


**THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED**
**MAJOR CONTRACT BOARD SUBMISSION**
**Confidential**
**Part A1– Strategy & Contract Plan**
**Date:06/11/2019**

Category	Project Services	Contract ID	
Contract Title	PROVISION OF ENGINEERING SERVICES AGREEMENT AND PROJECT SUPPORT SERVICES CONTRACTS FOR ALL MAJOR PROJECTS ACROSS SPDC OPERATIONS		
HSE Mode & Risk	MODE 1, MEDIUM RISK	Segmentation (Click here to access tool)	OPERATIONAL
Agenda Item	(TB secretary to complete)		
Estimated Contract Value (ECV)	FUS\$ 276,408,333.34		
Proposed Contract Start Date	01/05/2020	Extension options	1 year
Proposed Contract End dates	31/03/2023		

**Executive summary & recommendation**

To seek approval from MCB for:

- Contract Strategy/Draft Commercial Evaluation Criteria
- To issue combined Technical and Commercial (Double envelop) Invitation to Tender (ITT)

**Stakeholder Endorsement:**

	Senior Procurement Manager (SPM)	Contract Owner
	Reviewed and approved for MCB and confirms: 1. Alignment with approved Category Strategy (& Global Category Strategy where applicable) 2. Compliance with the NOGICD Act & Community Content commitments. DocuSigned by: 	Reviewed whole submission and confirms support from: 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) 2. HSSE [Valentine Okpala] - HSSE consideration and requirements are met. DocuSigned by: 
Signature		
Name	JUDAH OGUNNOIKI	RAIMPO LABANJI
Date	21 November 2019   09:30 GMT	21 November 2019   08:57 GMT

Approval:

MCB Chairman	
Signature	
Name	Scott, Ian
Date	15 January 2020   10:32 GMT

**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 company 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 Major Contract Board.

MCB Submission – Strategy &amp; Contract Plan

Page 1 of 9

**Prepared by: (CM) Sunny Okoye (CH) Odunlami, Jide**

THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

Major Contract Board Submission

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

**Section A: ASSESS DEMAND & SUPPLY****Scope and Business Requirements**

The Shell Companies in Nigeria Design Office (SCiN-DO) Organisation comprise an integrated team of SPDC staff, Contractor personnel working in Shell offices and Engineering Design Contractors working from their own offices.

In line with SPDC's Organizational Efficiency Review (OER) journey, outsource of Engineering design in SPDC were initiated by SCiN-DO team via contracts awarded to 13 Engineering Design Services and Project Support Services contractors. These contracts were managed on three work execution levels:

- a) Level 1 – Assigning design works to Individual Contractors for execution at their office outside SPDC locations.
- b) Level 2 - SPDC selects critical resources from Contractors to work under the supervision of SPDC personnel in the IA SCiN-DO offices to execute designs.
- c) Level 3- SPDC selects critical resources from Contractors to work under the supervision of SPDC personnel to support various SPDC projects.

The collaboration on both levels is to deliver good quality designs and project support service by blending SHELL project management work processes and Contractors' best engineering and design work processes. Other benefits and contribution of the Engineering Design Services (Eight contracts) and Project Support Services (five contracts) contracts to the business include:

- Shortening project delivery cycle by eliminating tendering for FEED and DED
- Seamless and integrated FEED, Detailed Design and OR&A
- CAPEX reduction through Detailed Definition (Increase cost competitiveness)
- Optimization of standard designs and repeatability
- Expand opportunities for participation of local Nigerian Contractors - capacity building / diversification
- Enhance SPDC reputation - opportunity for integration of local employment of Nigerian resources; training and development
- Platform for providing project support services thereby improving services delivery and quality

The new replacement contracts will lay more emphasis on level one work execution and further accomplish SPDC's aspiration of outsourcing Engineering Design and Project Support Services, ensuring that the contract provides all categories of services that may be required, with flexibility for effective management of resource requirement for various activities.

The number of replacement contractors will be reduced from 13 (Eight for Engineering Design and Five for Project Support) to a maximum of 10 Contractors – Five for each contract category.

