

GORILLAS IN THE MIST AN INTROSPECTIVE VIEW

PRESENTATION

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BACKGROUND

The Late Jim McDonald – Past President of APGA

- ▶ 2001 – **Gorillas in the Myths – Gas Users, Producers and Economic Regulators**
- ▶ 2002 - **Gorillas in Our Midst – Economic Regulators**
- ▶ **Safeguarding the long-term future of the Industry** from the **external regulatory forces** apparent at the time of his writing
- ▶ **Gorillas in the Mist** - an introspective view

BACKGROUND

Successes:

- ▶ **National Gas Objectives (NGO)**
- ▶ **Australian Energy Regulator – single**
- ▶ **AEMO gas trading hubs - Increased market liquidity and broadened the market for participants**

BACKGROUND

ACCC's 2016 enquiry and the Vertigan report:

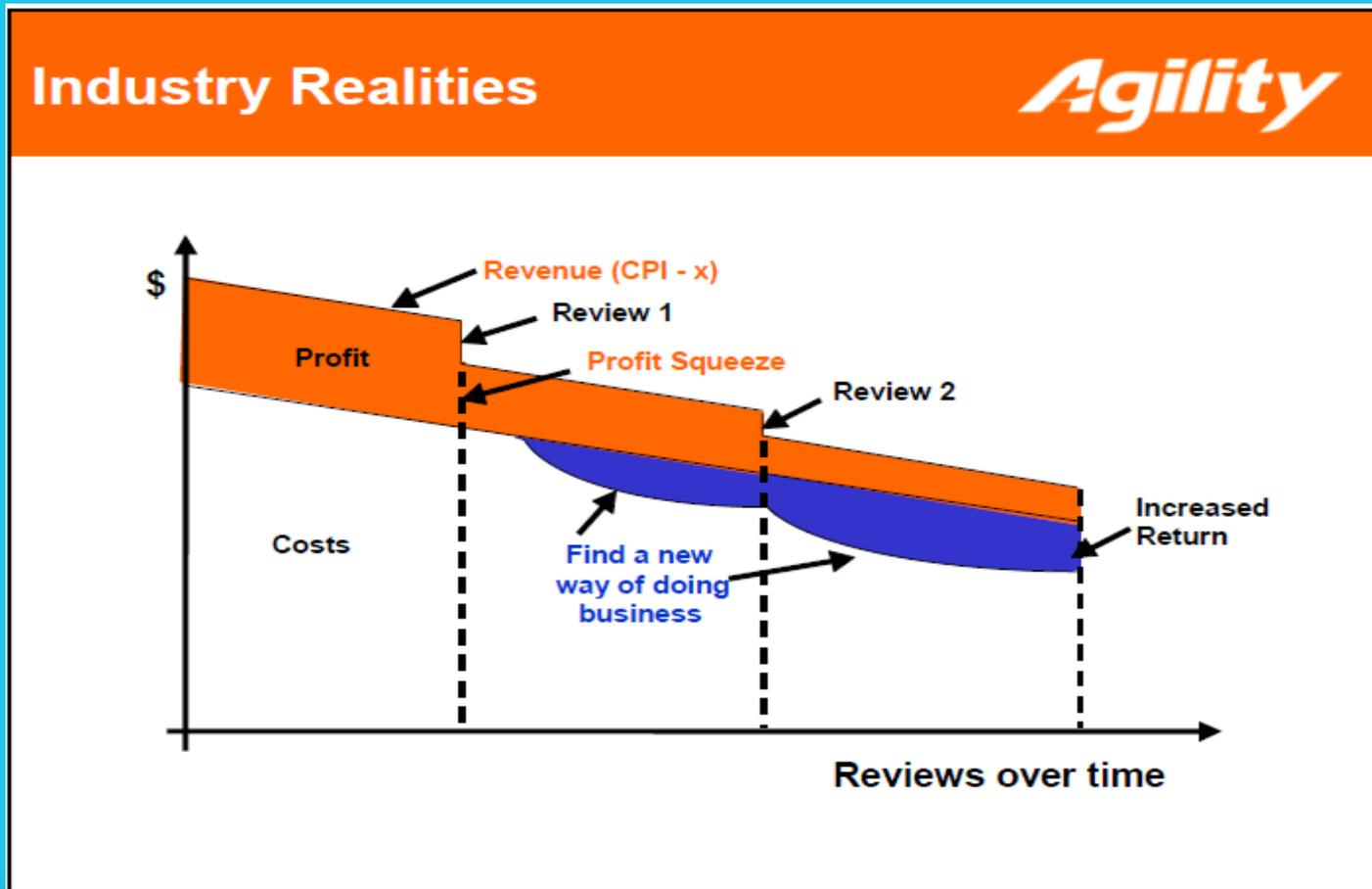
- ▶ **market powers** were being **exercised** by pipeline operators
- ▶ **Inefficient market** not consistent with NGO
- ▶ **Test for regulation** did not pose a **credible threat to the behaviour of pipeline operators**
- ▶ **Information and Arbitration Framework of Today**

MONOPOLISTIC BEHAVIOUR?

