



Confidential

Part C – Variation Order No. 33 Addendum (VO 33b)

Date: 22<sup>nd</sup> October 2020

Category:	PROJECT - DOMGAS	Contract ID:	S17893
		SAP Contract No:	4610024166
Contract Title:	Engineering, Procurement, Installation, Commissioning, Operation & Maintenance of Gas Handling Facilities for Domestic Gas Projects. (Agbada NAG)		
HSE Mode & Risk	Mode 2, High		
Contractor:	MAKON ENGINEERING AND TECHNICAL SERVICES LIMITED		
Agenda Item			
	F\$	Expiry Date	
Original ACV	331,356,244.41	30 June 2016	
Value of VO's approved to date	195,787,508.29	30 June 2020	
Current ACV (in SAP)	527,143,752.71	30 June 2020	
Value of commitments made to date	457,317,859.84	30 June 2020	
Value of this VO request	2,655,000.00	30 June 2021	
Requested new ACV	529,798,752.71	30 June 2021	
Current level of NAPIMS approval	509,143,752.71	30 June 2021	
Proposed expenditure while pending NAPIMS approval	TBA	30 June 2021	

**OBJECTIVE OF THIS SUBMISSION IS TO:**

- Inform MCB of the outcome of negotiation of VOR52 with the Contractor (Makon Engineering and Technical Services).
- Seek MCB approval to award the VO at ₦403,560,000 and US\$1,593,000.

**Stakeholder Endorsement:**

	SPM Projects	Contract Owner
	<b>Reviewed and approved for submission to MCB and confirms:</b> <ol style="list-style-type: none"> <li>Alignment with approved Category Strategy (&amp; Global Category Strategy where applicable)</li> <li>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>Finance (Adekole Iludiran)- 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>HSSE [Oyema Idada] - HSSE consideration and requirements are met.</li> </ol>
Signature	<i>Ogunnoiki, Judah</i>	<i>Chris O. Ubuane</i>
Name	Judah Ogunnoiki	Chris O. Ubuane
Date		

**Approval:**

	MCB Chairman
	<b>Reviewed and approved for submission to MCB and confirms:</b>
Signature	<i>Scott, Ian</i>
Name	Scott, Ian
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 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 Supply Chain Council/Tenders Board.

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

12-Nov-2007: MTB approved the award of contract no: S17893 (covering Adibawa and 10 other facilities) to METS.

17-Jun-2008: NAPIMS approval dated 04/06/08 was received to award the contract to METS at US\$198.8m plus NGN16.9bn (F\$331m) for 10 facilities, excluding Gbaran Ubie Niger Delta Power Plant Gas Supply Facilities. The effective contract commencement date is 01/09/08.

