

Property Business Plan and Expenditure Forecast

Property Services: 2024–29

January 2023

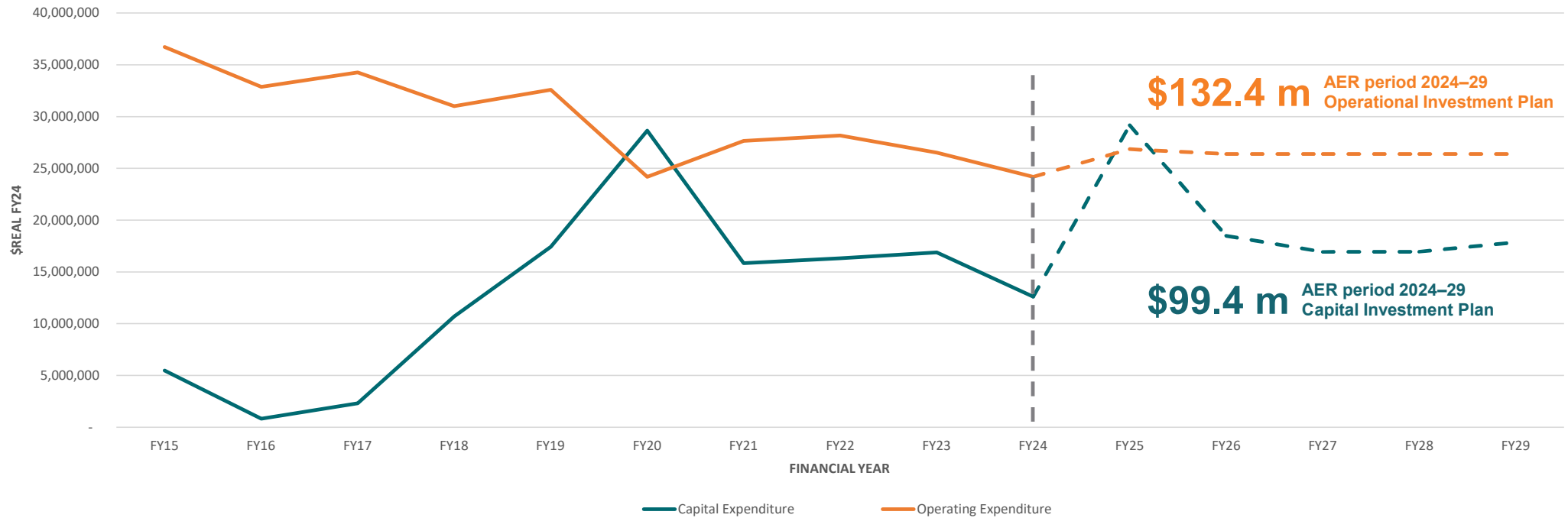


Executive summary

- > The portfolio managed by Property Services has increased since the previous regulatory period and will continue to increase between FY20 and FY24. The principle change relates to the management of property assets associated with network assets, with the prime example being zone substations, as well as early growth in supporting the likes of chamber substations and radio sites.
- > The current operational expenditure (opex) is forecast to be on track for FY20–24. The capital expenditure (capex) profile for FY20–24 is higher than the previous regulatory submission. This is due to a delay in the redevelopment of the corporate office in Port Macquarie, with the principle spend moving from FY19 to FY20.
- > For FY25–29, the focus is on capex smoothing due to a high degree of variability in FY20–24.
- > While previous Australian Energy Regulator (AER) expectations were for a capex reduction, we see a more consistent spend profile to deliver the required investment plan. This was assessed using detailed asset health condition appraisals alongside business engagement insights, supported by prioritisation by asset criticality. The associated *Building Asset Condition Assessment (10.09.03)* report documents those findings with supporting sample *Asset Management Plans (10.09.03.01)*.
- > Opportunities to improve portfolio performance are identified through investing in digital capability, smart metering and on-site solar generation, while embracing the corporate strategy and its direct impact on fleet electrification, with associated property works.
- > Our customer focus remains in relation to safety performance and ensuring targeted portfolio investment, including ongoing maintenance. We embrace feedback from customer engagement forums to lower our environmental impact.
- > The overall Property Services Business Plan has been developed to respond to customer needs, align to the Essential Energy corporate strategy and respond to industry trends and opportunities.

