Banyo Specialist Workshop

Business Case

31 January 2024

Part of Energy Queensland

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1 EXECUTIVE SUMMARY

Title	Banyo Specialist Workshop Facility
DNSP	Ergon Energy
Expenditure category	☐ Replacement ☐ Augmentation ☐ Connections ☐ Tools and Equipment ☐ ICT ☒ Property ☐ Fleet
Identified need *(select all applicable)*	☐ Legislation ☐ Regulatory compliance ☒ Reliability ☐ CECV ☐ Safety ☐ Environment ☒ Financial ☒ Other ***Why now?*** The Banyo Workshop serves as a specialist workshop facility. The site is an end-to-end manufacturing and testing facility which produces a range of products including fully equipped modular substation buildings, that are then deployed to substation yards across the entire EQL portfolio. The workshop will be one of Energy Queensland's strongest contributors to the Queensland Jobs & Energy Plan (QEJP)[1] through its manufacturing and workshop functions. The site is operating at maximum capacity and is expected to exceed this by 2027. The lease is set for renewal in December 2028, which presents an opportunity to evaluate the existing arrangement and seek an alternative solution that not only alleviates the current constraints but provides allowances for growth.
Summary of preferred option	Option A – Source new owned site, relocate operations and vacate Banyo Workshop once lease expires
Capital Expenditure ($real)	<table><tr><th>Year</th><th>Previous period</th><th>2025-26</th><th>2026-27</th><th>2027-28</th><th>2028-29</th><th>2029-30</th><th>2025-30</th></tr><tr><td>$m, direct 2022-23</td><td></td><td colspan="6">[redacted]</td></tr></table> The capital expenditure forecast above sourced from the NPV model is provided in $m, 2022-23. See Appendix 2 for a conversion table which shows how this forecast is represented in the capex model and reset RIN.
NPV	+$1.5m (compared to counterfactual)
Benefits	Leasing costs to cease once Option A is established. Fit for purpose site with appropriate spatial requirements. Greater control and functional agility to accommodate future strategic direction by relocating to an EQL owned site.
Customer importance	Growth in the region will drive demand for network services and it is vital that EQL have the ability to meet the demands effectively. Given the current and proposed sites are within industrial zones, potential locations are not expected to cause further challenges with stakeholders.

[1] Queensland Government – Queensland Energy and Jobs Plan 2022

2 OVERVIEW

2.1 Purpose and scope

This is a preliminary business case describing the required investment to continue operational functions once the lease for the Banyo Workshop site expires.

The purpose of this document is to provide a forecast of the investment required for inclusion in the regulatory proposal submitted to the Australian Energy Regulator (AER). Prior to investment, a Gate 3 business case will be prepared with further detail to be assessed in accordance with the established Energy Queensland investment governance processes.

2.2 Background

2.2.1 Site Summary

Energy Queensland (EQL) currently leases 25 Buchanan Road Banyo, which serves as a Specialist Workshop facility in the South-East.

The current building is approximately 26 years old, with a floor area (GFA) totalling 5,156m2 and sits on a 1.13ha site in close proximity to Brisbane Airport.

There are currently 38 field staff and 6 office staff located at Banyo; an end-to-end manufacturing and testing facility which produces a range of products including fully equipped modular substations buildings, that are then deployed to substation yards across the entire EQL portfolio. The site consists of the following:

- **Mechanical Workshop**

  Specialising in structural steel and sheet metal production.

- **Panel Wiring**

  Providing panels for the EQL state-wide network as well as Powerlink.

- **ACR and Regulator Testing**

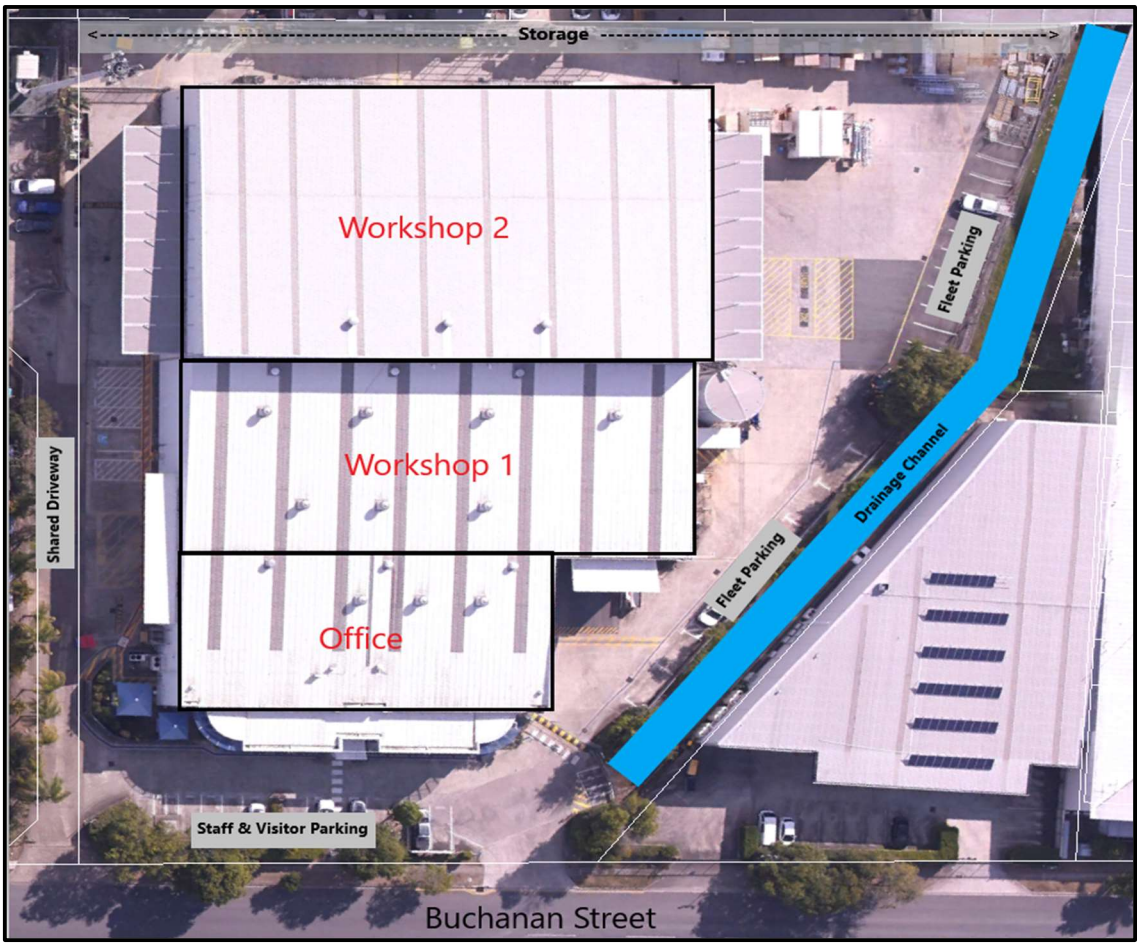
  Provides for the control and communications assembly and the primary and secondary test and commissioning capability for the regional program for ACR's (Automatic Charging Relay), Regulators and Fusesaver products for the North and South regions