#### VARIATION HISTORY:

No. 01	Setting of mini milestones for payment purposes with no cost implication.
No. 02	Change from new Alakiri NAG facility to refurbishment plus construction, installation, hook-up and commissioning of Alakiri AG Plant. NAPIMS, in its approval of scope changes (VO Nos. 02 & 04), directed that the ACV of F\$331m be maintained.
No. 03	Change of PO issuance validity period and Bank Guarantee requirements (no cost implication).
No. 04	Deletion of Ewreni and Ahia Flow-stations from contract scope.
No. 05	Relocation of Alakiri AG Compressor package to Bonny flow-station, with request to increase the Contract ACV to F\$339.9m, an increase of 2.6%. (Approved by MTB on 28/6/10, NAPIMS approval received on 05/12/11).
No. 06	Relocation of Ughelli East Gas Plant to Utorogu, the application of the 2008 mandatory Shell Group Technical Safety Standards and supply and installation of a condensate stabilisation system, with request to increase the ceiling by a further F\$82m (Approved by MTB on 26/7/10. NAPIMS approval for NAG 2 (F\$ 75.6m) received on 30/05/11 while NAG1 Condensate Handling Package (F\$6.70m – 100% funded by Govt) approval still outstanding).
No. 07	Proposal to re-align Utorogu NAG mini-milestones with no impact on ACV was approved by MTB on 29/11/2010.
No. 08	MTB approval award of VO to METS for ePC of Utorogu, Ughelli East and West flow-station AGS on 28/03/11 at an additional cost of F\$ 103 m; NAPIMS approval received on 05/12/11.
No. 09	MTB approved on 28/03/11, the redistribution and re-alignment of mini-milestones structure at no additional cost.
No. 10	MTB approved award of VO on 20/06/11 to METS for ePC of Agbada NAG (2x40MMscfd) plant at a total negotiated price of F\$ 105.5m. NAPIMS approval pending since 11/08/11.
No. 11	MTB approved (online 20/07/11) VO to implement the Rescue and Fall-back plan.
No. 12	MTB approved air-freighting of Bonny AGS compressor at a best cost of US\$2.4m.
No. 13	MTB approved change in option of VO-12 airfreight option to shipping on chartered vessels at a cost of US\$315,000 through the main EPC contractor.
No. 14	MTB approved on 08/02/12, the engagement of PMC (IMPac) for provision of the required experience resources on (call-off, rates only) basis, to improve METS PMT shortcoming. It is requested to proceed with a tripartite (payment) arrangement amongst METS, SPDC and IMPac.
No. 15	MTB approved issuance of a promissory note to Propak, giving assurance that SPDC will effect direct payment to the tune of \$480,000 by June for commissioning of Bonny, if METS fails to pay.
No. 16	MTB approved on 11/06/12, to remove O&M scope for Adibawa and Agbada NAG Gas Handling Facilities from contract S17893 with METS.
No. 17	MTB approved VO for the upward review of EPC lump sum contract price for Egbema West F/S AG Solution plant (operated by NPDC) from F\$19.96m to the negotiated price of F\$38m.
No. 18	MTB approved on 20/12/12, award of VO for scope changes on Utorogu NAG2 increasing the contract price by F\$10.5m.
No. 19	MTB approved on 17/01/13, award of VO for scope changes on Bonny AGS, increasing the contract price by F\$12.3m.
No. 20	MTB approved on 23/01/13, strategy to assist METS with advance payment on the contract to pay directly to key subcontractors (via Tripartite Agreements) being owed by METS to a maximum amount of F\$50m.
No. 21	MTB approved on 25/03/13, the award of VO for scope changes on Adibawa AGS, Agbada and Alakiri NAG projects, increasing the contract price by F\$65.85m.
No. 20B	MTB approved on 20/05/13 to, (1) reduce the initial recovery deduction from \$22m to \$10m from METS invoice and (2) to allow a moratorium of three months on the subsequent recoveries.
No. 22	MTB supported on 10/03/14 the request to transfer OML#34 scope of the Contract to NPDC through partial Novation of Contract S17893.
No. 23	MTB approved on 26/08/14, a request to 1) revise the Advance Payment recovery mechanism from fixed-value (\$3M/month) to percentage value (27.5% of invoice) monthly deductions and (2) Reduce the ACV to reflect de-scoped OML#34 projects.
No. 24	MTB approved on 04/05/15, increase of the contractual rate on the Contract Bank Guarantee from 10% to 15% of ACV.

No. 26	MTB approved on 09/11/15 to (1) Reduce the contract ACV by \$39.9mln representing Alakiri de-scope and (2) award \$18mln to METS as variation closeout costs which would be used fully to offset part of advance granted METS.
No. 27	CP Manager approved on 29/06/16 extension of the contract end date by 36 months to 30 June 2019.
No. 28	MTB approved on 10/11/16, award of VO for scope changes on Adibawa AGS and Agbada projects, increasing the contract price by F\$18.7m.
No. 29	Approval to settle Variation Order Requests submitted by the Contractor on Egbema-West AG at the negotiated price of F\$18.7mln in line with 14/08/2017 MTB delegation of authority (this is a Shell NOV project and NPDC is responsible for payment.)
No. 30	MTB approved Milestone redistribution and alignment of Agbada NAG major milestones without a change to ACV on 12/04/2018. Breakdown to mini-milestones to enhance Contractor's cashflow to complete the works and enable operationalization of tripartite agreements with direct payments to vendors for all identified Long Lead Items (LLIs) Delegate further milestone re-alignments (with no impact on ACV) to the line.
No. 31	MTB approved negotiation mandate for the Close-out Variation for Adibawa Project scope on 13/03/2019
No. 32	MTB Delegated authority approval of time only extension on 20/05/2019
No. 33	MCB approved negotiated mandate for Variation Order requests on 09/09/2019 to cover 3 Variation Proposals as listed below: o Tie-ins of NAG Plant Pig Receiver and Inlet facility Instrumentation and Wells Signals. o AGG Re-routing to NAG Plant o Decommissioning and Relocation of Agbada EGP and Slug catcher.
No. 34	Dollar/Naira conversion.
No. 33a	MCB approved negotiated mandate for Variation Order requests on 1/06/2020 to cover VOR52 Variation Proposal as listed below: o • Approve expansion of VOR52 scope to include other critical works [i.e. (a) Upgrade of Early NAG control system and integration with the NAG control system (b) Integration of the RSV Compressor with the Flow station control system and (c) Isolation of Train1/Train2 of the NAG Facility] and revised Company Estimate for VOR 52. Approve negotiation mandate (Aspiration - 80%; Fallback- 90%; Walk away -100%) based on cost estimate of revised scope from the Corporate Cost Estimating Team (CEMA). • Approve use of eLDL (100%) pending NAPIMS approval • Approve extension of contract end date by six (6) months from 31st Dec 2020 to 30th June 2021