Executive summary – financial overview

Operating & Capital Expenditure Overview



\$M real FY24	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23F	2023–24F	2024–25F	2025–26F	2026–27F	2027–28F	2028–29F
Opex	\$36.7	\$32.9	\$34.3	\$31.0	\$32.6	\$24.1	\$27.6	\$28.2	\$26.5	\$24.2	\$26.8	\$26.4	\$26.4	\$26.4	\$26.4
Capex	\$5.5	\$0.8	\$2.3	\$10.7	\$17.4	\$28.6	\$15.9	\$16.3	\$16.9	\$12.6	\$29.2	\$18.5	\$16.9	\$16.9	\$17.9

Functional overview

- > There are five core functions within the Property Services team aligned to the natural property lifecycle, from acquisition, development and maintenance to disposal.

Leasing and sales

- > Lease administration
- > Acquisition and disposals
- > Rates and taxes

Capital projects

- > Major works: planning, design and delivery
- > Project Management Office (PMO) framework development
- > Prioritisation of capital plan

Commercial and compliance

- > Compliance and strategic portfolio planning
- > Asset lifecycle and condition assessments
- > Supply chain review and procurement projects

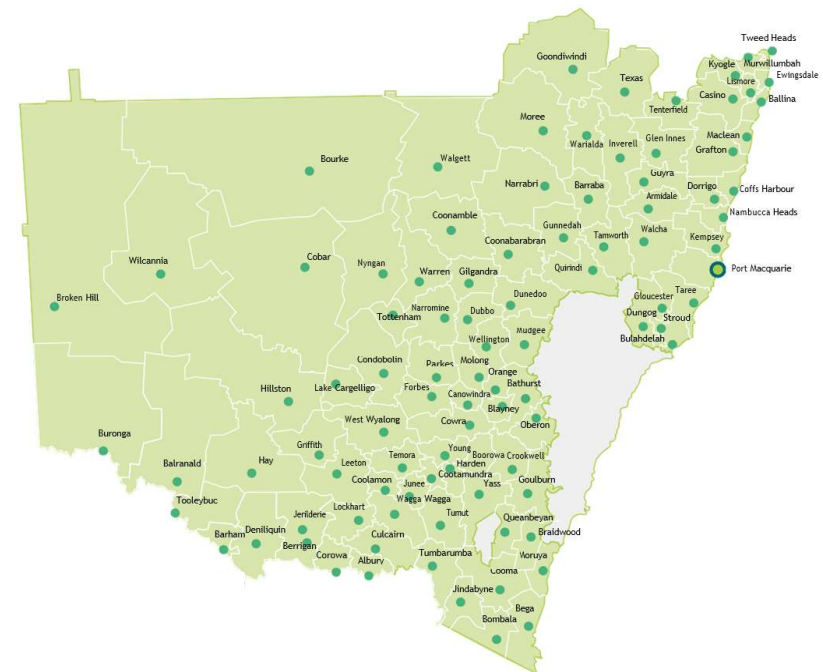
Security

- > Security access controls and inductions
- > Manned guarding and monitoring
- > Security inspections program

Facilities management

- > Property service desk
- > Reactive maintenance activities
- > Minor works project delivery

- > The portfolio is predominantly focused on non-system assets, such as depots and offices, as well as supporting property elements associated with system assets





Delivering on customers' vision and priorities

Through active engagement with external customers, seven key priorities were defined to shape the future AER regulatory submission. In these areas, Property Services has a support role in delivery.





Supporting the corporate strategy

Property Services will support the four pillars of the corporate strategy through building on our current property improvement strategy to strengthen and transform with the opportunity to expand our remit through to FY29.

	Corporate strategy	Property impact
Strengthen the core and enable the network 	Modernise the core business, build resilience for customers through stand-alone power systems (SAPS), evolve capabilities to enable distribution system operator (DSO) functionality, to meet customer needs while ensuring effective use of the network and growth in underlying network value .	<ul style="list-style-type: none">• Contribute to the ongoing Transformation program• Portfolio clarity: confirm property role for all asset types• Commercial: cost efficiency and value for money• Potential increase in generation assets (SAPS and microgrids)• Supporting our environmental, social and governance initiatives; for example, solar photovoltaics (PVs)• New ring-fenced entity: potential property impact
Drive connections and load 	The magnitude and locational diversity of new load will be material – we must ensure, as a DSO, we enable ease and efficiency in integrating new flexible load , consequently increasing network value across supply and demand.	<ul style="list-style-type: none">• Drive connections: support the Commercial Development team with future potential property support for asset development and sales, as well as relationship with property developers• Impact of Build, Own, Operate: new property assets created which may require additional property service delivery

Supporting the corporate strategy

Property Services will support the four pillars of the corporate strategy through building on our current property improvement strategy to strengthen and transform with the opportunity to expand our remit through to FY29.

