



THE SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

MAJOR CONTRACTS BOARD SUBMISSION

Confidential

Part C – Variation Order No. 5b

Date: 24th Mar. 2022

Category	Major Project	Contract ID:	NG01016116
		SAP Contract No:	4610048535
Contract Title:	ROCI FACILITY UPGRADE PROJECT		
HSE Mode & Risk	Mode 2/High		
Contractor:	Prime Sources Limited		
Agenda Item	(MCB secretary to complete)		
	F\$	Expiry Date	
Original ACV	29,800,000.00	2016	
Value of VO's approved to date	11,788,737.74	31 st Dec 2021	
Current ACV ((inclusive of 3% HCD)	41,588,737.74	31 st Dec 2021	
Value of commitments made to date	36,982,904.88		
Value of this VO request (<i>inclusive of 3% HCD</i>)	45,897,493.12	31 st Dec 2024	
Requested new ACV	87,486,230.86	31 st Dec 2024	
Current level of NAPIMS approval	29,800,000.00	31 st Dec 2024	
Proposed expenditure while pending NAPIMS approval	57,686,230.86 (<i>including this VO</i>)	31 st Dec 2024	

OBJECTIVE OF THIS SUBMISSION IS TO OBTAIN APPROVAL FROM MCB TO:**To inform MCB that:**

- Negotiation deadlocked & CMT could not achieve the MCB-approved negotiation walkaway mandate of F\$41,143,838.45 (100% CE).
- A combined multi-functional team was constituted to review the basis for the disparity between CE and contract's offer and a re-estimation of the CE was deemed necessary which resulted in a revised CE of F\$47,764,702.37.

To seek approval from MCB to:

- 1) Accept contractors final quote of F\$44,560,672.93 (which represents 108.3% of previous mandate and 93% of the revised CE of F\$47,764,702.37).
- 2) Increase ACV by F\$45,897,493.12, inclusive of 3% (i.e., F\$1,336,820.19) provision for Human Capacity Development (HCD).
- 3) Initiate eLDL to cover the value of the VO pending NAPIMS approval.

Stakeholder Endorsement:

	Senior Procurement Manager	Contract Owner
	Reviewed and approved for submission to CC/MCB and confirms: <ol style="list-style-type: none"> 1. Alignment with approved Category Strategy (& Global Category Strategy where applicable) 2. Compliance with the NOGICD Act & Community Content commitments. 	Reviewed whole submission and confirms support from: <ol style="list-style-type: none"> 1. Finance [Oguntade, Peter] - 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 [Emmanuel Etsano] - HSSE consideration and requirements are met.
Signature	Gregory Akhibi <small>Digitally signed by Gregory Akhibi Date: 2022.03.27 15:43:45 +01'00'</small>	Chris Ubuane <small>Digitally signed by Chris Ubuane Date: 2022.03.27 16:13:25 +01'00'</small>
Name	Akhibi, Greg	Ubuane, Chris
Date		
Approval:		
MCB Chairman		
Signature	<small>DocuSigned by:</small> <small>EAB0C51D66F148F...</small>	
Name	Afolabi Ojo	
Date	20 April 2022 07:52 BST	

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.

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Major Contracts Board Submission

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

- 2013 MTB approved ROCI Facility Upgrade Project (FUP) contract (NG01016116).
- 2016 NAPIMS approved ROCI Facility Upgrade Project (FUP) contract, (NG01016116).
- 20th Apr 2018: MTB approved VO1 to execute Security Systems Enhancement Project (SSEP) via this contract – FS10,577,415.28.
- 15th Jul 2019: NAPIMS approved VO to execute SSEP via this contract.
- 27th May 2020: MCB approved VO2 for contract time extension till 31st December 2021
- 13th July 2020: MCB approved VO3 to break contract payment milestones into mini milestones
- 22nd Mar 2021: MCB approved VO4 to negotiate variations on FOT Priority 1 and IA scopes with contractor.
- 19th Jan. 2022: MCB approved VO5 to negotiate variations for remaining scopes to complete the project (See attachment 1).