- **HV Test Bay**

  The capability of undertaking HV Test to 500kV

It is important to note that the Banyo site is the last remaining operational leased site in the EQL portfolio.

Figure 1: Banyo Workshop



2.3 Identified Need

2.3.1 Leased Operational Site

The strategic objective of the EQL Property Division is to establish enhanced functional control over its operational sites. Currently, the utilisation of leased properties like Banyo presents limitations in terms of flexibility and adaptability to meet evolving business requirements. The lack of ownership hampers the ability to restructure and reconfigure these sites as necessary and any substantial reconfiguration or modification of the Banyo site would necessitate obtaining approval from the lessor and potential delays in implementing necessary changes.

Furthermore, to ensure a justifiable Return on Investment (ROI) is achieved, a significant extension of the lease would be required, considering the associated capital investment required for site enhancements.

Given the Banyo site is the *sole* operational leased site within the Ergon portfolio, and the lease is set to expire in December 2028, a favourable opportunity presents itself to relocate to a more suitable owned site where it is economically efficient to do so (see Property Plan).

2.3.2 Constrained Site

The site is heavily constrained with very poor site circulation and logistics, which is compounded by the workshop and external hardstand areas being used to full capacity.

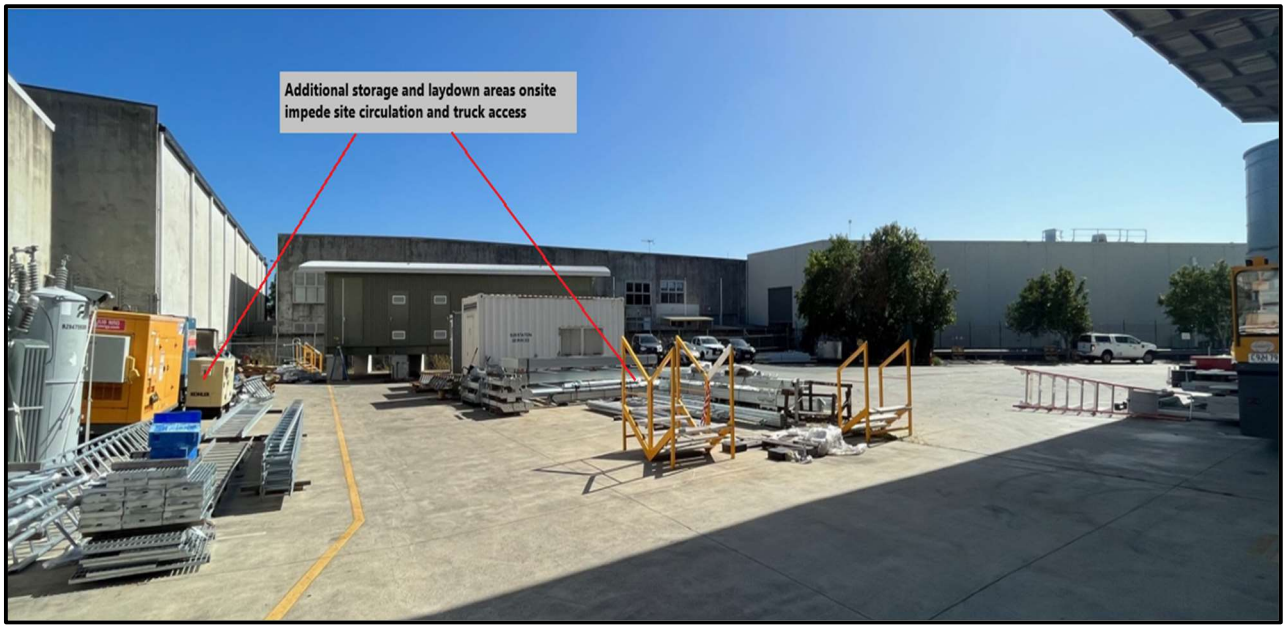
The inadequate turning circles restrict the entry of large trucks through the shared driveway and within the lanes of the workshop building. Instead, trucks are compelled to reverse into the site via the parallel driveway adjacent to the onsite car parking.