Privatisation and The Industry's Reaction to the Regulator's Accusation of Monopolistic Behaviour

- ▶ The **Asset Owner, Asset Manager, Service Provider** business structure;
- ▶ Such Business Structures endure today
- ▶ **10 – 25% of funds** previously expended on pipelines **diverted into profit margins** of **wholly owned subsidiaries** on the pretext of efficiency gains
- ▶ **Accelerated depreciation** of the assets and the **\$\$\$ required to train, mentor, retain and pay** those employed to do the work.
- ▶ As can be seen from this **graph by Mark Harper** in his paper to APIA conference in 2003

MONOPOLISTIC BEHAVIOUR?



Paper to APIA, "Asset Management – Ensuring the Role of Pipelines for the Future", Mark Harper, 2003

BACKGROUND

External Factors:

- ▶ Consumed excessive amounts of industry resources over two decades
- ▶ Been the **focus of pipeline operators** and **APGA secretariat** for too long
- ▶ Omnipresent and equally potentially damaging **Internal Factors** not treated with the **urgency** they deserve

MONOPOLISTIC BEHAVIOUR?

Pipelines are treated merely as revenue streams:

- ▶ Passive Owners (Superannuation Companies) only want a 7% return
- ▶ O&M expenditure constantly threatened in lieu of, not just a profit, **but insatiable growth**
- ▶ Pipeline assets concentrated in a few Owners - not a **Monopoly** but an **Oligopoly**

OLIGOPOLISTIC BEHAVIOUR?

Pipelines maintained on the basis of an infinite life are less likely to result in high consequence incidents

- ▶ An anathema to the short duration of tenure of CEO's which average 3 - 5 years
- ▶ **Short termism** is vogue –
- ▶ **future generations** to compensate for the accelerated depreciation of pipeline assets and the skill base of the people who care for them

OLIGOPOLISTIC BEHAVIOUR?

Economic and Legal Concerns

- ▶ **Blocking** of new entrants
- ▶ **Exacerbates** adoption of change brought about by **competitive forces**
- ▶ **Stifles** Innovation
- ▶ Leads to **Price increases**
- ▶ The **Vertigan** report **confirms** that the **Pipeline Industry** is **under ACCC surveillance**

INDUSTRY BEHAVIOUR

Potentially Damaging Forces threaten the long term survival of the Industry:

- ▶ Procurement Practices
- ▶ Management and Allocation of Risk
- ▶ Competency
- ▶ People, Safety, Community and Culture
- ▶ Internalisation

PROCUREMENT PRACTICES

- ▶ **Procurement departments:**
 - **Cost savings** brought about by **Standardisation** and **Centralisation**
 - **Incentivized to lower costs**
 - **The more cost savings, the more powerful**
- ▶ **Lowest bid always wins**

PROCUREMENT PRACTICES

- ▶ **Operate in silos** without relevant **technical support**
- ▶ **Lack the knowledge** necessary to ensure material performance parameters are met
- ▶ **Poor translation of technical risk** into clearly defined quantifiable terms
- ▶ Contractor, equipment or service provider saddled with **all the risk**
- ▶ **Adversarial** from the outset
- ▶ **Rely on the WILD's of contract** and reputable tier 2 and 3 are precluded from bidding for work