	Corporate strategy	Property impact
<div>Facilitate electric vehicle adoption</div> <div></div>	<p>We must position the business to have a material role in the deployment of EV infrastructure across regional and rural NSW – it is our biggest lever to grow network value.</p>	<ul style="list-style-type: none">• EV strategy: network augmentation impacting assets• EV charging infrastructure for our fleet: portfolio impact, depot redesign and asset management• EV charging sites as a service for third parties: land and property impact• EV full service: property input into potential full branded solution• EV charging installation and maintenance services: property support for new business area
<div>Enable smart communities and new customer solutions</div> <div></div>	<p>The need for smart systems will continue to grow. We must be ready to use our platform and expertise to drive solutions that enable this for our network and customers, as well as selectively increase share of wallet (from services and solutions).</p>	<ul style="list-style-type: none">• Smart community deployment and energy management: property support for new business area, potential impact not yet known• Property relationship with Commercial team: scope of service to be defined including additional land acquisition• New/gifted assets: additional properties (solar farms and microgrids)• Community relationship: opportunity with surplus sites• Smart deployment across our portfolio: eg smart meters• Battery trial and extension: land acquisition and property management

Property operating model principles

Property Services' core purpose is to deliver great workplaces that support business success. From these foundations, five core principles were defined to inform the future state model.

Strategic intent	Customer focused	Technology enabled	Contractor management	Employee growth
<ul style="list-style-type: none">> Strategic, resilient and consistent service delivery> Consistent approach – governance, process, policies, standards and systems> Strategic asset management (full lifecycle)> Agility to adapt as required	<ul style="list-style-type: none">> Customer experience – collaboration and communication> Service requirements with customer-driven portfolio metrics> Data and analytics inform internal stakeholder conversations	<ul style="list-style-type: none">> Technology is a key enabler to deliver daily operations> Data, analytics, reporting and insights to drive decision-making> Sustainable development> Continuous improvement mindset	<ul style="list-style-type: none">> Service line ownership and focus (end to end)> Driving safety and compliance improvements> Governance and health, safety and environment performance> Simplified and aligned supply chain	<ul style="list-style-type: none">> Employee growth and development> Defined roles and responsibilities with no capability gaps> External facing, monitoring industry and regulatory changes> One team: team working with no silos

Promote zero harm, minimising our impact on the environment with a focus on health and wellbeing.

FY19–24 Property strategy: Strengthen and Transform

Property Services' ongoing improvement initiatives ensure a fit-for-purpose function, ready for the next regulatory period.

Priority initiatives

1. **Technology roadmap:** Manhattan, enterprise resource planning, and current systems and data – current state and future state development
2. **Data and insights:** providing data to drive insights and inform the future plan
3. **Strategic asset management:** asset condition data, asset management plans and forward demand planning
4. **Supply chain development:** consolidating and simplifying our supply chain with a greater focus on contractor management and compliance, balancing planned and reactive workload
5. **Future workplace:** new ways of working in corporate offices – Buller St and Hindman St complex review
6. **Sustainability:** on-site solar generation, advanced metering infrastructure and enhanced digital capability

Enabling initiatives

1. **One team:** team working, employee engagement and development
2. **Customers:** stakeholder engagement, communication and reporting
3. **Safety:** culture and performance improvement



Ongoing **safety** performance improvement



c.18,000 planned and reactive works in the last 12 months



Improved compliance through planned preventative maintenance



Inspections, **asset condition data** and planning

Sustainability insights

We need to adapt to the emerging trends affecting property management to deliver on our customers' vision and priorities.

The nature of asset and property management is rapidly shifting, with several factors driving the need for adaptation.

Global and domestic markets are entering into their third year of COVID-related uncertainty and supply chain disruptions. There are significant ecological and social pressures to reduce waste and carbon emissions, while the rate of improvement in digital information and technology continues.

Property Services has identified the following key opportunities as part of our Evolve and Embrace strategy. The focus on lowering our environmental footprint was actively supported through customer engagement, with 93 per cent of customers polled supporting investment in on-site solar.

Digital capability in buildings

There are broad applications for digital transformation and the adoption of smart technology in buildings, with the underlying factor of connectivity and data capture.

The Internet of Things (IoT) is at the core of smart buildings.

Embedding IoT sensors and software in everyday workplace applications such as heating and cooling, lighting and power to provide real-time updates and allow for significant data extraction.

Advanced metering infrastructure

The integration of advanced metering infrastructure provides significant data that can be used to reduce operating costs and improve energy efficiency. This includes:

- > smart meters to enable two-way electricity flows
- > big data access to provide and record real-time data, and greater insight over consumption patterns including granular understanding of equipment usage
- > improved troubleshooting ability and understanding of maintenance requirements.

