



## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## MAJOR CONTRACTS BOARD SUBMISSION

Confidential

Part C2 – Variation Order No. 21

Date: 06/09/2022

Category	Onshore projects	Contract ID: SAP Contract No:	NG01009296 4610033855
Contract Title:	Completion & Commissioning of FYIP Yokri Flow-Station		
HSE Mode & Risk	Mode 2, High Risk		
CONTRACTOR:	NATONY LIMITED		
Agenda Item	(TB secretary to complete)		
	F\$	Expiry Date	
Original ACV	12,729,122.23	31/12/2013	
Value of VO's approved to date	37,451,764.47	31/12/2022	
Current ACV	50,180,886.70	31/12/2022	
Value of commitments made to date	48,307,906.84		
Value of this VO request	9,767,500.00	31/12/2022	
Requested new ACV	59,948,386.70	31/12/2022	
Current level of NAPIMS approval	46,055,368.40		
<b>Proposed expenditure while pending NAPIMS approval</b>	13,893,018.30 (i.e., current 4,125,518.30 + this VO for 9,767,500.00)		
<b>OBJECTIVE OF THIS SUBMISSION IS TO:</b>			
<div>1. Inform on the outcome of the negotiations held with NATONY LIMITED for the emerged works.</div> <div>2. Seek approval to award the variation to NATONY LIMITED at their last negotiated offer of F\$8,267,500.00 for the firm scope, which is 98% of Company Estimate and within MCB approved mandate of 100% of CE.</div> <div>3. Increase the Contract Provisional Sum by F\$1,500,000 for facility commissioning and for responding to equipment failure that might arise during commissioning. This will bring total provisional sum on the contract to F\$19,939,065.96</div> <div>4. Increase Contract ACV by F\$9,767,500.00 being the negotiated sum on item 2 and the provisional sum in item 3 above .</div> <div>5. Secure eLDL approval for items 2 &amp; 3 pending NAPIMS approval.</div>			

## Stakeholders Endorsement:

	Contracting & Procurement Manager	Contract Owner
	<b>Reviewed and confirms:</b> <ol style="list-style-type: none"> <li>1. Alignment with approved Category Strategy (&amp; Global Category Strategy where applicable)</li> <li>2. Compliance with the NOGICD Act &amp; Community Content commitments.</li> </ol>	<b>Reviewed whole submission and confirms support from:</b> <ol style="list-style-type: none"> <li>1. Finance [Femi Ajala] - for the financial aspects of the submission, including adequate budget cover/JV Partner approval to ensure full cost recovery/approved GIP in place (if applicable)</li> <li>2. HSSE [Emmanuel Etsano] - HSSE consideration and requirements are met</li> </ol>
Signature		
Name	Greg Akhibi	Chris Ubuane
Date		

## Declaration:

Signatories to this submission acknowledge that they have read and understood the Conflict-of-Interest Policy in SEPCiN and that they do not have any direct or indirect arrangement or relationship with any other person or SPDC that breaches the requirements of that Conflict-of-Interest Policy, or that they have fully disclosed any potential Conflict of Interest to the Contract Owner, CP Manager and the Supply Chain Council/Tenders Board.

**SECTION A: CHANGES****REFERENCES & APPROVAL DATES FOR PREVIOUS APPROVALS**

References & dates of previous approvals by MTB, NAPIMS. (Attach the latest Tender Board Meeting Minutes & NAPIMS approval/correspondence).