Presently, the site provides a total of 54 car parks, with 10 located at the front of the property and 44 along the side. The positioning of the 44 car parks along the side of the property, when occupied, severely hampers the access of trucks through the driveway. For trucks to enter or exit the facility, the 44 car parks must be vacated.

Once inside the site, the manoeuvrability of trucks tasked with moving the modular buildings is restricted to only two out of the three available lanes due to poor turning circles within the facility driveway. Additionally, for larger buildings, trucks often have to mount the kerb or footpath to facilitate their exit from the facility.

This significantly limits daily operations and the volume of outputs that can be achieved by the team. It also creates considerable logistical challenges when positioning buildings within the facility during and after construction, ensuring their safe transportation upon completion. Moreover, trucks delivering steel, materials, or plant face difficulties in manoeuvring into the facility, resulting in congestion and safety concerns, with 6 incidents recorded within two years, directly related to site congestion. The same area is utilised by cranes for moving site construction containers or buildings, further impeding the delivery or dispatch of goods during these periods. The road outside the facility, which is a single-lane road of normal width, needs to be closed off and onsite parking removed during building deliveries.

Figure 2: Overflow storage



2.3.3 Site Functionality

Layout and Space

The current layout of the mechanical workshop poses significant limitations on production efficiency, as it can only accommodate the production of building bases one unit at a time. When the production schedule calls for the construction of two bases simultaneously, a temporary welding area is set up in workshop 2. However, this arrangement is raises further safety challenges with restricted floor space, noise pollution and its proximity to electrical and building construction activities. These factors impede smooth operations and compromise optimal workflow.

Figure 3: Congested workshop

Cranage Limitations

Both workshops 1 and 2 face height limitations with their roofs, which necessitates the use of lifters for tasks such as rotating building bases or lifting buildings onto specialised transport trailers. This requirement introduces additional time, effort, and spatial considerations for these activities. Furthermore, the height limitations also impose constraints on the design options available for the buildings, limiting the organisation's ability to explore innovative and efficient design solutions.

Noise

A Noise Survey Report found that tasks with significant potential to cause worker noise exposure exceeding the relevant exposure standard were performed in the boilermakers and fit-out areas of the workshop. The report noted the safety risks and issues of having the HV test bay located in the same workshop as the boilermakers. It recommended moving the HV test bay or putting measures in place to isolate the HV testing area from the Boilermakers area.

Storage

The site currently suffers from severe limitations in terms of storage capacity. Given the nature of the facility's operations, there is a high demand for storing bulky construction materials, requiring

sufficient laydown areas. Additionally, the site needs to store Automatic Circuit Reclosers (ACRs) and Regulators for the pole-mounted plant program. Moreover, the site field crews, who undertake projects across the state, have their own storage requirements, necessitating storage space for five containerised workshops and large plant equipment that regularly needs to be transported to various site-based projects.

The lack of adequate storage capacity not only impedes operational efficiency but also presents logistical challenges in managing and accessing the required equipment and materials.

Figure 4: Further image of times when hardstand traffic areas are being used as storage

2.3.4 Growth

There are currently 44 staff based in Banyo, but this is expected to increase to 56 by the end of 2023: mainly driven by manufacturing growth with the introduction of the Battery Energy Storage Systems (BESS) workgroup to the Banyo site. In addition to this is the natural growth expected in the Electrical and Mechanical Workgroups, that will see the site expand to 68 staff prior to the end 2030.

This trend is projected to continue influenced in part by the Queensland Energy and Jobs Plan (QEJP). These strategic initiatives are forecasted to elevate network infrastructure capital expenditure.

Compounding this further is the projected growth in the area, forecasted to increase by 21% for the decade to 2031[2], reflected in the Ergon Energy RDP2025 Draft Plan with 6% ($316 million) capital expenditure earmarked for new customer connections

While there are opportunities to reconfigure the internal office space to accommodate the growth in staff numbers, it's the workshop areas, carparking, internal and external storage areas that will not be able to accommodate the increased functional capacity required.

[2] QLD Government Population Growth Projections

Addressing these challenges in site constraints and functional capacity is crucial for optimising operations and ensuring seamless workflow.

2.4 Customer importance

Growth in the region will drive demand for network services and it is vital that EQL have the ability to meet the demands effectively.

Given the current and proposed sites are within industrial zones, potential locations are not expected to cause further challenges with stakeholders.

2.5 Compliance

Legislation, Regulation or Code	Obligations	Relevance to Investment
Queensland Work Health and Safety Act 2011 and Work Health and Safety Regulation 2011	We have a duty of care, ensuring so far as is reasonably practicable, the health and safety of our staff and other parties. This includes the suitable provision and maintenance of work environments, premises, plant and structures, such that workers are not exposed to risks to health and safety.	In light of the concerns outlined in section 2.3, EQL must adopt a heightened level of scrutiny in the management of this site due to significant challenges associated with insufficient site circulation, storage limitations, and heightened noise levels. These factors contribute to heightened safety risks that necessitate diligent attention and proactive measures to mitigate potential hazards and ensure the well-being of the organisation and its personnel.
Safe Work Australia – Managing the Work Environment and Facilities. Code of Practice – Dec 2011	Consistent with the Work Health and Safety Act, this code of practice defined specific safe work obligations relating to: • Access and egress • Work areas and workstations • Flooring, lighting, and housekeeping • Ventilation, heating, and cooling • Provision of worker facilities • Emergency planning	The consistent reliance on reactive measures to manage site operations, including the need to repurpose carparks for storage or to facilitate the movement of heavy vehicles, alongside the significant cost incurred for installing an acoustic wall, underscore the administrative challenges inherent in ensuring the site's safety and suitability for its intended purposes
Car Parking Standards AS/NZS 2890. Part 1 & 2 (2004) and Part 6 (2009)	We must comply with standards regarding the provision of car parking. We must similarly meet the car parking obligations for each site as defined through the site development approval and/or material change of use (MCU) approvals.	The Banyo site does not meet the compliance standards outlined in the MCU due to the site constraints detailed in section 2.3.2. To rectify the non-compliance, EQL would be required to submit a new MCU application. However, it is important to note that obtaining a new MCU approval does not address the underlying issues associated with the site itself.