In addition, the proposed Strategy will deliver the following:

- Maximise outsourcing of Engineering Design to be executed in contractor's offices
- Projects Support Services to Professional Service Providers for efficient delivery
- Encourage local Project and Service Management capability and capacity development
- Ensure Compliance with Nigerian Content Development Act and Labour laws
- Effective and efficient Cost Management and Value Delivery via call off strategy
- Stronger focus on core activities
- Competitive pricing of professional/skilled services
- The contract will also enable provision of fully equipped contractors Design Office suitable for SPDC business that can accommodate an integrated Engineering Team similar to the SPDC IA Design Office model.
- Reduce the Design Office footprint in the SPDC IA and ultimately reduce cost of running the office facility and equipment

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

**Scope**

All activities to be covered shall include but not limited to the underlisted in connection with oil/gas production operations, maintenance, engineering and project delivery:

- Feasibility studies, Concept selection studies and Front-end engineering design
- Detailed engineering design and Procurement support activities including specification development, enquiries, evaluation and placement of long lead orders, enquiries with vendors
- Follow-on Engineering and Construction support services
- Provision of Project Support Services and management support including cost, planning and related project services
- Implementation of NCD training programmes to develop skills and competency in FEED and DED
- Information management services including document management, archiving and control.
- Specialist studies and services

These have all been further categorised as:

- Engineering Design Services
- Project Support Services

Contractors shall be required to provide necessary equipment, e.g. IT hardware/software (computers and accessories, software, communication facilities), office space (where required), etc. However, SPDC may be required to provide some support to contractor as found necessary, within the Labour Laws. These may include proprietary IT tools, secured working space, logistics, etc. However, this will form part of the service contract.

**Challenges and Lessons learnt from current expiring contracts include the following:**

- There have not been enough projects in the PTP funnel to fully engage all the 13 Engineering Contractors
- Relatively steep learning curve for contractors in aligning with SPDC Project Management processes
- Contractors' Engineering Software application sometimes not compatible with SPDC approved (e.g. UNISIM and HYSIS for process engineering simulations)
- The daily rate for procurement of services were not uniform across contractors for similar service descriptions e.g. Project Engineer, this caused dissatisfaction and demotivation among staff of contractors with lower daily rates within the same team. This will be addressed with the replacement contracts where all effort will be made to standardise daily rate for procurement of services across all the contractors. The standardisation will be achieved using barebone strategy.

**Global strategy fit (Current Strategy)**

This service has been effectively localised and not linked to any existing EFA

**Red Threads**

Red Thread	Consideration	Mitigating Action	Action Owner
Ethics & Compliance	Private interest or gifts & hospitality could interfere with Shell's interest	Fully disclosed COI and record in the Code of Conduct Register	All
Finance	Supplier Financial Risk assessment indicates that financial risk requires mitigation	Contractor to provide PCG or Bank guaranty	Contract Holder

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

**MARKET CONDITIONS****Market insight using SWOT:**

**Strengths:** The market for Engineering design and project support services is mature with many established players providing the services in-country with limited offshore support. Presently, there are many Nigerian companies with 100% ownership of the business. Skill sets of in-country vendors meet current Nigeria requirements. With the growth in local and multinational Oil and Gas industries in Nigeria, there has been remarkable increase in the number of Engineering Design and Project Support services players in the Nigerian market

**Weaknesses:** Barriers to entry are high due to the high technical skill sets, high cost of equipment, government regulations and approvals and certifications.

**Opportunities:** Proposing 10 contracts (5 for Project Support and 5 for Engineering Design) for award will greatly increase the competitiveness of vendors and assure quality of service. SPDC will leverage on the competitiveness during negotiations in contract replacement process and contract extension options.

**Threats:** Lack of vendor capability and capacity to promptly supply required number of services. The security of supply has been assured by proposing 10 contracts for award, if a vendor fails from meeting the contractual obligations, service will be drawn from another vendor since proposed contracts will be on a call-off contract basis.