On-site solar generation

Installation of wide-scale on-site solar generation has the potential to drastically reduce electricity costs and carbon emissions:

- > The primary focus will be on rooftop photovoltaic (PV) installation at buildings.
- > Consideration will be given to complementary battery installation, which will also support future fleet electrification.
- > We are finalising a business case for initial targeted depot investment at preferred sites.

Critical infrastructure categories

The physical security critical infrastructure rating provides a framework for Property Services to consider the health of our portfolio and prioritise actions based on asset criticality.

Property Services maintains a critical infrastructure (CI) tier-level rating for Essential Energy's infrastructure and assets. Each rating is assigned specific security control measures and is used to inform long-term asset management plans and prioritised expenditure. An outline of each category type under the CI tier level is listed below.

A CI tier-level rating is determined by the asset's or facilities' criticality to the electricity network and will determine appropriate security measures and strategies to mitigate risk. CI tier levels five and four require annual security risk assessments, whereas for CI tier levels three to one, security risk assessments are determined as required, based on the security environment and location.

Naturally, CI tier 5 and 4 rated sites are the most critical and their associated asset management plans will prioritise investment to ensure the asset element health is maintained.

Critical infrastructure tier rating summary:

Tier 5: Typically a bulk supply point with greater than 40,000 customer connections or significant economic impact (e.g. a 132 KVA zone substation). It will include large depots housing strategic spares, a corporate office, or other such site housing vital data and network management infrastructure.

Tier 4: Typically a zone substation, medium sized depot, regional office, communications tower or other such site housing corporate infrastructure or telecommunications

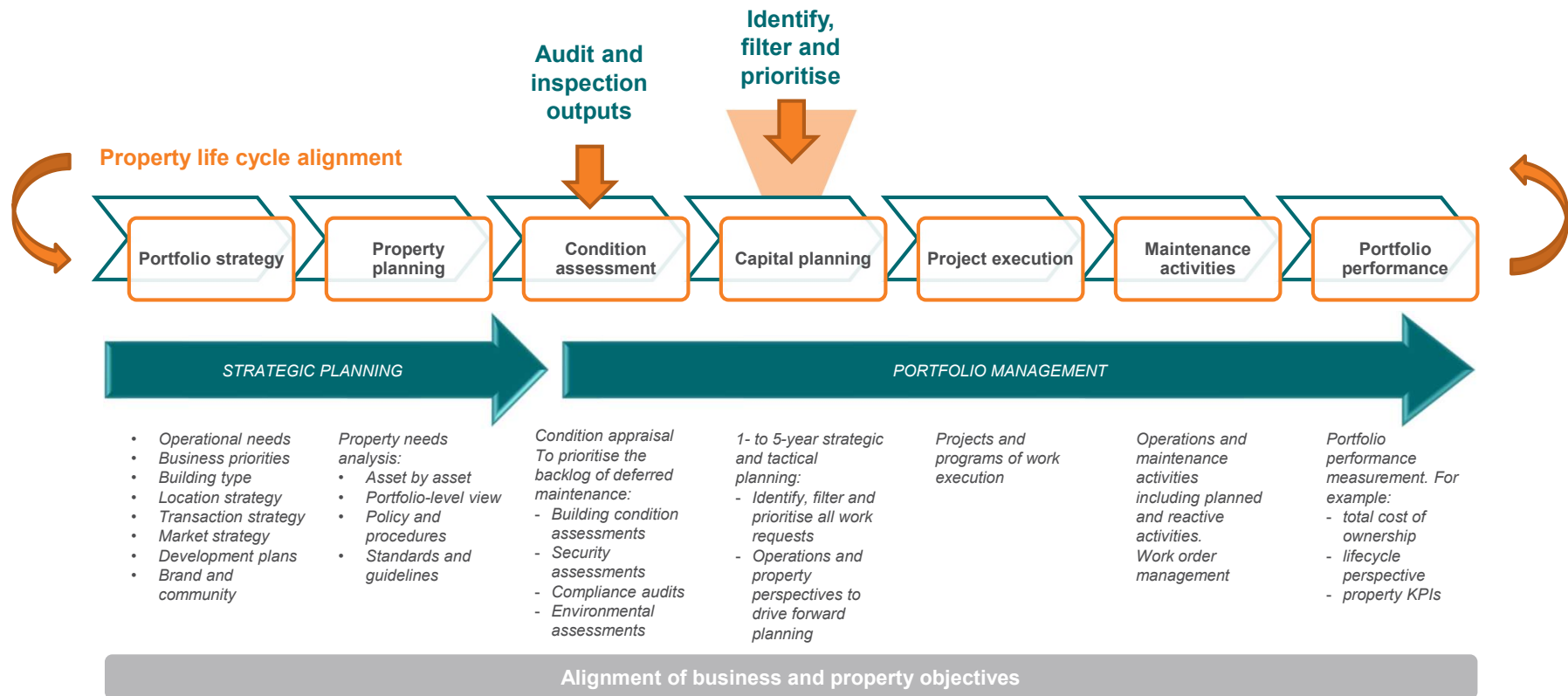
Tier 3: Typically a zone substation, small depot or other such site housing controlled corporate network access.