REASON FOR THIS VARIATION ORDER

On 19th January 2022, MCB approved VO5 (Part C) which had the following prayers:

1. Negotiate the remaining scopes to complete Security Systems Enhancement Project (SSEP) with contractor at an Aspiration of 90%, a Fallback of 95% and a Walk away of 100% of Company Estimate (CE).
2. Increase ACV to cover the following:
 - a) Negotiated cost for execution of the remaining project scopes stated in (1) above.
 - b) Corresponding Human Capacity Development (HCD) cost for the negotiated cost of completing the remaining scope.
3. Sign off submission on negotiation outcome at Line level if mandate is achieved.
4. Initiate eLDL to cover the value of the VO pending NAPIMS approval.
5. Extend contract end date from 31st December 2021 to 31st December 2024 to enable completion of the outstanding scopes and contract closeout.

Regrettably, the negotiation with NAPIMS in attendance, deadlocked – see summary of the outcome below:

- Final offers: SPDC JV \$40,600,000.00 vs Contractor F\$44,560,672.93
- MCB-approved walkaway mandate: F\$41,143,838.45 (100% CE)
- Contractor's final offer higher than MCB approved mandate by F\$3,416,834.48.

Kindly refer to attachment 2 for the minutes of the tripartite negotiation.

CMT carried out an in-depth analysis of contractor's final offer and established that the reason for the disparity was due to the difference in the durations adopted by parties which is summarized below and detailed in attachment 3:

- ✓ Overall execution duration: CMT's CE is premised on 30 months vs Contractor's 34 months.
- ✓ Integration & Commissioning (I&C) duration: CMT's CE is premised on 7 months vs Contractor's 15 months.

The disparity arose because CMT and contractor could not fully align their premises before seeking MCB mandate due to contractor's delay in providing adequate schedule and cost estimate data.

CMT's schedule was premised on the usual approach of mobilizing I&C engineers when the systems are mechanically complete whilst contractor's schedule basis is to mobilize I&C expats earlier so as to minimize troubleshooting time which could actually lead to a much longer duration. Following engagement with internal technical authorities and SMEs on this issue, Contractor's strategy was found to be more optimal, suitable for this scope type and hence it was agreed for adoption.

Based on the acceptance of Contractor's durations, CMT re-assessed the CE with an outcome of F\$47,764,702.37. The Project DRB has been engaged and they support the proposal to settle the stalled negotiation at contractor's final offer of F\$44,560,672.93. Refer to attachment 4 for the DRB minutes of meeting.

Note, Contractor submitted an all-inclusive quote of F\$72.16mln to execute the balance scopes (Refer Table 1), which includes activities (e.g., marine related activities) already descope by CMT to optimize the project scope and cost.

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Contractor's quote after, de-scoping of items as approved by MCB on 19th January 2022 was erroneously calculated to be F\$ 46.60 instead of \$50.64mln which became Contractor's price negotiated.

Table 1, Contractors Estimate Net of Descoped Items

Scope		Contractor Price Estimates				
		Total '\$m	Descoped '\$m	Marine '\$m	Net Price '\$m	Descoped Items
1	FOT P2	15.61	2.77	-	12.84	PAGA, Bi-folding gates, Access Detection System and Biometric readers.
2	BOGT P2	13.52	3.69	-	9.83	PAGA, Bi-folding gates, Access Detection System and Biometric readers.
3	BOGT P1	19.31	0.31	2.98	16.02	
4	EA FPSO	15.96	0.14	8.97	6.85	Biometric readers
5	Bonga FPSO	7.77	0.10	2.57	5.11	Biometric readers
6	Project Office Base	-	-	-	-	
7	Contractor PMT	-	-	-	-	
Total		72.16	7.01	14.52	50.64	

The quantities of materials /cost vary for the respective locations, and it is based on the requirements for each location. From the table above, contractor's net offer is \$50.64m after descoping of items that will be provided by SPDC, and this was the basis of negotiation against the company estimate.