<b>18 Oct 2007</b>	MTB approved FYIP re-entry plans via VO-05 to complete the FYIP Onshore EPIC Contract W06381 work scope, using the EPIC contract installation subcontractors.
<b>4 Aug 2008</b>	MTB approved a revised strategy to seek quotation directly from the subcontractors.
<b>15 Dec 2008</b>	MTB approved direct award of contract to the 4 subcontractors with different contract numbers and transmitted to NAPIMS.
<b>30 Dec 2010</b>	NAPIMS approved award of contract for completion and commissioning of the FYIP Onshore EPIC works to the 4 subcontractors, namely: WESCO Engineering Limited, NATONY Limited, PYTHON Engineering and ALCON Nigeria Limited. ACV for NATONY to execute firm scope was F\$5.2mln and F\$7.53mln as Provisional Sum element to cater for the significant work components to be executed on rates and cost-plus reimbursement basis.
<b>16 Apr 2012</b>	MTB approved VO-01 for conversion of \$2mln of the contract Provisional Sum ceiling from Dollar component to Naira thereby revising the Provisional Sums split to N522,224,251.20 plus US\$4,046,918.40 (F\$7,528,413.41).
<b>04 Jun 2012</b>	MTB approved VO-02 for the FYIP New Onshore Scope valued at \$4.9mln and transmitted to NAPIMS.
<b>19 Nov 2012</b>	MTB approved VO-03 for conversion of \$1.4mln of the contract Provisional Sum ceiling from Dollar component to Naira to enable execution of critical works denominated in local currency (Naira), thereby revising the Provisional Sums split to N732,224,251.20 plus \$2,646,918.40 (F\$7,528,413.41).
<b>25 Mar 2013</b>	MTB approved VO-04 for the execution of post AIV remedial work-scope valued at F\$15.38mln
<b>11 Nov 2013</b>	MTB approved VO-05 to increase ACV by F\$1.1mln for procurement of 1 no. x 2mmscfd Screw Compressor; and extension of contract end date from 01/07/2014 to 01/07/2015.
<b>08 Sept 2014</b>	MTB approved VO-06 for conversion of \$2mln of the contract Provisional Sum ceiling from Dollar component to Naira to enable execution of critical works denominated in local currency (Naira). MTB MoM
<b>03 Mar 2015</b>	MTB approved VO-07 provisional sums ceiling increase (F\$5,538,337.15) and time extension to 30/04/2016. MTB meeting ref: SPDC-MTB-15-07
<b>18 May 2016</b>	VO8 for outcome of contract re-negotiation and time extension to 30/04/2017 signed off by MTB delegated Authority.
<b>04 May 2017</b>	VO-09 for time extension to 30/04/2018 signed off by MTB delegated Authority.
<b>20 Dec 2018</b>	MTB approved VO-10 for Mini - Milestone restructure.
<b>21 Mar 2018</b>	VO-11 for time extension to 31/12/2019 signed off by MTB delegated Authority.
<b>23 Apr 2018</b>	MTB approved VO-12 to negotiate the standby cost submitted by CONTRACTOR, due to the impact of work stoppages at site, aspiration – 95%, fall Back – 100%, walk away – 112% and proceed to issue PO and pay CONTRACTOR from the provisional sum in the contract, without further recourse to MTB if the negotiation mandate is achieved.
<b>09 May 2018</b>	MTB approved VO-13 Direct payments to NATONY's Subcontractors and Service Providers (via Invoice Partnering / Tripartite agreement, as applicable).
<b>06 Aug 2018</b>	MTB approved VO14 negotiation mandate (Aspiration - <90%; Fall-back – 95%; Walkaway - >100%) resulting in ACV increase by F\$6,770,000.00
<b>13 Dec 2019</b>	MCB approved VO15 negotiation mandate (Aspiration - <90%; Fall-back – 95%; Walkaway - >100%) resulting in ACV increase by F\$4,000,000.00 and extension of time to 31/12/2020
<b>07 Jan 2021</b>	VO-16 for time extension to 31/12/2021 signed off by MCB delegated Authority
<b>19 May 2021</b>	VO-17 One off payment of NGN51,416,640.00 (F\$125,178.95) for furloughed Contractor Community Personnel due to COVID-19
<b>23 Sep 2021</b>	MCB approved VO-18 invoice partnering with Commissioning contractors, re-negotiation of the contractual mark-up and split contract payment milestones.
<b>23 Dec 2021</b>	VO 19 - MCB delegated authority approved administrative time extension to 31/03/2022
<b>21 Apr 2022</b>	VO 20 - MCB delegated authority approved administrative time extension to 31/12/2022
<b>03 Aug 2022</b>	MCB approved VO21 negotiation mandate (Aspiration - <90%; Fall-back – 95%; Walkaway - >100%) for emerged work, accommodation for personnel and increase in provisional sum.

**REASON FOR THIS VARIATION ORDER**

Major Contracts Board approved Part C submission on the following (ref attachment 1):