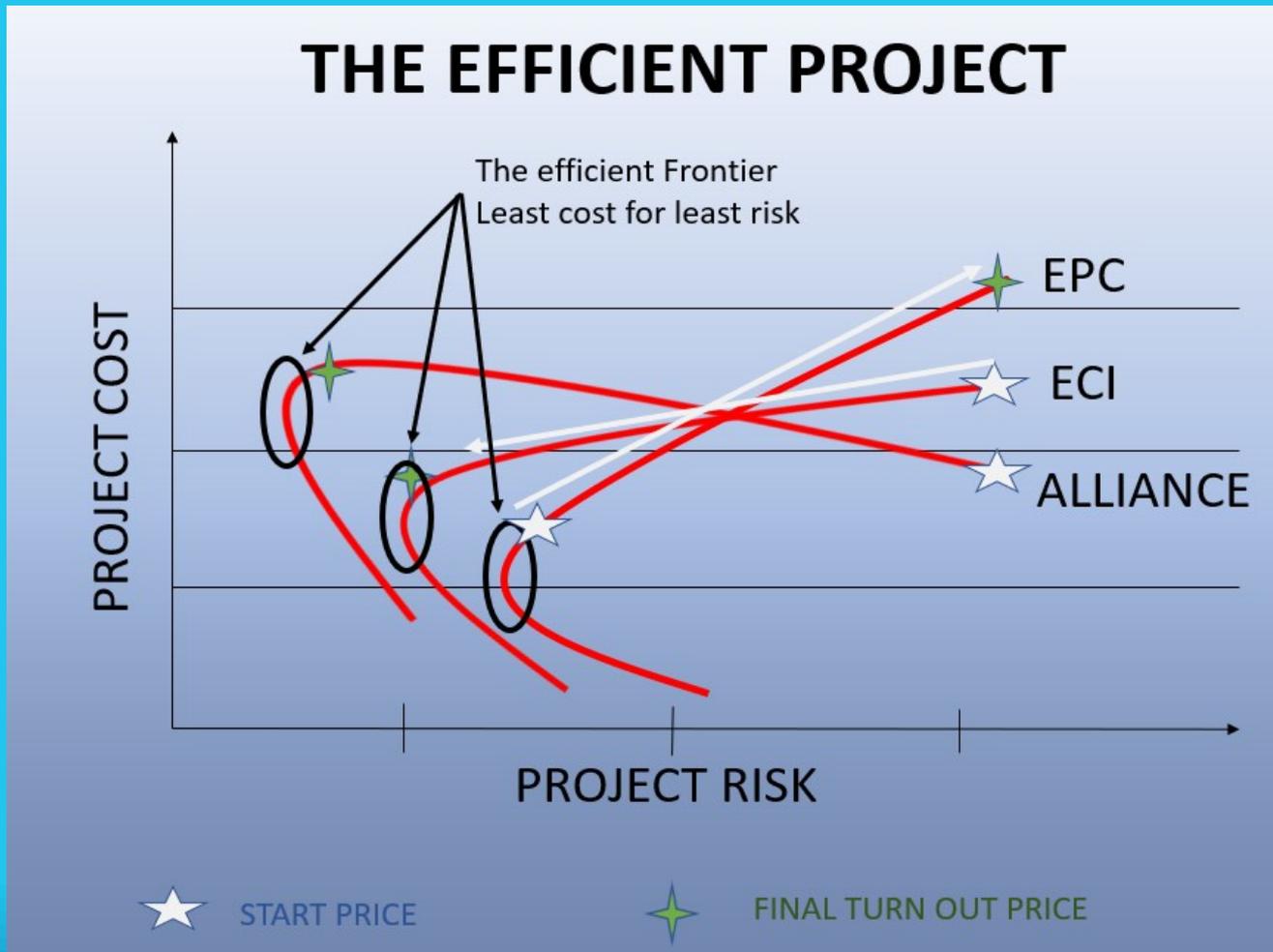
PROCUREMENT PRACTICES

- ▶ Requirements for full accreditation (eg ISO 9000, 14000) are **not extended** to sub-contractors
- ▶ **Accredited APGA member** equipment and service providers cannot compete with non-accredited suppliers **on price alone**
- ▶ Cite **matters of probity** to avoid creating relationships
- ▶ Together with the incentivized least cost paradigm, there is **less truth and honesty**
- ▶ **No collaboration;**
- ▶ **Risk allocation is skewed;** and
- ▶ **Relationships are strained**

MANAGEMENT AND ALLOCATION OF RISK

- ▶ Project Owner **owns 100% risk**
- ▶ Risk allocated to party best able to **manage the risk**
- ▶ Sells down risk to **willing partner** for \$\$\$\$
- ▶ Understanding of the **underlying competency** of Contractor and Owner
- ▶ **Negotiation** – needs a **relationship** to be meaningful
- ▶ Seasoned Project Manager relies on **mutual trust** in relationships created
- ▶ Procurement departments resort to **fine legal print** in contracts