3 OPTIONS ANALYSIS

3.1 Options overview

3.1.1 Options considered but rejected

Option	Reasons for rejection
Business as Usual (BAU) – Do nothing	For reasons outlined in section 2.3 Identified Need, both options to either 'Do Nothing' or 'Defer' to a future period are not viable given the current site will be at full capacity in 2023. These options do not address the current issues and future demands of the site.
Defer significant investment to RDP2030	
Relocate to an existing EQL Site	No other site within the EQL portfolio has the spatial requirements to accommodate the current and future growth of the Banyo operations. Included in this assessment was site expansions proposed as part of other RDP2025 Business Cases but inevitably combining Banyo with other sites becomes a temporary solution, given the growth projections further reinvestment will be required in RDP2030 making this a less viable and financially feasible option.

3.1.2 Options Identified

The following viable options have been identified for analysis:

- Counterfactual Option – Renew Banyo lease and reinvest in the site
- Option A – Purchase a 'Brownfield' site and refit to suit a fit-for-purpose workshop
- Option B – Purchase a 'Greenfield' site and construct a fit-for-purpose workshop
- Option C – Exit Banyo and lease a fit-for-purpose alternative site

These assumptions are considered to be calculated at the point of investment, unless otherwise specified and are applied to all options assessed.

Table 1: Business Case Assumptions

Assumption	Value	Source
Standard Rates		
NPV Escalation Rate	2.75%	Based on EQL Corporate Assumptions
NPV WACC Rate	6.35%	Based on EQL Corporate Assumptions
Useful Life – New Building	40	EQL standard useful life schedule& ATO useful life definitions[3]
Useful Life – Refurbished Buildings	20	EQL standard useful life schedule

[3] *As per ATO Taxation ruling from July 2022: https://www.ato.gov.au/law/view/document?DocID=TXR/TR20221/NAT/ATO/00001*

Assumption	Value	Source
Useful Life – Recurring Capex	10	EQL standard useful life schedule (average)
Construction Cost Escalators		
Design Fees	8.0%	Calculated on top of pure construction costs (handbook or QS supplied). Includes all other cost categories common to EQL projects based on historical project sampling using supplied budgets. Not all cost categories are applied to every proposed investment or option considered. Sample reporting provided.
Authority Fees	2.5%	
Supplemental Suppliers/Trades	6.5%	
Material Allowances	4.5%	
Internal Management	3.5%	
Digital Office (IT)	6.0%	

3.1.3 Site Characteristics

Current Site

25 Buchanan Road Banyo	Value
Office Employees	6
Mixed-use Employees	10
Field Employees	28
Total Site Area	11,368
Total Building Area	5,156

Proposed Options

Option	Nominated site	Land Size m2	Building Size m2	Employees (Forecast)
Counterfactual	25 Buchanan Road Banyo	11,368	5,156	68
Option A	New Brownfield site (TBD)	12,000	5,700	68
Option B	New Greenfield site (TBD)	12,000	5,700	68
Option C	New Leased site (TBD)	12,000	5,700	68

3.2 Counterfactual analysis (Base case)

With the lease over the Banyo site set to expire in December 2028, the base case is to renew the lease for an extended term and reinvest in the site.
Renewal and reconfiguration would need to occur to help alleviate some of the current issues associated with the site including:

- Expanding the workshop into existing hardstand areas.
- Renewing existing office fit-out and adding workstations to the ground floor.

Site augmentation will be required to ensure a fit-for-purpose facility to suit renewable manufacturing requirements in line with government strategy to support this.

Renewal of all fit-out assets at the end-of-life will need to occur as well as proposed roof-top solar installation to support organisational net zero initiatives.

3.2.1 Assumptions/costs

The following assumptions have been made for the base case:

- Lessor will agree to an extended lease term.
- Renewed lease agreement is based on lease appraisal in October 2022[4]
- Renewal of fit-out and site augmentation expenditure based on Rawlinson's Handbook rates and applying internal cost allocations (as per section 3.1.1 Global Assumptions).
- Operational and maintenance costs:
    - Based on Banyo 3-year historical trend, escalated to $2022/23 and converted to a square metre rate for application to new site.
    - Corrective maintenance rates ($/sqm) reduced by 35% based on FY2022 maintenance transaction review of other properties included in RDP2025 project. Assumption is that % benefit is not realised in full as EQL is conducting minor renewals only.
- Annual capex:
    - Based on Banyo 8-year historical trend, escalated to $2022/23

3.2.2 Risks

Site Risks

Specific site issues are not addressed by this option and storage capacity and site circulation issues will remain. The process of site preparation and staff relocation associated with site reconfiguration presents potential people and culture risks, which are intricately linked to change management. Proactive measures and strategies will be required to effectively navigate these risks and ensure a smooth transition for the staff throughout the construction phase.

