

#### MAJOR TENDER BOARD SUBMISSION

### Confidential Date:05/11/2015

### Addendum to Part A1- Strategy & Contract Plan

Category

RE

Contract ID

NG01020423

Contract Title

Agenda Item

LONG TERM SERVICE AGREEMENT (LTSA) FOR AFAM VI COMBINED CYCLE POWER

**GENERATION PLANT** 

HSE Mode & Risk

Mode 2, Risk High

Segmentation (<u>C</u> here to access tool)

(Click Strategic

(TB secretary to complete)

Estimated Contract Value (ECV)

USD/Naira - RESERVED

....

Extension options

2 Years

Proposed Contract Start Date

2015

Proposed Contract End dates

#### **EXECUTIVE SUMMARY & RECOMMENDATION**

### To seek approval from MTB for:

Approval to recognize the contracting party as ASLTOM /GE Nigeria Ltd

### Stakeholder Endorsement:

### **Procurement Manager**

# Reviewed and approved for SCC/MTB and confirms:

 Alignment with approved Category Strategy (& Global Category Strategy where applicable)

Compliance with the NOGICD Act & Community Content commitments

**Contract Owner** 

# Reviewed whole submission and confirms support from:

- Finance [Abimbola Adubifa] 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)
- HSSE [Sam Awonusi] HSSE consideration and requirements are met.

Signature

Name

Date

OKEH'm

Approval:

SCC/MTB Chairman

Signature

Name

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.

Supply Chain Council/Major Tender Board Submission

#### SECTION A: ASSESS DEMAND & SUPPLY

#### SCOPE AND BUSINESS REQUIREMENTS

### Background:

The scope of work, Company estimate and commercial template was approved by the MTB on 30/06/2015. This remains the same This Proposal:

Following the announcement of the European commission on 29/09/2015 that the European Commission and U.S. Department of Justice have approved the global sale of Thermal power, renewable power and Grid business of Alstom group (the "power and grid business") to General Electric Company (GE), this proposal seeks approval to recognize the contracting party for the award of a Long term service agreement (LTSA) call-off contract as ALSTOM Nigeria Ltd /GE. (Please see attachments 1)

For the remaining activities on the tender, this contractual party as indicated above will be recognised until the parties present a full entity name for the new arrangement.

#### Justification:

This change is needed for the Tender to progress beyond current stage (i.e. issue commercial ITT) and to ensure the process is finalised and the new contract awarded before June 2016 whenon the GT11 will be due for a minor inspection. This will ensure there is contract cover on the GT11.

GT11 is currently undergoing the last inspection provided for in the subsisting LTSA. GT12 and GT13 will undergo this last inspection in Q2, 2016. Upon completion of this inspection scope, there will be no contract cover for the turbine generating sets and the OEM will not be available for intervention.

Any further delay to progress the issuance of commercial ITT will cause a slip in the projected award date of the new LTSA Contract. This has potential to expose the GTs to low availability factors in the event of a breakdown requiring OEM service. Low availability of Afam VI plant will affect the revenue from the asset and, most importantly, it will have huge negative impact on the national electricity grid. A negative impact of Afam VI on the national grid will affect the reputation of SPDC.

#### GLOBAL STRATEGY FIT (CURRENT STRATEGY)

There is no global strategy or EFA for this scope.

#### RED THREADS

Utilizing the Red Threads Checklist identify the Red threads relevant to you.

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

#### MARKET CONDITIONS

### MARKET INSIGHTS:

Analyse market conditions: How can current market dynamics affect this tender? Indicate key market structures using tools such as Porters 5 forces, Force Field analysis, SWOT and price trend analysis?

Bargaining power of suppliers: Seller power is High. OEMs are very protective of their intellectual property and do not easily release technical information of their equipment to industry rivals. Recently, third parties have emerged with access to experienced certified engineers from similar OEMs thus bringing some level of competition to the market.

Bargaining power of SPDC: Buyer power is rated medium to high on the basis of the volume of business available. It is expected that SPDC would leverage on this to negotiate favourable contract rates, terms and conditions.

Threat of new Entrants to the market: This threat is Low as entry of new firms into the market is restricted due to high set up costs (capital requirements) and the protection of intellectual property by the OEMs.

Threat of substitutes: This threat is Low. There are limited substitutes. OEM proprietary rights have made the market very specific. In strict sense, there are little or no substitutes

Competitive rivalry between existing players: This is Low: The competition among the OEMs has been traditionally low. OEM proprietary rights have further created a monopolistic market for this service.

