



Sarina – New Depot Development

Business Case

31 January 2024



Part of Energy Queensland

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1 EXECUTIVE SUMMARY

Title	Sarina Depot – Site replacement																							
DNSP	Ergon																							
Expenditure category	<input type="checkbox"/> Replacement <input type="checkbox"/> Augmentation <input type="checkbox"/> Connections <input type="checkbox"/> Tools and Equipment <input type="checkbox"/> ICT <input checked="" type="checkbox"/> Property <input type="checkbox"/> Fleet																							
Identified need (select all applicable)	<input type="checkbox"/> Legislation <input type="checkbox"/> Regulatory compliance <input checked="" type="checkbox"/> Reliability <input type="checkbox"/> CECV <input checked="" type="checkbox"/> Safety <input type="checkbox"/> Environment <input checked="" type="checkbox"/> Financial <input type="checkbox"/> Other <p>The Sarina Depot is situated on a 1,500m² house block, with limited parking, storage and growth options available. It utilises a secondary pole and materials storage site (also a house block) to serve its customers, which has also reached full capacity.</p> <p>The current site does not have street access. Staff have continued to access the site through a private property at the rear of the depot.</p> <p>The site yard, workshop and office areas are well below EQL’s standard spatial requirements for a depot of this capability¹ which creates risks and issues for vehicle circulation, storage and overflow on-street parking for both fleet and staff vehicles.</p> <p>Why Now?</p> <p>The depot reached the end of its useful life in 2018² however the long-term strategy for the Sarina Depot was under consideration at the time. Since then, recurring capex & maintenance was able to maintain the site’s longevity until clarity was achieved on the future operations in Sarina. The retention of the Sarina based operations has been confirmed and the team has since grown in staff and its operational functions to the point where both asset condition and demand are factors in this proposed investment.</p>																							
Summary of preferred option	<p>Option A – Purchase a Greenfield site and construct a new depot.</p> <p>The preferred option includes purchasing a new site in an industrial area and constructing a new fit-for-purpose depot with the relevant spatial requirements for a Class C Depot. Furthermore, this option will include the divestment of the current depot and secondary storage yard, allowing EQL to consolidate its property holdings in Sarina.</p>																							
Capital Expenditure (\$real)	<table border="1"> <thead> <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> </thead> <tbody> <tr> <td>\$m, 2022-23</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Year	Previous period	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	\$m, 2022-23														
Year	Previous period	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30																	
\$m, 2022-23																								
	<p>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.</p>																							
NPV	+\$1.4m (compared to counterfactual)																							
Benefits	<p>Consolidation of two existing sites (57 Broad Street and 150 Broad Street, Sarina) into a single fit-for-purpose site.</p> <p>Addresses capacity and access constraints of the current depot.</p> <p>Lowest cost NPV of all options considered.</p> <p>Operational efficiencies from operating from a single location.</p>																							
Customer importance	<p>At the residential customer focus session held in August, we tested with a focus group of customers their thoughts around the location of our depots and the benefits and drawbacks of having depots located in residential or industrial areas. Our customers told us that they generally favoured industrial areas over residential sites while recognising that there are a range of considerations in assessing site suitability or redeveloping an existing site. Customers also told us they were interested in maximising customer value.</p>																							

¹ EQL Depot Masterplan

² As per EQL’s standard life schedule for buildings and ATO’s taxation schedule.

2 OVERVIEW

2.1 Purpose and scope

This is a preliminary business case describing the required investment to proceed with the replacement of the Sarina Depot which has reached capacity and an alternative solution is required.

The purpose of this document is to provide a forecast of the investment required in coordination with 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

The Sarina Depot was opened in 1978 and is situated on a 1,540m² lot at 57 Broad Street Sarina. There are two interconnected buildings onsite: Building A for Office and Administration functions 305m² and Building B providing 150m² of warehousing space and a 145m² three bay parking for Medium to Heavy rigid vehicles, with each of these supporting the Field Delivery functions for EQL in that region.

Figure 1: Current Sarina Depot



The depot is within the town centre and does not have direct access to a street frontage. The depot is landlocked between two adjacent properties and a rail corridor to the rear. Staff must use the adjacent property to access a service road (that terminates before the depot) to access the site.

Building condition reports (BCR)³ conducted in 2018 indicate the Office building is in significant disrepair requiring remedial works. Building B is generally in good condition.

³ Homeworthy Inspection Services – Commercial Dilapidation Report

Supporting the depot is a secondary pole and materials storage yard located at 150 Broad Street (up the highway from the depot), which has helped to alleviate some of the capacity constraints of the depot since its purchase in. This parcel is 1,098m² and has helped the Sarina depot manage its pole & equipment storage constraints, however it is positioned between residential homes and is also at full capacity.

2.3 Identified Need

2.3.1 Capacity

The Sarina Depot has seen slow and steady growth since 2017, evidenced by a 7% rise per annum in its workforce. This growth trends slightly above the overall population increase experienced in the region of 5.2%. Notably, a significant proportion of the depot's staff primarily consists of field personnel who play a crucial role in supporting the network in the area south of Mackay.

