Project Feasibility Analysis

General Remediation and Modernisation Program

Prepared for Ausgrid

January 2023

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1. Executive Summary

1.1. Scope

JLL has been engaged by Ausgrid to provide analysis which identifies the requirement for a 'pool' of capital funds to address safety, environmental and compliance matters as well as to modernise office facilities.

1.2. Key Findings

Provided in this report are observations on the size, make up and ageing nature of the portfolio. We have been requested to provide a comment on the reasonableness of the budgets of [redacted] (Future Workplace Project), [redacted] (General Depot Refurbishment Project) and [redacted] (Depot Rationalisation Project). Notwithstanding, we have not inspected or undertaken a detailed analysis of the broader portfolio, we have considered these costs from a top down and bottom up perspective:

- JLL have undertaken feasibility analyses on five major property programs (across 11 existing sites) with a total capital works cost between FY25 to FY29 of [redacted]. The combined [redacted] reflects only 15% of the identified capital works across the five programs, despite this [redacted] being associated to ~62% of the portfolio.
- Further, evidence has been provided above on specific office and depot costs, giving an appreciation of the quantum of costs that can occur with these types of projects.

Based on the above, we believe the requested fund allocation appears reasonable.

1.3. Report Authors

[redacted]

[redacted]

[redacted]

2. Ausgrid Property Portfolio Overview

2.1. Context

Ausgrid define non-network property as offices and depots located throughout Ausgrid's distribution area, enabling the housing of staff that is critical to supporting the network and corporate functions.

We have had consideration to the Non-Network Property Strategy, which we have summarised / paraphrased below.

The Non-Network Property Strategy is designed to support the network capital program and upgrade existing non-network property to provide consistent and equitable standards of accommodation across the portfolio while improving the utilisation of facilities. The strategy is reviewed and updated on an annual basis to ensure it remains aligned with Ausgrid's Corporate Plan and comprises the six regional plans: Northern, Central, Sydney North, Sydney CBD, Sydney South and Sydney West.

The purpose of non-network property is to provide 'fit for purpose' accommodation facilities to Ausgrid's corporate and field staff. Non-network property does not include network property assets which directly house electricity network assets. The property portfolio includes an array of building assets that are either owned or leased.

The core types of non-network building assets are:

- Office accommodation - to house office staff involved in the direct planning of the network and project management of network investments.
- Depots – to enable field staff to construct new network assets, undertake preventative and corrective maintenance on network assets and respond to reliability incidents.
- Other – such as training/testing facilities, warehouses and storage yards.

2.2. Make Up of Non-Network Property

Ausgrid's non-network property portfolio is located throughout the Ausgrid franchise area which covers 22,275 square kilometres across Sydney, Central Coast, Newcastle and the Hunter region. The non-network properties include:

- 24 depots sites;
- 4 corporate offices; and
- 1 logistics facility.

The facilities are located strategically across the franchise area in a manner that enables Ausgrid to fulfil their network and corporate objectives.

2.3. Capital Expenditure Drivers

Ausgrid invest in non-network property to replace, renew or create assets. When making decisions to replace or renew assets they are guided by regulatory obligations, guidelines and policies including:

- Regulatory compliance (such as National Construction Code, Australian Standards, Building Code of Australia standards, Workplace Health and Safety Act, Environmental Planning Act and Heritage Act);
- NSW Government Workplace Guidelines;
- Ausgrid Policies (such as the Health and Safety Management System – previously known as "Be Safe", COVID-19 Protocols and Electrical Safety Rules); and
- Ausgrid Guidelines (such as the Health and Safety Strategy, with the key objective of "continually improving control effectiveness to reduce the health and safety hazards and risks across our operations so far as is reasonably practicable.").

The property program drives benefits for Ausgrid through savings on the operation and maintenance costs of buildings. Most of these savings are from efficiencies gained through the implementation of modern and fit-for-purpose facilities, which although regularly upgraded and maintained are of a significant age and accordingly less efficient.

There are also savings in time and other efficiencies that the building and property program achieves through the consolidation of properties. There are additional unquantifiable savings in respect of staff wellbeing and a more efficient use of space leading to productivity increases.

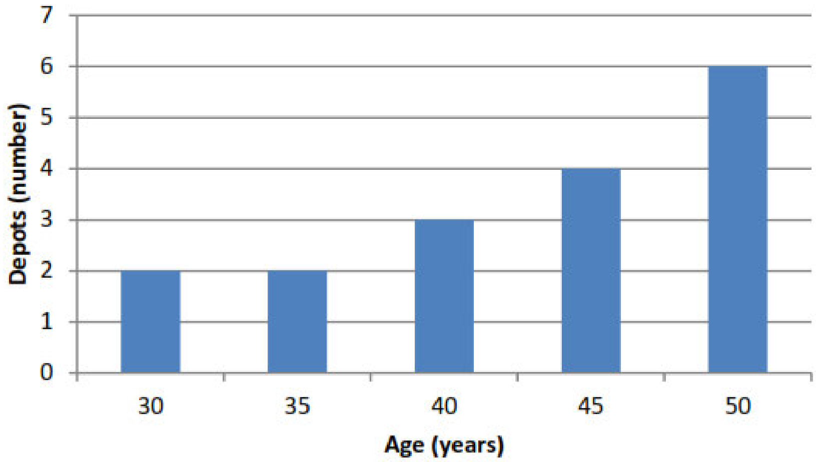
Where there is surplus property as a result of the replacement of land, Ausgrid undertakes an assessment of whether to sell or retain the property.

