 SHELL PETROLEUM DEVELOPMENT COMPANY OF NIGERIA LIMITED

# MAJOR CONTRACTS BOARD SUBMISSION

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| Confidential | Part A1– Strategy & Contract Plan | | | | Date: 30 October 2020 | | |
| Category | | Marine Logistics | | Contract ID | | N/A | |
| Contract Title | | Provision of Field Operations Vessels | | | | | |
| HSE Mode & Risk | | Mode 2, High Risk | Segmentation ([Click here](https://nga001-sp.shell.com/sites/AFFAA0111/SNE18/Departmental%2C%20T/CP%20Commercial%20Excellence%20Team/Segmentation_Tool/SegTool%20v3.xlsm) to access tool) | | | | Strategic |
| Agenda Item | | (TB secretary to complete) | | | | | |
| Estimated Contract Value (ECV) | | USD/Naira/(F$) (See submitted contract estimate) | | | | | |
| Proposed Contract Start Date | | 01 July 2021 | | Extension options | | 5 + 2 Years Ext | |
| Proposed Contract End dates | | 30 June 2028 | |

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| **executive summary & recommendation** |
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| **To seek approval from MCB for:**   * Contract Strategy * Tender Category/Advertisement * The basis of award including Technical & Commercial Evaluation criteria * To issue Technical Invitation to Tender (ITT)   ***\*\*Strategy is to conduct one tender for a split award for the provision of Field Vessels for EA and Bonga FPSOs*** |

**Stakeholder Endorsement:**

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|  | **Senior Procurement Manager** | **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. | Reviewed whole submission and confirms support from:   1. Finance [Tit Babatunde] - 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 [Charles Akhideno] - HSSE consideration and requirements are met. |
| Signature |  |  |
| Name | Chioma Okpoechi | Jonathan Boyle |
| Date |  |  |

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| **Approval:** | |
| MCB 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** |
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| **Scope and Business Requirements** |
| **Service/Project Scope (Indicate scope of Nigerian Content):**  *Describe work scope and consideration for each key work element, including the known unknowns. Compare with similar service/project scope within and outside Shell. State any issues/concerns with execution of work scope.*  *Indicate extent of Nigerian Content within overall work scope.*  The scope of work includes but not limited to the following:   * Provision of 2 Field Support Vessels (with ERRV capabilities) on Bonga & Sea Eagle FPSOs for 24-hour operations (steady state). Minimum vessel specification is attached * Other requirements of the contract include: * Provision of other vessels (AHTSs, PSVs, FSIV, PC, DSV & Accommodation vessel with W2W capability) to support field operations on short-term/call-off basis.   Mini tender will be conducted for selection of vessels other than the two support vessels that will be called off through this contract. (see details of process in Section B – Sourcing and Award).  **Business Requirements:**  *Define (1) key business objectives/drivers (i.e. cost, HSSE, performance, availability), (2) demand forecast including breakdown by geography & business, and (3) key functional specifications, delivery requirements, quality, etc.*  HSSE – ensuring contracted vessels meet or exceed Shell safety standards for offshore operations.  Quality – ensuring technically suitable vessels are used for steady state and call out vessels.  Cost – ensuring value for money through competitive tendering. |
| **Global strategy fit (Current Strategy)** |
| *Explain the category strategy for this service and plan to utilise existing Enterprise Frame Agreement (EFA).*  Category strategy which is in line with SEPCiN corporate offshore marine strategy is to increase local capacity in the offshore marine services. This also aligns with government’s policy of local content development. |
| **Red Threads** |
| *Utilizing the* [***Red Threads Checklist***](https://eu001-sp.shell.com/sites/AAAAA9791/Library/Red%20Thread%20Checklist.xlsm) *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?*  The local market is growing and there are several local suppliers with vessels (cabotage law compliant) already providing similar services. The market can be segmented as leverage or buyer’s market with a long-term service contract that will encourage more participants and investment in new vessels, hence the proposal for a 7 (5+2) year contract.  **PRICING STRUCTURE AND TRENDS:**  *Evaluate pricing structures and current and future price trends; this evaluation may include the impact of supply and demand balance, distribution channels, etc.*  The pricing structure proposed for the contract consists of unit day rate for the vessels (vessels on steady state and other call-off vessels), and unit rates for other identified call-out services. Mobilisation and de-mobilisation will be on lump sum prices while 3rd party services will be on reimbursable basis. |
| **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).*  Bidders for the tender will be downloaded from the relevant product codes (marine logistics) in the NJQS. Relevant codes to be agreed with NAPIMS.  **BASIC INFORMATION APPLICABLE TO NON-NIPEX SUPPLIERS** *(if not NipeX)*  *If not NipeX, provide logic for inclusion, current contracts etc.*  Not information available yet.  **INDICATE ANY ISSUE OF CONCERN REGARDING EACH BIDDER**  *E.g. Overloaded order book; new to industry and untested; weak balance sheet; etc….*  Not issue yet. |