Table 1: Growth Summary

Growth Forecast	2017/18	2019/20	2021/22	2022/23	2023/24	2025/26	2029/30
Staffing Type*	Actuals					Forecast	
Office staff	3	3	3	3	3	4	5
Mixed staff	1	2	3	3	4	4	5
Field Staff	10	11	12	11	13	15	20
Total Staff	14	16	18	17	20	23	30
Fleet Vehicles	15	17	15	17	19	20	24

* Office & mixed staff require a permanent workstation. Field staff generally utilise hot desks at 1 per 4 people.

Although the growth has been gradual, after 50 years of operating from the depot, with minimal changes in that time, the current demands of the site have now surpassed the original infrastructure in terms of personnel, fleet & equipment storage. Specifically, there are not enough workstations in the office area for the staff needing a permanent workstation plus hot desks for field crews, necessitating a recent change to turn a storeroom into office space and adding additional desks in the kitchen/lunchroom.

Furthermore, the number of personnel is expected to increase further based on current recruitment strategy to grow the Sarina workforce by at least 20% by 2025/26, specifically to address growth in the Hay Point Port area 'as one of the largest steel-making coal export ports in the world'⁴. The *2022 Draft Master Plan - Priority Port of Hay Point/Mackay* details the Queensland Government's approach to sustainably developing the port, its associated supply chain infrastructure, international trade connections and supporting industrial and commercial activities within the zones of the Port over the next 50 years. The Sarina depot (with support from Mackay) will be the directly involved in the electrification of these infrastructure outcomes by ensuring the distribution network is built and maintained safely and effectively in line with this growth.

⁴ *HPMPlan.PDF (cabinet.qld.gov.au)*

In terms of storage and parking, the warehouse and yard areas fall significantly below the standard requirements⁵ expected of a depot with the operational characteristics of Sarina. Considering today's number of employees and the number of fleet of vehicles housed on the site, the Sarina Depot would be classified as a C Class Depot based on its service provision. However, the current site area and floor space allowance fall well short of meeting an A Class standard across most metrics, which is a critical concern and impacts upon the operational and cost efficiency of the site.

Table 2: Site Comparison

Spatial Requirements	A Class	B Class	C Class	Sarina – Current State	
Employees	8	8-15	15-25	20	
Site Area	5,500m ²	6,500m ²	8,000m ²	1,540m ²	
Office Area	179m ²	280m ²	465m ²	305m ²	
Workshop areas	259m ²	353m ²	356m ²	150m ²	
Carparking Allowances	# Spaces	# Spaces	# Spaces	# Spaces	# Vehicles Onsite
Heavy Rigid Vehicles	1	6	6	4	6
Medium Rigid Vehicles	1	2	2	0	1
Light Vehicles	6-7	10	10	6	6
Trailers	4	4-5	4-5	0	3
Staff and Visitor	7-8	7-8	7-8	0	20

A secondary site in Sarina was stood up in 2005 to alleviate the yard-based constraints at Sarina Depot, however there are no amenities at this location. Staff are frequently using the site to conduct operational works, such as pole fitting, loading/unloading equipment, transformer configurations etc, before returning to and from the depot. This creates inefficiencies of traversing the two locations.

This pole yard is smaller than most of the adjoining residential home blocks and is accessed after hours by heavy vehicles to pick-up equipment for the restoration of the network. The noise and light transfer into residential homes is not ideal and its only due to our respected standing in the community that residents do not often complain of these issues. Importantly, even with the additional 1,098sqm added onto the depot's metrics, the site still falls well short of the Class C depot standard requirements.

⁵ Energy Qld Depot Master Plans Full Estimate Summary

Figure 2: Current Sarina Pole Yard



2.3.2 End of Life Assets

The Sarina Depot has been independently assessed by a building condition auditor and the site has been found to contain multiple major and minor defects requiring rectification. A summary of those findings are as follows.

Table 3: Defect Summary

Site Asset	Major Defects	Minor Defects	Defect Summary
Yard & Externals	2	6	Retaining wall falling, water run-off, fencing failing, ineffective downpipes, failed yard surface
Building A - Admin	11	15	Considerable water seepage, guttering & downpipes, repainting needed, downpipe internal to building, water damage, mould growth, ceiling damage
Building B - Workshop	5	10	Considerable water seepage, guttering & downpipes, algae growth, no PWD access, wall sheets, internal box gutters & pipes

The hardstand sections of the depot are considered poor with bitumen breaking up throughout the small area. The constrained nature of the site, the use of heavy vehicles turning over the same areas of the yard over time have continued to cause break-up of the surface, which is then penetrated by water causing failure of the sub-grade material.

Water ingress and seepage damage is a problem throughout the site as its elevation is lower than its neighbours and the building houses a lot of its ductwork and guttering internally within the buildings. While the roof sheets and flashing were being replaced at the time of the report, subsequent ceiling damage, carpet swamping, algae & mould growth are continuing issues.

