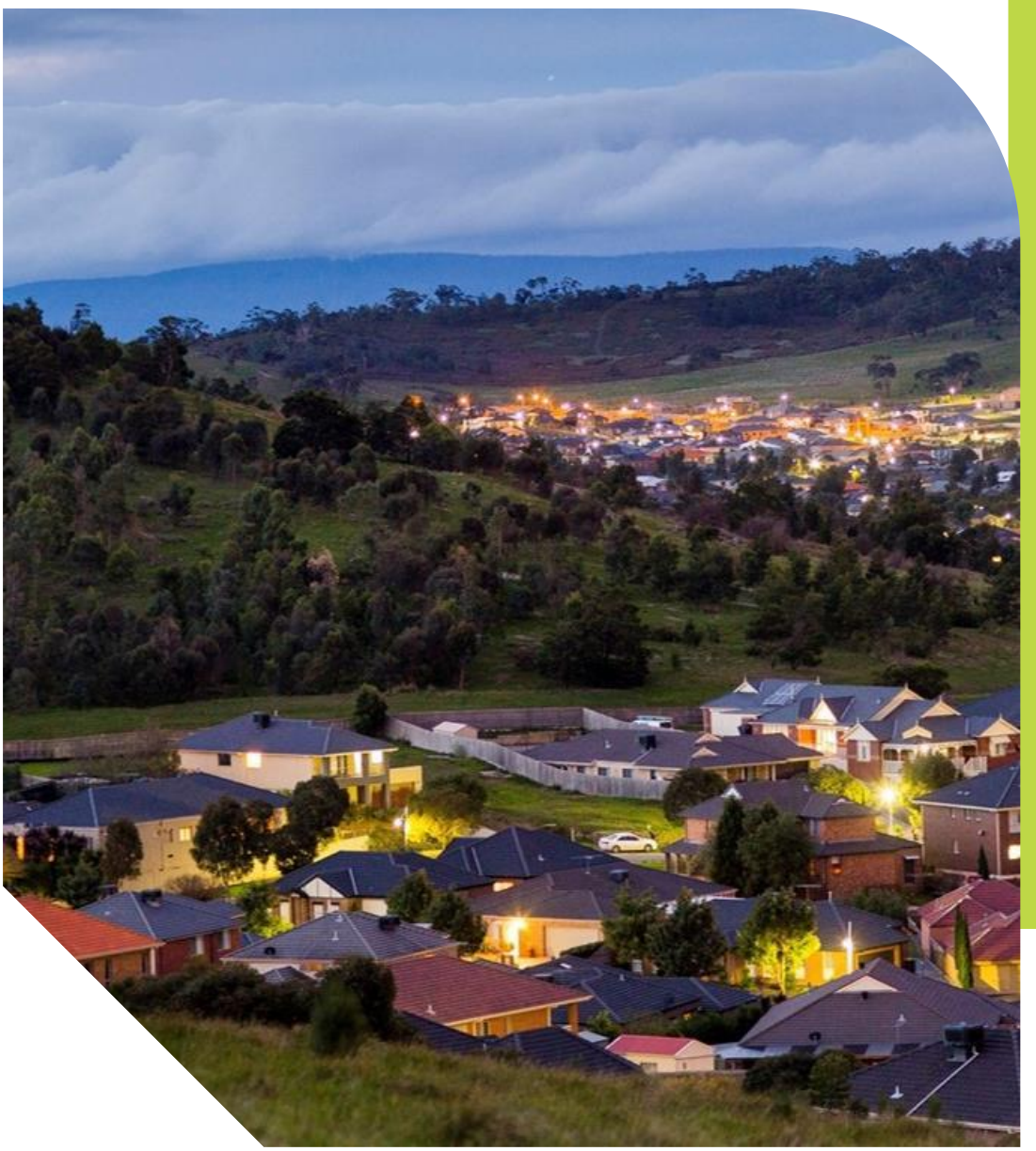
South Morang Training Facility Redevelopment

Business Case

Friday, 31 January 2025



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1. Executive Summary

AusNet is undergoing significant changes in its operating model, motivated by the need to optimise operational efficiency, provide more reliable and consistent service to customers, and ensure a higher degree of control over its operations and assets. As part of this, AusNet is aiming to provide better response times, increased accountability, and achieve cost efficiencies that will ultimately benefit customers through improved network reliability and lower costs.

