



## SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

## MAJOR TENDER BOARD SUBMISSION

Confidential

Addendum to Part A1– Strategy &amp; Contract Plan

Date:15/12/2015

Category	RE	Contract ID	NG01020423
Contract Title	LONG TERM SERVICE AGREEMENT (LTSA) FOR AFAM VI COMBINED CYCLE POWER GENERATION PLANT		
HSE Mode & Risk	Mode 2, Risk High	Segmentation <a href="#">(Click here to access tool)</a>	Strategic
Agenda Item	(TB secretary to complete)		
Estimated Contract Value (ECV)	USD/Naira - RESERVED		
Proposed Contract Start Date	2015	Extension options	2 Years
Proposed Contract End dates	2023		

## EXECUTIVE SUMMARY &amp; RECOMMENDATION

## To seek approval from MTB to:

- Send commercial ITT to **GE INTERN. OPS (NIG) LTD (Vendor Code: 122456)** based on the following:
  - Letter from GE on merger/take-over of ALSTOM
- Progress while awaiting approval of Nigerian Content plan by NCDMB because of the urgency and criticality

Note: **GE INTERN. OPS (NIG) LTD (Vendor Code: 122456)** is **IDD Cleared**

## Stakeholder Endorsement:

	Procurement Manager	Contract Owner
	Reviewed and approved for SCC/MTB and confirms: 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: 1. Finance [Azubuike John] - 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 [Otihi Lawrence] - HSSE consideration and requirements are met.
Signature		
Name	Segun Edun (PTC/UOA)	Ben Agbajogu (U/O/G/PN)
Date	21/12/2015	18/12/2015

## 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.

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**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 and this remains the same. The strategy was to negotiate with Alstom (OEM).

**This Proposal:**

Following the approval by the MTB, the Nigerian Content Plan and Commercial ITT was sent to NCDMB for their endorsement. NCDMB rejected this on the basis that Alstom did not meet the 51% equity ownership. This is also coinciding with 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). To ensure contract cover for this very critical activity, this proposal seeks approval to recognize the contracting party for the award of a Long term service agreement (LTSA) call-off contract as **GE INTERN. OPS (NIG)**. (Please see attachment 1)

GE has formally written to SPDC on the GE/ALSTOM transaction (Please see attachment 1). Alstom has not written, but considering the fact that we will be negotiating a new contract, we are at liberty to invite a new entity to bid once we are convinced that that new entity is capable of delivering the scope successfully.

**Justification:**

- This change is needed for the Tender to progress beyond current stage (i.e. issue commercial ITT)
- 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 event 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.
- During the course of the negotiation, confirmation of delivery of scope by GE will be obtained while any requirements from NCDMB can be clarified with vendor.

**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:**

**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:**



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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:**

N/A.

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

N/A

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

N/A

**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 [Value Creation Guidance Note](#), 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	TBA

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

**INITIATIVES**

Reflecting on the analysis of the [Value Creation Guidance Note](#) 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

**RISK ASSESSMENT**

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

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 style="list-style-type: none"> <li>Monitor implementation of learning plan for Nigerians and implementation of on-the-job training opportunities for Nigerians.</li> </ul>

**\*List relevant Work Category/Categories to the contract as defined in NOGICD Act**

**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)



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**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**

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**

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-imburseables, 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 Position / Target Position and Associated Logic	Walk-away Position and Associated Logic
80% of CE	100%	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 NIPLEX 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

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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	Jan 2016
MTB/SCC submission	Jan 2016
Nigerian Content Compliance Certification	Jan 2016
NAPIMS submission	Jan 2016
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	1) Daily activities review.	Zero Tolerance	Weekly cumulative
	2) Timely and safe delivery of service	2) Safe delivery on schedule.	100%	
	3) Good housekeeping.	3) zero site hazards post work activities	100%	