The buildings on-site are grossly constrained, with minimal allowances to move throughout the office area as utilisation is maximised causing egress paths to become non-compliant to today's

fire safety requirements. Building B is generally in good order, providing secure storage & protection for three of the heavy vehicles on site.



Yard Surface – Entire pavement failed



Looking into rear yard – highly constrained



Retaining Wall – Water run-off causing failure



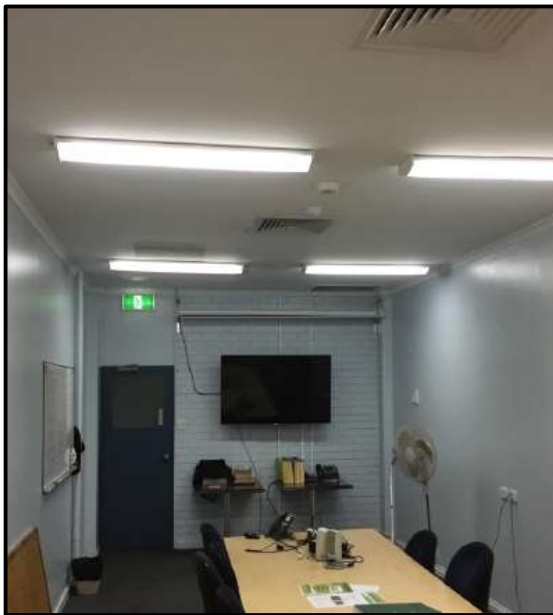
Yard – General state & limitations



Building A – Box gutter overflow



Building A – Ceiling water damage



Building A - Meeting room



Building A – Internal water ducting, ceiling & floor damage



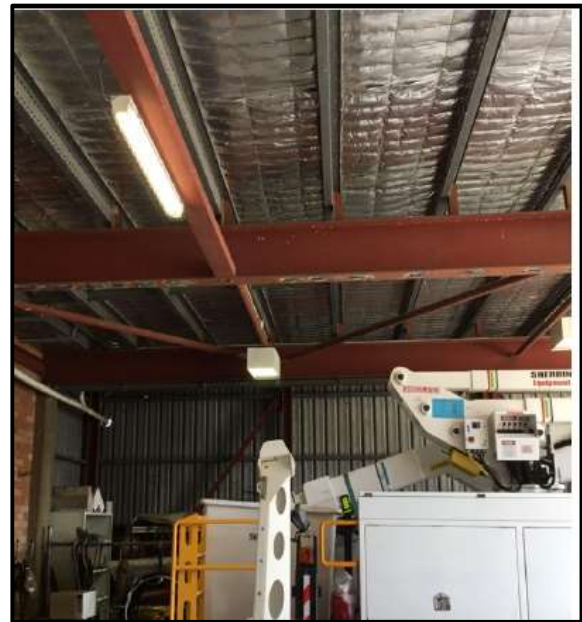
Building A – Lunchroom



Building A – Water damaged ceiling



Building B – Aged wall sheets & flashing



Building B – Roof & structural steel okay



Building B – Wash-up area EoL



Building B – Internal guttering & ducting

2.3.3 Site Access Issues

The Sarina depot is confined by neighbouring private properties on both sides and is further constrained by the presence of a railway corridor to the rear. There is no means of obtaining access to the depot and expanding into adjacent lots to rectify this spatial challenge is not possible. The staff navigate an access road situated at the rear of the depot; however, this route concludes before reaching the depot's premises. This necessitates traversing a private property driveway and entering the rail corridor to access the rear gate, complicating logistical operations and compromising site security and safety. This entry point is long-standing arrangement with the neighbouring owners who have consented to our usage. It is only at our neighbour's discretion that we are allowed entry into our property, which is an on-going risk for our Sarina operations.

2.4 Customer importance

At the residential customer focus session held in Townsville on 12 and 13 August, a focus group of customers were tested on their thoughts around the location of our depots and the benefits and drawbacks of having depots located in residential or industrial areas. In particular, the issues facing the Sarina depot and options were discussed. Most participants told us that they generally favoured industrial areas over residential sites while recognising that there are a range of considerations in assessing site suitability or redeveloping an existing site. Customers also told us they were interested in maximising customer value.