### PRICING STRUCTURE AND TRENDS:

Evaluate pricing structures and current and future price trends; this evaluation may include the impact of supply and demand balance,

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distribution channels, etc.

The LTSA for Afam VI combined cycle power generation plant shall be on unit rate basis with additional provision on reimbursable basis, at cost plus mark-up, for scope of work which may not have been envisaged prior to activity commencement. The cost structure of planned maintenance scope portion (i.e. minor and major inspections) will be lump-sum.

#### **CURRENT & POTENTIAL SUPPLIERS**

#### POTENTIAL SUPPLIERS:

State source of suppliers list or if single source capable of meeting the business needs, logic for inclusion, and current contracts with Shell (if applicable), including scope and Contract Management Teams (Contract Owner, Contract Holder, CP Lead, HSSE Contract Advisor, Finance Focal Point).

N/A. ALSTOM/GE is the OEM.

### BASIC INFORMATION APPLICABLE TO NON-NIPEX SUPPLIERS (if not NipeX)

N/A

#### INDICATE ANY ISSUE OF CONCERN REGARDING EACH BIDDER

None

#### SECTION B: DEVELOP & SELECT STRATEGY

#### COST MODELLING, COMPANY ESTIMATE, BENCHMARKING & VALUE FOR MONEY

State estimate? How was this estimate determined? What benchmark was used to arrive at estimate -e.g. - existing framework agreement, cross-estimate from Global Category Manager, Shell Estimating Team, Industry Index, recent market research? Highlight any allowance for inflation or changes in market prices, where applicable.

Company Estimate remains the same as approved by MTB on 30/06/2015

#### **VALUE CREATION OPPORTUNITIES**

Utilizing the <u>Value Creation Guidance Note</u>, identify the potential value creation opportunities. Note: this table will be carried into the Contract Management Plan (CMP). Consolidate all opportunities that have been identified and determine those with the greatest potential value to the business (For Strategic Contracts Only)

40/40/20 Element	Lever	Opportunity Description	VI Type	Potential Value (MM)
Price	Negotiate with Best of Benchmarking	Negotiate using rates in the existing contract as benchmark. Leverage on business volume.	TPSS, VI-CAR, VI-RI, VI-WC	ТВА

We will leverage the global category management expertise in the negotiations.

### INITIATIVES

Reflecting on the analysis of the <u>Value Creation Guidance Note</u> and the Value Creation Opportunities, develop the Initiatives that will be actioned in the Category Strategy. Initiative-specific risks should be added to the Critical Risks and Mitigations table.

### (For Strategic Contracts Only)

Initiative Title	Description	Value / Benefits	Delivery Timeframe	Resources Required
1. N/A	• N/A	• N/A	• N/A	• N/A

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### RISK ASSESSMENT

Risk Description	Likelihood (H / M / L)	(H / M / L)	Mitigating Actions	Action Owner
Use of faulty equipment	М	М	Ensure pre-mob/certification of equipment	CH/site Rep
Fall of personnel	Н	Н	Ensure availability/Use of scaffold, harness and handrails	CH/site Rep
Inhalation of toxic chemical/fumes	М	М	Ensure provision/use of relevant PPEs. Proper ventilation of workshop	CH/site Rep
Fire/burns	Н	Н	Ensure proper ventilation of workshop, use of relevant PPEs. Provision of fire extinguishers	CH/site Rep

HSE Risk: High Contract Risk: Medium

Risk Description	Mitigation Action	Remedial Action
Contractor Liquidation/insolvency	No upfront payment and Conduct SFRA prior to award	Terminate/Assign scope to other contractors
Quality	Ensure that all deliveries are accompanied with relevant test/quality certificates.	OEM trained and qualified personnel to be deployed to carry out services and repairs on the plant
HSE	PO clauses to ensure that all HSE issues related to deliveries of equipment and all required medical checks on all staff by local clinic in Nigeria are strictly adhered to.	First aid admin. Ensure the availability of fire extinguishers.  Call medical service on 122 or MEDEVAC
Price escalation	Agree upfront validity of OEM price	Compare the price in the local market
Fire during installation/Maintenance	Environment to be gas-tested at regular pre-determined intervals to ensure that hot work is performed only under hydrocarbon-free area.	Cordon off the affected area.  First aid admin. Ensure the availability of fire extinguisher.  Call medical service on 122 of MEDEVAC

### SOURCING STRATEGY

### Nigerian Content Development (NCD)

Applicable Schedule A targets, actions required to close target gaps and Nigeria Content Plan including training plan.

a. Applicable NOGICD Act - Schedule target(s), current in country capacity and plan to close gap if any.

