

A photograph of an industrial facility, likely a power plant or refinery, featuring large, shiny, metallic pipes and cylindrical tanks. Two workers in high-visibility yellow and blue safety gear and white hard hats are standing on a metal walkway in the foreground, looking towards the right. The background shows a clear blue sky and a forested hillside. A red rounded rectangle is overlaid on the top right of the image, containing white text.

Drilling Contractor
Auditing
Trending & Outcomes
Karen Heffey

Contact Energy - highlights

Contact Energy is one of New Zealand's largest electricity generators and retailers and owns and operates geothermal, hydro and thermal electricity plants across New Zealand that support homes and businesses

Contact Energy owns and operates
10 power stations
throughout New Zealand

166 MWs (gross)
of geothermal generation under construction

New Zealand's only underground gas storage at
Ahuroa, Taranaki

4 geothermal stations in
the Central North Island

around
1,150 Staff from Auckland
to Invercargill

Generates around **1/4**
of New Zealand's electricity

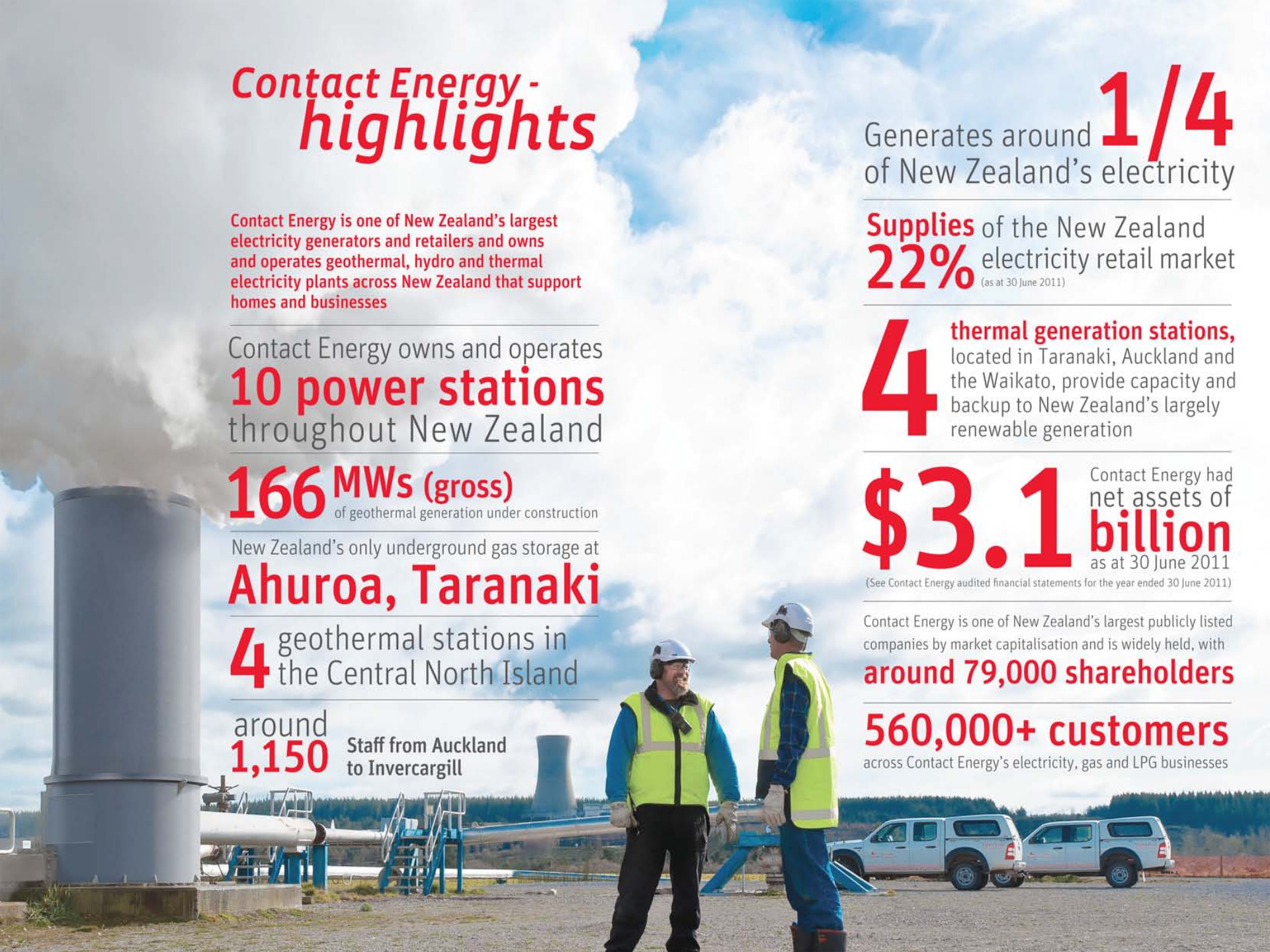
Supplies 22% of the New Zealand
electricity retail market
(as at 30 June 2011)

