations'.

3. The AER noted that Ergon Energy’s proposed Townsville project is stage two of the redevelopment of its Dalrymple Road depot in Garbutt, and in order to fully support the proposed stage two works in the 2015-20 regulatory control period, Ergon Energy’s options analysis should be updated to consider the current development and ‘do nothing’ options assuming the successful completion of the stage one development.

Ergon Energy acknowledges that in seeking approval for the Garbutt Redevelopment project we sought the required investment expenditure in two stages, aligned to the two regulatory control periods 2010-15 and 2015-20. This was a conscious decision by Ergon Energy to mitigate the amount of risk to the business and our shareholders (through contractual obligations) by only seeking approval for that portion of work that could be confidently completed within the regulatory control period 2010-15. The Shareholder took the position that it could only *conditionally* approve expenditure for a future regulatory period (2015-20) given the regulatory obligations were not yet known. With this said, Ergon Energy was confident that our business case was justifiably prudent and efficient and would subsequently be accepted by the AER.

The proposed project needed to address the site issues in a holistic and comprehensive manner (as advised above), and align to the business’ strategic direction as detailed in the supporting document *Townsville ELT Paper – Redevelopment of Garbutt Office and Depot*.⁶ While the project approval process and detailed timeline accommodated a two stage approach, aligned to the regulatory control periods, Ergon Energy considers the project a single body of work with intricate dependencies. This is demonstrated by two main points: (i) the business case had to treat the cost-benefit analysis as one project, as the full benefit of the work (plus applicable conditions) cannot be realised without the completion of both stages; and (ii) the development application submitted to the Townsville City Council considered the proposed work as a single project, with the resulting decision notice applying conditions which reflect the work being completed in its entirety.

The following points help illustrate the dependencies between the two stages:

- In response to Ergon Energy’s Development Application for the Garbutt Redevelopment, the Townsville City Council (the Council) applied multiple conditions which Ergon Energy must meet. These include:
 - The amalgamation of the three lots into a single parcel (reflecting its use by Ergon Energy as a single encompassing site).
 - Ergon Energy (the developer) must provide a minimum of 500 car spaces including disabled parking on site in accordance with Australia/New Zealand Standard AS/NZ2890.
 - Ergon Energy must erect signage indicating the location of the entry and exits to the car parks, specific use bays, as well as regulatory signs controlling movement within the car park.
 - Ergon Energy (the applicant) must consider the possible impacts on on-street parking bays at new access points along Dalrymple Road and ensure the same number of parking bays are provided on-street after the development.
 - The eastern most access point on Woolcock Street will be used as vehicle entrance but vehicles will only be allowed to exist in an emergency.
 - The development site must be graded so that it is free draining. All runoff from storms naturally falling into this development site must be collected within the property boundaries and discharged to the lawful point of discharge being Dalrymple Road/Woolcock Street.

⁶ Ergon Energy (2015), *Response to AER Information Request: AER Ergon 022*, 6 February 2015. Refer to Document 19, Garbutt Supporting Documents.

