



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

INDUSTRY RECOMMENDED PRACTICE

Atlantic Canada Offshore Petroleum Industry - Supply Chain Management

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The Canadian Association of Petroleum Producers (CAPP) represents 150 companies that explore for, develop and produce natural gas, natural gas liquids, crude oil, oil sands, and elemental sulphur throughout Canada. CAPP member companies produce more than 98 per cent of Canada's natural gas and crude oil. CAPP also has 125 associate members that provide a wide range of services that support the upstream crude oil and natural gas industry. Together, these members and associate members are an important part of a \$75-billion-a-year national industry that affects the livelihoods of more than half a million Canadians.

Review by August 2005

Disclaimer

This document was prepared for the Canadian Association of Petroleum Producers (CAPP) by an industry-government working group established under the efforts of the Atlantic Energy Roundtable Initiative. Members of the working group included: Paul Barnes (CAPP), Tim Brownlow (OTANS/J.D. Irving Ltd.), Bruno Longo (Petro-Canada), Kevin Hawco (ExxonMobil), George Osmond (ACOA), Leslie Galway (NOIA), Amy Williams (Industrial Opportunities Working Group), Peter Nicholson (Government of Nova Scotia), Janet Green (Spectrol Group), Glenn MacDonell (Industry Canada), Neal Dawe (OTANS).

The working group undertook an analysis of the best practices for supply chain management for the purpose of producing an industry recommended practice document to govern the relationship between operators and supply/service organizations working in the offshore petroleum industry in Atlantic Canada.

While it is believed the information contained herein is reliable under the conditions and subject to the limitations set out, CAPP and members of the working group do not guarantee its accuracy. The use of this guideline or any information contained within will be at the user's sole risk, regardless of any fault or negligence of the work group, CAPP or its co-funders.

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Overview

This document contains the recommended practices between offshore operators and supply/service organizations operating in Atlantic Canada to improve their commercial working relationship. Through the sharing of information and streamlining the supply chain management process, it will make the procurement of goods and services for the offshore petroleum industry in Atlantic Canada more efficient and effective.

Operators are also encouraged to provide this document to their major contractors and encourage its use in their relationship with supply/service organizations. Supply/Service Associations are also encouraged to share this document with their membership and encourage its use in their members' relationship with oil and gas producers and their major contractors.

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1 Forecasting of Procurement Requirements

Goal - to provide ongoing effective, timely and transparent procurement planning. Open communication regarding future procurement needs and requirements is of benefit to all parties.

Recommended Practice

- Operators to report and communicate future work and procurement plans through the use of electronic bulletins, common websites and operator and/or industry led events where annual activity and procurement forecast information is presented to the supply/service community.
- Operators will publish key procurement contact lists to encourage connectivity between operators and the supply/service community.
- If major activity/projects arise after an event where activity and procurement forecast information is presented, the individual operator may hold its own specific session for the supply/service community to publicly present its activity plans and procurement forecasts.

2 Tendering Process (this includes prequalification, request for proposals (RFP) and bid evaluations)

Goal – to reduce the cost of the contracting process. Lowered costs help Atlantic Canada become more cost competitive.

Recommended Practice

- Operators to provide the necessary information and requirements on how supply/service companies can pre-qualify for work through the use of the Expression of Interest (EOI) documentation process.
- Bid documents will provide an opportunity for bidders to demonstrate where they can add value to the contract.
- Feedback will be provided to unsuccessful bidders if requested, but only in regard to the unsuccessful bidder's submission. Appendix A – Debriefings – contains an example of the type of feedback that may be provided depending on the nature and value of the material or service being requested. Feedback may take place via in person meetings, telephone, email or other method deemed appropriate by the operator.
- Feedback will also be provided if requested to companies that did not make a bidder's list after an EOI is evaluated.

- Operators can refer to a common quality management questionnaire based on a standard generic model for development of their own quality management questionnaire (See Appendix B).
- Operators will endeavour to provide general feedback to the supply/service community on their overall experiences with the tendering process at such operator and/or industry led events as described in Section 1.

3 Contract Award

Goal – reduce unnecessary paperwork when agreeing on contract terms, thereby saving time and reducing cost

Operators, Contractors, and Supply and Service providers will strive to honour the terms and conditions around timely invoicing and payment of invoice to maintain a healthy work environment.

Recommended Practice

- Operators within their organizations will strive to standardize contract documents, keeping amendments and additional terms and conditions minimal.
- It is recognized that late payment to supply/service companies results in unnecessary cost to both operators and supply/service companies. It is recommended that all parties adhere to contractual obligations.
- Submit complete and valid invoices in a timely manner as per contractual obligations
- Operators will support and endorse the participation of sub-contractors, where appropriate, at kick-off meetings to facilitate an understanding of the Operators expectations with regard to safety, quality and scheduling.