Tier 2: Typically a small depot or other such site housing external virtual private network (VPN) access to a corporate network.

Tier 1: Typically a pole yard or off-network users. Services and/or facilities can be provided with no loss of functionality, limited delays or disruptions to Essential Energy's operations or functions.

Strategic asset management

We are using a strategic approach to property asset management to manage the natural lifecycle of our property portfolio



Key benefits: 1- to 5-year horizon – focuses on priorities, reduces total cost of ownership, extends asset life, minimises risk and optimises capital planning

Asset condition data gathering aligned with ISO 55001 standards

Portfolio health: Building asset condition assessment

We're building the capital works plan with a solid foundation of asset health data based on the overall site, properties and individual asset elements.

Specialist consultants were appointed to produce a building asset health condition report on Essential Energy's property assets in 2020–21. This informs the future asset renewal works program and major capital works program components of our Property Services Business Plan, which will ultimately inform the 2024–29 AER submission.

Through a risk-based review of asset health and criticality, as well as extensive stakeholder engagement to shape the property works program, various scenarios were appraised.

The overall recommended building asset capital investment strategy includes the following components:

- > Major Capital Works Program with business driven investments that have been ranked with a priority greater than 5/10
- > Asset renewals for end-of-life assets on sites with a critical infrastructure rating of 4 or 5 and building elements rated as 'Poor'.

The associated *Building Asset Condition Assessment* report (10.09.03) documents these findings, which directly inform Property Services' capex plan. Sample *Asset Management Plans* for specific sites have been provided to highlight the substance of the condition reports and findings (10.09.03.01)



Portfolio health: Site-level asset condition

Methodology

- > A specialist asset management consultant was engaged to assess the condition of assets, with condition ratings provided for individual building elements on each building in the portfolio.
- > The property portfolio assessed includes zone substations, which were not previously included in the Property Services plan.

Findings – overall site level

- > At an overall site level, average ratings were generally split between Fair (3) and Good (4), based on the 540 sites assessed.
- > Of note, the 540 sites assessed compares to 125 sites in the previous AER submission, principally driven by the inclusion of zone substation buildings.



	Total # Sites	Poor (1)		Worn (2)		Fair (3)		Good (4)		Excellent (5)	
		#	%	#	%	#	%	#	%	#	%
TOTAL	540	2	0%	4	1%	259	48%	273	51%	2	0%
Depot	118	0	0%	1	1%	39	33%	77	65%	1	1%
Substation	332	1	0%	0	0%	156	47%	174	52%	1	0%
Other	90	1	1%	3	3%	64	71%	22	24%	0	0%

Portfolio health: Building element-level asset condition

Findings – individual building element level

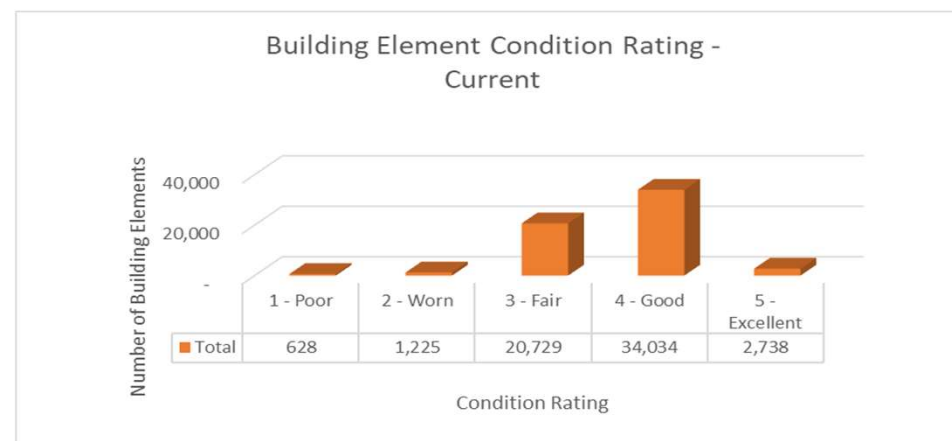
- > At an individual building element level, ratings were also generally split between Fair (3) and Good (4) across the nearly 60,000 elements.

