

# Z Energy's approach to working with PCBUs



# Why Z needed a new approach



**Mike Bennetts**, CEO Z Energy

*'Z has a long, complex supply chain, with a lot of moving parts. We've got joint ventures, partnerships, agency agreements, long-term contracts and contractors doing one-off jobs.*

*About 3000 people work for our business – but only 300 of them are employed by Z. It can take months for the oil we buy to pass along the supply chain into the customer's tank. And some of the greatest operational risks along the way are in the hands of third parties.*

*So for me as a CEO, having clarity about who's managing what risks in our supply chain is really important.*

*And that's what this approach to working with PCBUs helped achieve. It gave me clarity by providing a way to deal with the complexity of Z that I hadn't had before.'*

Z Energy needed to bring clarity to the way it works with supply chain partners to manage operational risks.

It wanted to make sure it set the right expectations and wasn't over-reaching or under-reaching in its dealings with them.

It also wanted to align its approach with the 'over-lapping PCBU duties' in the Health and Safety at Work Act.

The Act requires businesses that operate in the same place or supply chain to work together to manage health and safety risks. This is part of what's known as 'over-lapping' duties for PCBUs (Person in charge of a business or an under-taking).

Z's long and complex supply chain means it has multiple PCBU relationships.

It operates a network of pipelines, terminals, and bulk storage facilities, plus approximately 213 Z service stations and more than 150 truck stops. It supplies a range of commercial customers, including aviation,

marine and road transport companies and a network of close to 150 Caltex service stations. It also owns 15% of Refining NZ, New Zealand's only oil refinery.

The innovative approach Z came up with to get to grips with its PCBU relationships has helped the company reduce legal and operational risks, improve contractor relationships and ensure better use of resources.

This case study outlines what Z did and why.



# What Z did

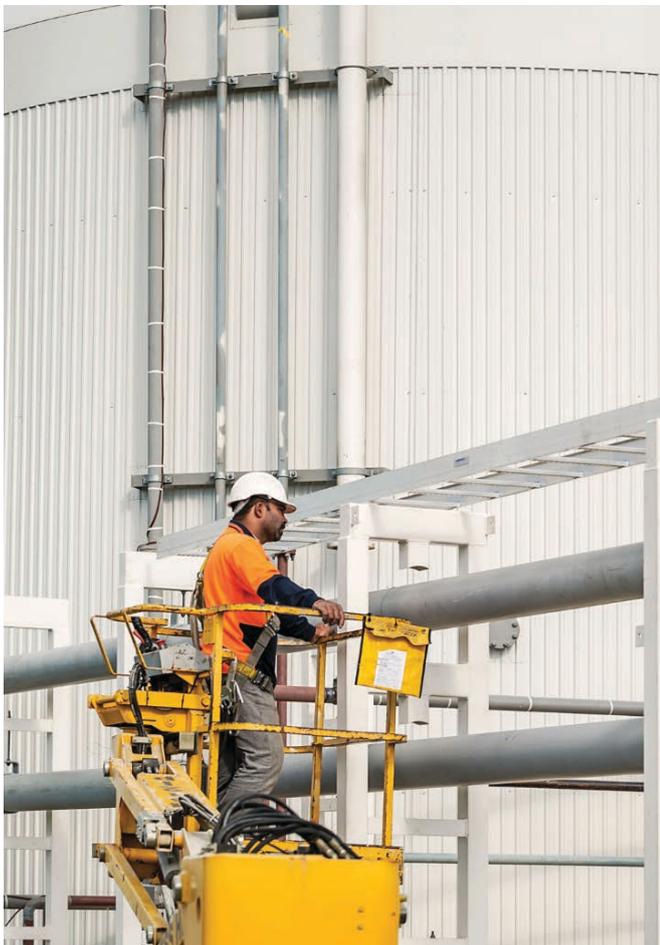
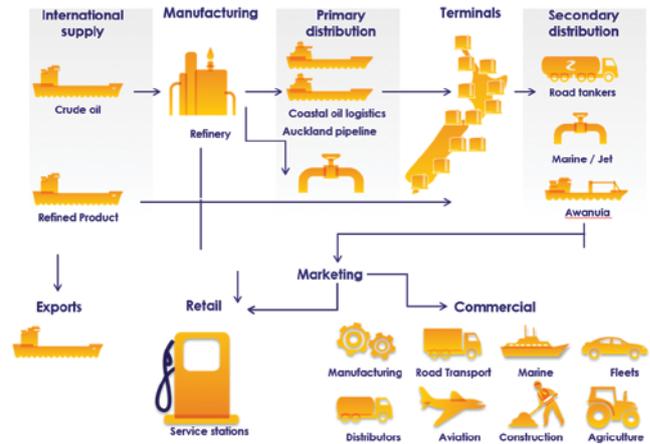
## Step 1.

### Created a 'risk-map' of its supply chain

The first thing Z did was make sure it really understood what was going on in its supply chain.