4 **thermal generation stations**,
located in Taranaki, Auckland and
the Waikato, provide capacity and
backup to New Zealand's largely
renewable generation

\$3.1 billion Contact Energy had
net assets of
as at 30 June 2011
(See Contact Energy audited financial statements for the year ended 30 June 2011)

Contact Energy is one of New Zealand's largest publicly listed
companies by market capitalisation and is widely held, with
around 79,000 shareholders

560,000+ customers
across Contact Energy's electricity, gas and LPG businesses



Purpose of the Audits



To assess the quality and effectiveness of the HSE management systems in place and highlight any weaknesses which could lead to unacceptable risks.

Objectives: Contact expects the audit will:

- Provide a detailed view and understanding of our contractor's processes and the way they integrate with their employees and subcontractors and our own operations
- Measure their Systems against our Corporate benchmark
- Identify any inadequacies in the system
- Recommend improvements to both Contact Energy and the contractor systems
- Deliver a time bound improvement plan
- Drive improvement in both Contact and Contractor
- Reinforce the Contact way of doing business



Audit Program



- Programmed audits commenced in mid 2010
- Audit was based on AS/NZS 4801 guidelines
- Contractors were ranked as high, medium or low risk
- Audit gathers evidence at all stages
- Small to global companies audited
- Audit was systems focused and not a site audit or inspection tool
- Two key lead auditors used for consistency
- Significant investment – in time and money (international travel)

Audits - 17 full audits completed



1. Independent Assessment
2. Leadership and Commitment
3. Employee Communication
4. Sub-Contractors
5. Legal / Regulatory
6. Competence and Training
7. Hazard Management
8. Safe Work Practices
9. Equipment & Integrity of Equipment
10. Incident Reporting & Investigation
11. HSE Performance Measures
12. Internal Assessment & Management Review
13. Emergency Planning and Readiness
14. Health and Fitness for Work
15. Environmental Management