1. Negotiate the firm scope of the emerged works with a mandate (Aspiration – 90%; Fall-back – 95%; Walkaway – 100%) based on the assured cost estimate from CEMA.
2. Reimburse NATONY the delta between amount spent on accommodating personnel in Hotels due to COVID-19 and estimated cost for providing accommodation pre-COVID. (Estimate of cost differential to be paid NATONY is NGN462,886,930 (F\$1,102,111.73))
3. Increase the Contract Provisional Sum by F\$1,500,000 for facility commissioning and for responding to equipment failure that might arise during commissioning. This will bring total provisional sum on the contract to F\$19,939,065.96
4. Increase Contract ACV by the negotiated sum of item 1, the reimbursement sum in item 2 and the provisional sum in item 3; using Line PART C2 submission to close out if mandate in item 1 is achieved.
5. Secure eLDL approval for items 1, 2 & 3 pending NAPIMS approval.
6. Make 30% advance payment via FI to NATONY's sub-contractor OEM (MAYEKAWA USA) the sum of \$78,666.75 for provision of Field Service Representatives to commission OEM compressor in Yokri Flowstation due to issues around invoice partnering (SPDC is unable to issue a direct PO to MAYEKAWA because they don't have a local representative that can execute the work in-country) and pay \$36,431.39 debt owed by ALCON (i.e., total of \$115,098.14).
7. Issue a Letter of Comfort to MAYEKAWA USA that the balance sum on completion of the commissioning activities will be paid directly by SPDC.
8. Recover the total payments made (ref item 6 above) from NATONY and ALCON's invoices via credit note

Subsequently, JV Partners and Natony were contacted for a negotiation meeting on the firm scope, based on Natony's quote and the Company Estimate as shown below in table 1.

**Table 1:**

SN	Description of Work	NATONY- FUSD	PMT- FUSD
1	Construction of concrete ground/toe beam at the perimeter of the foot of the enclosed flare mound	868,350.76	50,691.05
2	Provision of survey, design, installation, commissioning and training for valves Interlock System on Yokri Gas pig receiver (Support Services Provided by NATONY to OEM Specialists)	152,242.95	122,235.57
3	Procure materials and install lighting & small power in accordance with design upgrade carried out on the basis of safety study on minimum luminous intensity. Procure and install lightning protection on Water Treatment Plant and FLKO shelters	2,604,409.21	2,401,998.54
4	Pre-com & Commissioning Works: Mayekawa USA, Gutor, Brush, Ellatech, INTECH, Zeeco, Sulzer, Ameritrade	666,354.42	584,386.25
5	*Materials movement from SPDC warehouse in Ogunu to Natony yard and Barge movements to site for Company free-issued materials 2018 - 2021	334,347.00	324,249.62
6	COVID IMPACT: Increase in frequency of marine journeys, feeding and accommodation of NATONY and PMT personnel	5,257,233.12	2,434,017.73
7	Procure materials and complete repainting of the enclosed flare shell	1,178,647.54	537,897.36
8	Screw compressor piping modification based on outcome of HAZOP	292,177.61	263,929.16
9	Concrete Footing on the relocated valve access platform ladder at the LP FLKO Drum	18,216.73	3,168.19
10	Modification of 6nos lines (Fuel Gas) in line with PEFS to accommodate Company free issued 3 numbers PCV Valves	103,130.91	58,741.22
11	Modification of 4nos Bypass spools (Test Separator) in line with PEFS to accommodate Company free issued 2 numbers PCV Valves	101,176.79	60,607.72
12	Support Service for installation of STAHL crane for Screw Compressor in Yokri flowstation	41,995.66	28,759.71
13	Support Services provided for deep water borehole drilling activity.	60,894.44	31,745.25
14	Modification of lengths of 15nos Vendor skids Pipe Supports at Surge Vessel 10" inlet skid, HP & Test separator Close Drain spools.	75,719.91	61,898.27

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15	Painting of Vendor skids and SPDC free-issued valves	195,321.37	201,476.94
16	Modification of Instrument Air Line to address obstruction to Crude oil export pump skid Gas Detector	34,691.56	29,276.79
17	Removal and reinstallation of screw compressor shelter cladding to enable installation of overhead travelling crane.	39,311.66	33,932.14
18	Dismantling and Haulage of Raw water pumps from North Bank flow Station, Installation of Raw water pumps on Service water skid.	34,467.35	26,502.44
19	Relocation of Fire Hydrant from New Battery Room to EDG for proper operability of the Fire Hydrant	20,939.29	15,465.94
20	Modification of Fire Ring Main lines at new battery room and EDG to accommodate the Fire Hydrant relocation.	33,407.52	26,982.78
21	Excavate and relocate 3nos Underground butterfly valves away from 33KV power cable route around enclosed flare and HP/LP FLKO drums areas.	44,785.24	35,597.70
22	Modification of Fire Ring Main lines to accommodate the relocation of 3nos underground Butterfly Valves	35,261.91	36,189.86
23	Modification of 6" Proving Meter Spools to comply with NUPRC requirement for export meter proving	112,160.43	75,273.87
24	Fabricate and weld missing spool on line 6"-PP-20011-11410 at HP Separator	91,633.75	61,037.53
25	Support provided for Commissioning team (ELATECH-Mechanical)	88,723.99	52,368.94
26	Support to BG Tech for integrity verification of 8" gaslift supply pipeline from North Bank CPF to Yokri	128,597.80	12,086.98
27	Downtime incurred as a result of SPDC-Host communities' unresolved power situation, SPDC-Hotelier unresolved financial issues and due to permit signing delay.	680,614.57	597,509.24
28	Casting of concrete support for foundation of CCTV poles	18,216.73	10,771.85
29	Modification of Test Separator 2" bypass PCV (1-1/2" & 1") Spools	37,836.86	22,087.76
30	Supply Electrical Control Items	243,422.88	215,110.66
31	Support to be provided to GCA for installation and commissioning of Ultrasonic meters for HP and LP flare lines	2,846.25	2,846.25
TOTAL		13,597,136.19	8,418,843.31

