

From: Pieter van Niekerk Transnet Freight Rail JHB
Sent: Wednesday, 7 August 2013 7:07 PM
To: Gerhard Bierman Transnet Capital Project JHB
Subject: RE: Confinement and Award of the FEL EPCM Services to Hatch Goba frm Phase 1 of the Manganese 16mtpa TFR Project
Attachments: Confinement and award of the FEL4 ECPM services to Hatch Goba for phase 1 of the Manganese 16mtpa TFR Project 130807.pdf

Gerhard,

Please find the signed copy by Mr Gama as requested.

Regards

Pieter van Niekerk

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From: Gerhard Bierman Transnet Capital Project JHB
Sent: 06 August 2013 12:38 PM
To: Siyabonga Gama Transnet Freight Rail JHB; Thuli Thanjekwayo Transnet Freight Rail JHB
Cc: Pieter van Niekerk Transnet Freight Rail JHB; Tracy Frauendorf Transnet Capital Projects
Subject: Confinement and Award of the FEL EPCM Services to Hatch Goba frm Phase 1 of the Manganese 16mtpa TFR Project

Siya

Following Garry's comment and Anoj's final inputs (attached), please find attached the final updated document for your signature. I have received confirmation from Anoj to proceed to obtain final signatures.

Charl will sign upon his return from Durban tomorrow and we will then submit to Garry and Anoj.

I would appreciate if you could sign and return.

Regards

Gerhard Bierman

From: Garry Pita Transnet Corporate JHB
Sent: 02 August 2013 05:39 PM
To: Thuli Thanjekwayo Transnet Freight Rail JHB; Mohammed Mahomed Transnet Corporate JHB
Cc: Pieter van Niekerk Transnet Freight Rail JHB; Anoj Singh Corporate JHB; Siyabonga Gama Transnet Freight Rail JHB; Charl Moller Transnet Capital Projects DBN; Gerhard Bierman Transnet Capital Project JHB
Subject: RE: Confinement and Award of the FEL EPCM Services to Hatch Goba frm Phase 1 of the Manganese 16mtpa TFR Project

Hi

Please see attached. I have signed off but made an adjustment to page 6. We might need to incorporate as the GCE might not sign with written in additions. Anoj and Mohammed please review and see if you are happy or if you recommend any other changes

Regards
Garry

From: Thuli Thanjekwayo Transnet Freight Rail JHB
Sent: 02 August 2013 09:36 AM
To: Mohammed Mahomed Transnet Corporate JHB; Garry Pita Transnet Corporate JHB
Cc: Pieter van Niekerk Transnet Freight Rail JHB
Subject: FW: Confinement and Award of the FEL EPCM Services to Hatch Goba frm Phase 1 of the Manganese 16mtpa TFR Project

Dear colleagues

The attached memo is for your attention.

Kind regards



Thuli Thanjekwayo
Office of the Chief Executive
Transnet Freight Rail

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From: canon@transnet.net [mailto:canon@transnet.net]

Sent: 01 August 2013 04:23 PM

To: Thuli Thanjekwayo Transnet Freight Rail JHB

Subject: Confinement and Award of the FEL EPCM Services to Hatch Goba frm Phase 1 of the Manganese 16mtpa TFR Project

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MEMORANDUM

www.transnet.net

TO : Brian Molefe, Group Chief Executive, Transnet SOC Ltd

FROM : Charl Möller, Group Executive, Transnet Capital Projects

DATE : 6 August 2013

SUBJECT : **CONFINEMENT AND AWARD OF THE FEL 4 EPCM SERVICES TO HATCH GOBA FOR PHASE 1 OF THE MANGANESE 16mtpa TFR PROJECT**

PAGES : 7

PURPOSE

1. To obtain approval from the Group Chief Executive, Transnet SOC Ltd for confinement and award of the Engineering Procurement and Construction Management (EPCM) services for FEL 4 Phase 1 of the Manganese 16mtpa TFR expansion project to Hatch Goba, the current FEL-3 service provider.