Table below illustrates required information for this section.

*Work Category	Schedule Target	Current In- Country Capacity	Measurement Metrics	Proposed Action to close gaps
Maintenance & Modification of pumps & rotating equipment	65%	70%	Man-hours	<ul> <li>Monitor implementation of learning plan for Nigerians and implementation of on-the-job training opportunities for Nigerians.</li> </ul>
. 1 S	Category/Ca	rtegories to the contract	as defined in NO	GICD Act

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NOGICD Act = Nigeria Oil & Gas Industry Content Development Act

- b. Nigeria Content Plan (This is for ALL contracts >\$1m)
- i. Research & Development Plan
- ii. Technology Transfer Plan (Strategic contracts only)
- iii. Training Plan (Mandatory for all contracts)

(Training Plan must be aligned with the pre-approved Nigeria Content Plan for the Project if any and also in line with the human capacity development guidelines)

Training Type

No of Trainees

Total Man-hours

Name / Level of Certification

Training is for National Skill pool per NCDMB database.

All training must be certifiable by statutory or industry recognised professional body and in line with NCDMB training guidelines.

- c. Global Sustainable Sourcing plan (outline plan to utilise global sourcing opportunity to support attainment of Nigerian Content targets)
- \*\*Where the Nigeria Content in-country capacity falls short of set minimum targets by law an authorisation to import may be required for these categories.

#### COMMUNITY CONTENT DEVELOPMENT

Applicable directives/targets for this category. List opportunities and actions required to make this CCD opportunity happen.

Priority will be given to Niger Delta indigenes in work scope where indigenous capabilities exist or where there are potentials to develop such.

#### **PRICING STRUCTURE & INCENTIVES**

The LTSA for Afam VI combined cycle power generation plant shall be on unit rate basis with additional provision on reimbursable basis, at cost plus mark-up, for scope of work which may not have been envisaged prior to activity commencement. The cost structure of planned maintenance scope portion (i.e. minor and major inspections) will be lump-sum.

#### MARKET APPROACH

Open Tender/Closed Tender/Negotiation/ Single Source/OLB. Explain choice of strategy.

The market approach will be to single source to the OEM.

### BASIS OF AWARD / BIDDING STRATEGY

Technically acceptable and commercially lowest/OEM/Nigerian Content initiative, single or multiple awards? State envisaged commercial risk(s) associated with award and mitigation plan.

The award shall be on the basis of single source to the OEM upon achievement of the negotiation mandate. Single award strategy shall apply.

# TECHNICAL / COMMERCIAL EVALUATION CRITERIA & NEGOTIATION PARAMETERS

State all technical considerations driving evaluation criteria. Which are the "Go/No Go" areas (fatal flaws)? Indicate high-level weightings. Attach Commercial evaluation criteria, with distribution of Notional Quantities, milestones, re-imbursables, or book-rates as applicable. For negotiation, show key objectives, and where applicable state the aspiration, fall back and walk-away positions.

Benchmarking exercise will be carried out prior to the Commercial tendering with a view to establishing a robust negotiation mandate with OEM. The negotiation discussions should cover (but not limited to) the following: EOH Graduation, number and types of inspections, ("A", "B", & "C"), current GT/ST Models lifespan – to determine what to do, in case OEM equipment enters obsolescence while LTSA is still running.

The following negotiation mandate shall apply:

Aspiration - 80% of company estimate

Fall back - 90% of company estimate

#### **NEGOTIATION POINTS (where applicable):**

Starting Position

Benchmark Po

Position

Target Position and Associated

Walk-away Position and

**Company Estimate** 

Logic

Associated Logic

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80% of CE 100% N/A 90% of CE

#### ALTERNATIVE STRATEGIES CONSIDERED:

Has alternative strategy been considered? Give brief overview of alternative(s) considered and reason for not choosing alternative(s). If no alternative considered, why not?

Alternative strategy would be to competitively tender the scope using the NiPEX tool. However the g turbines and generators in the scope of work were manufactured by the OEM and the scope of the proposed contract is technical and proprietary only to the OEM. No further value will therefore be added through competitive tendering.