To achieve this under a new operating model and enable its workforce, to deliver greater levels of work to operate and maintain the network and support Victoria's energy transition, AusNet requires enhanced training capability.

From a holistic perspective, the industry continues to see growing demand for workers, increased compliance and safety standards and ongoing regulatory change as state and federal governments focus on increasing skills and jobs across the energy sector.

This business case outlines the three options considered for AusNet's training facility currently located in South Morang and focuses on AusNet's requirements as a Distribution Network Service Provider (**DNSP**). As a member of the Champions of Change Coalition, this facility also presents an opportunity for AusNet to address one of the coalition's keys action areas, vocational training.

While the full development AusNet has proposed has an estimated cost of approximately $25m, the costs attributed to AusNet's distribution network will be half of this ($12.5m). This is on the basis that 50% of the training activities undertaken at the proposed facility will focus on the AusNet's role as a DNSP and the balance will relate to AusNet's transmission business requirements. This ensures AusNet's electricity distribution customers will only fund the amount that is related to distribution network outcomes.

The options considered as part of this business case for the proposed training facility redevelopment are:

- **Business as usual:** No investment in facility and all training remains provided by third parties;
- **Option A:** Redevelopment of the South Morang facility to create a modern training facility owned and managed by AusNet;
- **Option B:** Refurbishment of the current South Morang facility to enable training for a reduced workforce; and
- **Option C:** All training outsourced to interstate, third party training providers for AusNet's full workforce.

The analysis undertaken highlights constraints which are currently limiting training options and capacity and recommends Option A on the basis that it best enables AusNet to train its growing workforce requirements, while avoiding costs and under delivery of AusNet's capital works programs and therefore mitigating network risk.

2. Overview

2.1. Purpose and scope

The current state of training capability in Victoria requires improvement. This situation has arisen due to limited in-house training investment, reductions in trainee numbers entering the workforce, and a predominant focus on maintaining the current distribution network rather than focusing on future growth.

This business case outlines AusNet's proposed contribution to solutions to re-enliven training capabilities in Victoria. It is proposed that the outdated training facility owned by AusNet and located in South Morang is redeveloped to addresses this critical need. The document outlines the funding proposed by AusNet, as DNSP, to contribute, in coordination with its 2026-31 regulatory proposal to the Australian Energy Regulator (AER), for the development of a modern training facility able to accommodate the training requirements for AusNet's Distribution Network.

Historically, AusNet has outsourced a large proportion of its operations and maintenance, with third parties expected to provide adequately trained resources. However, to deliver its strategic priorities AusNet intends to have greater involvement in the education and training of its employees and subcontracted workforce.

As AusNet continues to refine its operating model, the ongoing requirements of its growing workforce highlight the need for investment in training facilities and training providers. This need is underlined by the proposed increase in headcount outlined as part of AusNet's regulatory proposal where AusNet has identified that approximately 1,100 skilled full time equivalent (FTE) resources are required to operate and maintain its distribution network into the future.

2.2. Background

2.2.1. Site Summary

AusNet owns the property at [C.I.C], South Morang, which was originally built in the 1980's to train lines people. AusNet has earlier divested its lines people training capability and the facility is now largely only used by the Victorian electricity industry for tower rescue training (simulations of safety drills and rescue procedures that are typically performed at heights).

The site as it currently stands is shown in Figure 1 and includes:

- Unused buildings / storage areas;
- Training equipment including a series of poles, towers and associated wires for transmissions line person training; and
- A carpark.