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| **SECTION B: develop & select strategy** |
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| **1. 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.*  Estimated value of the contract is $138mln. This is derived from benchmark prices for vessels with similar specifications, and estimated call-off quantities for the services (See attached breakdown). |
| **Value Creation Opportunities** |
| *Utilizing the* [***Value Creation Guidance Note***](https://eu001-sp.shell.com/sites/AAAAA9791/Library/Value%20Creation%20Guidance%20Note1.pdf)*, 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 | Tender with Best of Benchmarking | Utilize cost model-based approach to RFP and multi-round tendering to increase competitive tension | TPSS, VI-CAR, VI-RI, VI-WC | $10-15mm | | Performance | Contract incentives | Elements in the contract (can be linked to KPI’s) that are an incentive for the supplier to improve performance | NA | Availability | | Price |  | Mechanism in contract for price de-escalation based on volume of spend | NA | $2-5mln | |
| **Initiatives** |
| *Reflecting on the analysis of the* [***Value Creation Guidance Note***](https://eu001-sp.shell.com/sites/AAAAA9791/Library/Value%20Creation%20Guidance%20Note1.pdf) *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** | | Incentive | Performance incentive linked to vessel availability | Increases vessel availability for service | Monthly | Vessel & maintenance personnel | | Price De-escalation | Introduce formula for rate reduction based on volume of service provided. | Price reduction | Yearly | CMT | |
| **Risk Assessment** |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Risk Description** | **Likelihood**  **(H / M / L)** | **Impact**  **(H / M / L)** | **Mitigating Actions** | **Action Owner** | | Project team reluctant to use the new FAs and are opting out from the strategy | M | H | Strong and compelling Project Value Proposition in multiple areas: Lead time reduction, security of supply, technical support and cost Engagement with design team to develop proper technical solution fit for purpose for project needs | Category Manager | | Alternatives are not viable | H | M | Ensure diversity of supply through multiple arrangements in the market. | TBN | |
| **Sourcing Strategy** |
| **Nigerian Content Development (NCD)**  *Applicable Schedule A targets, actions required to close target gaps and Nigeria Content Plan including training plan.*   1. ***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 | | Standby Vessel | 55% | 55% | Spend | Not Applicable |   **\**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)*  *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 | | STCW-95 | 4 Trainees | Training takes about 3 years which is 9000 manhours per trainee | N/A |   *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.*  The contractor will be advised and monitored to adhere to the Community content guidelines regarding employment and other personnel issues. |
| **PRICING STRUCTURE & INCENTIVES** |
| *describe which work element is lump sum, unit rate, reimbursable. Potential payment discounts?*  Pricing structure will be unit rate for vessel, personnel and other identified call-off services; lump sum prices will be used for mobilisation/demobilisation. Provision of third-party services will be on reimbursable basis plus applicable mark-up |
| **MARKET APPROACH** |
| *Open Tender/Closed Tender/Negotiation/ Single Source/OLB. Explain choice of strategy.*  Market approach is open tender through the NJQS portal. This is in line with NAPIMS directive on major contracts without proprietary restriction. The contract will be for a base period of 5 years to promote local ownership of vessels. The tender will be in two stages: technical tender followed by commercial tender for technically qualified bidders. |