2.5 Compliance

Legislation, Regulation or Code	Obligations	Relevance to Investment
<p>Queensland Work Health and Safety Act 2011 and Work Health and Safety Regulation 2011</p>	<p>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.</p>	<p>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 insufficient site circulation and storage limitations. 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.</p>
<p>Safe Work Australia – Managing the Work Environment and Facilities. Code of Practice – Dec 2011</p>	<p>Consistent with the Work Health and Safety Act, this code of practice defined specific safe work obligations relating to:</p> <ul style="list-style-type: none"> • Access and egress • Work areas and workstations • Flooring, lighting and housekeeping • Ventilation, heating and cooling • Provision of worker facilities • Emergency planning 	<p>The consistent reliance on reactive measures to manage site operations, including the utilisation of a secondary site for storage and some operational works, pose challenges for EQL in maintaining a safe work environment.</p> <p>Additionally, the office and workshop areas, fall well below the provisions expected for a depot of this magnitude.</p>
<p>Car Parking Standards AS/NZS 2890. Part 1 & 2 (2004) and Part 6 (2009)</p>	<p>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 approvals with Council which also align with AS/NZS 2890.</p>	<p>The current depot's capacity is insufficient, with 20 staff and 19 fleet vehicles with only 10 available spaces. These numbers fall significantly below the required obligations of providing 1 carpark per employee and ensuring sufficient onsite carparks to cater to the site's service provisions adequately. We risk being fined if the situation is not addressed. The proposed new depot will resolve this issue with the ample space available at the site.</p>

3 OPTIONS ANALYSIS

3.1 Options overview

This section considers the following options analysis:

- Counterfactual Option – Reactive response, lease surplus site to accommodate growth.
- Option A – Purchase a greenfield site and construct a new depot.
- Option B – Defer new depot development investment 5 years.

Other options were considered when assessing the Sarina strategy, including leasing a new property (none available on market), upgrading the existing site vertically (not enough clearance and allowance with neighbours) and absorbing the depot with Mackay (Mackay would need to expand by similar proportions) however all these options were found to be much more costly or riskier than those presented here.

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

Table 4: 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 ⁶
Useful Life – Refurbished Buildings	20	EQL standard useful life schedule
Useful Life – Recurring Capex	10	EQL standard useful life schedule (average)
Construction Cost Escalators		
Design Fees	8.00%	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	2.50%	
Supplemental Suppliers/Trades	6.50%	
Material Allowances	4.50%	
Internal Management	3.50%	
Digital Office (IT)	8.00%	
Site Statistics		
Office Employees	4	HR Staff Listing Sep 2023
Mixed Employees	4	HR Staff Listing Sep 2023
Field Employees	15	HR Staff Listing Sep 2023
Workstations	14	11 permanent, 3 hot-desks
Light Vehicles	12	Fleet Vehicle Listing Aug 2023
Heavy Rigid Vehicles	8	Fleet Vehicle Listing Aug 2023
On-site carparks – Fleet	10	18 carparks short when fully utilised
On-site carparks – Personal	0	24 carparks short when fully utilised

⁶ As per ATO Taxation ruling from July 2022:
<https://www.ato.gov.au/law/view/document?DocID=TXR/TR20221/NAT/ATO/00001>

Option	Nominated site	Site Area	Building Area	Employees
Counterfactual	57 Broad St and Leased Site	2,040 m ²	600 m ²	26
Option A	New greenfield site TBD	8,000 m ²	1,177 m ²	26
Option B	New greenfield site TBD	8,000 m ²	1,177 m ²	26

3.2 Counterfactual analysis (Base case)

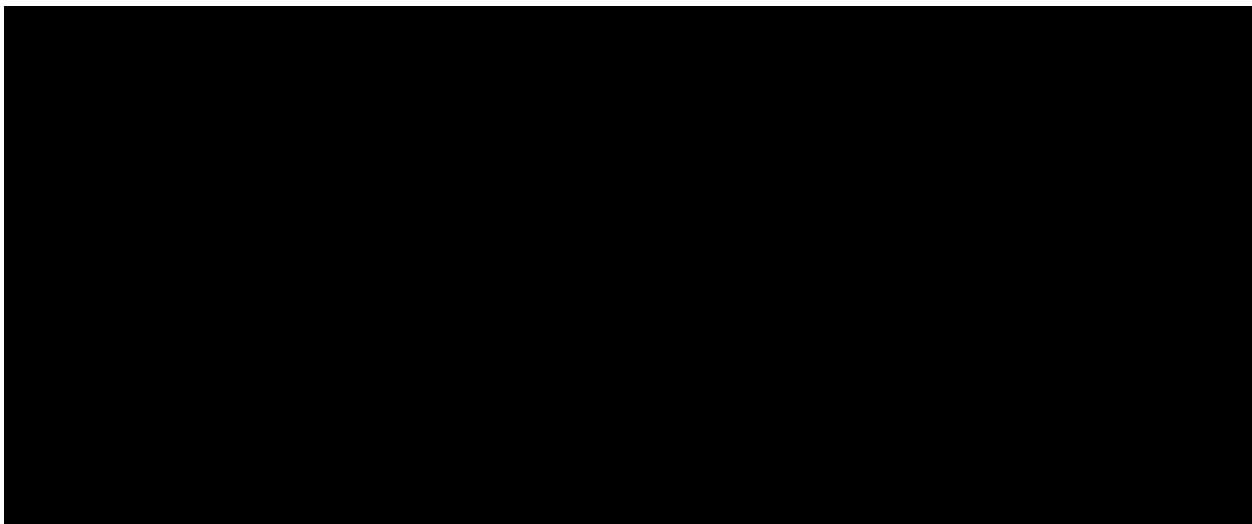
3.2.1 Summary

The counterfactual option involves implementing a reactive approach that refrains from undertaking substantial upgrades. Instead, the primary focus is short-term solutions that rely on maintaining the current site, rectifying the identified defects within the existing site, as outlined in the building condition report (BCR) and leasing additional space on an as needed basis to meet demand based on the current strategy.