#### REASON FOR THIS VARIATION ORDER

On 1<sup>st</sup> June 2020, MCB approved, for the subject VOR-52, a negotiation mandate of F\$2,656,966.18, which is 100% of Company Estimate, CE. Ref Attachment 1. The CE also include both SN and S\$ as shown in Table 1.

The execution of the VOR scope is urgent, as it is needed for the achievement of Dec 2020 MC and consists of the following activities:

- Tie-ins of NAG Pipeline Pig receiver to Facility inlet manifold
- Integration of Agbada 1 and Agbada NAG DCS.
- Integration of the RSV Compressor with the Flow station control system.
- Shutdown window optimisation scope - Isolation of Train1/Train2 of the NAG Facility

#### Negotiation Outcome:

The currency split for Contractor VOR Price and Company Estimate (CE) are as shown in Table 1 below

Due to the significant disparity in the Source components between contractor and company estimates, and given the complexity of the scope (engineering, procurement, construction, commissioning, etc), the negotiation teams, during the negotiation kick-off, agreed to a 'bottom line' negotiation outcome and this necessitated the need to using a unified single currency, rather than two, to facilitate the negotiation process – i.e., F\$. The negotiation teams adopted the prevailing exchange rate of 305/\$1 as the basis for this F\$ calculation. The resulting F\$ price is **F\$4,236,949.80** for the contractor and **F\$2,656,966.18** SPDC (Which is same as MCB-approved mandate or 100% CE. These numbers are summarized in Table 1

**Table 1 – Contractor and Company Price Estimates (Contractor ask ~\$1.6mIn higher than CE)**

	Naira	%	US\$	%	F\$ based on negotiation teams' adopted Ex.Rate
Company Estimate (CE)	₦ 152,660,057	19%	\$2,156,441	81%	\$2,656,966.19
Contractor VP Price (CP)	₦ 1,196,579,870	93%	\$313,737	7%	\$4,236,949.80
Delta (CE- CP)	-₦ 1,043,919,814		\$1,842,704		-\$1,579,983.61
<b>Company Estimate vs Contractor' VP Price</b>					<b>159%</b>

The negotiation started on the 23<sup>rd</sup> June 2020 and came to an end on 23<sup>rd</sup> September 2020. At the Sep20 negotiation, Contractor accepted CMT's offer of F\$2,655,000.00 (i.e., 99.93% of Company Estimate), the 60/40 \$/N split for high value \$ contracts but offered that the Naira component be derived using the prevailing CBN exchange rate at N380/\$1 at the date of the negotiation (i.e., 23<sup>rd</sup> Sep).

Table 2 below summarizes the contractor and SPDC final offers in source currencies. The SPDC source currency splits are as in CE.

**Table 2 – Outcome of 23<sup>rd</sup> Sep 2020 Negotiation**

	Naira	US\$
Company Offer	₦ 152,660,057	\$2,154,475.22
Contractor Offer	₦ 403,560,000	\$1,593,000

As Tables 1 and 2 show, it is difficult, if not impossible, to compare the two offers in source because of the wide differences in the source currency splits. In addition, NAPIMS directive is to peg the S\$ level to 60% max and for this reason, Project Services have now updated the CE to limit the S\$ component to 60%. This revised CE is shown in Table 3 below. Furthermore, CMT has, in Table 3, compared the contractor's offer to the CE using the revised CE and two exchange rate points. The conclusion is that Contractor's offer amounts to 103.3% of MCB approved negotiation mandate.