This submission seeks MCB's approval of revised negotiation mandate, to accept Contractors final offer as supported by DRB, to enable contractor to complete the priority 2 scopes and hence deliver the objectives of the Security Systems Enhancement Project (SSEP).

JUSTIFICATION

The justifications are stated below:

1. Speedy conclusion of the negotiation is required so that CMT can immediately authorize contractor to initiate procurement of balance materials and lock in current prices. OEMs' delivery dates now longer than previously quoted, and prices are very volatile due to Russian/Ukraine war which has disrupted global supply chain.
2. Continuous delay in concluding the negotiation will result in further project schedule slippage, further exposing the export and offshore production assets to higher insecurity risks and associated OPEX in the event of security escalations.
3. Executing the full scope will enable protection of all Shell's export terminals in Nigeria as intended at the initiation of the project.
4. Allow us to utilize all the already procured (~\$12mln) materials for BOGT, EA, and Bonga.
5. Continuing the execution works with current contractor/contract represents the least cost and early delivery option since the cost growth and schedule elongation has arisen from poorly specified FEED specifications rather than due to contractor's fault(s). A new contract, even supported by NAPIMS, will most likely result in higher prices and certainly delayed completion.

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\$	(%)
29,800,000	11,788,737.74	36,982,904.88	45,897,493.12	194

IMPACT OF THIS VO

This VO will result in both cost (ACV) and schedule escalation.

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PRICING STRUCTURE FOR THIS VO

This VO which has been priced as a lumpsum from various items shall be broken down into mutually agreeable milestones.

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

- HSE Performance
 - Adherence to HSE plan and review.
 - Contractor has achieved over 50,450 LTI free man-hours since mobilization to Forcados for construction works. Contractor is prompt in closing out observed HSE gaps. *Performance Assessment, rating is adequate.*

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	Adequate	Adequate	Adequate	Adequate

CONTRACT MANAGEMENT**POST AWARD CONTRACT MANAGEMENT**

Business Objective	KPI	Measure	Frequency Measured
HSSE	Number of Lost Time Injury (LTI)	Number	Monthly
	Total Recordable Case Frequency (TRCF)	Per million-man hours	Monthly cumulative
Quality	Compliance to approved work method statement/procedure	Non-Conformance report (NCR)	Daily
Cost	No cost overrun on Purchase Order	Value of variation due to schedule overrun/standby	Per Work order
Schedule	Compliance to approved schedule	Conformance to PO end date	Per Work order
NCD Compliance	Compliance to approved NC plan	As per NC Act	Quarterly cumulative

NIGERIAN CONTENT EXECUTION PLAN**Nigerian Content Development (NCD)**

Applying the NCDMB calculation matrix, applicable target in this contract for this category of service is minimum 90% Nigerian Content as provided in Schedule A of the Nigerian Content Act. The statutory 1% NCDF has been deducted from all Contractor invoices from inception to date

*Schedule	Schedule Target	Current In-Country Capacity	Measurement Metrics	Proposed Action to close gaps
Hardware/Telecom systems installation and support	60%	70%	Spend	
Support Vessels	65%	80%	Spend	N/A
Other Construction / Maintenance Services	80%	100%	Man-Hour/Tonnage	N/A
Project management	80%	80%	Man-Hours	N/A

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Compliance with NOGICD Act Gaps with contract

1. **NC Plan:** The NC Plan review by NCDMB is yet to be closed.
2. **HCD Plan:** Draft is being reviewed with NCDMB, comments from NCDMB are currently being resolved between CMT and contractor.
3. **NCCC:** NCCC draft is adequate but waiting approved HCD plan to progress to NCDMB

