How Long Will This Pipeline Project Last?

Practical guidelines for managing and staffing a natural gas pipeline project

BY STEVE CHASTAIN, SR/WA

When I interview prospective candidates for a natural gas pipeline project, one of the first questions they ask me is, "How long will this project last?"

The motivation behind this question seems perfectly reasonable. After all, prospective employees are being asked to make an employment commitment to a service company and the client's project. Why shouldn't they know the length of a project before accepting the assignment?

The term FERC (Federal Energy Regulatory Commission) pipeline project is common vernacular when referring to an interstate natural gas pipeline project. Technically, a project doesn't become a FERC project until it has been certificated. Understanding some of the variables associated with a FERC certificated natural gas pipeline project and which areas impact staffing can help an employee evaluate their opportunities.

PROJECT STAFFING FACTORS

Service companies staff FERC pipeline projects in response to competitive, client-driven (pipeline company) demand. That demand is generated by market anticipation, project scope and scheduling. This indicates that the service company is not in control of project duration or employment duration. Opportunities that begin as short-term may evolve into long-term and vice versa. In response, a project's overall staffing demands may expand or contract. This is primarily because in the project's formative months, many disciplines are working together to shape the project into a viable enterprise.

In anticipation of an upcoming project, pipeline companies will typically engage in a dialogue about staffing with prospective service companies. While there are a number of ways a client may present the inquiry to the service company, the Request for Proposal (RFP) method is the most common. The service company receives an RFP detailing project scope and duration. Ideally, the RFP will include sufficient data from which to reasonably determine staffing demands across the full length of the project. The service company is being asked to make staffing choices across a term of months or years under the assumption that the project will move forward to completion. Making these staff recommendations is purely hypothetical at this stage.

This staffing plan is intended to demonstrate how the service company will tailor their staffing in direct response to the completion of project milestones, such as survey permitting, title completion and right of way acquisition. By its very nature, as tasks are completed, manpower is projected to be reduced. From this perspective, the question of how long a project will last can lose its context for some employees, as the project may continue well beyond their contracted term.

Finally, services companies are often asked to provide a pipeline company with the number of staff members that would be required to kick-off a potential project and meet front-end goals. Due to confidentiality requirements, the client may not be allowed to share any additional project details. The service company may begin contacting specific personnel about their availability in anticipation of a positive response from that client. Obviously, attempting to predict employment duration in these situations would be difficult, to say the least. A right of way professional must personally evaluate the risks and make decisions that best suit their individual employment needs at the time.

RIGHT OF WAY DISCIPLINE CHOICES

Pipeline projects are systematic and methodical operations, and in turn, staffing for these operations address specific tasks, each with a programmed terminus in the project's schedule. While qualifications, experience and salary options certainly inform an employee's discipline choice, that choice can also unmistakably affect the employment term on a project.

Consider the different roles and tasks associated with a project. For instance, most medium to large projects will require supervision and administrative support from beginning to end. A right of way agent can safely assume that, as the acquisition process progresses, the number of agents required for acquisition will decrease. Likewise, a title agent knows that title staffing is tied to outstanding title counts that will typically be completed long before acquisition ends. A project large enough to warrant a permit agent or coordinator offers an opportunity that may run until the notice to proceed for construction, and depending on permit renewal requirements, may continue after construction has begun.

PERFORMANCE AND EXPERTISE IMPACTS

Many projects begin with peak staffing, primarily due to the large number of preliminary tasks to be completed as a project rolls out. Depending on the project schedule and milestone dates established, this peak staffing will not likely be sustained indefinitely.

For example, a FERC project with a large study corridor may have twice as many parcels to notify and permit for survey as it will for acquisition and title. In this instance, the completion of survey might be a logical place for right of way agents to expect staffing reductions. An agent might be aware of the 'in-service' date and know that a large number of tracts still need to be acquired, yet still be released as past of the overall project staffing plan that is directly tied to the completion of survey and the beginning of acquisition.

