Minimizing Non-Technical RISK

BY SHAUN TWEED

The new frontline of project concerns

In today's challenging energy environment, companies and projects face multiple risks that go far beyond the customary challenges in design, engineering and geography. These risks are non-technical in nature and have the potential to cause huge cost overruns and project delays. And because they are often underestimated and overlooked, they can have the most significant impact on a project's success—or failure.

Categorizing the Risks

A Non-Technical Risk (NTR) can arise from various health, safety, environmental and community issues that jeopardize a successful project implementation. According to recent industry reports, NTRs are becoming increasingly more prevalent, and estimated to cost companies billions of dollars every year.

In conducting project risk assessments, it's important to consider the technical and non-technical factors differently. Categorizing them in advance of a project launch can give the project team a head start in identifying ways to mitigate potential issues. To ignore the NTRs is to open your project to potentially infectious and terminal consequences. Even more concerning are those extreme cases where the issue can expand beyond the project and permeate through the company or agency involved.

Extent of the Impacts

According to recent industry surveys conducted by our company, Environmental Resource Management (ERM), as many as 70 percent of major capital projects are being delayed by months—if not years—as a result of non-technical risk factors. The most significant challenges stem from environmental issues, social concerns, geopolitical fear and ideological movements. If not addressed early, each of these issues has the potential to negatively impact a project's success.

Just look at the North American electrical grid that has remained a hot topic over the last decade. We rely on power in every aspect of our lives, and experts agree that our grid infrastructure is old and in dire need of upgrading. And even though there is a growing consensus on its priority, NTRs are increasingly threatening to delay, devalue or derail those major electrical energy projects that our communities need to exist.

And the opposition to hydraulic fracturing continues to grow. The resistance movement is increasingly targeting and adversely impacting energy projects, while hampering community acceptance. Across the U.S., there are local ballot initiatives and statewide limitations working to ban fracturing altogether. These issues are proliferating in diverse communities and quickly gaining momentum.

In a 2011 report, John Ruggie, the United Nations Secretary-General's Special Representative for Business and Human Rights illustrated how a failure to develop cross-functional strategic response to NTRs related to social impact can have a devastating effect. One example included a company in the extractive industry that reportedly suffered $6.5 billion in eroded value over 24 months due to NTRs. In that instance, community opposition delayed the regulatory approval process, and the consequences were financially devastating.

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Addressing a Lack of Trust

Community stakeholders and regulators have long memories. Over the years, we have had many conversations with stakeholders whose only reason for opposing a project was their distrust of the utility or the gas company involved. And the distrust had roots that went back generations. If a previous generation felt taken advantage of, mistreated or misled, a small incident could easily take on a life of its own. Much like the David vs. Goliath fable, it's perceived as the big corporation squashing the little guy in pursuit of profit. Whether there is any actual truth to the story is not what's important. If the story and belief perpetuates, it can become the one obstacle that throws a wrench into the project's schedule. When that happens, the only solution is to build a new foundation of trust.

The best way of healing old wounds is engaging the stakeholders early on, educating them about the project, and giving a voice to those who are feeling marginalized. That means early engagement must be a priority from the genesis of a project.

A Tale of Two Projects

In the last year, our firm was contracted to work on two identical projects, one with appropriate stakeholder engagement and one without. On the first project, we were hired to manage the stakeholder engagement efforts for a large-scale multistate oil pipeline. This involved all aspects of communications, including community research, developing the strategy and executing the plan, as well as meeting with elected officials and overseeing the open houses.

During the permitting process, landowners who lived near a proposed pump station became concerned about its impact on the community. Since their property was not located along the pipeline route, they had not been previously engaged. Still, they contacted their local elected officials, who in turn contacted our public affairs team because of the relationship we had with them.

In response, ERM's public affairs team put together an evening event near the proposed pump station location. Neighbors surrounding the project area were invited, along with elected officials and emergency responders from the nearby community. The evening began with

a casual discussion over refreshments followed by an overview presentation led by the technical team. Time was left for questions, and our team remained until the last resident left the meeting. We then followed up with thank you notes and contact information for the company's technical leads.