MANAGEMENT AND ALLOCATION OF RISK



MANAGEMENT AND ALLOCATION OF RISK

- ▶ **NQGP** (Hogarth, 2004 – **Alliance**) and **BGP** (Dykes, 2006 - **Modified ECI**) very **Successful Projects**
- ▶ Recent **Dual ECI's not successful**
- ▶ **Success** has always meant **meeting budget and time?**
- ▶ Little incentive – Pipeline Operators can **re-set Asset Base every 5 years** to compensate for **project capital over-runs**
- ▶ Contractor's only **recourse is to the courts**
- ▶ **Try Open book – Cost Plus** but this requires **trusting relationships?**
- ▶ **Key grievance** amongst Contractor's today

COMPETENCY

- ▶ **APGA Board** supported **Pipeline Engineers Competency System (PECS)** commenced in 2010 and was completed in 2016 – it has taken 7 years.
- ▶ Reaction to Max Kimber's 2003 paper "**Are Our Pipelines Safe and Reliable**" and Susan Jacques 2004 paper "**What Does Pipeline Engineer Mean to You?**"
- ▶ **Individual Consultants** – donated **FREE** of **extensive time, effort and experience**
- ▶ Chris Harvey 2019 paper "APGA's Pipeline Engineer Ten Years On – Where to from Here?" **Uptake of PECS in the Industry was probably 25%.**
- ▶ **No evidence** it has **increased** since then

COMPETENCY

AWARENESS	+ (present)	CAUTION "I know what I don't know" Response : Explore	CERTAINTY "I know what I know" Response : Exploit
	- (absent)	IGNORANCE "I don't know what I don't know" Response : Experience	AMNESIA "I don't know what I know" Response : Expose
		- (absent)	+ (present)
		KNOWLEDGE	

COMPETENCY

Cause of 41 "Incident" events - 01/01/01 to 30/04/09

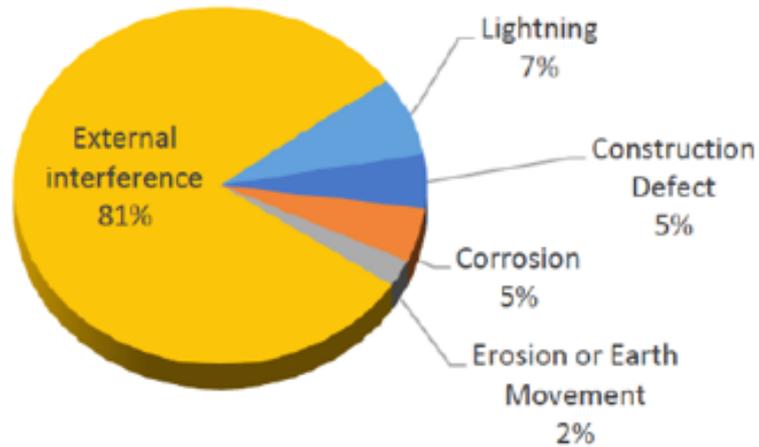


Figure 4 - Causes of Pipeline Incidents 2001 - 2009³

COMPETENCY

Cause of 87 "Incident" events - 01/05/09 to 30/04/18

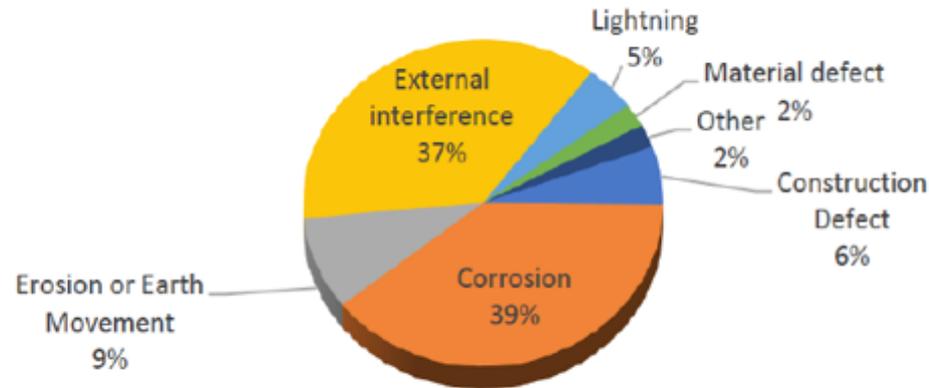


Figure 5 - Causes of Pipeline Incidents 2009 - 2018⁴

The changing **causes for incidents** are now skewed away from external interference and more towards **technical matters** which require **pipeline engineering solutions**