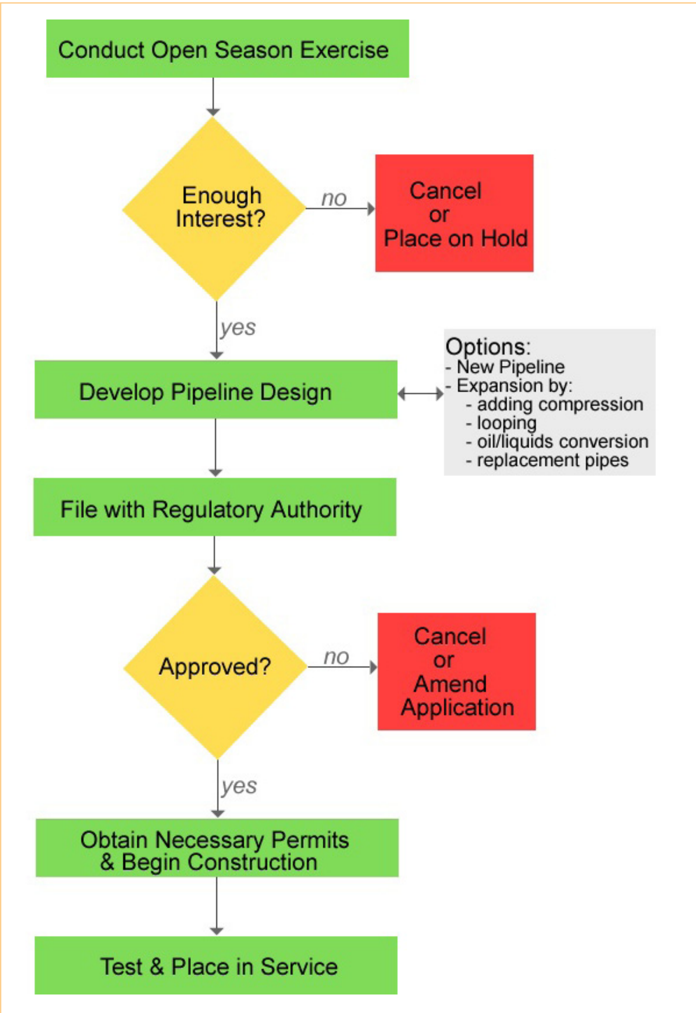
On any given project, an examination of the longevity would be incomplete without addressing the issue of competency. Programmed attrition is based on completing the original tasks assigned and weighed against the remaining tasks to be completed.

When it comes to professional competency, the project's length may be irrelevant. What is relevant is the professional's demonstrated performance. A supervisor who is challenged by daily progress goals will want to retain those employees who have demonstrated the greatest competency in completing assigned tasks, meeting project goals and maintaining positive client and stakeholder relationships. In this regard, the employee's chances of maintaining their longevity is improved by performing well and setting themselves apart from their contemporaries on the project, assuming that their particular discipline is still required.

BINDING AND NON-BINDING COMMITMENTS

The pipeline industry is actively pursuing new markets for capacity. When large markets present themselves, competition among interstate pipeline companies is common. There are several indicators built into the system which reflect market responses to a project and which may be observed by personnel who are considering a FERC pipeline project or are already assigned to one.

In most cases, a pipeline company will conduct a non-binding open season. In layman's terms, this is a poll of the marketplace that asks, "If we build it, will you come?" The service companies who handle FERC pipeline projects are usually given notice and limited details of a proposed project, along with a pipeline company contact and a deadline for responding. Interested



The open season serves as a poll of the marketplace.

companies will respond by indicating their degree of interest if the project were to move forward. As implied by the name, this is done without a binding commitment. Given the competitive nature of these efforts, and the fact that this process is non-binding, it is common for these companies to demonstrate interest in more than one project at a time.