On 29<sup>th</sup> August 2022, CMT with NAPIMS representatives proceeded with the negotiations and reached a deal within the approved mandate. See attachment 2 for some key comments/highlights from the negotiation. The summary analysis of the negotiation outcome is detailed below in table 2.

**Table 2:**

ANALYSIS OF NEGOTIATION OUTCOME				
Quote/Price	NGN	Variance vs CE (NGN)	% of CE	Remark
<b>A. PRE NEGOTIATION POSITION</b>				
Company Estimate (CE)	8,418,843.31	-	100	
Natony Limited	13,597,136.19	5,178,292.88	162	Initial offer
	13,548,139.36	5,129,296.05	161	Revised offer after clarifications.
<b>B. POST NEGOTIATION POSITION</b>				
Company Estimate (CE)	8,418,843.31	-	100	
Natony Limited final Price Offer	8,267,500.00	(151,343.31)	98	Negotiated price is 2% less than walkaway mandate of 100% CE

**JUSTIFICATION**

1. To avert schedule delay and ensure shortest time to work completion & flares out.
2. To assure continuous provision of accommodation for Owner's team and FSR invited to location by PMT
3. To reimburse CONTRACTOR for responsibilities discharged on behalf of Shell

**FINANCIAL STATUS**

Original ACV (a)	Total value of all previous VOs (b)	Commitments to date	ACV for this VO (c)	Total value of all previous VOs + this VO/Original ACV (b+c)/a
F\$	F\$	F\$	F\$	(%)
12,729,122.23	37,451,764.47	48,307,906.84	9,767,500.00	370.95%

Note: Current approved Provisional Sum on this contract is F\$18,439,065.96 with F\$18,257,451.49 in commitments to date. This VO will increase total Provisional Sum element of the ACV by F\$1,500,000.00 to F\$19,939,065.96

**IMPACT OF THIS VO**

This VO will result in an increase in contract value for both firm scope and Provisional Sum for potentially emerging scope

**PRICING STRUCTURE FOR THIS VO**

- The provisional sum will be disbursed with approval of the MCB appointed Provisional Sum Review Control Panel and report back to MCB periodically
- Cost plus 19% mark up for reimbursable elements and 7.5% for payments made directly to MAYEKAWA & other vendors where Shell pays directly. The 7.5% mark up as approved by previous MCB (VO18) is to cater for the following: Manage specialists' mobilisation from outside the country (visa processes/work permits, meet and greet); Provide security and safety cover for personnel, including emergency response service; provide site office accommodation/services, contractor's cost, overheads and contribution to profit in respect of provision of personnel.

**SECTION B: POST AWARD CONTRACT MANAGEMENT****CONTRACTOR PERFORMANCE**

CONTRACTOR's overall performance is adequate, due to support from PMT Finance. Advance payments backed by bank guarantee was made to CONTRACTOR. Moreover, contractor's performance has been impacted by overheads and other administrative costs incurred all through the COVID-19 lockdown period.

Contract KPIs include:

- Timely delivery of report with required deliverables for review.
- Commercial Performance
  - Stability of negotiated lump sum prices for the outstanding work scope over contract duration.
- HSE Performance
  - Adherence to HSE plan and review on quarterly basis.
  - Achieve over 1 million LTI free manhours and with strong site Leadership support in driving prompt compliance with HSE
  - Reviews at monthly HSE meetings.