COMPETENCY

- ▶ **Safety Management Plans** nominate the **Executive Safety Manager**.
- ▶ “The senior managing officer of the corporation or organisation responsible for the management and safe operation of the operating plant”.
- ▶ **Senior Managing Officer** is the person in Australia who is the **Most Senior**.
- ▶ **No hiding** from where the **buck stops** here.
- ▶ the Industry is required to **act** if there is **any implication** that there might be a **lack of engineered safety**

PEOPLE, SAFETY, CULTURE (PSC) AND THE COMMUNITY

- ▶ **People** - Pipeline Technicians, the engine room is a precious resource
- ▶ **Lack** of senior management, PSC personnel **attendance** at the **coal face** and **poor engineering integration** with **operations and maintenance**
- ▶ **PSC** personnel (and perhaps senior management) have a **poor understanding** of **Pipeline Technician's roles**
- ▶ **PSC** departments issue **wholesale policies** without consideration of the **effects at the coal face**
- ▶ Generally **very little** to **no respect**

PEOPLE, SAFETY, CULTURE (PSC) AND THE COMMUNITY

- ▶ **Safety – lobotomized** our Pipeline Technicians – wired lights into the ignition switch, seatbelts mandatory at less than 25 kph when the law allows it?
- ▶ **Trained** in **risk** awareness and **assessment**
- ▶ **HSE** departments illusion of a “**Risk Free**” World
- ▶ **No trust** in our **employees?**

PEOPLE, SAFETY, CULTURE (PSC) AND THE COMMUNITY

- ▶ **Community** – they afford Pipeline Operators a **Social License**
- ▶ **Stakeholder management** and **sustainability** do not feature in **weighted selection criteria**
- ▶ **Compensation** is a **short-term** expediency and **placatory** tool **during construction**
- ▶ Ongoing **support** severely **curtailed** once operational **revenue stream** begins **to flow**
- ▶ **Obtain little** or no **advantage** from the presence of the **pipeline**

THE CULTURE OF INTERNALISATION

- ▶ **Individual consultants = 27% of the RSC membership** on average through the years 1996 to 2015.
- ▶ As of **2020** it was **less than 15%**.
- ▶ A **decade ago, 3 of 5 executives** on the **RSC management committee** were individual consultants, **now nil**.
- ▶ **Under-representation** of **experienced individual consultants** in the key areas critical to the **future of the Industry** should be of **concern** to the **APGA membership**.
- ▶ **Pipeline operators** have not been **socially responsible** and have **relied** for many years **on other sectors of industry** to supply the technicians and technical staff required
- ▶ **Only 25% of the Industry** have **adopted PECS**

THE CULTURE OF INTERNALISATION

- ▶ **Let's remember what Consultants contribute to the Industry:**
 - ▶ **Driving force** behind the APGA Research and Standards Committee (RSC) in 1996.
 - ▶ **Define** most research **programs** that push the envelope of applicable and practical technology to the **benefit of the whole Industry**
 - ▶ **Forged the relationships** necessary for the **tripartite agreement with PRCI and EPRG** placing the Australian **Industry and its research** programme on the **international stage**.
 - ▶ The **main driving force** behind the **successful bid** for the **Energy Pipelines CRC** from which the **Future Fuels CRC** has morphed.
 - ▶ The **Chair of ME-038** for many years

THE CULTURE OF INTERNALISATION

- ▶ **Let's remember what Consultants contribute to the Industry**
 - ▶ **largely responsible** for the drafting of **AS 2885** and other industry standards
 - ▶ Serve as **industry advisors** on **research projects** and on each one of the **Industry Standards committees**.
 - ▶ The **development of the PECS**.
 - ▶ **Serve** on all the **APGA committees** except the Owners committee and the Pipeline Operators Group (POG).
 - ▶ Act as **Subject Experts** for insurance companies and **Expert Witnesses** for the legal profession.
 - ▶ Provide **independent advice** and **independent audit services**
- ▶ **And to do this, except for expert witness work, Consultants passionately contribute their time and experience FREE besides paying for travel and accommodation costs incurred.**