If a company has a successful non-binding open season, it will usually post a news release on its website, which will be picked up by all the industry trade journals. The entire industry watches for these announcements because they are market indicators of what will follow. If the non-binding open season is unsuccessful, the company will likely allow the end date to pass without a formal announcement.

If the non-binding open season is successful, a binding open season will follow. As the name implies, this requires companies to make firm staffing commitments. These commitments become part of the company's FERC filing and provide justification for certification. Again, if the binding open season is successful, the pipeline company will announce it, and it will be communicated across the industry. If not, the date will simply pass without fanfare.

Projects can start prior to a binding open season depending on the company's perception of their project's strength or other factors, such as a desire to demonstrate their confidence in their proposal or in an effort to stay on schedule to meet a market mandated in-service date. If the binding open season for the project is unsuccessful, the project may be in danger of a shutdown. Binding open seasons can be offered a second time, but this in itself is an indication that the project is struggling to find its market. If it is successful, it means the company has contractual commitments for the capacity proposed. There is no better indicator for a project's viability than a firm capacity commitment.

Open seasons are publicly announced along with their term and deadline. The progress of an open season is extremely confidential and will not be found on any company or trade website. However, a right of way professional working on a project where an open season is being or has been conducted can search industry websites for results of the open season if they were announced.

If a project is staffed during a binding open season or the binding open season is announced after project kick-off, the deadline date will become a decision point for the pipeline company's management to decide whether or not to go forward with the project. Another indicator is the competition's results. If two companies are competing for the same capacity and one is successful, the other will face issues relating to lack of project longevity.

FERC MILESTONES AFFECTING LONGEVITY

The prerequisites for granting a FERC certification are favorably linked to the project longevity. Companies proposing an interstate natural gas pipeline project will typically use the FERC pre-filing process as a systematic method of preparing for their official filing. Months of productive project work can be accomplished before and throughout the pre-filing process. While there is no specific time frame for the pre-filing process, it can commonly last a year to eighteen months. During this process, a pipeline company will be tasking personnel from a host of disciplines to perform such tasks as conducting centerline, environmental and cultural surveys, gathering support data for required resource reports, finalizing the route and exploring alternatives, responding to stakeholder concerns and conducting public meetings, all of which offer opportunities for right of way professionals and actually demand some of the peak staffing numbers associated with a project.

Once a project has begun the pre-filing process, it will be issued a docket number by FERC. This is a critical project milestone and indicates FERC's public involvement in the project and a significant commitment of resources by the pipeline company. Once the docket number is assigned, the filings, stakeholder comments, draft resource reports and other documentation will be posted and available for public viewing on FERC's online library (visit www.ferc.gov/docs-filing/ferconline.asp). The agency also offers a subscription service where subscribers are notified as filings related to that docket are submitted. These filings can provide informative insight into a project's progress, and anyone may subscribe to the service.

Entering the pre-filing process does not necessarily mean the project will be built. A project can begin preliminary work prior to pre-filing, move into pre-filing and still be shut down. The FERC pre-filing process takes time and will often travel along a parallel tract with marketing efforts to secure commitments. The in-service date of the proposed pipeline will typically require this.