Z identified its top risks - everything from a fuel tanker accident to a robbery of a petrol station. Then it mapped the risks to the part of its supply chain where the risk was likely to occur. Z's risk map showed that a majority of these operational risks were managed by third parties in its supply chain - and that they were far better placed to take the lead on managing the risks than Z.

## Z has a long and complex supply chain



## Step 2.

### Created a framework to describe its PCBU relationships

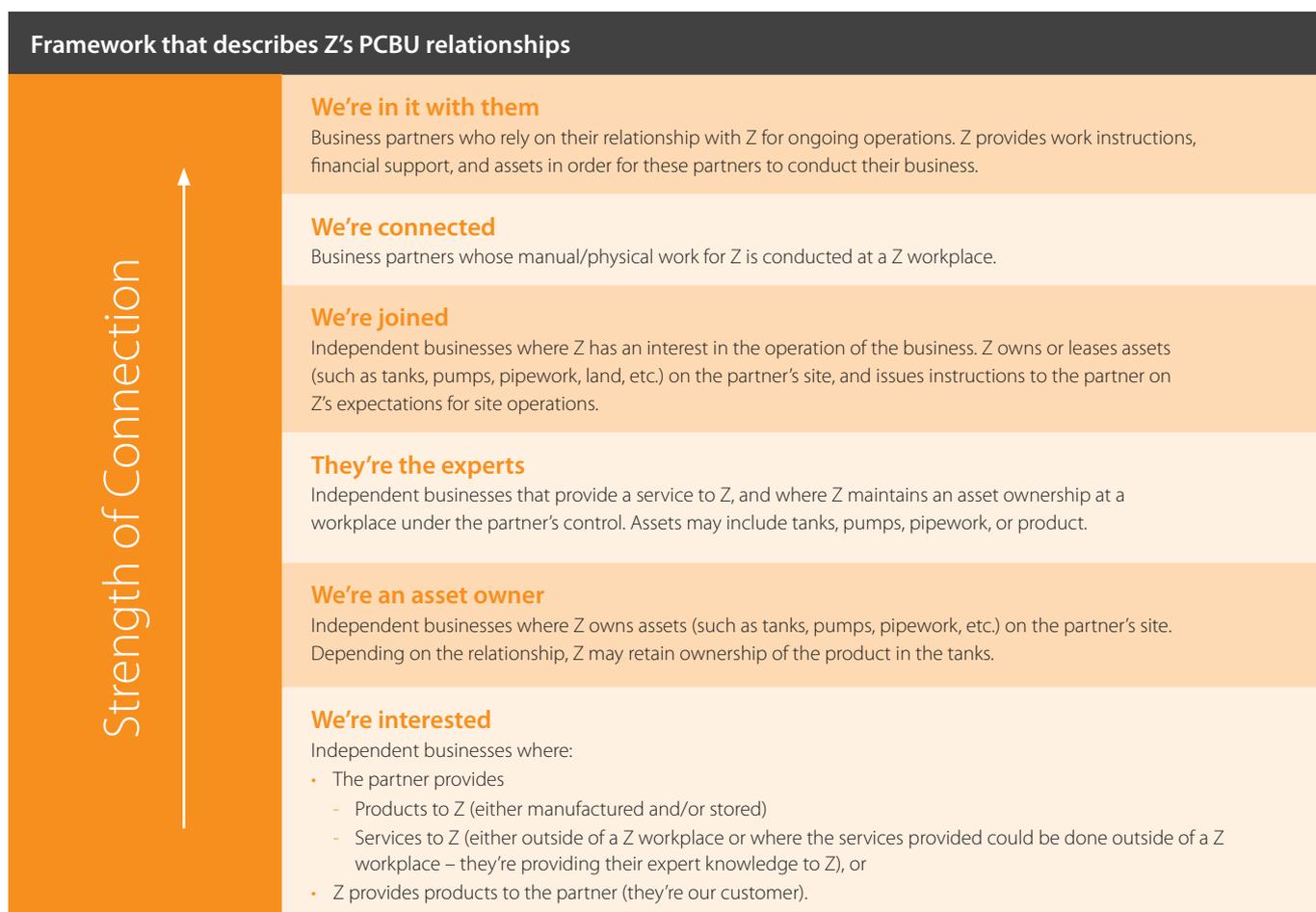
Z then created a simple framework to 'risk-rate' the supply chain that described the types of relationships it has with PCBUs it does business with.

Z identified six types of relationship – based on the strength of the relationship and its *ability to influence and control operational risks* in each part of the supply chain.

The company used everyday language to describe these relationships, rather than legal terms or 'policy speak'.

This made it easier for Z's people to understand and connect with the various categories, and to adopt them when talking about PCBUs.

The top rung of the relationship framework, called *We're in it with them*, refers to PCBUs who are dependent on Z for their operations - like the independent retailers who run Z's service stations. Z called this framework its PCBU Policy.