THE CULTURE OF INTERNALISATION

- ▶ The **level of engagement** of independent **consultants** and **consulting engineering houses** has dramatically **reduced**
- ▶ **“Too expensive”**, to **“personality issues”**, and to one of being potentially liable for **“aiding and abetting the 80/20 rule”**.
- ▶ Award to the lowest bidder every time, **“we like to share the work around”**
- ▶ **Internalisation** means that **Consultants** cannot **earn a living** in the Industry and a number **have resigned** from both **APGA** and the **RSC** as a result
- ▶ Indicative of **little desire** to **retain** a **competent cauldron** of independent **consultants** or a **pool of competent contractors, suppliers and service providers** within the Industry

THE CULTURE OF INTERNALISATION

- ▶ **Stems** from a policy of **exclusive recruitment** accentuated with that of **internalisation**.
- ▶ **Organisations** have a right to run a **conformist recruitment policy**
- ▶ **Danger** is the propagation of an **elitist culture**
- ▶ **Driven together** with a “**respect the boss**” normative that produces an expectation that the **respect required by the leaders within an organisation** apply equally to **Industry members outside the workings of that organisation**
- ▶ **Internalisation** removes the **independent and externally influenced checks and balances** and the norm propagates

THE CULTURE OF INTERNALISATION

- ▶ **Long-term effects of Internalisation:**
 - ▶ **Reduction** in the pool of **expertise**,
 - ▶ **Reduction** in the **experience level** of that pool and the **flexibility** that such an experienced pool offers.
- ▶ The **Cultural effects Internalisation** has within an organisation:
 - ▶ **Mimetism** - the **copying** of the **actions of business peers**
 - ▶ **Normative isomorphism** - **Organizations** are influenced by rules that introduce a **prescriptive, evaluative, and obligatory dimension** which **extends beyond work** into the **social lives** of the **employees**
- ▶ **Symptomatic of Groupthink**

THE CULTURE OF INTERNALISATION

- ▶ **Internalisation:**
 - ▶ Produces a **closed environment** ;
 - ▶ **Is devoid** of **external influences**; and
 - ▶ **Increases the probability** of normative behaviours **escalating** into **failures** or being **contributing factors** to **catastrophic high consequence events** such as **Piper Alpha** and **BP Texas City**.
- ▶ Can **manifest** in **cultural drift** and at worst **corruption**. This was the **path** of the **corporate cultures** exposed in the **Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry**
- ▶ The **effects** of these behaviours are **straining relationships** in the Industry

THE CULTURE OF INTERNALISATION

- ▶ The **Industry** has been blessed and continues to **radiate** with **robust characters**.
- ▶ It takes **strong personalities** to work in **high-risk industries** and in Industry forums they must be **allowed** to **speak their mind**.
- ▶ **Agreement is not compulsory** but it **pays to listen**. By **listening, you might learn something**.
- ▶ **Gagging independents** by reference to **company policy and/or edict** is **dangerous** and **blacklisting** them on account that their **opinions** do **not align** with the organisations' **policies** is **wrong**.
- ▶ Could be **unlawful** in some circumstances for example, where **professional ethics** are at play.

REFLECTIVE THINKING

- ▶ What will happen when there is a major rupture and a coronial inquest into root causes?
- ▶ **Behaviours** may have **manifested** into **contributing factors**, **Eminent APGA members** have spoken on some of these **issues** before. **Accused** of crying “**Wolf**”
- ▶ Best take **heed** before a cry of “**I TOLD YOU SO**” emanates from the floor
- ▶ **Boards** of our pipeline **organizations** need to start to think more like the **Australian bank boards** have lately, that their **purpose in life** is to **generate long term** income for their shareholders rather than chasing the means for the **construction of vast empires**

REFLECTIVE THINKING

- ▶ The **Industry** needs to **think about**:
 - ▶ **Returning** to the **open and collaborative regime** more reminiscent of the **past**,
 - ▶ **Relationships** are again at the **centre** of our **business**
 - ▶ **Attributes of respect, honesty and trust** are again **dominant**.
 - ▶ **Contributions** from **across all facets** of the Industry need to **be valued**
 - ▶ Putting **individual personalities aside** so **ALL** can make a **reasonable** and **justified contribution** as well as a **living**.

REFLECTIVE THINKING

- ▶ **It is only with the Industry's collective wisdom that its continued existence can be assured along with:**
 - ▶ boosted productivity;
 - ▶ a continuing exemplary safety record;
 - ▶ more clever innovation;
 - ▶ elevated levels of competency;
 - ▶ excellent quality outcomes; and
 - ▶ broad community respect
- ▶ **arising from a conscientious acknowledgment and a demonstrated alignment with the Social Licence generously afforded it.**

▶ **THANK YOU**