START UP COSTS

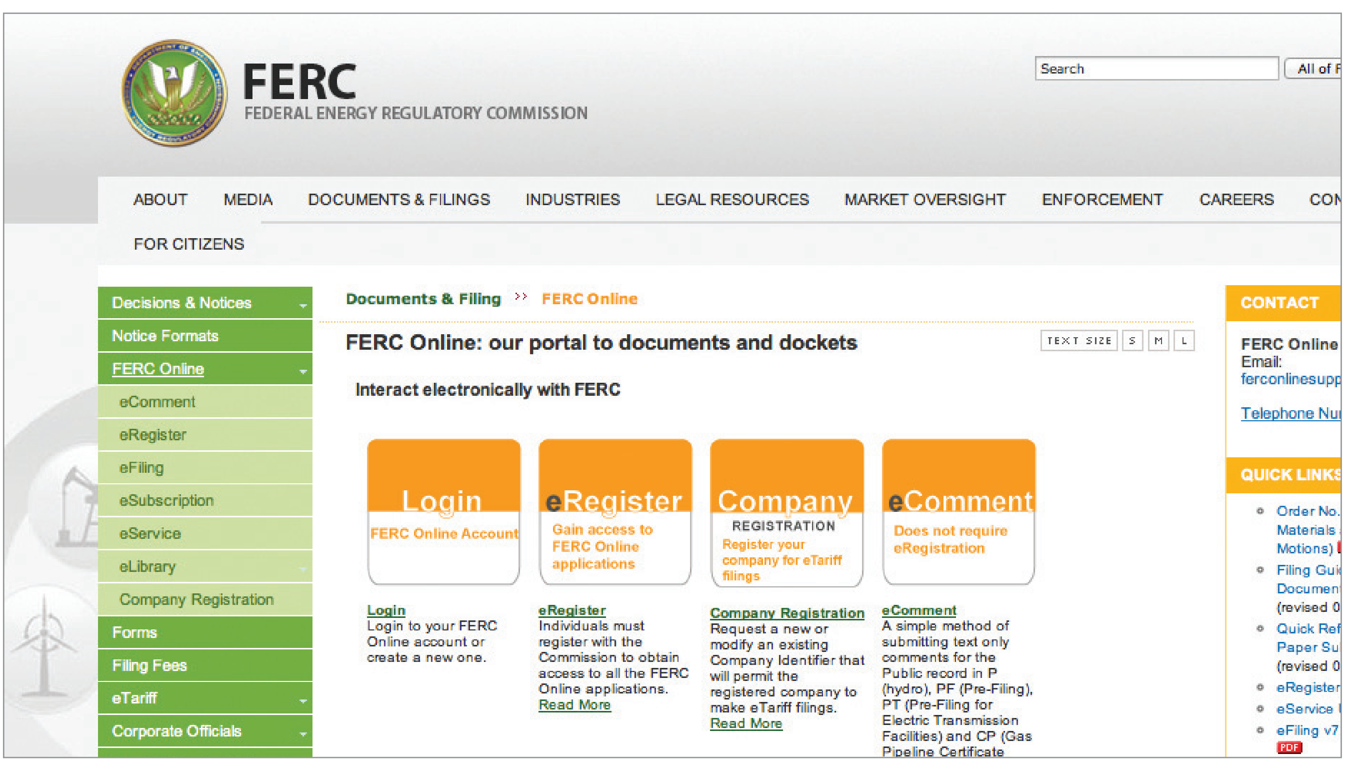
It is common for employees adversely impacted by an early project shutdown to ask how the pipeline company could shut it down after already spending considerable amounts of money. While the project kick-off may have required significant funding, there would be much larger expenses on the horizon if the project had moved forward.

Historically, right of way services make up a single digit percentage of the total cost of an interstate natural gas pipeline project. This and other items on the budget can provide clues to a project's longevity and to a pipeline company's commitment to, or confidence in, a project.

The largest budget item will be the investment in pipe. These massive orders often have backlogs that can extend up to a year. In some cases, pipeline companies may need to source the pipe overseas, which requires that they provide quality assurance personnel at the manufacturer's facility and track production shipment by shipment to get the pipe in time.

Knowing this about pipe costs, manufacture and delivery backlogs will assist the right of way professional in gauging the pipeline company's confidence in their project. Schedules for these types of items are often available. If they aren't, simply ask the engineering project manager when they expect to order pipe for the project. Knowing when pipe will be ordered or that is has been ordered is a tremendous indicator for a project's strength.

