STAY IN BUSINESS - BUSINESS PROCESS

Project Priority Scoring

INTRODUCTION

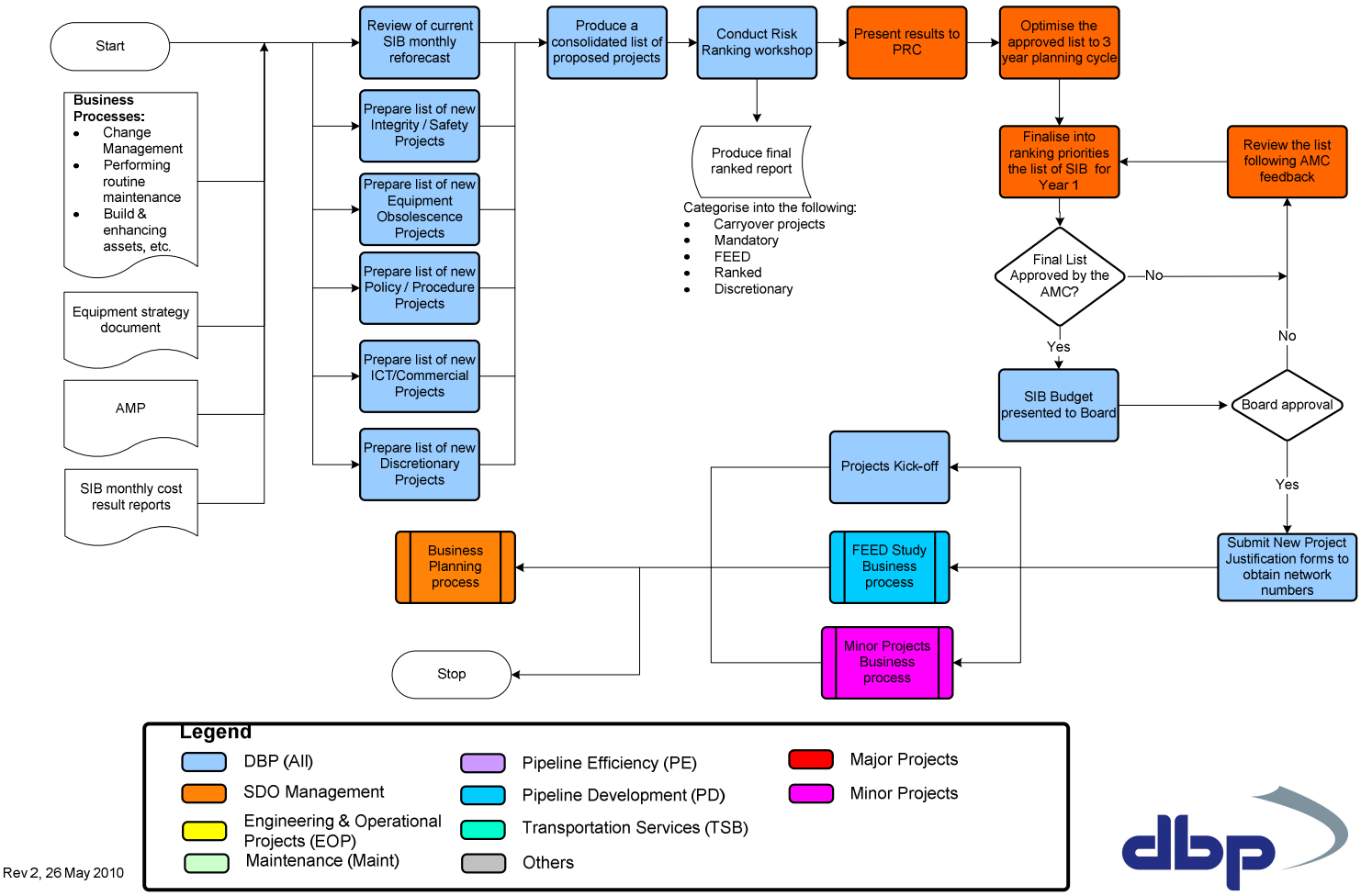
The SIB Business Process allows for all projects developed under Non Expansion Capital Funding to be assessed and prioritised. This is to enable management to make decisions on priorities of projects when funding limits are set annually.