NIGER DELTA CONTENT /COMMUNITY CONTRACTING EXECUTION PLAN

SN	Service Activity	Work scope	Detail Activities	Operator Estimated %NC	% NC Target (NOGICD Act 2010)
1.	Labour	Geotechnical services, Fibre cable installation, installation/ integration/ maintenance of technical security systems	Geotechnical surveys, Fibre cable installation, installation/integration and maintenance of technical security systems. Civil/ICT/Telecom Engineers 20,000 man-hours Project Management 4200man-hours	100	
2.	Procurement	Radar, long range thermal systems, CCTV, Access management systems and intrusion detection systems	Radar, long range thermal systems, CCTV, Access management systems and intrusion detection systems and accessories.	80	
3.	Equipment (Mast, Tools)	NA	NA	NA	NA
4.	Installation	Servers, Radar, long range thermal systems, CCTV, intrusion detection systems	Systems manufactured outside the country, but agency and after sales support available locally.	90	90
5.	Training and Gap Closure Initiatives	Installation/integration of technical security systems	3% of the contract value shall be dedicated to Human Capacity Development	NA	NA
Total				100	

RISK MANAGEMENT




Risk Description	Likelihood (H / M / L)	Impact (H / M / L)	Mitigating Actions	Action Owner
Cost and schedule over-run arising from Community disruption of work	H	M	Engagement of community workers, pre-engage SDCR on activity, identify sub-contracting activities that should be given to the communities in conjunction with contractors for each project and ensure the contractors implement agreed sub-contract scope, accordingly, maintain line of communication with important stakeholders, implement GMoU	CH
Cost escalation and claims because late payment of Contractor	H	M	Late payment of contractor invoices has been an issue for several years. Although, contract agreement will specify invoice payment terms with a “no claims” arising from late payment of invoices clause, the contractors could still be entitled to compensations where it can demonstrate that SPDC’s payment default has resulted in other costs. PMT will escalate late payment issues as need arises to minimise impact on Contractors’ cash flow and project delivery	CH

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Construction HSSE risks associated with project execution such as working in remote location involving movement of personnel and materials across land and marine environment, security exposure, heavy lifting, hot works, working at height etc. which could result to fatality,	H	H	Contractors HSSE capability assessment will be conducted, Contract agreement will only be signed with Amber/Green banded Contractors. Clear and detailed HSSE requirements will be specified in the ITT, approved HSE, Security and Journey Management plans will be developed and implemented during execution, adequate and effective supervision will be deployed by project team in addition to Contractors supervisory arrangement and there will be zero tolerance to deviation.	CMT
Road traffic accident during Haulage of Materials to site	H	H	Develop, use and enforce details of the approved Logistics plans and Journey Management Plans	CMT
Contractor competence assurance	M	H	Use known/proven contractor with existing contracts for execution. Close work programme monitoring to assure delivery of the prompt business objective. Adequate review of method statement and monitoring through the construction phase.	CMT
Schedule delay due to inability of the contractor to meet its obligations on marine logistics and provision of offshore vessels, salaries, community settlements and OEMs support for system integration	M	H	A provisional sum has been allowed in the ACV to manage risk of any variation that might arise during execution of the project.	CH
Armed attacks/Community agitations/disturbance	H	H	Engagement of host communities by the SP team and approved CTS secured prior to mobilisation for this work. Conscious efforts will be made not to violate CTS requirements. Proactive community engagement via SPDC SP team shall be in place to forestall any community agitation/disturbance. Approved security plan and RMT approvals shall be secured and adhered strictly for this work in line with operating SOL.	CH
GOAL ZERO CONTRACTOR HSSE REQUIREMENTS				
i) Risk Assessment – State: Reassessed at Mode 2/H Risk .				
ii) CH Appointment Letter – Confirm letter in place for correct CH– YES .				
iii) HSE Capability Assessment – State: Green and valid till 24th February 2024 .				

ATTACHMENTS:

Attachment 1	Attachment 2	Attachment 3
MCB approval to negotiate VO5	MOM of Tripartite negotiation.	MoM of Post Negotiation Review
 SPDC_MCB_21_46 - 1 - ROCI FACILITY UPI	 MOM of Tripartite Negotiation of VO_N/	 SSEP VO5 Negotiation - Review
Attachment 4		
DRB		