### COMMERCIAL TIMELINE:

Activity	Target Completion Date
Tender and Award Schedule	
Issue Technical ITT	
Technical Evaluation	
Issue Commercial ITT	
Commercial Evaluation	Nov 2015
MTB/SCC submission	Nov 2015
Nigerian Content Compliance Certification	Nov 2015
NAPIMS submission	Nov 2015
Contract Award	April 2016

#### **KEY PERFORMANCE INDICATORS:**

Business Objective	KPI	Measure	2014 Target	Frequency Measured
To ensure the availability and Reliability of Afam VI combined cycle power generation plant.	1)Adherence to the SPDC 12 Life-Saving Rules in all aspect of the work scope 2) Timely and safe delivery of service 3) Good housekeeping.	1) Daily activities review. 2) Safe delivery on schedule. 3) zero site hazards post work activities	Zero Tolerance 100% 100%	Weekly cumulative

CONFIDENTIAL

## MAJOR TENDER BOARD

Ref: SPDC MTB 15 23

# MINUTES OF MTB MEETING NO.15 23 HELD ON MONDAY 15TH JUNE 2015 at 2.00PM

VENUE: B4 230 IA PORT HARCOURT

PRESENT:

Chairman:

Jan van Bunnik

Secretary: Eniola Olowokure

Members:

Ireti Omotoso

Greg Kulawski

Robert Munster (Anthony Offor rep)

Guy Kent (Judah Ogunnoiki rep)

Emmanuel Ekpenyong

Toyin Olagunju (Afolabi Ojo rep)

Igo Weli (Osikhena Ojior rep)

SPDC\_MTB\_15\_23\_3 LONG TERM SERVICE AGREEMENT (LTSA) FOR AFAM VI COMBINED CYCLE POWER GENERATOR PLANT

# PART A1 - STRATEGY & CONTRACT PLAN

To seek MTB approval for:

- 1. The contract strategy to negotiate and single source contracts for Long term Service Agreement (LTSA) for Afam VI Combined Cycle Power Plant (Afam VI CCPP) to Alstom Nigeria Ltd (the OEM).
- 2. The basis of award which will be negotiated rates, scope and terms based on overall experience from previous contract and current market strategy.

#### DISCUSSION

Clarifications:

- 1. Negotiations will be held with the OEM and their in-country subsidiary.
- 2. The Tender and Award Schedule are driven by the need to conclude contract award before the expiration of the OEM obligation on the first Gas Turbine in November 2015. Team will engage the stakeholders upfront to ensure that the time line is achieved.
- 3. If the time line is not achieved the fall back is to carry out initial minor inspections only (at the new negotiated contract rates and conditions) pending full contract award.

### MTB's comments:

- 4. The contract management team is encouraged to apply global relationship to support and enhance the negotiations for the desired outcomes.
- 5. Because of NAPIMS current positon on single source the team should proactively engage all the JV partners and secure their support for this approach, to reduce the risk of issues arising with cost recovery.

DECISION:

Approved

DIRECTIVES:

Update the submission as follows:

- 1. Review HSSE risk rating with the Corporate HSE team: Review completed with HSSE Team. See Attachment 4 & 5 for Contract Risk Assessment template and review e-mail.
- 2. Include fall back options if the contract is not awarded as planned: Included in page 2. Fall back is to execute initial minor inspections only pending full contract award.
- 3. Page 1 Purpose Insert the negotiation mandate: Inserted on page 1 & 6.
- Revise the negotiation mandate to 80% of company estimate: Updated as directed.

TARGET DATE:

29th June 2015

ACTION:

Ralph Omiponle & Emeka Esekody

FINANCE SUFF

# Omiponle, Raphael O SPDC-UIO/G/PNEA

From:

Akinlami, Oluwakemi O SPDC-FUI/OG

Sent:

11 June 2015 11:57

To: Cc: Alagala, Alphons L SPDC-UIO/G/PNEA Omiponle, Raphael O SPDC-UIO/G/PNEA

Subject:

RE: Afam VI LTSA BFM Cover

Hello Alags,

Contract strategy supported by finance

Regards,

Oluwakemi Akinlami



How do you see it, half full or half empty.....