Findings – site criticality

In assessing the asset health, the site critical infrastructure rating was applied, and the findings show:

- > sites with the highest CI* rating (4 and 5) generally have the highest proportion of building elements rated Good or Excellent
- > sites with the lowest CI rating (1 and 2) generally have the highest proportion of building elements rated Poor or Worn
- > investment is required in sites with a CI rating of 4 or 5 to reduce the volume of Fair ratings and repair or replace building elements rated Worn or Poor.

* Critical infrastructure (CI) tier-level rating, informing the prioritisation of assets



Expenditure profile: Portfolio summary

- > Overall, Property Services is on track for the current regulatory period (FY20–24) despite the challenges relating to works deferred due to COVID, as well as fire and flood critical incident responses. The redevelopment of the corporate office in Port Macquarie, with the principle spend moving from FY19 to FY20, is the biggest step change.
- > As Property Services transitions to the end of the current regulatory period, the refreshed property strategy focuses on strengthening and transforming our core service offer while supporting the four pillars of the corporate strategy in readiness for the next regulatory period.
- > Property opex focuses on key planned and reactive maintenance activities across the Leasing & Sales, Capital Projects, Commercial and Compliance, Security and Facilities Management teams, with associated labour and expenses, providing a steady state business-as-usual (BAU) spend profile to maintain a safe and secure portfolio.
- > Property capex is broken down into four key streams: Security, Compliance, Asset Renewals (Minor Works) and Major Capital Works. Asset Renewals and property-focused Major Capital Works are driven by analysis of asset health to balance asset criticality and health with the best value scenario, factoring in the minimum acceptable level of investment.
- > Step-change activity to deliver a future property operating model will be delivered in FY20–24 with a further reduction in opex in FY26 due to the flow-on effect of sustainability initiatives. In addition, there is a step-change increase in capex in FY25 because of the requirement to develop a new depot in Lismore due to the significant effect of flood.

Property	FY25 (\$m)	FY26 (\$m)	FY27 (\$m)	FY28 (\$m)	FY29 (\$m)	Total (\$m)
Opex	26.85	26.38	26.38	26.38	26.38	132.36
Capex	29.16	18.48	16.92	16.95	17.86	99.37
TOTAL	56.00	44.86	43.30	43.33	44.23	231.73

All costs are real \$FY24 (millions)

Expenditure profile: Operational expenditure breakdown

- > Property opex spend focuses on key planned and reactive maintenance activities across Leasing & Sales, Capital Projects, Commercial and Compliance, Security and Facilities Management. It provides a steady state BAU spend profile to maintain the portfolio:
 - It assumes steady state property portfolio inclusive of works to support network assets not previously in scope; for example, zone substations.
 - The step-change reduction in FY26 relates to a reduction in electricity costs due to the proposed FY25 capital investment in solar at the top 20 sites.
- > Total opex: \$132.4 million FY25–29 compared to \$125 million for FY20–24 (real \$FY24).