Figure 1: South Morang Training Facility Overview

The current site has been unchanged since the 1980's and as such the classrooms are dilapidated and constructed with outdated material (i.e. asbestos). Figure 2 shows the current state of facilities at the site.

The site is located next to the South Morang electricity transmission terminal station, owned and operated by AusNet. It is understood that the site in its current capacity is not connected to the network, other than in its own low voltage supply, and does not have live connections (i.e. it is not energised).

Figure 2: South Morang Training Facility current structures

The training equipment currently installed at the South Morang site is in working order but requires upgrading to meet safety standards and to reflect new technologies in the industry. Additionally, with the site originally designed to cater for transmission lines people, additional equipment is required to adequately train resources for both AusNet's electricity distribution and transmission networks.

2.2.2. End-of-life assets

Due to the lack of investment and limited use of the current facility at South Morang, a detailed list of equipment and assets currently on the site is not available. Despite this, through several site visits, AusNet staff have been able to confirm that the assets and equipment shown in Table 1 are on site. However, due to age and deterioration of the items, these are all due for replacement, and there has been analysis performed to determine any useful life or remaining value.

Table 1: Summary of current training facility assets / equipment

Site Asset	Ages (years)	Quantity	Value	Description
Training classrooms / building	30+ years	1	Nil	Buildings with 2-3 outdated classrooms with max capacity of c.10 students
Transmission Training equipment	20+ years	3-5 structures	Nil	Significantly aged training facility (wear and tear / weather impacted)
Identified Fixed assets	15-20 years	See below for details	c.$7.5k	The assets outlined in Table 2 have been identified on the fixed asset register and are of immaterial value.

Further, AusNet's finance team has been able to identify the following assets on the fixed asset register which relate to the current South Morang Training Facility. The details outlined in Table 2 reflect AusNet's view that the site has had no

investment for an extended period and the assets currently on site are significantly outdated and have immaterial value.

Table 2: Summary of available fixed assets information

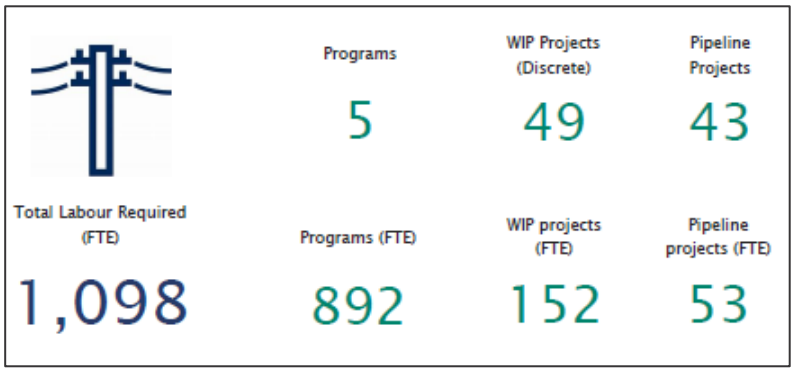
Description	Acquisition date	Useful life	Current Book Value
Television and video unit	31 Oct 2003	10	Nil
Split System Airconditioning	13 Jan 2010	10	Nil
Concrete slab	29 Feb 2004	44	c.$2k
Training shed	31 Aug 2004	45	c.$5k

2.2.3. Demand for training is increasing

The South Morang Training Centre has laid dormant for a number of years, however, due to an increasing need for training arising from maintaining and operating the distribution network and expanded investment needed to support Victoria's energy transition, the need to re-establish the training facility to upskill growing workforce requirements has been identified.

Currently, training facilities in Victoria are at capacity, and Registered Training Operators (**RTOs**) are being subcontracted by AusNet and its delivery partners (and other utilities) who are providing training at AusNet depots, which do not have adequate space or equipment.

Figure 3: 2025 Distribution Works Program Overview



Note: The above FTE figures include contestable works conducted on AusNet's Distribution Network. Historically, due to workforce availability constraints, these works have been conducted by the customer under gifted asset arrangements.