BACKGROUND

2. The Manganese expansion project as part of the MDS investment programme is a 'catalytic' growth project and supports the development of the Manganese industry (including various emerging mines) in the Northern Cape. The programme is tracked by the PICC in SIP 3: South Eastern node and corridor development.
3. Transnet has committed to provide 16mtpa of manganese export capacity by March 2020, with an initial 8mtpa available by August 2018 when the new bulk terminal in the Port of Ngqura is expected to be commissioned.
4. Various critical milestones have been identified to achieve these dates necessitating the separation of the rail infrastructure expansion into separate phases being, Phases 1 and then 2: Full Expansion programme. Phase 1 is limited to work packages that have existing environmental authorisation where construction can commence immediately and where the investment benefit to Transnet can already be realised during the construction programme. Environmental approvals for the remaining work packages in Phase 2 are only expected by January 2014.
5. Phase 1 comprises the partial doubling of the line section (132km of a total of 243km) between Kimberley and De Aar, and the extension of the Rosmead passing loop at an estimated cost of R2.38 billion and an expected completion date of June 2016. EPCM cost based to industry norms usually range between 15-18% of project cost. The relative simplicity and free issue of perway materials on this project have placed it at the lower

end of the scale. EPCM cost of R220m has been calculated against the total project cost less free issued materials.

6. The business case for Phase 1 was approved by the Transnet Board on 15 February 2013 and Phase 2 is currently serving at various committees for approval.
7. The project milestones for Phase 1 (FEL-4) are summarised below:

Milestone	Milestone
Rail Environmental Authorisation	Approved
Construction Planning	
Award EPCM contract	To be complete before October 2013
Site establishment	
RAIL Phase 1: Construction to start	October 2013
RAIL Phase 1: Complete	June 2016

8. The detailed construction planning for Phase 1 has commenced. The following risks have however emerged:
 - 8.1. Transnet's current EPCM procurement strategy requires public tender processes between the respective project lifecycle process (PLP) phases. Standing time between phases can be anywhere between 6 and 9 months depending on the tender process, quality of bids received and the complexity of the project.
 - 8.2. Transnet Capital Projects is in the process of developing a revised EPCM operating model and strategy based on sound business principles and incorporating the findings of the NMPP Ministers report and seeks to combine the FEL2,-3 and FEL-4 phases to the same service provider as the preferred options to reduce project risks, associated schedule delays and ETC increases. This principle is also contained in the draft Supply Chain Management Policy that is currently being circulated for approval.
 - 8.3. When reviewing the programme for Phase 1, only six months effectively remain between the issuing of the warrant and the commencement of construction. This does not allow sufficient time for an open tender EPCM process to appoint a new EPCM service provider. It also introduces the risk of further project delays should the engineering service provider wish to interrogate the engineering designs produced in the FEL-3 phase (by Hatch Goba). This is a material risk to the project timelines given that the EPCM service provider must confirm professional guarantees for the detailed engineering designs issued during construction. The estimated start date for site establishment is likely to move out from August 2013 to February 2014 should an open tender process be followed.
 - 8.4. In quantifying the project delays it is estimated that each 6 month delay period introduced during the FEL-4 phase could potentially result in ~R80m of escalation increases in the project's ETC. This is calculated based on the escalation figures quoted in the Integrated Manganese Business case. The planned Phase 1 construction programme is a typical brown-fields expansion project and is very sensitive to the planning and granting of occupations on the existing lines. The

operational planning during construction is also critical to maintain current volumes through the corridor but also to provide incremental capacity during construction. The knowledge gained by the EPCM service provider during the FEL-3 study will be used during construction to oversee and adjust the programme where necessary during the FEL-4 phase

9. A series of frameworks/panels were established in TCP, through a competitive bid process, for the provision of a variety of services. Each framework/panel operates independently, with business awarded on a task order bases. Each framework resulted in the establishment of contracts with a panel of qualifying service providers.
10. Hatch Africa (now Hatch Goba) was then selected, under separate appointments on the Investment Planning Services framework/panel, for the provision of services for FEL 2 and FEL 3 phases of the Manganese 16mtpa Expansion Project (inclusive of phase 1). This was done using the selected process approval procurement mechanism. Their selection was mainly due to their involvement in previous studies carried out on the 8mtpa Manganese Project and their experience in rail infrastructure development. Hatch Africa was appointed for Rail FEL 3 and Port FEL2/3 studies in November 2011 for R34 million. An increase in the DCV was subsequently approved through a formal NAC submission (May 2012) increasing the value to R128 million, to include additional FEL3 deliverables required by the OD's. These included geotechnical and environmental works. TNPA and TFR approached their relevant CAPICs for approval of the additional funding.
11. The final rail FEL-3 study¹ with various value engineering iterations was completed in February 2013.