Market Risks

EQL is exposed to price increases on lease costs imposed by the landlord. Mitigation options remain limited to contract negotiation and while fixed-price agreements can be negotiated it generally includes CPI adjustment and periodic market reviews.

Highlighted by the lease appraisal conducted by Colliers International, vacancy rates are extremely low at less than 1%, therefore it is anticipated that upon renewal the lease costs will be elevated to meet the market regardless of EQL's proposed capital expenditure in the site.

3.3 Option A: Purchase a Brownfield Site (Preferred)

This option involves purchasing a ***'Brownfield'*** site with slightly increased proportions to the Banyo site. Completing fit-out modifications to suit the current functions and ensuring these modifications are scalable to accommodate future works growth and expansion.
Four gantry cranes at 15 tonne capacity will be purchased and installed within the workshop space to ensure continuity of current operational functions.
Step changes regarding increased operational and maintenance costs have been factored into forecasts and NPV analysis.
Any increases in asset replacement costs are expected to be minimal given the new site is similar in fit-out to current site.

[4] Colliers International Lease Appraisal – 25 Buchanan Road Banyo

3.3.1 Assumptions/costs

The following assumptions have been made for option A:

- Site purchase cost based on sale of current Banyo Workshop in 2020, escalated to $2023
- Construction and fit-out costs have been estimated based on Quantity Surveyor (QS) estimates[5] and applying internal cost allocations (as per section 3.1.1 Global Assumptions).
- Make good remediation costs for Banyo based on financial provision.
- Operational and maintenance costs
    - Based on Banyo 3-year historical trend, escalated to $2022/23 and converted to a square metre rate for application to new site.
    - Corrective maintenance rates ($/sqm) reduced by 66% based on FY2022 maintenance transaction review of other properties included in RDP2025 project.
- Annual capex
    - Based on Banyo 8-year historical trend, escalated to $2022/23
    - 50% reduction based on substantially new fit-out and refurbished site
    - Post-investment this is deferred 5 years to align with a brand-new site housing new assets with a minimum useful life of 5 years.

3.3.2 Benefits

The following benefits would be realised if Option A was selected over the counterfactual.

Category	Benefit Description	Type
Operational costs	Banyo lease payments to cease once new site is established.	Financial
Operational & Maintenance Costs	Reduction in costs by moving to EQL location with a brand-new fit-out and reduced asset age and maintenance requirements.	Financial
Asset Lifecycle Costs	Recurring capital expenditure is expected to cease in the interim and resume 5 years after new site is established.	Financial
Organisational Efficiency	By relocating operational functions to an EQL owned site gives the organisation more control over operations and accommodating employees. It allows EQL to be much more agile in each function.	Non-financial

3.3.3 Risks

Construction Contract Risk

In this option, EQL is exposed to various categories of construction risk, encompassing aspects such as Health, Safety, and Environment (HSE), weather events, price increases, contractual disputes, and time delays.

However, many of these risks can be mitigated through robust scope definition, well-established contractual arrangements, and effective project management practices.

Site Risks

[5] Swart & Associates Quantity Surveyors – RDP2025 Project

One of the inherent risks associated with this option is appropriate site selection. Brownfield sites often come with legacy issues that need to be addressed during refurbishment and refit. Therefore, it is important for EQL to gain a comprehensive understanding of the required remedies and compliance requirements of the site prior to commitment.

The process of site preparation and staff relocation also presents potential people and culture risks, which are intricately linked to change management. Proactive measures and strategies will be required to effectively navigate these risks and ensure a smooth transition for the staff throughout the construction phase.

3.4 Option B: Purchase a Greenfield Site

This option involves purchasing a ***'Greenfield'*** site with increased proportions to the Banyo site. Completing fit-out modifications to suit the current functions and ensuring these modifications are scalable to accommodate future works growth and expansion.
Four gantry cranes at 15 tonne capacity will be purchased and installed within the workshop space to ensure continuity of current operational functions.
Step changes regarding increased operational and maintenance costs have been factored into forecasts and NPV analysis.
Any increases in asset replacement costs are expected to be minimal given the new site is similar in fit-out to current site.

3.4.1 Assumptions/costs

The following assumptions have been made for option B:

- Land purchase costs estimated based on market scan of surrounding suburbs[6].
- Construction and fit-out costs have been estimated based QS estimates[7] and applying internal cost allocations (as per section 3.1.1 Global Assumptions).
- Make good remediation costs for Banyo based on financial provision.
- Operational and maintenance costs
    - Based on Banyo 3-year historical trend, escalated to $2022/23 and converted to a square metre rate for application to new site.
    - Corrective maintenance rates ($/sqm) reduced by 66% based on FY2022 maintenance transaction review of other properties included in RDP2025 project.
- Annual capex
    - Based on Banyo 8-year historical trend, escalated to $2022/23
    - 50% reduction based on substantially new fit-out and refurbished site
    - Post-investment this is deferred 5 years to align with a brand-new site housing new assets with a minimum useful life of 5 years.

3.4.2 Benefits

The following benefits would be realised if Option B was selected over the counterfactual.