From: Alagala, Alphons L SPDC-UIO/G/PNEA Sent: Thursday, June 11, 2015 11:24 AM To: Akinlami, Oluwakemi O SPDC-FUI/OG Cc: Omiponle, Raphael O SPDC-UIO/G/PNEA Subject: FW: Afam VI LTSA BFM Cover

Importance: High

Kemi,

Kindly help with BFM approval.

We need to beat tender board deadline for monday.

Thanks

Alphons Alagala L (Alags)

Commercial Lead
Afam Power Operations
Shell Petroleum Development Company Ltd
P. O. Box 263, Portharcourt
Rivers State, Nigeria
+234-807-024-2365 (Online)
+234-807-022-4544 (Land)

NCC SUIDET

### Omiponle, Raphael O SPDC-UIO/G/PNEA

From:

Iwhiwhu, Maurice K SPDC-PTC/UOA

Sent:

08 May 2015 13:04

To:

Alagala, Alphons L SPDC-UIO/G/PNEA

Cc:

Omiponle, Raphael O SPDC-UIO/G/PNEA; Esekody, Emeka P SPDC-PTC/UOA; Agbajogu,

Ben A SPDC-UIO/G/PN; Akubue, Kenechukwu P SPDC-PTC/UOA; Ojior, Osikhena O

SPDC-PTC/UOA

Subject: Attachments: RE: AFAM VI\_LTSA 2\_Part A.doc AFAM VI\_LTSA 2\_Part A (3).doc

Alags,

Ok for NC section however develop NC plan for the project and inform contractor to develop also all to be approved by the NCDMB.

Note: See tracked changes in the training section.

### Best Regards,

# lwhiwhu, Maurice Kelly

Shell Petroleum Development Company Limited, Nigeria.

Nigerian Content Development Advisor, Bayelsa

Tel: + 234 80702 22692

Email:maurice.iwhiwhu@shell.com

Internet: www.shell.com

From: Alagala, Alphons L SPDC-UIO/G/PNEA

Sent: Friday, May 08, 2015 12:37 PM To: Iwhiwhu, Maurice K SPDC-PTC/UOA

Cc: Omiponle, Raphael O SPDC-UIO/G/PNEA; Esekody, Emeka P SPDC-PTC/UOA; Agbajogu, Ben A SPDC-UIO/G/PN

Subject: RE: AFAM VI LTSA 2 Part A.doc

Emeka / Maurice,

Please see final update attached.

We are waiting.

Thanks

Alags

From: Alagala, Alphons L SPDC-UIO/G/PNEA

Sent: 08 May 2015 10:25

To: Iwhiwhu, Maurice K SPDC-PTC/UOA

Cc: Omiponle, Raphael O SPDC-UIO/G/PNEA; Esekody, Emeka P SPDC-PTC/UOA

Subject: AFAM VI LTSA 2 Part A.doc

Dear Maurice,

ALL SUPPER

### Omiponle, Raphael O SPDC-UIO/G/PNEA

From:

Ottih, Lawrence E SPDC-UIO/G/STC

Sent:

11 June 2015 15:39

To:

Omiponle, Raphael O SPDC-UIO/G/PNEA

Subject:

RE: Afam VI LTSA - HSE Support

# Oga Ralph

Just correct the contract mode to 2. Every other thing is ok.

Regards.

Lawrence.

From: Omiponle, Raphael O SPDC-UIO/G/PNEA

Sent: 11 June 2015 15:11

To: Ottih, Lawrence E SPDC-UIO/G/STC Subject: Afam VI LTSA - HSE Support

Importance: High

Lawrence,

Attached MTB submission for the new Afam VI LTSA requires your support.

# Regards, Ralph.

From: Omiponle, Raphael O SPDC-UIO/G/PNEA

Sent: 11 June 2015 11:45

To: Esekody, Emeka P SPDC-PTC/UOA Cc: Alagala, Alphons L SPDC-UIO/G/PNEA Subject: FW: Afam VI LTSA BFM Cover

Importance: High

#### Emeka,

Attached is the final Part A version of subject proposal. As discussed, please obtain CP sign-off to enable us progress to MTB.

# Regards, Ralph.

From: Omiponle, Raphael O SPDC-UIO/G/PNEA

Sent: 11 June 2015 11:19

To: Alagala, Alphons L SPDC-UIO/G/PNEA Subject: Afam VI LTSA BFM Cover

Importance: High

Alags,

Please obtain BFM approval for this proposal.

Regards,