4 Monitoring and Evaluation

Goal – assuring a process is in place and is monitored for continuous improvement and to learn from best practices

Recommended Practice

- It is recommended that operators and supply/service companies use and regularly review performance measures on contracts, as well as provide general performance feedback.

- It is recommended that operators and supply/service organizations review this document on an annual basis and update as necessary. Suggestions for improving the document will be obtained through the use of annual surveys from the supply/service community and solicited feedback from events where activity and procurement forecast information is presented.
- Usefulness and adherence to this document will be measured based on the value and complexity of the work performed.

Appendix A Debriefing Guideline

Overview

The purpose of this document is to establish recommended practices to maximize the value of debriefing meetings between operators and supply/service companies.

Operators are also encouraged to provide this guidance to their major contractors and encourage its use in their relationship with supply/service organizations. Supply/service associations should provide this guidance to their membership and encourage its use.

1. Introduction

- Explain meeting objectives.

2. Evaluation Process

- Review the evaluation process with both parties respecting the confidentiality of the tendering process. Discuss bidder's overall proposal (layout, responses to required information, clarifications, alternatives, etc.).

3. Technical Evaluation

- Review the technical areas which were evaluated noting areas that were strong and those that were deficient in bidder's proposal.
- Provide any positive comments or constructive criticism which may give bidder guidance on improving any future proposals.

4. Health, Safety & Environment (HSE) Evaluation

- Review the HSE areas that were evaluated noting areas that were strong and those that were deficient in the bidder's proposal.
- Provide any positive comments or constructive criticism which may give bidder guidance on improving any future proposals.

5. **Quality Assurance (QA) Evaluation**

- Review the QA areas that were evaluated noting areas that were strong and those that were deficient in the bidder's proposal.
- Provide any positive comments or constructive criticism which may give bidder guidance on improving any future proposals.

6. **Industrial Benefits Review**

- **Evaluate the Supplier initiatives relative to Industrial Benefits Review (i.e. technology transfer, education and training, R&D, Supplier Development Initiatives)**

7. **Questions/Open Discussion**

- Ask bidder if there are any other questions.
- Ask bidder for their comments on the Debriefing session (e.g., was it beneficial, are there any other areas to be addressed, etc.).

Appendix B Quality Management Questionnaire

Overview

The purpose of this document is to maintain a standard approach to assess the Bidder's approach towards Quality Management keeping in mind that this is a sample and that not all questions may be applicable to each contract or bidder.

The bidder should provide copies, or make reference to, internal documented procedures to support their answers to the questions below:

1. Quality Management System

Do you operate under a formal, documented Quality Management System? If so, briefly describe the basis of the system and how it will be applied to ensure the products/services are delivered in accordance with the proposed scope of work. If available, please provide copies of the following;

- i) Your quality policy statement.
- ii) Your Master Documents List or the Table of Contents of your Policy and Procedures Manuals.
- iii) Your current Internal Audit Schedule.
- iv) Your third party ISO 9000 approval, if available.
- v) If ISO 9000 approval is held, a copy of last third party surveillance report.

2. Contract Review and Quality Planning

Briefly describe any processes employed to plan the activities related to the requested services. If available, provide typical examples of Quality Plans and/or Inspection and Test Plans.

3. Capacity and Resources

Describe how this work relates to the total annual productive capacity of your company and that of your main sub-suppliers.

4. Design Control

Briefly describe the processes used to control the design of the products to be supplied. Include references to design planning, design review, verification and validation processes.

5. Control of Sub-Contractors and Suppliers

Briefly describe your subcontractor selection process and any processes employed to monitor subcontractors' continued performance against contract requirements.

6. Quality Control

What techniques do you employ to verify that the product has been manufactured appropriately and in accordance with the contract requirements? What verification records are generated?

7. Material Traceability and Records

Briefly describe your records retention system and the normal records retained (or supplied to the client) as part of this product delivery. Your response should make reference to records such as Material Test Reports NDE records, in process inspections and Factory Acceptance Tests.

8. Control of Inspection, Measuring and Test Equipment

What processes do you employ to ensure that Inspection, Measuring and Test Equipment is fully calibrated and functioning appropriately?

9. Management of Non-Conformances

When products/services do not meet requirements, what processes are employed to ensure timely resolution of the problem? If so, what records of the problem and resulting solution are generated?

10. Continuous Improvement

Do you employ any continuous improvement processes or other methods to monitor, evaluate and improve the quality of products/services provided? If so, briefly describe them.

11. Internal Audits

Do you employ any processes to monitor internal activities to ensure conformance to internal procedures? If so, briefly describe them.

12. Training and Competency Management

Briefly describe your Training Policy and any controls used to ensure personnel are competent to perform their defined functions and responsibilities.

13. Servicing

Briefly describe any servicing and /or product support required/recommended as part of the delivery of this equipment.

14. Customer Satisfaction

Briefly describe any processes employed to monitor Customer Satisfaction and how these processes will be applied to the proposed scope of work.