3. Observations and Analysis

3.1. Overview of Assets

Ausgrid have provided information relating to the current age of the depot portfolio. It was identified a significant proportion of the depots require renewal to meet modern day compliance standards. This was largely a result of having a significant number of aged assets. The figure below illustrates the depot age profile as at 2013. Similarly, we understand the office accommodation is dated both in terms of age of buildings as well as age of internal fit-outs.

Figure 1: Depot Aged Profile (As at 2013)



Source: Ausgrid

3.2. Rationale for Refurbishment Costs

Some of the benefits of investment in the facilities are outlined earlier but provided below are comments that relate specifically to office and depot refurbishment:

- Move to more agile working to improve business performance, particularly considering the implications of the COVID-19 pandemic
- Provide flexibility for Ausgrid staff in the ways that they work, again, particularly relevant in a post-COVID environment
- Introduce accommodation that fosters collaboration and customer interaction
- Provide a workplace that supports physical and mental health and well-being
- Improve the utilisation of non-network property assets.

3.3. Office Observations

Over the past 30 years office spaces have been revolutionised, in a large part due to technological advances, as well as recognition of the benefits of collaborative work environments.

The attributes of the traditional office with large, assigned desks and separate offices – typically hierarchy based required much larger office footprints, in the order of ~20/sqm of net lettable area per person. Modern office standards are typically closer to ~12/sqm per person and provide much greater collaboration with few or no offices and more meeting / activity rooms.

In considering the above, refurbishments of offices – particularly dated offices are required on a regular basis. This serves to improve collaboration; staff satisfaction as well improves the efficiencies of the space both in terms of operating costs as well as greater use of the floor space (as described above).

To provide an appreciation of the materiality of refurbishment and fit-out costs we have provided below a summary from JLL's published "Australia Fit-out Cost Guide 2022".

- We recorded the average 2022 office fit-out cost in Sydney to be $2,399 per square metre (based on medium specification fit-out style). We note, this reflects the average for a fit-out cost not including any organisation or site-specific additional costs required by Ausgrid.
- JLL believe that fit-out costs will rise in most markets over the next 12 months with some of the reasons including:
  - Continued restrictions around deployment of labour
  - COVID-19 response measures which could reduce either the available workforce or the number of workers onsite
  - Seeking alternative sources of materials to mitigate risks of supply chain disruption
  - Transfer of COVID-19 related risk through the supply chain as it no longer becomes an unforeseeable risk in building contracts
  - Expected inclusion of sustainability measures, driven both by employee experience and corporate policy

We are aware of a specific funding allocation being set aside for the ongoing refurbishment of offices spaces. While we have not inspected or undertaken detailed analysis of these assets, based on our view of the significant changes in offices and our understanding of the aged facilities it is reasonable that an allowance be provided for these facilities.

3.4. Depot Observations

The age of the depots as described above can result in significant issues regarding safety, environmental and compliance matters as well as inefficiencies of existing facilities. We have an appreciation of these resulting risks as we have undertaken feasibility analysis of a selection of depot sites which are being considered for major property projects.

As part of these assessments, we considered refurbishments of the depots which would also include ensuring compliance of Building Code of Australia (BCA) and removal of asbestos contamination. Excluding minor depots (which were not planned to be kept / refurbished) these cost estimates per site ranged between [redacted].

We have not inspected or undertaken a detailed analysis of the broader portfolio, however, believe based on the experience reviewing the depots described we believe it reasonably likely for similar issues to exist across the portfolio considering its age.

3.5. Rationalisation Observations

Ausgrid are proposing funds to cover the remediation of sites for closure. JLL haven't undertaken any site-specific analysis to quantify these remediation costs, however, we recognise based on our experience that remediation works result in relatively significant costs. Further, these required remediation costs are to assist with the rationalisation of depots which are no longer required. Based on the feasibility analysis of a selection of depot sites we've conducted, across 7 potential depot divestments is a potential realisation of [redacted] (current day dollars).

3.6. Key Findings

Provided earlier are observations on the size, make up and ageing nature of the portfolio. We have been requested to provide a comment on the reasonableness of the budgets of [redacted] (Future Workplace Project), [redacted] (General Depot Refurbishment Project) and [redacted] (Depot Rationalisation Project). Notwithstanding, we have not inspected or undertaken a detailed analysis of the broader portfolio, we have considered these costs from a top down and bottom perspective:

- JLL have undertaken feasibility analyses on five major property programs (across 11 existing sites) with a total capital works cost between FY25 to FY29 of [redacted]. The combined [redacted] reflects only 15% of the identified capital works across the five programs, despite this [redacted] being associated to ~62% of the portfolio.

- Further, evidence has been provided above on specific office and depot costs, giving an appreciation of the quantum of costs that can occur with these types of projects.

Based on the above, we believe the requested fund allocation appears reasonable.

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