Category	Benefit Description	Type
Operational costs	Banyo lease payments to cease once new site is established	Financial

[6] RP Data, Commercial Property Guide, Commercial Real Estate.com
[7] Swart & Associates Quantity Surveyors – RDP2025 Project

Category	Benefit Description	Type
Operational & Maintenance Costs	Reduction in costs by moving to an existing brand new EQL location with reduced asset age and maintenance requirements.	Financial
Asset Lifecycle Costs	Recurring capital expenditure is expected to cease in the interim and resume 5 years after new site is established.	Financial
Organisational Efficiency	By relocating operational functions to an EQL owned site gives the organisation more control over operations and accommodating employees. It allows EQL to be much more agile in each function.	Non-financial

3.4.3 Risks

Construction Contract Risk

In this option, EQL is exposed to various categories of construction risk, encompassing aspects such as Health, Safety, and Environment (HSE), weather events, price increases, contractual disputes, and time delays.

However, many of these risks can be mitigated through robust scope definition, well-established contractual arrangements, and effective project management practices.

3.5 Option C: Exit Banyo and lease a new site

This option involves relinquishing the lease of the Banyo site in 2028 and commencing a new ***'Lease'*** at a new site with increased proportions to Banyo. Completing fit-out modifications to suit the current functions and ensuring these modifications are scalable to accommodate future works growth and expansion.

Four gantry cranes at 15 tonne capacity will be purchased and installed within the workshop space to ensure continuity of current operational functions.

Step changes regarding increased operational and maintenance costs have been factored into forecasts and NPV analysis.

Any increases in asset replacement costs are expected to be minimal given the new site is similar in fit-out to current site.

3.5.1 Assumptions/costs

The following assumptions have been made for Option C:

- Lease costs estimated based on independent market appraisal of Banyo Workshop[8].
- Construction and fit-out costs have been estimated based QS estimates[9] and applying internal cost allocations (as per section 3.1.1 Global Assumptions).
- Make good remediation costs for Banyo based on financial provision.
- Operational and maintenance costs:

[8] Colliers International Lease Appraisal – 25 Buchanan Road Banyo

[9] Swart & Associates Quantity Surveyors – RDP2025 Project

- Based on Banyo 3-year historical trend, escalated to $2022/23 and converted to a square metre rate for application to new site.
- Corrective maintenance rates ($/sqm) reduced by 35% based on FY2022 maintenance transaction review of other properties included in RDP2025 project. Assumption is that % benefit is not realised in full as EQL is leasing an existing site with similar characteristics of the current Banyo Workshop.

- Annual capex:
  - Based on Banyo 8-year historical trend, escalated to $2022/23
  - 50% reduction based on substantially new fit-out and refurbished site
  - Post-investment this is deferred 5 years to align with a brand-new site housing new assets with a minimum useful life of 5 years.

3.5.2 Benefits

Benefits are very limited for option C, relocating to a new leased site of similar age but larger proportions resolve the site circulation, site constraints and compliance issues but does not result in any financial benefits over the evaluation period. This aligns with the NPV analysis discussed in the next sections of the business case.

Category	Benefit Description	Value
Organisational Efficiency	By relocating operational functions to larger fit-for-purpose leased site will resolve a lot of the site circulation and compliance issues of the current site.	Non-financial

3.5.3 Risks

Specific site issues associated with Banyo, can be resolved through appropriate site selection but the following risks are inherent across leased sites.

Lack of Control

EQL has encountered considerable difficulties at leased sites due to the limited influence over the management and administration of the leased space, leading to prolonged delays when requesting necessary works. This affects the agility required to accommodate the rapid employee growth and evolving workforce that EQL is currently experiencing.

Efficient decision-making and action are imperative to align with EQL's operational requirements and foster an environment conducive to adaptation and growth which will remain a challenge at a leased building.

Streamlining the approvals process with the lessor are essential to mitigate these challenges and ensure a more responsive and flexible approach to meeting EQL's evolving needs.

Market Risk

EQL is exposed to price increases on lease costs imposed by the landlord. Mitigation options remain limited to contract negotiation and while fixed-price agreements can be negotiated it generally includes CPI adjustment and periodic market reviews.

Highlighted by the lease appraisal conducted by Colliers International, vacancy rates are extremely low at less than 1%, therefore it is anticipated that upon renewal the lease costs will be elevated to meet the market regardless of EQL’s proposed capital expenditure in the site.

Return on Investment

With significant investment required to suitably fit-out the leased premises to accommodate EQL functions, the importance of securing a long-term lease is paramount. With the useful life of fixtures and fittings between 10-20 years, a lease of 10+ years is vital to ensure a satisfactory ROI is achieved.

3.6 Financial Summary

3.6.1 Expenditure summary 2025-30

Table 2: Capital and operating expenditure summary 2025-30

Capital expenditure ($m, direct 2022-23)	2025-26	2026-27	2027-28	2028-29	2029-30	Total 2025-30
[redacted]						
Operating expenditure ($m, direct 2022-23)	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Total 2025-30**
[redacted]						

3.6.2 NPV analysis

The NPV was conducted over a 20-year post-investment time horizon.

The sum result is displayed in the table below, with Option A identified as the least cost to EQL over the 20-year period.

[redacted]

To simplify analysis, the NPV of the counterfactual option is assumed to be $0; with options presented in reference to this:

- A positive (+) figure represents an additional benefit (reduced cost) to the counterfactual option.
- A negative (-) figure represents an additional cost (reduced benefit) to the counterfactual option.

Counterfactual vs Options

Option	Counterfactual (Base)	Option A – Purchase a Brownfield site	Option B – Purchase a Greenfield site	Option C – Lease a new site
Financial benefit	0	+$1.5m	-$8.1m	-$1.2m

Sensitivity Analysis

A sensitivity analysis has been performed at two levels of detail:

- Broad – focused on high level assumptions for WACC
- Detailed – targets individual line items of the NPV and their associated assumptions.