**PRICING STRUCTURE AND TRENDS:****PRICING STRUCTURE**

- CTR Rates for Engineering Design and Project Support Services

**TRENDS**

- The supply of competent Engineering design and project support services are limited as most IOC tend to keep personnel who have acquired Engineering design and project support services experiences within their operations, this affects the supply of Engineering design and project support services
- The demand for professional services in the open market is increasing proportionally with increasing numbers of new projects within IOC(s), this tends to drive the price of requisite services high.

**CURRENT & POTENTIAL SUPPLIERS****POTENTIAL SUPPLIERS:**

Potential suppliers will be drawn from NipeX vendors in product code 3.01.02 after the closing date of the publication. This strategy is expected to reveal more potential players in the industry, thus delivering value for money.

	Service Category	Product Group	Product/Service Code in NipeX
	Steel / Construction / Architectural Services	30102	Fabrication, Structural design, Civil Engineering / Structural Services.

**SECTION B: develop & select strategy**

Cost Modelling, Company Estimate, Benchmarking & Value for Money

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

Total estimated Value for the 10 Contracts to be awarded is: FUSD 276,408,333.34 over a period of (4 years plus option of 1 year extension). Current estimate is based on COG Major Projects CAPEX plan (OP19) for engineering Design Services and rates from the current expiring Project Support Services which were awarded 3 years ago; the estimate is inclusive of day rate for operational vehicles, PPE and IT equipment tools.

Rates for non-high skill services benchmarked with similar services in BMM contracts. The Summary of the estimate is as shown below

	Service Category	Duration	Estimated ceiling (USD)
1	Engineering Design Services	4 years	79,566,000
2	Project Support Services	4 years	196,842,333.34
			276,408,333.34

Attachment 2 is the detailed company estimate.

## Value Creation Opportunities

Not applicable, contract is operational

## Initiatives

Not applicable, contract is operational

## Risk Assessment

Risk Description	Likelihood (H / M / L)	Impact (H / M / L)	Mitigating Actions	Action Owner
Contractor's resourcing of incompetent personnel may result in poor quality jobs, injuries and damage to assets	L	M	Define basic competency requirements and carry out checks prior to work commencement. Scope shall be reduced, or work suspended for poor performing Contractors	Contract Holder
Security incidents may lead to injuries, fatalities and damage to Shell reputation	M	M	All projects shall have an approved security plan. No mobilization to site if conditions are unsafe	Service Users/CH
Use of incompetent Contractors may result in poor service delivery, delays and consequent losses to Shell	L	M	Conduct robust technical evaluation to ensure selection of competent/capable Contractors.	CMT

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

				Practical and achievable KPIs shall be included in the contracts. Competent and qualified supervisory personnel.	
Work Hazards during site visits and work supervision may result in injury to personnel and damage to SPDC reputation/assets	L	M		Site induction, pre-site entering permit/briefing, tool box meeting, use of PPE, supervision, no work during adverse weather conditions. Use of intrinsically safe cameras	Site Supervisor
	L	L			
Non-compliance with company business ethics (SGBP) may lead to reputational damage and financial loss.	L	M		1. Use Manual of authority for approval of Purchase Orders. 2. SGBP discussion as part of contract kick off and contract review meetings with Contractors.	CMT
Delayed payment to vendor	M	M		Prioritise vendor payments in view of criticality of service	CH

## Sourcing Strategy

## Nigerian Content Development (NCD)

*Schedule A	Schedule A Target	Current In-Country Capacity	Measurement Metrics	**Nigeria Content Plan to Close Gaps
FEED and Detailed Engineering on Onshore/shallow Offshore Facilities	90%	75%	Man-Hour	<ul style="list-style-type: none"> <li>Identify competence gaps of the Nigerian Engineers and develop programme within the contract provision to bridge identified competence gaps</li> <li>Enforce sub-contracting provision in contract and encourage local vendors to partner with major Vendors</li> </ul>

## COMMUNITY CONTENT DEVELOPMENT

Vendors will be required to source minimum of 10% skilled, 50% semi-skilled and 100% unskilled personnel from their respective host community.

## PRICING STRUCTURE &amp; INCENTIVES

Unit rate

## MARKET APPROACH

**The market approach is via NipeX Portal.**

A. Issue both Technical ITT and Commercial ITT (double envelop) via Nipex Portal to all registered vendors at the expiration of the advertisement.

## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

- B. Technical bids will be evaluated first (the technical evaluation will include evidence of equipment required to perform service and may include site visit for verification, if considered necessary by SPDC & JV).
- C. Only Vendors who scored above 60% in technical will proceed to commercial
- D. Bidders will be ranked based on their quote against SPDC barebone cost. Their quote will comprise of mark-up and all statutory payments and equipment as a minimum. Vendors that quote below barebone statutory payment will be disqualified. There shall be a pre bid meeting to clarify the market approach. Note; vendors will be provided with personnel day rate that constitute part of bare bone to enable consistency across providers.

**Award criteria:**

1. The submitted bids shall be ranked in order of ascending (increasing) price.
2. Vendors shall bid for their profit and statutory payments which constitute total mark up on barebone cost.
3. The lowest commercial bid that meets the requirements in item C above and SPDC bare bone shall be the basis for the baseline cost.
4. A maximum of 10 contracts will be awarded to 10 lowest commercial bidders in ascending order.
5. Mark-up and statutory payments bids above baseline cost and company estimate shall be negotiated to a value not exceeding company estimate
6. If there is replication of rates resulting in a tie between any of the bidders at the commercial evaluation, the impacted bidders will be disqualified, and contracts will be awarded to the next lowest bidders for a duration of 4 + 1 years.

**Note;**

1. Barebone price = daily/ Monthly personnel Rate + statutory cost (VAT, TAX, NCD, Pension, HMO etc) excluding vendor Mark-up (profit + cost of fund).

2. The commercial evaluation will be based on Mark-up and statutory payments.

**BASIS OF AWARD / BIDDING STRATEGY**

The contracts shall be awarded to only technically acceptable and commercially lowest viable bids.

**TECHNICAL / COMMERCIAL EVALUATION CRITERIA & NEGOTIATION PARAMETERS**

After reviews and alignment with JV, the Technical Evaluation Criteria, Commercial Evaluation Criteria, Draft Advert & Product Category List will be subjected to Line GM + Contract Owner + HSE Assurance + GM NCD + TA-1 + SPM approval in line with MCB delegated authority.

**NEGOTIATION POINTS (where applicable):**

If the lowest acceptable bid is above the company estimate it shall be negotiated with a Walkaway of 100% of the company estimate.

**ALTERNATIVE STRATEGIES CONSIDERED:**

Request for another one-year contract extension pending award of replacement contracts from proposed tender.

**COMMERCIAL TIMELINE:**

Activity	Target Completion Date
Advert	25/11/2019
Issue Technical and Commercial ITT	06/01/2020
Technical and Commercial Evaluation	05/02/2020
MTB/SCC submission	24/02/2020
Nigerian Content Compliance Certification	23/03/2020
NAPIMS submission	27/03/2020



## THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## Major Contract Board Submission

Contract Award

13/04/2020

**KEY PERFORMANCE INDICATORS:**

Business Objective	KPI	Measure	Target	Frequency Measured
High Quality of Service Delivery	Compliance to the defined service requirements as defined in Contract	Output of service provided vs specified output	Output satisfying the agreed parameters of the Scope of Work	Per Service Request
Prompt Salary Payment to Personnel	% of Service Personnel promptly paid their salaries.	1.Date of payment 2.% of personnel paid	1. Payment by 25 <sup>th</sup> of Every Month 2. 100% of Personnel paid	Monthly
Provision of Required PPE and IT tools	All required tools to effectively provide services made available to personnel	Quality and effectiveness of tools	Must meet all specifications	Yearly
Compliance with Contract HSSE Mode Requirements	Zero Fatality, Zero LTI Zero LSR violations, 100% Medical fitness to work Certification, etc.	Compliance with set targets	Achieve Goal Zero	Per Service Requested

List of attachments.

## Attachment 1 – Company Estimate



Attachment 1a Contract Estimate  
Contract Estimate PrEngineering Design

## Attachment 2 – Commerical Evaluation Criteria



Attachment 2a EDS Attachment 2b  
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