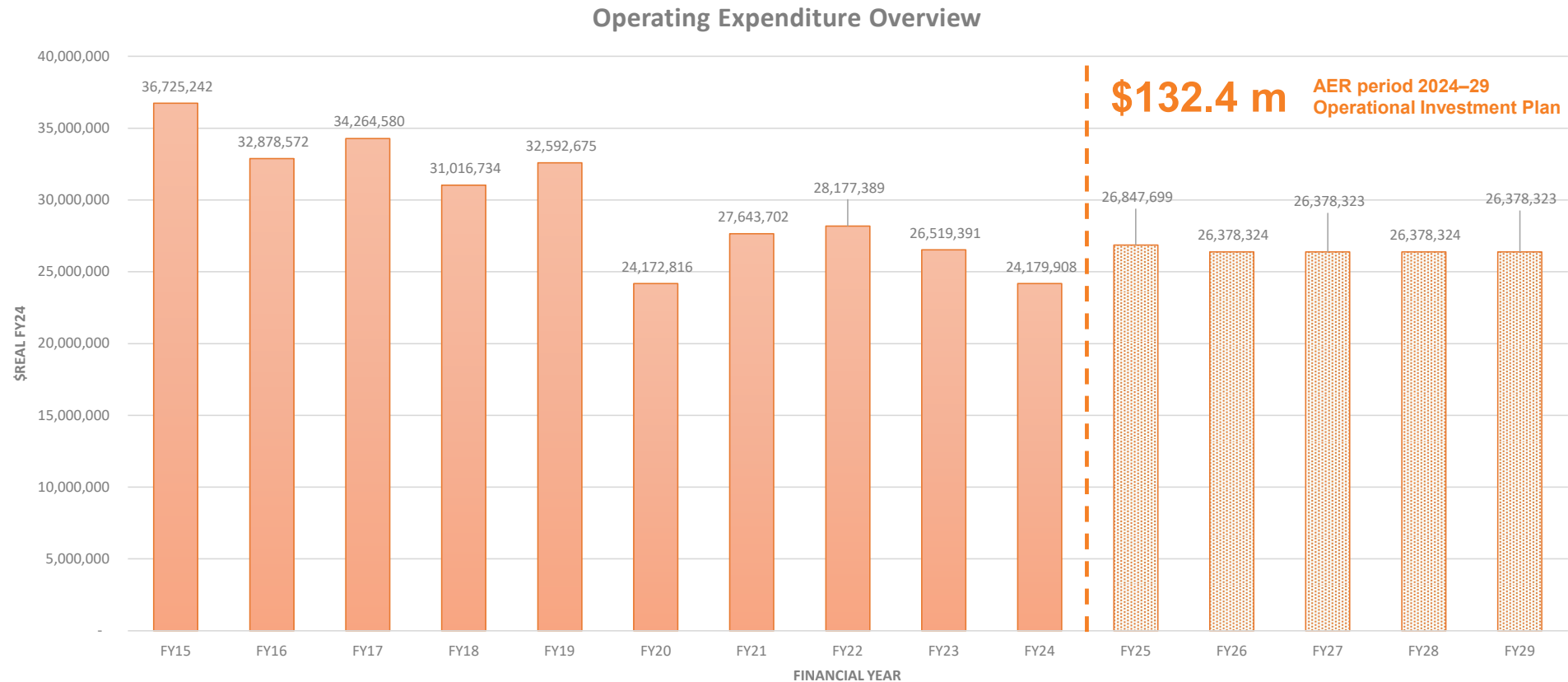
Property opex	FY25	FY26	FY27	FY28	FY29	TOTAL
Labour and expenses	4.53	4.53	4.53	4.53	4.53	22.67
Rates and taxes	4.08	4.08	4.08	4.08	4.08	20.38
Electricity	4.12	3.70	3.70	3.70	3.70	18.93
Waste	4.35	4.35	4.35	4.35	4.35	21.75
Maintenance	2.17	2.17	2.17	2.17	2.17	10.86
Grounds maintenance	0.98	0.98	0.98	0.98	0.98	4.88
Cleaning	2.77	2.77	2.77	2.77	2.77	13.87
Security	2.27	2.22	2.22	2.22	2.22	11.14
Fire	1.58	1.58	1.58	1.58	1.58	7.88
OPEX TOTAL	26.85	26.38	26.38	26.38	26.38	132.36

All costs are real \$FY24 (millions)

Estimates and subject to ongoing review and efficiency gains from procurement strategy will be defined.

Assumes steady state portfolio with corporate strategy impacts excluded (included in wider submission).

Expenditure profile: Operational expenditure overview



Expenditure profile: Capital expenditure breakdown

- > Property capex is broken down into four key streams: Security, Compliance, Asset Renewals (Minor Works) and Major Capital Works.
- > Asset Renewals (Minor Works) and property-focused Major Capital Works are driven by analysis of asset health to balance asset criticality and health with the best-value scenario, factoring in a minimum acceptable level of investment.
- > The overall recommended building asset capital investment strategy, as defined in the *Building Asset Health* report, includes the following components:
 - Major Capital Works Program with business-driven investments (priority >5)
 - Asset Renewals for end-of-life assets on sites with a CI rating of 4 or 5 and building elements rated as Poor.
- > The proposed capex includes a step-change assumption of \$11.8 million for the relocating the Lismore depot.
- > Total capex: \$99.4 million in FY25–29 compared to \$86 million in FY20–24 (real \$FY24).