| **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.*  ***Tender Process***  A joint technical tender will be conducted for field Operations vessels for both Bonga and EA FPSO contracts. From the commercial tender exercise, two vendors will be identified for the two assets - Bonga and EA FPSO, with the lowest technically compliant bidder being offered Bonga and the next commercially acceptable bidder being offered EA FPSO. The most competitive bid for each of the asset will be awarded the steady state vessel contract in a consortium with 4 other prequalified vessel owners. The prequalified vessels owners are the 4 most technically qualified bidders excluding the 2 steady state vessels contractors. The consortium contractors will provide additional vessels for the assets through mini tenders. The additional vessel requirements may come from planned vessel requirements for projects and Turnaround Maintenance (TAM) or vessel requirements from emerging business needs.  ***NB: See attached flowchart of the tender, award and mini-tender process in attachment 1***  ***Award Strategy***  A consortium contract comprising of a main contractor for provision of steady state vessel (365 days/year) and 4 prequalified vessel owners to provide additional required vessels on call-off basis will be awarded for each of the assets. The same 4 prequalified vessel suppliers will feature in the two consortium contracts.  Proposed awards for SNEPCo/Bonga and SPDC/EA FPSOs are proposed as follows.   1. SPDC/EA FPSO  * Award for provision of steady state (365 days/year) standby vessel * Plus 4 Prequalified vessel owners as members of the consortium to the contract to provide other required vessels on call-off basis through a mini-tender.  1. SNEPCo/Bonga FPSO  * Award for provision of Steady State (365 days/year) Standby Vessel * Plus 4 Prequalified vessel owners as members of the consortium to the contract to provide other required vessels on call-off basis through a mini-tender.   ***Mini-tender Strategy for secondary vessels***  Sourcing of additional vessels based on emerging business requirements will be through mini tenders between the main contractor and the 4 prequalified vessel owners in the consortium contract. The most competitive bidder will be issued a PO to provide required vessel through the contract. Results of mini tenders for additional vessels with VO value ≤ $500k (≤ $250k for SNEPCo) will be subject to Line (CO) and CP (PM) approval; mini tenders for VO of higher values or for those requiring additional ACV will be subject to MCB approval. |
| **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.*  **NEGOTIATION POINTS (where applicable):**   |  |  |  |  | | --- | --- | --- | --- | | **Starting Position** | **Benchmark Position / Company Estimate** | **Target Position and Associated Logic** | **Walk-away Position and Associated Logic** | | Not applicable |  |  |  |   **ALTERNATIVE STRATEGIES CONSIDERED:**  The following is the alternative Strategies considered for the tender.   1. Award of contracts for steady state vessel for each of the assets (Bonga & EA) with provision for sourcing additional vessels from 3rd party vessels owners through the main contractor on net cost to vessel owners and mark-up (5 – 7%) to the main contractor. A mini-tender will be used to select the vessel to be used. This approach gives visibility to the company on the cost of 3rd party vessel and allows for competitiveness in the sourcing of additional vessels. The drawback to this approach is additional cost (mark-up) to the main contractor which the main strategy avoided.   *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?*  **COMMERCIAL TIMELINE:**   |  |  | | --- | --- | | **Activity** | **Target Completion Date** | | Tender and Award Schedule |  | | Issue Technical ITT | December 2020 | | Technical Evaluation | February 2021 | | Issue Commercial ITT | March 2021 | | Commercial Evaluation | April 2021 | | MCB Submission | May 2021 | | Nigerian Content Compliance Certification | June 2021 | | NAPIMS submission | June 2021 | | Contract Award | 01 July 2021 |   **KEY PERFORMANCE INDICATORS:**   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Business Objective** | **KPI** | **Measure** | **2019 Target** | **Frequency Measured** | | HSSE | Total Recordable Case Frequency (TRCF) | Per million man hours | 0.00 | Monthly cumulative | | Vessel Availability | 98% | Hours | 98% | Monthly | |  |  |  |  |  | |

**Attachments:**

1. Tender, award and mini-tender flowchart
2. HSE Risk Matrix
3. Estimated Contract Value
4. Technical Evaluation Criteria
5. NC Evaluation Criteria
6. Commercial Evaluation Criteria