- Overland flow paths and underground drainage must be designed so as not to directly or indirectly cause nuisance to a downstream or adjoining property.
- Ergon Energy (the developer) must construct three new access driveways and crossovers from the existing kerb and channel on Dalrymple Road to the property boundary at the developer's expense generally in accordance with Council's relevant Standard Drawings for Driveway Access and Driveway Crossovers.
- Ergon Energy (the developer) must remove the redundant existing vehicle accesses on Dalrymple Road and Woolcock Street including crossovers in the kerb and channel, replace with new kerb and channel and reinstate the footpath in accordance with Council's relevant Standard Drawings for Concrete Kerbing.
- Site works are to include the removal of the two decommissioned underground fuel storage tanks and associated infrastructure.
- To remove the range of inefficiencies, issues and risks in the multitude of buildings across the Garbutt site, Ergon Energy took the position that it was more prudent and cost effective (as proven by the NPV Options Analysis) to consolidate staff and operations within three buildings (being the Administration Office, new Logistics warehouse, and the refurbished old warehouse), while demolishing the remainder of the buildings.
- The space gained from demolishing buildings 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, and 15, (majority in stage 2) would be utilised to meet the conditions of the development application, specifically in the provision of adequate off-street parking, landscaping, site drainage and traffic management. This is a part of the stage two scope and ensures the Garbutt site remains operational while offering the most cost-effective solution.
- The disruption to staff and business operations during the redevelopment period must be mitigated as much as possible, while still providing an efficient customer service. To enable this, building 1 (office administration) and the future logistics warehouse (previously ARK Homes site) were the two most cost-effective low-impact buildings to be redeveloped and made operational prior to demolishing the remaining nine on-site buildings and developing the old warehouse into the needed workshop building.
- The majority of conditions stipulated in the development application decision notice require extensive civil works to accomplish. Performing this work requires the demolition and removal of the buildings mentioned above, thereby warranting the need to complete the civil works as one of the final items in the project timeline. It is also more cost-effective to combine this work in line with the developing the required car parking solution.
- Full savings in maintenance costs can only be realised once buildings 4-15 are no longer required to be operational and can be demolished (stage 2). This can only be achieved by completing the redevelopment of the office administration building (stage 1), the future logistics warehouse (stage 1) and redeveloping the old warehouse into a consolidated workshop (stage 2), in that order.
- Savings in other operating costs such as water usage, electricity usage, cleaning, amenities, and leased storage can only be fully realised by the consolidation of staff into the three proposed buildings and demolishing buildings 4-15 as previously advised. This outcome is achieved at the end of stage 2, in the regulatory control period 2015-20.

Based on these reasons, any attempt to develop a business case based purely on stage 2 outcomes must consider the stage 1 investment and applicable benefits. There are inherent dependencies between both stages of work, such that the non-completion of one part will leave the Garbutt site with a level of risk still highly unacceptable, in contravention to applicable building codes and legislation, in breach of the development application decision notice by local authorities, the continuation of a

dispersed and inefficient site, complex traffic management risks, likely higher operating costs than any of the assessed Garbutt options, an increased risk in Ergon Energy's ability to respond to significant weather events, and a series of dilapidated asbestos-containing empty buildings.

In summary, Ergon Energy agrees with the AER that the work to be undertaken in the regulatory control period 2015-20 is identified as stage two. However, this designation of stage two aligns to our regulatory requirements to ensure investments meet the AER's requirements before financial commitments are made. The project is still considered a single piece of work which stretches two regulatory control periods, and the evidence provided here demonstrates the dependencies that both stages have upon each other. As prudent and efficient operator, Ergon Energy will be unable to deliver efficient and effective customer service if one of our primary regional depots is left in a state that contravenes building, health & safety, environmental and local authority requirements.

Ergon Energy has provided the additional document *Ergon Energy – Property – Development Application Decision Notice* to support our position in this regard.

In light of the AER's Preliminary Determination, discussions were held with the Townsville City Council Planning and Development Office on 22 May 2015 to clarify the development application conditions, specifically with regard to the car parking requirements. Written advice was received 28 May 2015 which states that 'Council cannot give an undertaking to support a permissible change in the circumstances'. As such, Ergon Energy will still be required to demolish nine buildings that form part of stage 2 to meet our obligation under the conditions of the development application decision notice. This means that Ergon Energy may be held accountable for not meeting our customer obligations through the provision of suitable employee accommodation and workshop requirements, in addition to the car parking requirements as stated in the development application decision notice.

4. The AER noted that they considered whether, leaving aside the concerns identified, stage two of this project should proceed as an integral and necessary continuation of the stage one scope of work. In this regard, the AER noted the advice provided by independent advisor Evans & Peck to Ergon Energy's Shareholding Ministers that:

Ergon Energy's Stage 1 redevelopment is a standalone improvement to its Garbutt property. It will improve efficiencies in logistics management, site safety through better traffic management and consolidation of staff into combined office accommodation. Stage 2 improves the workshops and completes the traffic management improvements. It is Evans & Peck's view that should the Stage 2 redevelopment not proceed, the Stage 1 redevelopment still achieves some of the improvements sought by Ergon Energy.