The ranking process was developed for use within the DBNGP environment and incorporated the Corporate Risk Analysis Matrix for the risk assessment and ranking.

BUSINESS PROCESS

The flow chart below shows the business process developed for the DBNGP.

STAY IN BUSINESS PROCESS



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RISK ASSESSMENT

Risk assessment is based on the DBP Corporate Qualitative Risk Analysis Matrix with the following Qualitative Risk Frequency and Consequence tables:

Qualitative Risk Analysis Matrix – Level of Risk						
		Consequence				
Frequency		1 Trivial	2 Minor	3 Severe	4 Major	5 Catastrophic
E	Frequent	LOW	INTERMEDIATE	HIGH	EXTREME	EXTREME
D	Occasional	LOW	LOW	INTERMEDIATE	HIGH	EXTREME
C	Unlikely	NEGLIGIBLE	LOW	INTERMEDIATE	HIGH	HIGH
B	Remote	NEGLIGIBLE	NEGLIGIBLE	LOW	INTERMEDIATE	HIGH
A	Hypothetical	NEGLIGIBLE	NEGLIGIBLE	NEGLIGIBLE	LOW	INTERMEDIATE

Consequence Definitions					
	Impact on DBP	People	Environmental Impact	Supply / Outrage	Loss
5 Catastrophic	Would threaten the survival of DBP without an additional unplanned equity contribution.	• More than two fatalities; or • More than four individuals with life threatening injuries or permanent disabilities.	• Effects widespread; viability of ecosystems or species affected; or • Permanent major changes.	• Widespread outrage attributable to DBP - eg. Total outage, Longford, Auckland; or • Interruption of supply for ≥1 week; or • Curtailment (>30% capacity) for ≥2 weeks.	>$25 m
4 Major	Would threaten the effective operation of DBP for a substantial period, including its ability to raise capital, or have a significant effect on how DBP will operate in the future.	• Up to two fatalities; or • Up to four individuals with life threatening injuries or permanent disabilities; or • More than four LTIs or MTIs.	• Major off-site impact; long term (2 years or more) severe effects; rectification difficult; or • Major impact in an area of high conservation value or special significance (eg National Heritage list, Class A Reserves, National Parks, where the area of impact could be localized or very localized).	• Major alarm and anger - • Interruption of supply for ≥1 day but <1 week; or • Curtailment (>30% capacity) for ≥3 days but <2 weeks.	$10 M to $25 M
3 Severe	No threat to the effective operation of DBP, but exposes DBP to unacceptable cost consequences.	• Up to four LTIs or MTIs.	• Localised (<1ha) and short-term (<2yr) effects; easily rectified; or • Significant impact upon cultural and heritage sites; or rare and endangered flora/fauna; or • Chemical release contained with outside assistance resulting in the impacts described above.	• Widespread complaints and anger; or • Curtailment (>30% capacity) for <3 days; or • Curtailment (<30% capacity) for ≥2 days but <1week.	$2.5 M to $10 M
2 Minor	No significant impact on DBP, issues are dealt with internally.	• Injuries requiring first aid treatment.	• Effect very localised (<0.1ha) and very short-term (weeks), easily rectification; or • Minor impact upon cultural and heritage sites; or rare and endangered flora/fauna; or • Onsite chemical release which is contained without outside assistance with the impacts described above.	• Limited complaints and anger; or Annoyance, concern and some complaints; or • Curtailment (<30% capacity) for <2 days.	$0.5 M to $2.5 M

1 Trivial	No significant impact on DBP, issues are routinely dealt with by operational areas.	• Injuries not requiring First Aid or other treatment.	• No effect; or • Minor on-site effects rectified rapidly with negligible residual effect; or • Minor leak not contaminating.	• No impact; no restriction of pipeline supply; or • No public/business concern or complaints.	<$0.5 M