**A RACI matrix shows 'who does what' across key H&S activities and determines which category the PCBU falls into**

PCBU Relationship	Activities													
	HSSE Management System		Incident Management		Training		Equipment Management		Action items resulting from Assurance reviews/ Audits		HSSE Instructions/ Advice		Provide PPE	
	Z	Partner	Z	Partner	Z	Partner	Z	Partner	Z	Partner	Z	Partner	Z	Partner
We're in it with them	R	A	R	A	R	A	R	A	R	A	R	A	R	A
We're Connected	C	A	C	A	C	A	C	A	C	A	I	A	N/A	A
We're Joined (If equipment owned)	C		I		I		I	R	I		I		N/A	
We're an Asset Owner	I	A	I	A	I	A	R	A	I	A	I	A	N/A	A
They're the Experts	I	A	I	A	I	A	I	A	I	A	N/A	A	N/A	A
We're Interested	N/A	A	N/A	A	N/A	A	N/A	A	N/A	A	N/A	A	N/A	A

**Key to RACI terms**

- Responsible – The Doer** Position responsible for ensuring the activity is completed and effective.
- Accountable – The Buck Stops Here** Position with the decision-making authority.
- Consult – In the Loop** Position involved in conducting regular compliance evaluations to provide assurance that HSSE obligations are met. Position consulted prior to the decision or action affecting work on a Z workplace being taken.
- Inquire – Keep in the Picture** Position that needs to know/inquire whether a decision or action has been taken.
- N/A – Told** Position that has been informed and is satisfied that HSSE obligations are met.

### Step 3: Used a 'RACI' matrix to decide roles and responsibilities across key H&S activities

The RACI matrix identifies who's responsible, accountable, consulted with and needs to inquire whether a decision or action has been taken.

It was used to decide which relationship category each of Z's 70-plus PCBU relationships fitted into.

Once the relationship category was confirmed, Z used seven key health and safety activities to spell out who would do what when it came to:

- The HSSE management system
- Incident management
- Training
- Equipment management
- Audit/Action items resulting from assurance
- HSSE instructions/advice
- Providing PPE.

These roles and responsibilities were captured in agreements between Z and its partners. They were also used to monitor performance and to determine who does what when things don't go to plan (incident management).



### Step 4: Used conversations and contracts to apply the new approach

Z implemented the approach by engaging with PCBUs in its supply chain, then confirming the outcome of these conversations by inserting new clauses into its contracts and legal agreements.

Six new sets of HSSE clauses were developed – one for each type of PCBU relationship.

Rather than change everything on day one, Z did it gradually, using annual contract roll-overs to introduce the new approach. But these contract changes weren't just landed on suppliers. Rather, Z engaged them in a conversation about why it was making the change, and how this would bring greater clarity about who was doing what.

These conversations were important because they were a way to identify gaps between what Z now expected and what the contractor could provide, so a transition plan could be agreed.

### Reflective questions

- Do you understand where the health and safety risks sit in your supply chain?
- Have you agreed the type of relationship and level of influence you want to have with each supplier?
- Have you agreed what needs to be done in each relationship, and who will do what?
- Have you engaged your supply chain to get their buy-in?

# The benefits

**Improved operational risk management** – The risks haven't gone away, but there is now improved clarity about who is responsible for managing them.

**Enhanced relationships** – The approach led to improved conversations with suppliers that cleared the air, confirmed expectations and allowed a greater sense of ownership for risk management. There's now less risk of Z *over-reaching* into work best left to its suppliers, or *under-reaching* and not pulling its weight.

**Better use of resources** – Increased capability and improved consistency. Decisions about how to deploy resources, and what capability is needed, are now firmly based on a framework, rather than an individual's judgement or interests.

**Reduced legal risk** – Clarity about roles and responsibilities makes it easier for Z to manage its 'over-lapping' PCBU duties. It also has a clearer idea of what 'reasonably practicable' means in each situation. And the approach helps Mike and the Z board meet their 'due diligence' duties around assurance and reporting.

## Reducing the risk of over-reaching or under-reaching in PCBU relationships

Z was very clear that the relationship labels describe *its willingness and ability to influence and control operational risks*. They don't describe the magnitude of the risk or the value of any contract.

This is a subtle but important distinction. For example, Z is a shareholder in Refining NZ and much of its product goes through the refinery. However, Z believes Refining NZ knows way more than it does about managing the very significant risks present in refinery operations.

So Z puts its relationship with the refinery into the *They're the Experts* category and lets Refining NZ take the lead on managing the significant operational risks associated with a refinery.

By contrast, Z wants significant control over risk management at its 213 branded service stations – despite these being run by independent retailers. So these relationships sit in the *We're in it with them* category.

Being clear about the nature of the relationship helps Z avoid over-reaching on health and safety – trying to manage risks its partners are better placed to manage or imposing greater assurance requirements on them than the relationship warrants. The framework also highlights where the company might be under-reaching and needs to get more involved.

In all cases the framework allows Z to continually affirm its commitment to the health and safety of people and the environment.



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