Broad Sensitivity

The counterfactual option is assumed to be NPV $0.

Table 4: Sensitivity analysis

Option	Discount rate (WACC) ±25%	
	4.76%	7.94%
A – Purchase a Brownfield site	[redacted]	
B – Purchase a Greenfield site		
C – Lease a new site		

Detailed Sensitivity

The detailed sensitivity analysis adds two scenarios to the existing NPV: 'Best' and 'Worst' case scenarios, with the 'Most Likely' scenario the existing NPV used in the business case.

Note: *All percentage movements below are in reference to the 'Most Likely' scenario*

Table 5: Detailed Sensitivity Items

NPV Line Item	Best	Worst	Comments
Capex			
Site Purchase Costs	-25%	+25%	Costs based on current property and broad market scan of similar properties – large sensitivity range adopted.
Construction, Fit-out & Refurbishment Costs	-25%	+25%	Costs based on independent Quantity Surveyor and Building Inspection estimates – less volatility expected.
Site modifications & Solar installation	-25%	+25%	Costs based on previous projects – large sensitivity range adopted.
Opex			
Banyo Make Good Costs	-25%	+25%	Costs based on financial balance sheet provision only – large sensitivity range adopted
Option D – New site lease costs	-25%	+25%	Costs based on a broad market scan and discussion with agent – medium sensitivity range adopted.

4 RECOMMENDATION

Option A: Purchase a Brownfield site – is the recommended option based on the analysis conducted.

- NPV of +$1.5m (compared to counterfactual) over 20 years is the best option
- It is aligned with Energy Queensland's property strategic principles (see Appendix 3 for additional details).

Table 6: Options Analysis Scorecard

Criteria	Counterfactual (Base Case)	Option A – Purchase a Brownfield Site (Preferred)	Option B – Purchase a Greenfield Site	Option C – Lease a new site
Net Present Value (compared to counterfactual)	$0	+$1.5m	-$8.1m	-$1.2m
Investment cost (TCO)*				
Benefits	Maintains the status-quo, limited change management required. No changes to processes, staff at current depot continue to operate from a known location.	Option A provides long term financial sustainability by being the ***lowest cost option*** over a 20-year timeline. Benefits are set to compound further in EQL's favour past the 20-year timeline as the current annual lease payments cease and operational efficiencies increase due to improved asset age and the site now being fit-for-purpose. Having a fit-for-purpose site provides a distinct advantage over the base case by resolving the issues mentioned in section 2.3.	This option will deliver a brand-new fit for purpose site with the opportunity to easily factor in the growth requirements to the design and construction of the site. Having a fit-for-purpose site provides a distinct advantage over the base case by resolving the issues mentioned in section 2.3. Moreover, by relocating to an EQL-owned site this provides more agility in terms of functional requirements and future long-term operational decisions. However, it is important to note that while Option B offers a solution to	Option C is the least onerous in terms of delivery and reduced construction requirements offering the simplest solution out of options A-C presented. Option C offers a simplified delivery but the long-term financial implications are unfavourable and reflect the ***2nd highest cost*** NPV amongst all options considered including the base case. Minimal change impacts on staff other than relocation.

Criteria	Counterfactual (Base Case)	Option A – Purchase a Brownfield Site (Preferred)	Option B – Purchase a Greenfield Site	Option C – Lease a new site
		Moreover, by relocating to an EQL-owned site this provides more agility in terms of functional requirements and future long-term operational decisions.	the challenges of the current site while allowing for long-term growth, the financial implications are unfavourable and reflect the ***highest cost*** NPV amongst all options considered including the base case.	
Risks	Site – Specific site issues are not addressed by this option and storage capacity and site circulation issues will remain regardless of site augmentation. Market – Highlighted by the lease appraisal conducted by Colliers International, vacancy rates are extremely low at less than 1%, therefore it is anticipated that upon renewal the lease costs will be elevated to meet the market regardless of EQL's proposed capital expenditure in the site.	Site choice – Brownfield sites do pose risks associated with site and asset age which may require significant Capex to rectify legacy issues and increased Opex to maintain the site due to aging assets. Most of this can be mitigated by a robust site selection process. Estimates – There is a risk that the QS estimates relating to fit-out costs and market scans are not accurate.	Delivery – 24-month delivery timeframes are required to allow sufficient time for site selection and relevant approvals. This does pose risks associated with price movements and contract variations. Estimates – There is a risk that the QS estimates are not accurate and construction time delays or variations will lead to cost over-runs.	Estimates – There is a risk that the QS estimates relating to fit-out costs and market scans are not accurate. Limited Control – EQL has encountered considerable difficulties at leased sites due to the limited influence over the management and administration of the leased space. Market – EQL is exposed to price increases on lease costs imposed by the landlord. Mitigation options remain limited to contract negotiation and while fixed-price agreements can be negotiated it generally includes CPI adjustment and periodic market reviews. ROI – the importance of securing a long-term lease is paramount. With the useful life of fixtures and fittings between 10-20 years, a lease of 10+ years is vital to ensure a satisfactory ROI is achieved.

**Investment cost is equal to the sum of Capex and Opex costs during the 2025-2030 Regulatory Period*

4.1 Deliverability

Internal resourcing is available to deliver this project within the timeframe required. External consultants and contracting partners are also assumed to be available to implement this project scope. See Property Plan 2025-30 for more details.

Preferred Option Milestones	Approximate Commencement
Purchase of new site	January 2028
Refurbish & Fit-out site	March 2028
Relocation of Current Banyo functions to new site	September 2028
Make good Banyo Workshop	October 2028

4.2 Change Impacts

Change impacts are expected to be minimal given the preferred option will allow Banyo to continue operations while the new site is acquired and refurbished.