This option includes the leasing of an additional site to alleviate the site's current capacity constraints. This site will be focused on warehouse and pole yard functions aimed at increasing storage capacity and enabling the growth in fleet, personnel and related equipment to be met. The current depot is already supported by a secondary site which is dedicated to pole and materials storage.

The counterfactual in this business cases includes a leasing option to manage current & future growth constraints. This is due to Energy Queensland having established a long-standing practise of leasing or licensing land, buildings or demountables (depending on the situation) at short notice where immediate demands are unable to be met through the existing infrastructure provision. The long-lead times required to establish new infrastructure outcomes is the main driver for this reactive response, coupled with the strategic unknowns of whether peaks in demand/growth will be sustained. As such, the counterfactual leverages this demonstrated BAU practise to assess its cost-effectiveness against other options which target longer-term strategic investments. Some examples where leasing options have been leveraged to manage demand prior to projects being implemented or awaiting future investment are provided below.

Table 5: Examples of other leased locations



3.2.2 Assumptions/costs

The following assumptions have been made for the counterfactual option⁷:

- Staff growth rates are based on historical depot growth of 7.1% p.a. since 2017, validated with local leaders based on identified areas of community & industrial growth.
- Defect remediation costs based on 2018 BCR estimates and escalated to \$2022/23⁸, for immediate implementation.
- Hardstand replacement across the existing depot yard due to its failure in multiple locations, allowing water ingress to impact subgrade (see images). In addition, an allowance is made to continue the hardstand out to the road reserve (with neighbours' approval), enable safer and more effective access to the site. Cost based on historical projects to concrete other depots (Gympie & Raceview) in the last 3 years, escalated to Mackay pricing based on Rawlinsons 2023 Handbook indices of 115%.
- Operational and maintenance costs based on Sarina 3-year historical trend for both the depot and pole yard sites, escalated to \$2022/23.
- Recurring capex based on Sarina 10-year historical trend for both the depot and pole yard, sites, escalated to \$2022/23.

Additional Site/s

- Acquisition of a new leased site/s to accommodate warehouse and yard demands based on standard square meter allowances within Class C depot specification (see Property Plan). Annual lease payment based on suburb profile for retail leases on sqm/rate plus the lease cost of land (due to the substantial size needed), based on the market gross rental yield of 6.15% in Sarina apportioned against the cost to purchase such a site. Site/s of needed size assumed to be available, but unlikely to be exact specifications.
- Fit-out cost of leased warehouse based on square meters required, and Rawlinsons handbook pricing escalated with Mackay regional indices, with internal costs added.
- Site establishment of leased land based on square meters required and the cost of historical projects to concrete other sites historically, escalated with Mackay regional indices.
- Recurring capex, maintenance and non-maintenance costs of new leased site/s based on Sarina Depot & Pole Yard historical trends, apportioned for leased site size.

⁷ EQL Non-Network NPV Tool – Beaudesert – Assumptions Sheet

⁸ Homeworthy Inspection Services – Commercial Dilapidation Report

- Cost of additional movement between another site in Sarina based on cost of 32t truck return journey each day, the movement of 2 personnel between the sites return journey and the associated lost productivity. Based on EQL standard labour rates (excl on-costs) and rates per kilometre, assumed over 5 kilometres between sites.

3.2.3 Risks

Optimisation

The efficiency of work coordination and service delivery faces a substantial risk of decline due to the necessity for personnel to navigate between three separate locations. This will inevitably lead to increased time requirements for the delivery of services. The primary concern lies in the fact that functions cannot be easily divided between the three sites, as the pole yard has no amenities, is already constrained and is also being used by field delivery to conduct some works. Additionally, the current depot has very limited parking, storage and workshop space and the third site will be used as additional storage areas and fleet activities such as parking and possibly a future wash.

Continuation of existing risks

The base case does not resolve all of the main issues and risks with the current depot site. Those still outstanding include:

- The site's poor optimisation and planning remains intact. The site will still be landlocked with no natural access to the street that EQL has ownership for.
- The site will still have the same physical constraints with very limited vehicle movement and the continued inability to establish formal Loading & Unloading zones and the interaction between pedestrians and heavy vehicles will remain.
- The site will still be non-compliant with current disability access standards.
- Car parking for personal vehicles will remain unaddressed.