Therefore, there is currently no available capacity to cater for the expected growth in AusNet's workforce training requirements.

Through the implementation of its operating model changes and growth in the industry, approximately 1,100 skilled workers will be required to operate and maintain AusNet's electricity distribution network in 2025 (see Figure 3 and the role breakdown in Figure 4) and this is expected to continue to grow from 2026 onwards.

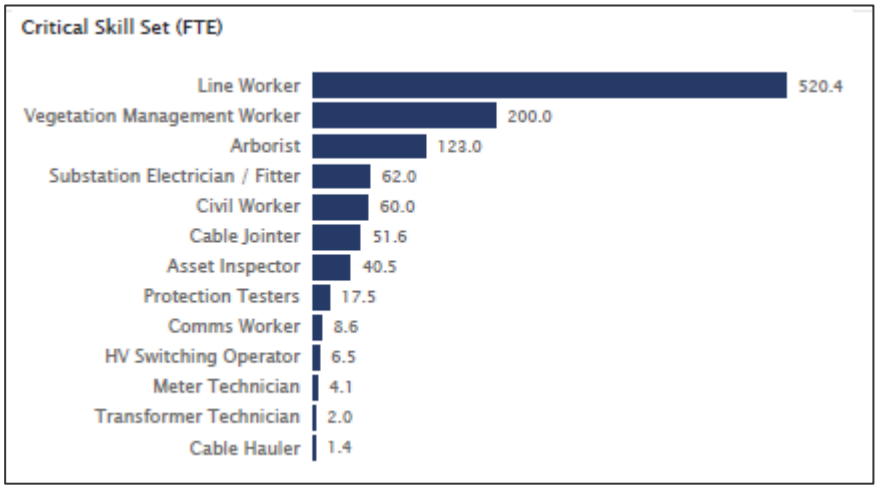


Figure 4: AusNet 2025 electricity distribution works program role types

Currently there are approximately 750 skilled workers available to AusNet through its internal workforce and its third-party delivery partners. Therefore, based on the expected works to be undertaken during the 2026-31 regulatory period, this workforce will need to increase by circa 40% to cater for the works anticipated. AusNet will initially continue to rely on its delivery partners to provide the additional resources to meet growing workforce demands reaching a total of 1,160 FTE resources during the EDPR period as outlined in Table 3.

Table 3: Table 3: Available skilled workforce (internal and& delivery partners)

Workforce size	Current	2025	2026 – 2031
FTE	750	1,100	1,160

The minimum standard requirements to operate a skilled workforce of this size are significant and are outlined by the Victorian Electricity Supply Industry (VESI) Skills and Training Reference Committee (STRC). All training requirements are required to be current and re-assessed based on an industry standard frequency.

In October 2024, AusNet announced a change in the key delivery partner for its electricity distribution network from Downer to Zinfra[1]. AusNet expects to secure adequate resourcing through delivery partners and Zinfra will take over once the Downer contract concludes in August 2025. This new operational posture reflects AusNet's plan to insource core operational assets, re-establish critical capabilities over time, and take greater control of its operations to better serve its customers and communities.

Whilst the current workforce (circa 750 FTE) have up to date training, the locations where this training is held are currently at capacity (i.e. AusNet depots). Therefore, to grow its skilled workforce from 750 today to 1160 FTE for each year of the 2026-31 regulatory period, AusNet needs to invest in further training capacity.

While not relevant for the purpose of this business case, it should be noted that the AusNet Transmission Network has a current operating workforce of approximately c.80% of the Distribution Network workforce (i.e. circa 1,000 FTE based of 2025 expectation) but would require equipment taking up more land space and is expecting to utilise 50% of the South Morang facility.

2.2.4. Workplace Health and Safety

The property at South Morang was initially established during the 1980's and has not been effectively maintained since such time. Therefore, there are a number of workplace health and safety issues with the property, including:

- Outdated building material (asbestos);
- Improper access requirements;
- Security requirements; and
- Secure storage facilities.