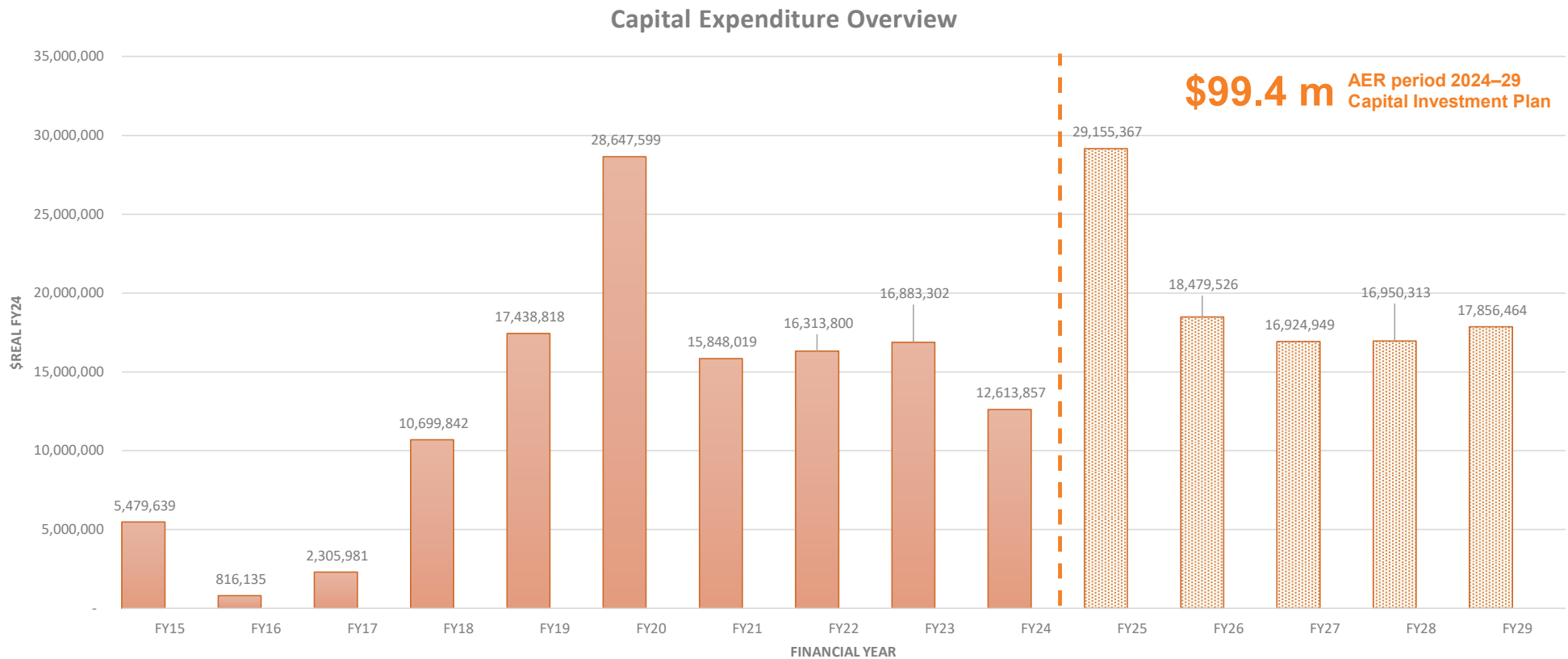
Property capex	FY25	FY26	FY27	FY28	FY29	TOTAL
Security	2.15	2.16	2.17	2.18	2.19	10.86
Compliance	0.42	0.42	0.42	0.42	0.42	2.09
Asset Renewals	0.98	2.08	0.51	0.53	1.42	5.51
Major Capital Works *	25.61	13.83	13.83	13.83	13.83	80.91
Capex TOTAL	29.16	18.48	16.92	16.95	17.86	99.37

All costs are real \$FY24 (millions)

** Major Capital Projects demand is spread evenly over a five-year period*

Excludes Capitalised Property Leases

Expenditure profile: Capital expenditure overview



Regulatory breakdown – Property Capex and Opex

FY24\$M	FY25	FY26	FY27	FY28	FY29	Total
Standard Control	24,678,120	15,729,715	14,401,789	14,356,921	15,136,949	84,303,494
Alternate Control	3,361,511	2,147,643	1,987,180	2,061,514	2,197,735	11,755,583
Other	1,115,736	602,168	535,980	531,878	521,781	3,307,542
CAPEX TOTAL	29,155,367	18,479,526	16,924,949	16,950,513	17,856,464	99,366,619
Standard Control	23,896,550	23,588,533	23,583,354	23,509,855	23,522,997	118,101,289
Alternate Control	2,215,719	2,178,868	2,201,251	2,280,175	2,307,488	11,183,501
Other	735,430	610,923	593,718	588,294	547,838	3,076,203
OPEX TOTAL	26,847,699	26,378,324	26,378,323	26,378,324	26,378,323	132,360,993
GRAND TOTAL	56,003,066	44,857,850	43,303,272	43,328,837	44,234,787	231,727,612

All costs are real \$FY24 (millions)
Excludes Capitalised Property Leases

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