Construction 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

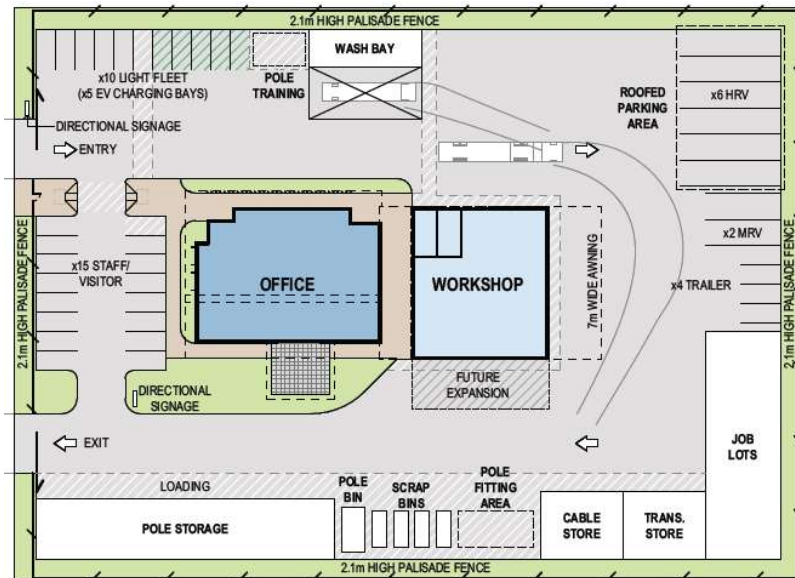
While specific site issues can be addressed by adding leased sites to accommodate constraints, the increased functional administration and traveling between three different sites will create inefficiencies for operational delivery. These estimated costs are mapped in the NPV, based on the expectation of movement of 3 staff per/day return journey along with 1 delivery truck return journey per day.

3.3 Option A: Purchase Greenfield Site & Build New Depot (Preferred)

3.3.1 Summary

The preferred solution includes the purchase of a greenfield site and the construction of a master planned fit-for-purpose depot, with appropriate spatial dimensions for a depot of this size and function. The depot will have ample storage and workshop areas given the Sarina depot is focused on field delivery. Preliminary design concepts have been developed as below:

Figure 3: Example of a C Class Depot



3.3.2 Assumptions/costs

The following assumptions have been made for option A:

- Defect remediation costs for Major defects only based on 2018 BCR estimates and escalated to \$2022/23⁹, for immediate implementation to support future divestment.
- Greenfield land purchase based on recent land sales in Sarina for similar sized vacant parcels, based on sqm rate apportioned for needed size (8,000sqm).
- All site functions and requirements based on the detailed Masterplan for a Class C Depot as described and costed in the *Energy Qld Depot Master Plans Full Estimate Summary*.
- Construction and fit-out costs have been estimated by a Quantity Surveyor and applying internal cost allocations (as per table in section 3.1 Options Analysis).
- Recurring Capex – based on 10-year historical trend of current Sarina depot, apportioned by sqm increase, deferred 10 years after construction to reflect brand new building and fitout (10 years is the expected lowest useful of an asset in the new development. The trend excludes non-applicable historical projects in trend (mould remediation).
- Annual maintenance New Site – based on 3-year historical review of maintenance for the current Sarina depot, apportioned by sqm increase. Non-recurring corrective maintenance removed from trend post-redevelopment.
- Annual non-maintenance (property costs) New Site – based on 3-year historical review of maintenance for the current Sarina depot, apportioned by sqm increase. Electricity consumption costs are removed from trend to reflect the installation of 40kwh Solar Panel system to offset usage.
- Relocation costs based on standard rate per person averaged from historical projects.

⁹ Homeworthy Inspection Services – Commercial Dilapidation Report

- Make good costs for the Depot and Pole Yard based on standard rate per square meter averaged from historical projects for depots and stand-alone yards.
- The current Sarina depot and Sarina Pole Yard will be sold via a traditional market process. Value of improved site based on the insurable value.

3.3.3 Benefits

The following benefits will be realised if Option A is selected over the counterfactual.

Category	Benefits Identified	Type
Operational Costs	Reduction in operational and maintenance costs (on sqm basis) as a result of new, modern, and efficient buildings.	Financial
Asset Lifecycle Costs	Reduction in the cost to maintain the portfolio moving out of a depot that has surpassed its useful life (40 years for permanent building) and avoiding more expensive leased properties to supplement the Beaudesert demand.	Financial
Organisational Efficiency	<p>Fit for Purpose</p> <p>The new site will transform the Sarina Depot into a modern, fit-for-purpose facility with the capability of offering increased operating areas and moderate allowances for growth in line with historical trend. It will move EQL's operations out of the town centre into a more appropriately zoned location where 24/7 operations are more acceptable to the community.</p> <p>Site Capacity</p> <p>The new site will be appropriate in size for the functional delivery of the Sarina Depot, thus providing additional space for storage areas, carparking and spatial allowances for growth.</p>	Non-Financial
Risk	<p>Site Circulation</p> <p>The enlarged hardstand and storage areas allowing for additional carparks, workshop and space for Loading and Unloading Exclusion Zone (LUEZ) areas, will significantly reduce the constraints of the existing site which does pose safety risks.</p>	Non-Financial

3.3.4 Risks

Construction Risk

The traditional risks associated with construction will exist including contractor availability, contractual disputes, price variations and construction delays. These issues are generally mitigated through a solid tender process and robust project management.