2.2.5. Fit for purpose

The facility in its current state is functionally ineffective for modern training purposes due to its inflexible configuration, size and layout. The 1980's construction was based on relatively small training loads, with fixed rooms with limited seating capacity, well below an optimal capacity required for training a workforce of the size outlined above.

Currently the site is set up, while in a limited capacity with outdated equipment (such that it is not being used regularly), to facilitate training the transmission workforce members. Therefore, included in this business case are the costs associated with installation of equipment required to train the electricity distribution workforce (for example an assortment of various distribution poles and lines). While not included in this submission, updates and improvements required to modernise training outcomes for AusNet's electricity transmission workforce will be covered in its 2028-32 Transmission Revenue Reset (TRR) regulatory proposal.

As further evidence the site is not fit for purpose, the site in its current form was set up for a male only workplace, and therefore has open change room and toilet facilities and investment is needed for appropriate female spaces.

The proposed South Morang training facility is expected to address these issues, through multiple classrooms with capacity of 19 – 25 occupants and provisioning classrooms which are back-to-back with operable acoustic walls, enabling two participant rooms to be flexible to become a single 42+ classroom. Additionally, the proposed design includes significant open office space (which will be occupied by facility management staff), training provider office space, overflow desk space and modern change room and toilet facilities.

2.2.6. Customer importance

The South Morang Training Centre is designed to become AusNet's key training centre and is expected to train a significant portion of its skilled workforce. The proposed facility will enable AusNet to deliver its works and without this investment, AusNet will not be able to establish the required workforce to deliver its electricity distribution programs for its customers and communities and in support of the Victoria's ambitious energy and climate policy objectives.

[1] See AusNet changes to improve electricity customer outcomes - AusNet

3. Analysis

3.1. Options overview

This section considers the following options analysis:

- **Business as usual:** No investment in facility and all training provided by third parties;
- **Option A:** Redevelopment of the South Morang facility to create a modern training facility owned and managed by AusNet;
- **Option B:** Refurbishment of the current South Morang facility to enable training for a reduced workforce; and
- **Option C:** All training outsourced to interstate, third party training providers for AusNet's full workforce.

Other options were considered during the preparation of this business case but were deemed unrealistic, cost prohibitive or well outside AusNet's strategic requirements. These include, full outsourcing of the training and training facility and utilising another AusNet site.

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

3.2. Business as usual analysis

3.2.1. Summary

The business as usual (BAU, or counterfactual) option involves the South Morang training facility remaining in its current state and configuration. As described earlier, the facility is unable to be used for its intended purpose and as such has laid largely dormant for an extended period of time and requires investment to meet current and future requirements. Under the BAU / counterfactual scenario, AusNet would need to rely on other available training facilities/training resources to upskill it workforce.

In doing so, RTO's would be engaged to provide the training required and given capacity constraints at other training facilities, training will largely be conducted at various AusNet depots across its network. However, these depots are not fit for purpose or capable of holding the capacity required to accommodate the expected workforce requirements.

Consequently, training capacity will be capped at the size of AusNet's 2024 workforce, which is approximately 750 FTE. The resulting workforce constraint will likely result in AusNet being unable able to deliver its works programs which are underway, commencing and reflected in its 2026-31 regulatory submission. The compounding impact of this will also add extra risks to AusNet's network and will compromise customer outcomes.

3.2.2. Assumptions

Specific assumptions applied to the base case are as follows:

- No investment is made in the South Morang Training Facility;
- All training requirements to be outsourced to third party providers; and
- Training is conducted at AusNet depots.

3.2.3. Costs

Table 4 shows the costs incurred by AusNet for its training requirements on a per annum, per FTE basis.