**Table 3 – How Contractors Final Offer compares to Negotiation mandate (i.e., Company Estimate).**

	Source Naira	Source US\$	F\$ (based on contractor's Ex.Ra offer of N380/\$1)	F\$ (based on Ex.Ra of N305/\$1)
Company Estimate <sup>1</sup> (@ 60/40 \$/N split)	₦ 390,626,146	\$1,541,945	\$2,569,909	\$2,822,687
Contractor Offer	₦ 403,560,000	\$1,593,000	\$2,655,000	\$2,916,148
<b>Revised CE vs Contractor Final Offer (Contractor's offer is ~103.3% of CE)</b>			<b>%</b>	<b>103.3%</b>
			<b>\$ Difference</b>	<b>\$85,091</b>

Notes - 1. Project Services have now revised the Company Estimate to reflect the 60/40 \$/N split.

Based on Table 3, CMT proposes that the VO award be made to contractor at their offer price of **₦ 403,560,000 and \$1,593,000.**

#### JUSTIFICATION

- A. CMT has successfully negotiated contractor's ask from 159% to 103.3% of CE. Further engagement is not likely to yield any additional reduction and would result in further delay to project delivery and, more significantly, value erosion from OSD delay.
- B. CMT considers it expedient to close the deal at **₦ 403,560,000 and \$1,593,000** to enable the execution team focus the contractor towards the delivery of the VO scope needed to achieve the Dec20 mechanical completion target.
- C. The proposed offer meets NAPIMS' 60% max Forex, unlike the CE which has greater than 80% S\$ component.
- D. Other information:
  - NAPIMS was fully involved in the negotiation.
  - The use of Functional USD during the negotiations was to enable effective comparison of the diverse offers simplify the negotiation process and converge at an agreed price and will not be included in the VO to be signed by SPDC and contractor.

- CMT has rejected the high Naira split quoted by contractor as it would expose the project to future Naira/\$ exchange rate fluctuation (given the high out-of-country procurement) which contractor cannot absorb given its financial weakness. The 60/40 split still carries some limited exchange rate change risks but this is considerably less than contractor's proposal.
- MCB approval of this proposal will not lead to any undue advantage to the contractor since PMT has direct control over expenditures and will ensure that any monies paid to the contractor are applied to the works either through TPA or by funds disbursement via contractor's bankers.

**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\$	F\$ (%)
331,654,244.00	195,787,508.29	457,317,859.84	2,655,000.00	TBA

**IMPACT OF THIS VO**

This VO will lead to an Increase in contract ACV in line with the negotiated VO values.

**PRICING STRUCTURE FOR THIS VO**

The contract Terms and Conditions will apply.

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

Contractor has worked more than six years with achievement of over 1.5 million LTI Free man hours. There is a strong Contractor's Leadership commitment and presence to HSE on site, providing prompt response and resources to assure sustained Goal Zero.

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

Management	Commercial	Technical	HSES	Overall
Inadequate	Inadequate	Adequate	Adequate	Adequate

**CONTRACT MANAGEMENT**

- The Contract Management Plan is in place and regularly reviewed.
- Business Performance Reviews (BPRs) are held on schedule, the last one was July 2 2020.
- Regular Project Progress meetings, cadence and performance reviews (weekly and monthly) are also held to manage all day-to-day issues METS is facing and activities planned.
- Contractor is IDD cleared and valid till 29/07/2021.

**NIGERIAN CONTENT EXECUTION PLAN**

	Work Category	Schedule Target	Contractor's obligation	Current performance status	Agreed actions including authorisation to import
Award recommendation					
	Work Category	Schedule Target	Contractor's obligation	Current performance status	Agreed actions including authorisation to import
	Contract awarded in 2008	-	-		Contract is pre-NOGICD

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

Remains unchanged.

**RISK MANAGEMENT**

Risk Description	Likelihood (H/ M/ L)	Impact (H/ M/ L)	Mitigating Actions	Action Owner
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Poor work planning and management of individual work assignments leading to loss of work efficiency with attendant delays to project completion.	M	L	Observe Leave and rest periods	CH
Inspections/audits/visits at Fabrication yard and construction site hazards (injury from hot surfaces, falling objects, etc.).	M	L	Adhere to site work procedures and use of PTW	CH
<b>GOAL ZERO CONTRACTOR HSSE REQUIREMENTS</b>				
i) <i>Risk Assessment – State: Reassessed at Mode 1, H Risk.</i> ii) <i>CH Appointment Letter – Confirm letter in place for correct CH per Omnicom/SAP – YES.</i> iii) <i>HSE Capability Assessment – Remains at Green and valid till 21<sup>st</sup> June 2021</i> iv) <i>Contract HSSE Action Plan OR HSSE Plan – State: Remains valid</i>				

**Attachments:**

1. MCB Minutes of meeting for VO 33a.



UPDATED MOM  
SPDC\_MCB\_20\_20 - :