Proposed change management activities include:

- Stakeholder engagement
- Relocation of staff and equipment currently located at Banyo
- Coordinating the exit of the Banyo site including make-good provisions and other activities to meet lease obligations.

APPENDICES

Appendix 1: Alignment with the National Electricity Rules

Table 7: Recommended Option's Alignment with the National Electricity Rules

NER capital expenditure objectives	Rationale
A building block proposal must include the total forecast capital expenditure which the DNSP considers is required in order to achieve each of the following (the capital expenditure objectives):	
6.5.7 (a) (1) meet or manage the expected demand for standard control services over that period	The preferred investment supports the Banyo end-to-end manufacturing and testing facility required to enable the delivery of expected standard control services over the 2025-30 period. The preferred investment supports the production of a range of products and testing requirements associated with the provision of standard control services. The workshop facilities will ensure that Ergon Energy is able to adequately perform the functions required to operate and maintain the electricity network.
6.5.7 (a) (2) comply with all applicable regulatory obligations or requirements associated with the provision of standard control services;	
6.5.7 (a) (3) to the extent that there is no applicable regulatory obligation or requirement in relation to: (i) the quality, reliability or security of supply of standard control services; or (ii) the reliability or security of the distribution system through the supply of standard control services, to the relevant extent: (iii) maintain the quality, reliability and security of supply of standard control services; and (iv) maintain the reliability and security of the distribution system through the supply of standard control services	
6.5.7 (a) (4) maintain the safety of the distribution system through the supply of standard control services.	
NER capital expenditure criteria	**Rationale**
The AER must be satisfied that the forecast capital expenditure reflects each of the following:	
6.5.7 (c) (1) (i) the efficient costs of achieving the capital expenditure objectives	Costs for the investments have been forecast based on a combination of estimates from independent specialists (Quantity Surveyor), historical data and previous industry experience. Prior to investment, a Gate 3 business case will be prepared with further details to be assessed in accordance with the established investment governance processes. Ergon Energy undertakes competitive market procurement processes to ensure efficiency in capital expenditure. The preferred investment has been selected following a detailed assessment of options (including both financial and non-financial considerations). The investment selected is considered the most prudent option to address the identified need.
6.5.7 (c) (1) (ii) the costs that a prudent operator would require to achieve the capital expenditure objectives	
6.5.7 (c) (1) (iii) a realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objectives	

Appendix 2: Reconciliation Table

Table 8: Reconciliation of business case to AER capex model/Reset RIN

Expenditure	DNSP	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30
Expenditure in business case ($m, 2022-23)	Ergon						
Allocation to DNSP (where applicable)							
DNSP capex ($m, 2022-23)	Ergon						
Allocation to SCS capex							
SCS capex ($m, 2022-23)	Ergon						
Add escalation adjustments							
Escalation from $2022-23 (Dec 2022) to $2024-25 (June 2025)	Ergon						
Expenditure in AER capex model/ Reset RIN $m, 2024-25	**Ergon**						

Appendix 3: Alignment to EQL Property Strategy

This investment aligns to the following Strategic Principles as defined in the EQL Property Strategy.

Table 9: Alignment to Property Strategy

Strategic Principles	How this investment contributes	Impact
1. We are a critical enabler, delivering property and infrastructure related services to all of Energy Queensland in service of our communities	The Banyo Hub is a regulated site within the Ergon DNSP area of operations. Property is responsible for delivering this outcome to the business.	Medium
2. The Property portfolio prioritises the safety of our people, the compliance of our assets and the cost-effectiveness of our solutions	Moving the Banyo Workshop from an already constrained site that is at capacity in a lot of areas to a modern, fit-for-purpose facility with the appropriate spatial requirements for storage, parking and internal traffic movements prioritises the safety and compliance of the site and staff.	High
3. Portfolio growth is planned and justified while retaining flexibility, thereby reducing the long-term cost impact to our customers.	The significant growth witnessed in the Banyo area as well as the operational demand experienced by the business, is causing it to operate beyond its capacity. Forecast consistent growth enables EQL to plan for future needs proactively, thereby mitigating long-term impacts on service delivery and costs which will be realised beyond the 20-year evaluation timeline of this Business Case.	High
4. Our infrastructure goals are consistent across the portfolio, but solutions are tailored to meet the unique context of each challenge	This approach integrates the principles of the Depot Masterplan and Property Strategy to ensure alignment across the portfolio. Simultaneously, it recognises and addresses the distinct operational needs presented by the Banyo Workshop in its service to the business.	Medium

Appendix 4: Glossary

Term	Definition
ACS	Alternate Control Service
AER	Australian Energy Regulator
BCR	Building Condition Report
CEMT	Corporate Emergency Management Team
CPI	Consumer Price Index
DMS	Distribution Management System
DNSP	Distribution Network Service Provider
EQL	Energy Queensland Limited
HV	High Voltage
LCC	Lifecyle Costing
LUEZ	Loading and Unloading Zone
LV	Low Voltage
NetOps	Network Operations
NOC	Network Operations Centre
NPV	Net Present Value
QEJP	Queensland Energy and Jobs Plan
QS	Quantity Surveyor
RIN	Regulatory Information Notice
RTO	Registered Training Organisation
SCADA	Supervisory Control and Data Acquisition
SCS	Standard Control Service
SEQ	South East Queensland
SoCI	Security of Critical Infrastructure
WACC	Weighted Average Cost of Capital