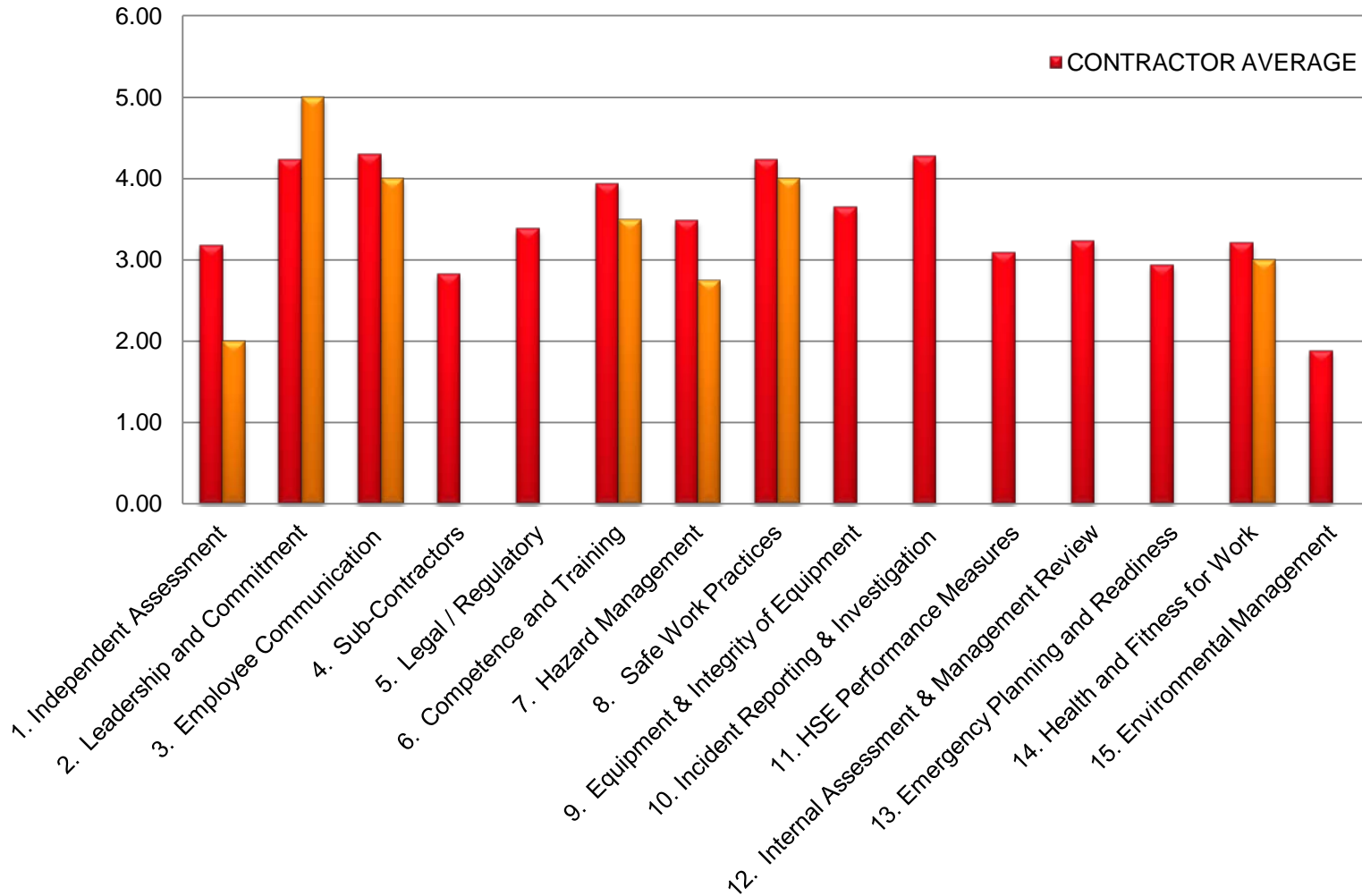
TOTAL SCORE

Lowest Performing Elements



- **Environmental Considerations –**
Mostly surprise that this is asked for. Not perceived as important.
- **Sub-Contractor Management –**
With minimal or no process for contractor mgmt – “We get in the contractors as they are the experts in the task or we use who you use so they must be approved”
- **Emergency Management –**
A belief that the drilling contractor in control of the worksite covers this.

Contractors are measured against the elements and contractor averages



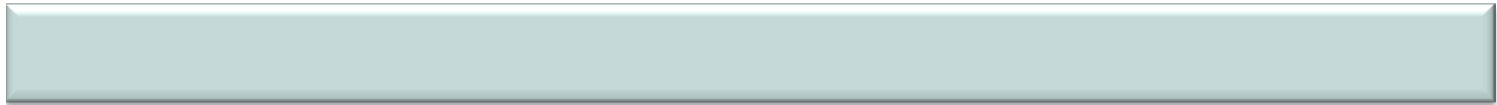


Example of how we show Contractors their ratings

Contractor Score



Highest Contractor Score



Average Contractor Score



What is an SOP for?



- 17 different interpretations of when and how you use an SOP
- Lack of consistency in use and understanding of what these documents are for...
- Poor alignment of SOP with current work task - Neither of these two elements have received full scores from ANY supplier
- SOP often seen by crews as a training document but “not really required day-day as they know their jobs”
- A belief that everyday use of SOPs, JSA's and method statements hinders progress.

Findings – gut feel is not always right!



- Some poor performing contractors with great systems
- Some high performing contractors with terrible systems
- What's the conclusion from this?
- Include a separate audit that tests employee understanding of the HSE system – do a relatively new employee and a longer term employee (but don't give them this audit in advance)
- Its critical to fully train and integrate the staff into the use of your systems
- Never let up when seeking evidence
- International companies have often poor understanding of NZ specific laws

Some quotes from Contractors



- “We thought this was going to take 2 hours (8 hrs later)?”
- “Blimey – that was thorough”
- “We haven't slept for a week preparing for this”
- “people have to look after themselves – that’s not our job”
- “We had to make our own system up as our USA parent’s system was woeful”
- “This is basically free consultancy isn't it?”
- “It will be quicker if I tell the truth won’t it!”
- “I thought I would be dead before I was going to have to do this”

Further Comments



- We are welcomed on the whole as a necessary evil but have also been subject to some hostility.
- One organisation has ‘opted out’ of working for Contact as they do not wish to meet our standards.
- Critical to insist on an action plan with responsibilities and timelines and check in regularly with contractor to ensure progress is being made
- Follow up on site with inspections to observe the system in action and how its used
- Offer help where you can and provide examples of what you are looking for – no one likes to reinvent the wheel

Outcomes



- Several organisations have stepped up and invested considerably in people, plant and processes to meet our requirements.
- Over time we have modified the process to look closer at the culture
- Helps to remove the inept contractors from the supply chain
- Good tool to measure potential new suppliers before engaging them
- Helps to look inwards at your own operations and contractor integration
- Remember no-one is perfect but we can strive for it!

Questions?