Ergon Energy acknowledges the report completed by Evans & Peck as part of the shareholders due diligence requirements, and generally accepts its assessment. Ergon Energy agrees that stage 1 of the Garbutt Redevelopment achieves some of the improvements sought by the project. However, similarly to any half completed project, it is neither a suitable nor desired outcome as it contradicts the expected project benefits. The improvements achieved in stage 1 are limited in scope until the remainder of the site (stage 2) is completed, thus fully realising the benefits as they are detailed in the business case.

The Evans & Peck report defines one of its terms of reference as analysing the ‘impacts of the stage 2 work not proceeding on the effectiveness of the stage 1 redevelopment’. However, the analysis that was completed is not provided in the report, and Ergon Energy questions the effectiveness of this analysis given the number of dependencies between the two stages as described above. It appears that the inherent dependencies between the two stages, or the vast array of risks and issues that would remain on site if the project concluded at the end of stage 1, have not been fully reviewed and understood. Therefore, it is Ergon Energy’s position that we do not agree with the Evans & Peck report when it stipulates that stage 1 is a ‘standalone improvement’. The Garbutt Redevelopment project was always anticipated to be completed with the second stage, and stage 1 was not considered a ‘standalone’ project by Ergon Energy.

The details documented here demonstrate conclusively that the full Garbutt Redevelopment is a single body of work, delivered across two regulatory control periods. While stage 1 will yield *some* improvements, the non-completion of stage two will leave the Garbutt site with a level of risk still highly unacceptable, in contravention to applicable building codes and legislation, in breach of the development application decision notice by local authorities, a series of dilapidated asbestos-containing buildings, and a deteriorating old warehouse building that will remain empty and non-operational.

Ergon Energy recommends that the AER review its Preliminary Determination with respect to the Garbutt Redevelopment based on the additional information that it has been provided.

5. The AER noted that Ergon Energy’s Shareholding Minister’s provided approval to Ergon Energy to undertake stage one of the Garbutt redevelopment, but conditionally approved stage two, subject to the confirmation of cost estimates and inclusion of the project in Ergon Energy’s 2015-20 regulatory determination. The AER was therefore ‘satisfied that stage two of the Garbutt redevelopment is not required to be completed as a necessary follow-on to the completion of stage one’.

Ergon Energy has documented here the reasons why the project was broken into two stages. The intent was to act prudently and to limit the financial risk carried by the business and shareholders during a future regulatory period where the governing financial obligations were unknown at the time. In considering the second stage, the Minister for Energy and Water Supply stated:

“We conditionally approve the undertaking of stage two of the redevelopment, subject to provision of further advice to us prior to its commencement, confirming the cost estimates and advising whether it has been included in the 2015-20 regulatory determination.”

Ergon Energy concludes from this in-principal approval that the Shareholding Minister agreed with the business’ position with regard to the need for the Garbutt Redevelopment project, and that it met the prudence and efficiency requirements that it was measured against. The Shareholding Minister’s approval was provided after the Evans & Peck report was presented to them.

It appears with respect to this conditional approval, that the AER has used the regulatory framework (for which the shareholding approval was/is conditional upon) to validate its own assessment of the proposed Garbutt Redevelopment. This is essentially circular reasoning. Ergon Energy believes the AER should assess the validity of the Garbutt Redevelopment on its own merits, as documented here

and in the previously submitted information, irrespective of the internal approval processes or governance framework.

3.2. Minor property program

The AER's position in relation to the minor property program subsection of the buildings and property capex is consistent with the approach in our October Regulatory Proposal and, as such, we accept the AER's decision on this matter.

3.3. Property disposals

Ergon Energy accepts the AER's position in relation to the property disposal subsection of the buildings and property capex.

Supporting documents

The following documents support our response to the AER on buildings and property capex:

Name
Ergon Energy – Garbutt Townsville_Assumptions Calculations_30 years.xlsx
Ergon Energy – Property – Development Application Decision Notice
Ergon Energy – Property – Letter to Chair – Investment Approval - Garbutt

Ergon Energy also refers the AER to the complete suite of information provided as part of our response to “Information Request: AER Ergon 022”.

Definitions, acronyms, and abbreviations

AER	Australian Energy Regulator
ACM	Asbestos containing material
Capex	Capital expenditure
Council	Townsville City Council
NPV	Net present value