Frequency Definitions			
		Frequency Definitions	**Indicative Frequency** (To be read in conjunction with Frequency Definitions)
E	**Frequent**	Event is expected to occur once per year or more.	1 or more per year.
D	**Occasional**	Event may occur occasionally in the life of the pipeline.	1 in 10 years.
C	**Unlikely**	Event is unlikely to occur within the life of the pipeline, but it is possible.	1 in 100 years.
B	**Remote**	Event is not anticipated to occur for this pipeline at this location.	1 in 1,000 years.
A	**Hypothetical**	Event is theoretically possible, but has never occurred on a similar pipeline.	1 in 10,000 years.

RISK RANKING MODEL

This model ranks projects or improvement initiatives in terms of Risk Score and 'Effort to Implement' as below. .

Risk Score

Risk Score is the sum of Risk Factors for each of the following Risk Categories:

- People
- Environmental Impact
- Outrage/Reputation
- Loss/Asset Damage
- Loss of Supply

Factors:

		Consequences				
Likelihood		Trivial	Minor	Severe	Major	Catastrophic
	Frequent	0.25	1.5	7.5	70	200
	Occasional	0.12	0.6	3	15	60
	Unlikely	0.05	0.3	1.5	7.5	30
	Remote	0.01	0.06	0.3	1.5	6
	Hypothetical	0.002	0.012	0.06	0.3	1.2

The Risk Factors ranges have been designed to enable distinct levels between each of the risk level.

Range	Lowest	Highest
Negligible	0.002	0.06
Low	0.12	0.6
Intermediate	1.2	3
High	6	30
Extreme	60	200

Implementation Score

Implementation Score is essentially the *'effort to implement'* to implement and complete the proposed project. Ie, it is the cost measure of the resources required to implement the solution.

Implementation Score is calculated by dividing the Risk Score by the Project Cost.

This measure allows the prioritisation of projects not only on Risk Score but also on Project Cost. Eg, for two projects with similar Risk Scores, the one with higher Implementation Score (and hence lower cost) will rank higher and have more priority for funding.

Operating Cost

The Ranking Model allows for the input of Cost Savings which is considered to be the reduced operating costs due to rectification of problem, reduction in maintenance costs (spares etc), fuel costs, and other costs (eg SCADA, comms etc). From this Cost Savings and the Project Cost, a Simple Payback period can be calculated to enable comparison of different projects based on cost savings and payback period.

PROJECT CATEGORIES

The SIB Ranking Model allows for the grouping of proposed projects into the following categories:

- **Carryover**
  These are previous year's approved projects that are continued into next financial year
- **Mandatory**
  These projects have been assessed as top priorities and deemed to be "mandatory" due to:
  - **Integrity/Safety**: required to improve or maintain pipeline integrity and safety
    - Eg, coating and earthing replacement
  - **Equipment Obsolescence**: replacement and/or upgrade for operability and maintainability
    - Eg, SCADA upgrade, CCVT Replacement
  - **Policy:** to incorporate new industry standards, operational, health and safety policy or licensing and regulatory requirement
    - Eg, Management of change control, vehicle replacement programme
  - **Network and IT:** to improve and maintain system security and/or maintaining and improvement in billing system
    - Eg, IT network security upgrade, DBP IT implementation
- **FEED**
  These are low cost FEED studies to define next financial year's SIB projects.

- **Ranked**
  These are discretionary projects to improve operability and maintainability, Eg, Miscellaneous plant and equipment replacement. These projects will be risk ranked to determine their priorities to meet the required funding limit

RISK RANKING WORKSHOP

The risk ranking process is conducted in a workshop environment attended by all business units. The results will be presented to the PRC for approval.

For each of the approved projects, a fully developed business case and justification will need to be presented to the PRC approval before proceeding.
Once each of the projects is justified and approved, it will be given a network number and fund can be drawn on it. At end of each month, the project spending will be summarised and monitored against budget. During November reforecast, the actual spending and budgets will be reviewed in more details. In addition, the April Business Planning Process will instigate a review process for budget and preparation for next financial year's forecast and accruals.