Risks proceeding with this option are expected to be minimal as the new depot can be built while the existing one operates, and then a direct transfer of depot functions to the new site.

Site Risks

Furthermore, specific site risks need to be addressed. These include the challenges of securing the site in preparation for construction and managing the relocation of staff. The process of site preparation and staff relocation 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: New Depot Development, 5-year Deferred.

3.4.1 Summary

Option B seeks to implement the Beaudesert Sarina New Depot Development **consistent with Option A** but deferred 5-years to the 2030-35 regulatory control period.

Please see Option A for all detail relevant to this option. The specific changes noted for Option B are:

- The development is delayed 5 years to commence 2031/32 and finish in 2032/33.
- The immediate defect rectification work will be implemented consistent with the Base Case
- The hardstand replacement and road continuation work will be implemented consistent with the Base Case due to already being well beyond its useful life for bitumen pavement surfaces of 20 years.¹⁰
- The pressing need for warehouse & storage space now, means the leasing options will need be leveraged for the period of deferral, including the fit-out & establishment costs.
- BAU Capex will continue within that 5-year deferral period and then deferred 10 years after construction to reflect brand new building and fitout.
- BAU Opex will continue in line with base case during the 5-year deferral period and then revert to the Option A Opex values.
- Make good costs, relocation costs and revenue from the sale of the existing depot is deferred 5 years in line with the depot development in Option A.

3.4.2 Benefits

The same benefits apply as per Option A.

3.4.3 Risks

The same risks apply as per Option A, with the addition of:

Price Risk

Delaying construction of a new depot to the 2030-35 period risks the price increases experienced recently, and while inflation is expected to ease through to 2025¹¹, the NPV analysis does indicate an unfavourable financial outcome.

¹⁰ As per ATO Taxation ruling from July 2022:

<https://www.ato.gov.au/law/view/document?DocID=TXR/TR20221/NAT/ATO/00001>

¹¹ RBA August 2023 Forecast Table

3.5 Financial Summary

3.5.1 Expenditure summary 2025-30

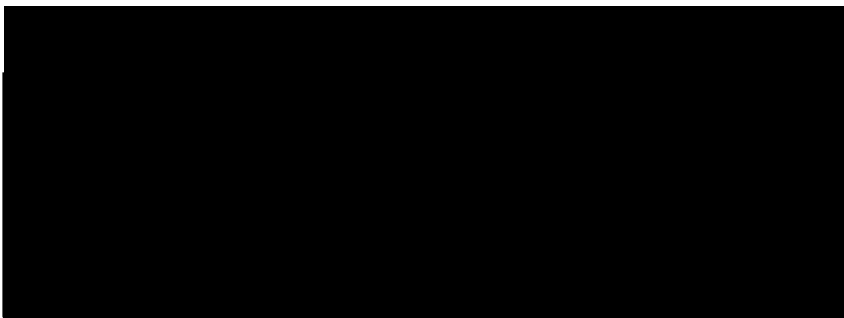
Table 6: Capital and operating expenditure summary 2025-30

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

3.5.2 NPV analysis

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

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



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 A provides \$1.4m in benefits over the 20-year evaluation period.

Option	Counterfactual (Base)	Option A – Purchase Greenfield site	Option B – Defer option A to RDP2030
Financial benefit	0	+\$1.4m	+\$1.0m

Sensitivity Analysis

A sensitivity analysis has been conducted, based on category assumptions affecting NPV outcomes of each option. The counterfactual option is assumed to be NPV \$0. Only in the situation where the capital investment of Option A is well underestimated, will the investment not be the most financially prudent option. Given the QS estimate was completed in June 2023, this is not expected to be the case.

Table 7: Sensitivity analysis

Option	Discount rate (WACC) ±25%		Capital Investment of Options	
	4.76%	7.94%	-25%	+25%
A – New Depot Development				
B – New Depot Development, deferred 5 years				

4 RECOMMENDATION

Option A: Purchase a Greenfield site and develop new depot – is the recommended option based on the analysis conducted and alignment with EQL’s strategic objectives (see Appendix 3 for additional details).

- NPV of \$1.4m (compared to the counterfactual) over 20 years is the least cost option.
- Is the best option to provide an efficient and fit-for-purpose site to accommodate capacity.
- It is aligned with Energy Queensland’s property strategic principles (see Appendix 3 for additional details).
- Investment provides additional benefits, including:
 - Efficient fit-for-purpose depot.
 - Increased financial sustainability through reduced operating and maintenance costs over the longer term.
 - Appropriate spatial allowances for long-term growth reducing future expenditure.
 - New site will be located more appropriately for a 24/7 industrial operation.
 - Reduce the portfolio from a potentially three sites down to one, reduces overhead support costs.