The neighbors and elected officials were impressed with the way the community concerns were handled, and the issues subsided. The company had successfully filled a vacuum of information with specific project plans, details about the station and overall timing. The pump station was built without opposition, and the relationship with stakeholders in the community was maintained, leaving the client with satisfied customers. In this instance, the fallout was resolved before advancing to a corporate or industry level.

On the second project, the same client had a different oil pipeline that was being proposed in another state.

When similar concerns were raised with a particular pump station, we recommended the same course of action. However, the project manager was not a supporter of the engagement process and wanted to let things play out. Over the course of the next 18 months, the issues around this project worsened, and the county government responded by denying a conditional use permit for the pump station. All other pump stations were in place along the route. The fact that this particular station took so many months to receive approval cost the company a tremendous amount of money and adversely affected project and corporate portfolio value.

Clearly, up front and ongoing communication with stakeholders is critical to a project's success. With these two projects, the company's open communication strategy played a huge role in the success for one, while the lack of communication resulted in a significant delay for the other.

By listening to the community's concerns and making stakeholder relations a priority, one of the two proposed pump stations was able to move forward as scheduled.

Earning the Privilege to Operate

In developing countries, project proponents work hard to reinforce local government relations by engaging broadly with communities, supporting agency capacity building and funding broadly based skills training. Yet, recent experience in North America, Europe and Australia prove that similar efforts are needed in mature regulatory regimes — the land of small government and big civil society.

Developers can face moratoriums, reactive new laws and reputational damage if they simply expect that a statutory permit is all they need. By approaching new developments in increasingly delicate contexts as a way to earn the privilege to be there, we see organizations taking more inclusive social approaches that serve them well over the long-term of asset development and operation.

Lessons Learned Along the Way

The question remains, how do we mitigate or eliminate serious NTRs? We start by demonstrating the importance of identifying and prioritizing NTRs early in the planning process, especially to corporations and project leaders. We have been able to achieve project success by using the following best practices.

1] Identify Potential Risks Early On

The project team needs to understand the concerns and expectations of the stakeholders who can potentially cause a business risk. Assessing each risk and determining its impact on financial performance, company reputation, safety and other key company objectives will be critical. It's important to articulate exactly what's at stake to the executive decision makers.

2] Share Lessons Learned During the Project

Insights gained from current efforts need to be more clearly articulated so that colleagues working the next step can actually benefit from the information. Whatever issues and solutions were faced in earlier project phases can play a significant role throughout the project lifecycle—but only if they are shared. This also helps ensure that institutional or project specific knowledge isn't lost over time.

3] Proactively Engage the Stakeholders

When a project is being planned, it is essential that we start with the end in mind. As such, relationships with both the public and the regulatory agencies need to be actively mapped and proactively managed. Trust and transparency among all stakeholders must be a priority at the beginning of the project in order to create benefits through the end of the project. No one likes to be taken by surprise. If any of the stakeholders, either internal or external, feel like they are out of the loop during the project lifecycle, backlash is sure to follow. This is often why project opposition groups form in the first place. Therefore, acknowledging the legitimacy of all stakeholder interests, while being as transparent as possible, is a powerful way to earn trust and create a collaborative relationship with the community, while helping to gain project acceptance.

4] Make Permitting an Early Priority

The old model of design-permit-build is no longer viable. Gaining approvals from regulators and the public is just too complex and sensitive to start late. Use a well-planned permitting strategy to shape the engineering designs and execution timetables.

5] Improve Operational Effectiveness

Establish controls and mitigation options, and confirm that everyone clearly understands their role in ensuring plans and controls are successfully implemented. Monitor the effectiveness of controls and look for opportunities to improve operational effectiveness and efficiency.

Summary

In order to avoid catastrophic project obstacles, mitigating today's non-technical issues requires an organizational commitment, standards, policies, auditing and other strategic business processes. Yet, there must also be an integrated approach throughout the project lifecycle. Members of the project team work best where there is an ongoing dialogue between design, construction, communications and permitting. This kind of open communication enables the team to identify potential challenges early on and establish feasible solutions on paper that can work to prevent failures on the ground.

At the end of the day, risk cannot be totally mitigated. However, we have the knowledge and skillset to better manage the non-technical issues that do arise. We all have a responsibility to learn from past failures. By planning and preparing for future risks and continuing to look for the most viable solutions, we can bring increased value to the community, while meeting the financial goals of the companies and industries we serve. ✪

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