*Performance Assessment, rating based on Good/Adequate/Inadequate.*

*Good: Fully satisfied expectations, met requirements without support; no identifiable improvements*

*Adequate: Generally satisfied expectation & met requirements but needed support to ensure required performance was achieved*

*Inadequate: CONTRACTOR standard of performance below that needed for repeat business; severe deficiencies in service performance*

Management	Commercial	Technical	HSES	Overall
Adequate	Inadequate	Adequate	Good	Adequate

**CONTRACT MANAGEMENT**

Last Business Performance Review meeting was held on 30<sup>th</sup> June 2022 with participation of JV Partners. The next BPR is scheduled for Q3/Q4 2022.

**NIGERIAN CONTENT EXECUTION PLAN****Compliance with NOGICD Act:**

HCD: Cost centre has been advised to NCD Team. However, the HCD funds is yet to be charged due to budget constraints.

NCCC: Not approved by NCDMB. Processing NCCC is dependent on HCD implementation

Commercial Evaluation Report (CER): Contract was tendered Pre- NOGICD Act. Thus, no CER was issued by NCDMB

Work Category	Schedule Target	Contractor's obligation	Current performance status	Agreed actions including authorisation to import
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Award Recommendation	Project Administration Services/Project Management	80% (M/hrs)	80%	95%	Nil
	FEED and Detailed Engineering on Gas gathering Facilities	80% (M/hrs)	90	90	Nil
	Fabrication (modules/packages)	50% (Tonnage)	50	71	Nil
	Procurement (bulks/minor equipment)	50% (M/hrs)	50	50	Nil
	Logistics Management Services	65% (Spend)	65	100	Nil
	Installation, Hook-up & Commissioning	75% (M/hrs)	75	100	Nil
Proposed variation	Unchanged	N/A	N/A	N/A	N/A

NOTE: Any additional scope/change in contract terms must remain compliant with NOGICD Act.

Confirm records of vendor's Nigerian Content performance on contract to date. Non-compliance with provisions of the Act attracts 5% penalty of project cost or outright cancellation of project.

#### Relevant Information

Due to potential non-compliance on the contract in respect of implementing a structured Human Capacity Development plan, a strategy to close this gap by providing the required training and capacity building has been worked for the contract. MCB support was secured for the budget sum of F\$1.5m which represents 3% of projected contract spend for HCD. However, the fund has not been made available to the NCD team due to the current budget constraints.

#### NIGER DELTA CONTENT/COMMUNITY CONTRACTING EXECUTION PLAN

NATONY is 100% owned by entrepreneurs from Niger Delta states and has its head office in Warri, Delta State. Contractor's workforce is predominantly from Niger Delta and meets the community content personnel targets. The additional scope of works (outside the specialist scope) will be largely delivered by indigenes of Niger Delta States. A structure exists for managing community relations which is strictly adhered to by FYIP CONTRACTOR



#### RISK MANAGEMENT

Risk Description	Likelihood (H/M/L)	Impact (H/M/L)	Mitigating Actions	Action Owner
CONTRACTOR's cash flow challenge	H	H	Prompt negotiation of reimbursable variation scope.	CH/CA
Community disruption of work	M	H	Engage community workers, pre-engage SCD on activity, maintain informal and formal contact with key stakeholders. Comply with the existing structure for managing community engagements.	CH/ER
Scope/Cost Creep	H	H	Effective contract management/preservation practices.	CH/PE/CA
Cost recovery risks due to non-approval of variations by NAPIMS	L	H	Continuous engagements with NAPIMS and regular BPR with sign-off of minutes of meeting.	CH/CO
Use of non-compliant accommodation facilities	H	H	Prompt negotiation of reimbursable costs on accommodation	CH/CA
Protracted commissioning phase due to time waiting on equipment repairs after breakdown	H	H	Approval of Provisional sum and prompt release by PSRCP after each event	CH/CA/CO

#### GOAL ZERO CONTRACTOR HSSE REQUIREMENTS

- Risk Assessment – State: **Remains valid at Mode 2 and High Risk.**
- CH Appointment Letter – Confirm letter in place for correct CH per Ariba/SAP –**YES.**
- HSE Capability Assessment – State: **Green Banding** valid till 2023
- Contract HSSE Plan – State: **Remains valid.**

#### APPENDICES

Attachment 1- Last MCB approval to negotiate with Natony	Attachment 2- MoM of the negotiation with Natony.
 NG01009296_VO21 - MCB Submission Fir	 NEGOTIATION MEETING YOKRI NATI