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Oil & Gas Consulting

Upstream & Midstream Pipelines and Facilities

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Tender Evaluation Basics

The overall objectives of tender evaluations are to conduct the evaluations in accordance with corporate business guidelines as well as standard industry best practices while addressing the requirements of the particular project.

The goal of the tender evaluation process is to ultimately select the contractor with the lowest conditioned total cost, while fully satisfying the project schedule, quality, safety, local content (if applicable) and other requirements specified in the contract documents, i.e. Principal Document, Scope of Work, Coordination Procedures, Contract Schedule, Engineering Basis, etc.

I have purposed to list out the basic objectives of a comprehensive Tender Evaluation Plan below (assuming local content is an issue):

- Evaluate the commercial and technical terms of each tender for completeness and compliance with the ITT (Invitation to Tender).
- Evaluate any proposed exceptions or alternatives to the principal document, commercial exhibits and/or job specification offered by the tenderers. Resolve any such exceptions or alternatives.
- Evaluate the organization and personnel of each contractor and its subcontractors with specific regard to quality, availability and experience to validate that the tenderer can successfully execute the project.
- Evaluate the project specific execution plans of each contractor and its subcontractors, project management, detailed engineering, schedule controls, procurement, subcontracting, and construction including associated QA/QC, safety and interface management plans to validate that the tenderer can successfully execute the project.
- Examine the tenderers schedules to determine the logic is sound, duration of activities are realistic, sequencing of milestones is compatible with and meets the requirements of the contract schedule.
- Assess the local content plan of each selected contractor and/or its subcontractors and determine if they are acceptable relative to cost, schedule and quality.
- Identify any weaknesses in the selected tenderers' execution capabilities in order to plan and implement mitigating actions during project execution and assess any associated additional costs to the project.
- Identify and resolve all issues that could impact the project's costs, schedule and execution.
- Upgrade and improve each contractor's and subcontractors' proposed project organization, personnel and execution plans, where practicable and take advantage of opportunities to obtain more favorable commercial terms with the leading contenders through enhancing scope definition and mitigating perceived risks.
- Document tender evaluation activities in order to establish a sound basis for contract award, finalizing the contracts, administering the contracts and debriefing unsuccessful tenderers.

Complete evaluations of the tenders are generally presented along with an Award Recommendation to a Steering Committee within an allotted the time period.

It is important to document the tender evaluation for the record and future audit requirements. The documentation will also:

- Provide support for the Award Recommendation.
- Identify areas of tenderer performance that may require upgrading during contract execution.
- Provide a record of understandings and the intent of discussions during tender upgrading that will assist in contract administration.
- Provide a basis for debriefing the unsuccessful tenderers, as appropriate.

I can assist in developing comprehensive Contractor Pre-qualification Documents; Tender Packages; as well a Tender Evaluation Plans; and Tender Award Recommendation Packages.

Inside This Issue

Critical Issues for HDD in Cold Weather

Critical issues that should be addressed in planning for cold weather HDD crossings are:

- The structure and components of the HDD team should be set and the team should undertake advanced planning and design. The effectiveness of advanced planning and design is diminished if the results are turned over to a different organization for execution in the field (it is often seen that a lack of constructability & planning in the survey & design can have disastrous effects).
- Ample time should be made available for site visits and site characterizations early in the design effort.
- The impact of installation loads and stresses on the pipe should be investigated in detail and limiting criteria should be established. Traditional criteria may not apply.
- The thermal impact of drilling mud on soil and soil on drilling mud should be investigated in detail. Heat transfer models should be developed. Field-testing of heat transfer models should be utilized and evaluated.
- Drilling mud with appropriate thermal characteristics should be developed and equipment required to produce the drilling mud at the rig site should be designed. Specifically, methods for depressing drilling mud freeze point and chilling drilling mud should developed and tested. Drilling mud selection will be probably the most critical aspect of the operation
- A suitable sized structure should be built that will allow for the drill pipe, tools, equipment, etc to be brought to working temperatures before they are used – an absolute must. Placing drill pipe in use directly from outside storage at -30° to -40° Fahrenheit will aggravate drilling fluid freezing problems.
- All equipment should be winterized. Don't think that because drilling equipment will be

inside a heated structure it does not need to be winterized. Lesson learned – a downhole survey wire, 10 gauge 19 strand THHN copper wire was used for communication between a downhole directional survey instrument and the surface steering equipment. This is a standard practice in the HDD industry. The minimum temperature rating of THHN wire is 14° F. Although this is below the operating temperature of the drilling fluid, the wire was exposed to -30° F when it was being mobilized to the job location and even though it was used in an enclosure, it failed due to the previous exposure to cold temperatures.

Minimum Drilled Length

Recommended drilled path geometry should be developed based on site conditions and geotechnical data collected.

Drilled Path Geometry

Additional issues will need to be calculated include:

- Entry Angle
- Exit Angle
- Design Radius of Curvature
- Minimum Allowable Radius of Curvature

HDD applicability in discontinuous permafrost under arctic winter conditions has been demonstrated by numerous successful HDD crossings in Alaska, Canada, and Russia.

Foreign Tax Credits for US Companies

Subject to certain limitations, a foreign tax credit (FTC) is allowed to offset the U.S. tax liability on foreign source income. A foreign tax credit is not allowed to reduce the U.S. tax liability on income from sources within the U.S. For oil & gas companies, the FTC must be computed separately for different "baskets" of income. "Baskets" of income for these purposes are comprised of income from discrete business activities.

Examples of “baskets” include Extraction, which generally includes foreign upstream income; General, which includes foreign midstream and downstream income; Passive investment income; Financial services income.

An excess FTC in one basket cannot offset a shortfall in another basket. If excess credits exist with respect to income in a particular basket, no residual U.S. tax is payable. If a basket contains insufficient credits, a residual U.S. tax will apply equal to the difference between the U.S. tax and the foreign tax paid on the income.

Sensitivity cases should be incorporated into project analyses or economic evaluations to demonstrate the economic impact of the project on corporate FTC assumptions.

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In general, the generation of Extraction Basket earnings is subject to foreign tax at a rate below the U.S. rate. This could present some cost impacts as it may reduce flexibility in utilizing offshore cash balances.

There are potential scenarios (i.e. if a major foreign acquisition does not generate sufficient FTCs), that could pose a risk of running short of FTCs which may cause residual U.S. tax to be due on a portion of the foreign earnings in the Extraction Basket generated by U.S.-incorporated companies or repatriated from non-U.S.-incorporated companies. A conservative rule of thumb is to assume an 85% probability that no residual U.S. tax will be due on earnings in the Extraction Basket.

In looking at FTC’s from a major capital project (MCP) evaluation perspective, for example, on a MCP involving capital expenditures of less than $500 million, and dispositions involving proceeds less than $500 million, it would make sense to accrue at the applicable foreign rates plus 15 cents per dollar of surplus foreign tax credits consumed. This accrual reflects the risk that surplus foreign tax credits will not be available).

Alternatively, where such operations and projects are taxed at a foreign rate of more than 35%, and therefore generate surplus foreign tax credits, one could capture a benefit of 15 cents per dollar of excess FTC’s generated.

It should be noted that not all Extraction Basket foreign tax levies paid give rise to a U.S. foreign tax credit. One should consult a foreign tax specialist in oil & gas operations to determine what portion, if any, of a foreign tax levy qualifies for U.S. foreign tax credit treatment.