Table 4: FTE training costs per annum

Training cost of workforce	$ AUD
Ongoing workforce	426
Apprentice workforce	4,000

As AusNet's ability to increase training is currently at capacity, based on its current available workforce (750 skilled FTE), the remaining workforce requirement c.410 FTE will remain unavailable until such point in time that training capacity becomes available. Therefore, it is expected that the total cost to train year on year will be limited to the 750 current skilled workforce AusNet has capacity to train, with the remainder being managed through AusNet delivery partner network.

Table 5: Estimate of training costs per annum of 750 FTE skilled workforce

Training cost of workforce	$ AUD
750 skilled workers	319,500

The cost included in Table 5 assumes, training occurs on AusNet property, therefore there is no lease costs, and assumes no apprentices are added to the workforce as there is no capacity to train additional FTE.

3.2.4. Risks

Physical Assets

The site condition means the facility is not currently fit for purpose and training is unable to be undertaken on the site. The deterioration of structural elements on the site are beyond repair, and make the site unfit for meeting internal training requirements, AusNet must consider redeveloping the site rather than attempt to remediate the current site.

Capacity and delivery Impacts

The counterfactual option will not resolve the current capacity constraints in Victoria and will result in workforce constraints. The compounding impact of this puts at risk AusNet's broader works programs presented as part of the 2026-31 regulatory proposal and will result in the delay of key projects, such as new augmentation programs driven by a growing customer base and greater levels of electrification.

3.3. Option A: Redevelop Current Site

3.3.1. Summary

Option A plans to implement a site redevelopment which involves the replacement of the current structure with a new facility that meets AusNet's current and future requirements, in accordance with modern building standards and codes.

It is proposed that the new facility is to be built on the site of the current structure located in the southern portion of the property at [C.I.C], South Morang as shown in Table 5. As there is not currently any training occurring at the facility there is no need to maintain the current structure while construction is undertaken.

Where a further need arises to utilise the remainder of the site during construction for training purposes, short term alternatives can be established on the site to enable use of the remainder of the facilities (i.e. the current transmission training structures).

Figure 5: Location for new facility

3.3.2. Proposed design and structure

AusNet has engaged a quantity surveyor to assess the costs of constructing a facility with the following parameters:

- 3,000 sqm training building comprising:
- Up to four training rooms;
    - Various smaller meeting rooms;
    - Two office spaces;
    - Kitchen and meals / breakout area; and
    - External veranda areas.
- Covered training – assumed to be large warehouse style structures of approx. 3,000sqm; and
- Parking and hardstand areas

Figure 6 and Figure 7 provide a guide of what is envisaged, however neither represent formal concept designs. It should be noted, that in the future state a portion of the open plan office outlined in Figure 6, would be replaced by the kitchen and meals / breakout area.