Table 8: Options Analysis Scorecard

Criteria	Counterfactual – Reactive Response	Option A – Purchase a Greenfield site (Preferred)	Option B – Defer Option A to RDP2030
NPV (compared to counterfactual)	\$0	+1.4m	+\$1.0m
Investment cost (TCO)*			
Benefits	<p>Maintains the status-quo, limited change management required.</p> <p>Staff at current depot continue to operate from a known location with defects rectified.</p> <p>Additional leased sites may improve disaster response if one of the sites loses power or is cut off from flooding etc.</p>	<p>This option provides long term financial sustainability by being the lowest cost option over a 20-year timeline.</p> <p>Provision of an efficient, fit-for-purpose site.</p> <p>Proactive option to address current issues while consolidating two sites into one.</p> <p>New site alleviates constraint issues of current sites while still allowing for growth.</p> <p>Site will be more strategically located in an industrial area away from centre of town.</p>	<p>This option is the second lowest cost option over a 20-year timeline.</p> <p>Provision of an efficient, fit-for-purpose site.</p> <p>Proactive option to address current issues while consolidating two sites into one.</p> <p>New site alleviates constraint issues of current sites while still allowing for growth.</p> <p>Site will be more strategically located in an industrial area away from centre of town.</p> <p>Future sale value of current sites expected to be higher in future.</p>
Risks	<p>Site remains within town centre, utilising heavy vehicles and parking on the street progressively more.</p> <p>Operations will occur over multiple sites in Sarina,</p>	<p>There is a risk that the initial estimates are not accurate and construction time delays or variations will lead to cost over-runs. This can lead to staff location issues while under construction.</p>	<p>Site Access – there is a risk that neighbouring property owners move to prevent EQL’s future access to the Depot.</p> <p>Site value isn’t realised for another five years, meaning</p>

Criteria	Counterfactual – Reactive Response	Option A – Purchase a Greenfield site (Preferred)	Option B – Defer Option A to RDP2030
	<p>creating financial and continuity risks.</p> <p>Buildings will continue to age beyond their useful life. Minor investments will prolong them, but a significant investment will need at a future date in Sarina. In the interim, assets will decay and operate more inefficiently, possibly creating additional safety hazards. Existing buildings remain compliant with the laws as at the time they were built (1978) moving them further from current standards.</p>	<p>External risks such as building approvals, contractor availability and contractual disputes are not anticipated for this project.</p>	<p>leases will be required for a fixed time in the interim.</p> <p>Deferring to RDP2030 does expose EQL to possible price increases in construction and materials.</p> <p>There is a risk that the initial estimates are not accurate and construction time delays or variations will lead to cost over-runs. This can lead to staff location issues while under construction.</p> <p>External risks such as building approvals, contractor availability and contractual disputes are not anticipated for this project.</p>

**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 anticipated timeframe. 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 Greenfield land in Sarina	September 2026
Design New Sarina Depot	October 2026
Construct New Sarina Depot	April 2027
Relocation to New Sarina Depot	February 2028
Make good old Sarina Depot	April 2028
Sell old Sarina Depot & Pole Yard	June 2028

4.2 Change Impacts

Minimal change impacts are expected given the major works for the new site can occur whilst occupying the current sites.

Proposed change management activities may include:

- Stakeholder engagement,
- Relocation of staff and equipment located at the current site to the new depot.
- Coordinating the exit of the current site and works in preparation for sale.

APPENDICES

Appendix 1: Alignment with the National Electricity Rules

Table 9: 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	<p>The operation of the Sarina Depot will ensure that Ergon is able to adequately perform the functions required to enable safe and reliable electricity supply for the local community.</p>
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: <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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.
6.5.7 (c) (1) (ii) the costs that a prudent operator would require to achieve the capital expenditure objectives	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.
6.5.7 (c) (1) (iii) a realistic expectation of the demand forecast and cost inputs required to achieve the capital expenditure objectives	<p>Ergon undertakes competitive market procurement processes to ensure efficiency in capital expenditure.</p> <p>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.</p>

Appendix 2: Reconciliation Table

Table 10: 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 with the following Energy Queensland 'Enable' building blocks:

Table 11: Alignment to 'Enable' Building Blocks

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 Sarina Depot is a regulated service 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	Consolidating operations from two or three different locations into a singular site will reduce inefficiencies associated with coordinating service delivery and pole storage.	Medium
3. Portfolio growth is planned and justified while retaining flexibility, thereby reducing the long-term cost impact to our customers.	The Sarina Depot Development is scheduled at the end of the current site's useful life and where demand has reached critical mass, ensuring asset value is optimised. The investment is justified to reduce the long-term cost impact on our customers. Appropriate allowances for growth have been factored in, reducing the long-term cost impact for our customers.	High
4. Our infrastructure goals are consistent across the portfolio, but solutions are tailored to meet the unique context of each challenge	This solution has considered the various requirements, unique & common, to our Operations in the Pioneer Region. The solution is more fit-for-purpose for the community (located not within centre of town) and maintains our ability to effectively service our customers in this region.	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	Lifecycle 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