Another projet length indicator is the start of acquisition. Acquisition involves spending enormous amounts of money and starts a sequence of events that will likely need to be reversed if the project is shut down. Pipeline companies will sometimes have agents negotiate option easements to keep the process moving forward without actually buying them. These give the pipeline company the ability to simply not exercise the option. The paper trail ends as the calendar date passes and the company will have spent only a fraction of the easement value. When a company moves to acquire options instead of easements, or pushes back



FERC's online library is available for public viewing and a notification subscription service is also available.

the acquisition start date, a right of way agent should look at all factors discussed to make a determination on project longevity.

EARLY OR UNEXPECTED SHUT-DOWNS

What happens when a project that had potential for three years of work, is shut down after only a few weeks or months? These projects tend to cast a shadow over the marketplace because they appear indiscriminate in their impact. And they happen with sufficient frequency that potential employees are rightfully fearful of them. The impact of these shutdowns is certainly hardest felt by those field personnel who have already mobilized to staff them. The impact is not, however, limited to field personnel. Service companies and clients alike have significant investments in these projects.

Service companies have front-end costs such as time, travel and expenses associated with site visits, pre-bid and bid meetings, research and staffing inquiries associated with bid responses, and time and resources expended bringing new employees into a company's payroll and benefits system. While many of these costs are programmed into the rates, full recovery and project profitability occur over the length of the project and not in the short term.

When a service company is not awarded the project, these front-end costs can significantly impact the company's bottom line and its associated staff. There is also a potential impact to the firm's integrity as it recruits candidates for future assignments. If a contract employee feels they have been misled about a project's duration, they may be reluctant to accept a future assignment with that firm.

Client firms incur perhaps the largest losses. Often they will have been pursuing a project for months or even years prior to a kick-off, and will have enormous investments tied up in getting to the point where the service company is mobilized. Time and effort involved in marketing the capacity, feasibility studies, route exploration, public awareness/stakeholder identification, government affairs contacts, web design and branding are just a few of the investments. Add to this the costs of paying the service companies for the time expended prior to the project shutdown, and it is easy to see that the client's financial impact is real.

In addition, releasing a service company from a project does not mean that the client is finished. A firm's desire to maintain positive relationships with potential stakeholders, as well as regulatory agency expectations or mandates, can dictate costly follow-up efforts which may continue for some time even after a project's field offices are closed. Finally, the loss of a project can mean your competition picked up the capacity you were targeting which could result in an incalculable loss to a firm's bottom line.

TIME IS OF THE ESSENCE

Historically, calls for staffing come with relatively short response times. Pipeline companies may have been working on a project's feasibility for some time prior to the issuance of an RFP or award of a contract. Once they have authority to move forward, they are working against an almost immovable in-service date.

When the service company calls a prospective employee, they often need an immediate answer in order to meet the staffing demands imposed by the client. It is important for prospective employees to understand that the company calling you will likely be competing with other service companies to staff the same project. Time is always of the essence. While a service company may agree to give you a little time to consider the opportunity, their staffing deadline may cause them to continue soliciting qualified employees who are willing to make an immediate commitment.

RISKS ARE NORMAL

So how long will a FERC pipeline project last? There is a point in a project's lifespan when this question can reasonably be answered with some small margin for error, but it isn't at the beginning of the staffing process.

When a typical FERC pipeline project rolls out for staffing, neither the service company nor the client can answer this question. They may be able to present proposed schedules or in-service dates but these are only targets based on assumptions, necessitated by time constraints imposed by processes and market demand. A three-year project can shutdown overnight, two months after kick-off or sooner. Some of the best three-year projects only lasted seven months and some never even made it past survey permitting.

At the end of the day, there is no ironclad way of knowing how long a pipeline project will last or even how long an individual's contract will last on a particular project. This is the normal staffing landscape for contract right of way professionals. Pipeline companies are competing for capacity, which means they will go after projects that won't survive as well as those that do. Both provide good jobs for field personnel, and both are essential components of our industry. ✪

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