Figure 6: Envisaged training facility layout

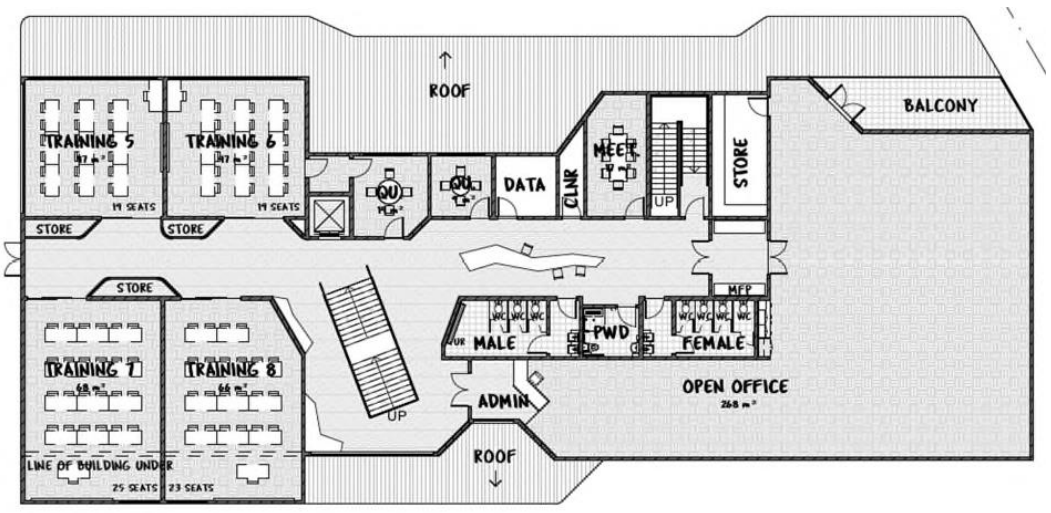


Figure 7: Potential concept design / similar facilities

3.3.3. Assumptions

Specific assumptions applied to this option are as follows:

- Site Redevelopment – c.$25m (full site) based on an estimate provided by Napier & Blakeley Pty Ltd, the engaged quantity surveyor for the project.
- Annual facility OPEX costs – c.$500k (internal AusNet estimate based on similar sites).
- Training costs – the RTO costs outlined above are used as proxy for the expected costs of training each workforce member. As an RTO will be required to provide training and the location of that training will be provided by AusNet, there should be no change in cost, in a per FTE basis compared the current state. AusNet analysis has shown these costs are in the range $0.8m - $1.9m per annum.
- Capacity – given the additional classroom space and equipment, Option A will enable AusNet to bridge the capacity gap currently experienced.
- The building will be constructed in order to future proof the training facility, enabling it to handle the ongoing growth of AusNet's workforce beyond the EDPR period.

3.3.4. Benefits

The following benefits have been assessed based on the proposed facility upgrade:

Category	Benefits Identified	Type
Organisational efficiency	**Fit for Purpose** The redevelopment of the site will transform the training centre into a modern, fit-for-purpose facility with the capability of offering training and development in a safe and efficient site. **Increased efficiency** In addition to provisioning additional training rooms to meet the growing workforce requirements at AusNet, the rooms will hold additional participants. This reduces the number of total training sessions needed (for the same number of participants) thereby increasing the overall efficiency of training delivery.	Financial and Non-Financial

Training Compliance	By developing its own facility, AusNet is able to address a need currently not met industry wide in Victoria. The facility will enable AusNet to deliver its strategic priorities and to enable Victoria to safely maneuver through the energy transition. The development of a new training facility owned and operated by a leading DNSP will encourage the development of comparable training facilities across the industry and encourage additional trainees / apprentices to enter the industry. Reduction in risk of untrained resources. Due to limitation across the industry, while AusNet has access to c.1,350 FTE across the Distribution Network, at any point in time a number of these resources may be unable to perform certain duties due to lack of training. This risk will be avoided by implementing the proposed approach.	Non-Financial
Mitigation of Capital Program Delivery Risk	The development of the training facility at South Morang will enable AusNet to deliver its work programs schedule for the EDRP period and beyond. The facility will mitigate network risk costs of $195m, which are estimated based on workforce capacity constraints which result in the deferral of some components of AusNet's proposed 2026-31 capital program. For example, a one-year deferral (due to workforce capacity constraints) of the new Wollert zone substation (ZSS) that AusNet has proposed would result in additional network risk costs of $195m during the next regulatory period. This project accounts for around 1.5% of AusNet's proposed net capex forecast; the workforce capacity constraints that this option will alleviate have the potential to create additional project deferrals and network risk costs, making the $195m a lower-bound estimate of these benefits. It should be noted that when considering project deferrals due to delivery constraints, AusNet would typically prioritise delivery of projects offering the highest net customer benefits.	Financial and Non-financial

3.3.5. 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 minimised as the new facility can be built while the existing one operates, and then a direct transfer of functions to the new building.

3.4. Option B: Minor upgrade

3.4.1. Summary

As an alternative to Option A, AusNet has considered leasing a number of portable structures which could be set up on site to provide appropriate, classrooms, kitchen facility and bathrooms at the site as it currently stands. The minor upgrades would enable some training to be undertaken on the site, without extensive redevelopment.

3.4.2. Benefits

Option B will enable training to be conducted at the South Morang Training Facility, which will assist to add to the training capacity constraint currently felt by AusNet. However, it should be noted this capacity expansion is likely to be immaterial and is likely to result in training currently being provided at facilities not fit for purpose, being held at the facility based on it having the appropriate equipment.

3.4.3. Risks

Delivery Impacts

The proposed patch fix approach would not enable a resolution to the ongoing impact of limited training resources in Victoria. Given the state of the energy transition and the electricity industry in Victoria, Option B is not considered viable from an AusNet or Industry perspective.

While training would be undertaken at the site, it would only occur at a lower capacity than intended and not provide enough capacity to address the training needs of AusNet's growing workforce.

Similar to the counterfactual option, Option B will not provide any solution to training capacity shortages and AusNet will continue to be at risk of not having the workforce required to deliver its works programs, leading to a higher level of overall network risk.

HSEQ Risks

Additionally, Option B will not alleviate the ongoing HSEQ issues caused by the current structures being unstable, unsafe and outdated. While the structure would remain unused, it remaining on site presents an ongoing safety risk.

3.5. Option C: Interstate training

3.5.1. Summary

AusNet has been approached by interstate RTO's and DNSP's showing interest in proving training support through their own facilities in Queensland, New South Wales and South Australia. These operators have already invested in similar facilities, as proposed in Option A.

3.5.2. Costs of interstate training

Based on discussions with the available training providers, AusNet understands the costs of having its workforce trained interstate is higher per FTE on an ongoing basis. Given this, the estimated costs of training AusNet workforce using interstate employees is expected to be 15% more expensive per annum on the basis of the additional need for travel and accommodation costs in addition to training costs.

3.5.3. Benefits

No need to manage a local training facility.

3.5.4. Risks

Irrespective of the costs associated with Option B, the ongoing impact of limited training resources in Victoria will remain unresolved. Given the state of the energy transition and the electricity industry in Victoria, Option B is not considered viable from an AusNet or Industry wide perspective. There are also risks that inter-state trained resources would still also require VESI training to be completed in Victoria

3.6. Financial summary

3.6.1. Estimated construction costs

AusNet engaged Napier & Blakely to prepare an initial estimate of constructions costs for a facility of this size and nature, a summary of this estimate is included in Table 2 below.

Table 2: Summary of construction costs

Estimated construction costs	$'M
C.I.C	C.I.C
C.I.C	C.I.C
C.I.C	C.I.C
C.I.C	C.I.C
Total	**22.4**

The above is an estimate of the costs associated with the construction of a facility with the following parameters:

- 3,000 sqm training building comprising
    - up to 4 training rooms
    - Various smaller meeting rooms
    - A couple of offices
    - Kitchen and meals/breakout area
    - External veranda areas
- Covered taring areas – assume large warehouse style structures of approx. 3,000sqm
- Parking and hardstand areas – approximately 15,000 to 20,000sqm.

Along with the outlined constructions costs outlined in Table 2 above, the AusNet requires $2.6m of training equipment to be installed at the site to conduct practical training courses. This takes the total capital outlay to $25m, of which $12.5m is related to AusNet's distribution network.

3.6.2. Options cost summary for 2026-31 regulatory period

Total Financial cost of options	Counterfactual: BAU	Option A: Redevelopment	Option B: Upgrade	Option C: Interstate
Building, construction and equipment	-	$12.5m	$1m – $2m	-
Training costs	$0.2m	$4.0m - $9.5m	$0.2m	$4.6 - $10.9m
Operating costs	N/A	$2.5m	$2.5m	-
Delay in program cost[2]	$195m	N/A	$195m	$195m
Total	**$195.2m**	**$19m – $24.5m**	**$198.7m - $199.7m**	**$199.6m – $205.9m**

[2] See example outlined in Section 3.3.4, leading to increased network risk from project delivery deferral

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