MOTIVATION

12. The motivation to confine FEL 4 is based on one of the four requirements for confinement as per the Procurement Procedures Manual (1/10/2012) namely:
 - 12.1. The Services being procured are highly specialized and largely identical to those previously executed by the supplier and it is not in the interest of the organisation or the Government to solicit other offers as it would result in **wasted time and money** for Transnet.
13. Phase 1 is a critical milestone in the 16mtpa Manganese expansion programme and also supports the interim initiatives to provide export capacity for manganese customers through various terminals in Port Elizabeth. This interim capacity is required to protect the global market share of local Manganese producers. In order to provide incremental capacity during the FEL-4 construction period and achieve the June 2016 implementation date, a special procurement process is required.
14. Engineering design work for Phase 1 as part of the full expansion project has already been done in the FEL-3 study which can be efficiently progressed to the final execution phase by retaining the EPCM services of the same service provider. Any changes in engineering design between FEL-3 and 4 could impact the scope of individual work packages and therefore the overall cost, a key lesson learnt on the NMPP project. The Manganese expansion introduces a new operating philosophy in the general freight network i.e. long, distributed power trains and TFR/Transnet together with the engineering service provider invested significant intellectual property, research and

¹ The final FEL-3 study was for the full expansion which included phase 1 of the project

development, simulations and know how in defining the infrastructure appropriate to this philosophy. Up-skilling of a new EPCM service provider on this philosophy will result in significant project delays. Additional time delays resulting in ETC escalations during Phase 1 will be avoided by proceeding with the current EPCM service provider.

15. The retention of the current EPCM service provider for engineering services in FEL-4 is therefore requested as an urgent action for Phase 1.
16. The confinement to Hatch Goba is being requested due to the services being largely identical to the services previously provided by Hatch Africa (now Hatch Goba).
17. The current service provider: Hatch Goba has the necessary skills and capacity to progress the engineering design and preparation of tender documentation for phase 1 of this project from FEL-3 to FEL-4. The service provider will serve as the single point of accountability of the required EPCM services and will provide the necessary professional guarantees required by the NEC3 contracting regime.
18. The confinement and award of EPCM services to Hatch Goba will ensure:
 - Business continuity;
 - The retention of Intellectual Property (IP);
 - Effective transfer of skills;
 - Effective risk mitigation;
 - The assurance that no rework is required to secure professional indemnity; and
 - Timeous completion of the detailed engineering design and preparation of tender documentation for the construction phase (FEL-4) of the project.
19. The overall project risk exposure, including cost control and optimization will be managed through the employment of robust works information, developed by TCP to especially cater for EPCM services, the employment of a suitable contracting strategy and the use of various tools for the upfront benchmarking of costs. The aforementioned works information was developed and reviewed by a cross functional team within TCP to address the lessons learnt on past EPCM contracts including the NMPP. It addresses all the key obligations, constraints, cost management and contract management controls and ensures alignment with the relevant Transnet policies and procedures. The relevant performance management, monitoring and reporting requirements are also included.
20. The NEC3 Professional Services Contract (PSC) with pricing option A was identified as the suitable contracting strategy for the contracting of the required EPCM services. NEC3 PSC Option A is a priced contract with an activity schedule for professional services and schedule of rates for a predetermined scope of works. Under this pricing option the service provider carries the risk of providing those services described in the activity schedule for a lump sum. Payment milestones are based on activities completed. Early completion of the services while in the context of project requirements, entitle the service provider to early payment, this in itself becomes an incentive for the early completion of the works. The works is expected to be executed over a 34 month period commence as soon as possible after obtaining all the required approvals. No early completion incentives have been provided for save for those inherent to the selected contracting methodology.

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21. Potential changes will be managed in terms of a risk register and the standard compensation events methodology provided for in the NEC3 suite of contracts. Cost associated with compensation events will be derived from the priced rates schedule and where applicable proof of the relevant costs incurred.
22. TCP will benchmark costs against accepted industry norms and comparable rates obtained on other tenders. If necessary cost and/or time estimates will be obtained from independent sources to ensure and verify that value for money is obtained.
23. Effective management will be ensured through an owner's team that has been appointed to monitor the EPCM service provider's performance. This team, led by an experienced Project Director is made up of subject matter experts from the various functional support areas and will report into the approved Programme Organisation.
24. TCP has already appointed a core team on the manganese project led by an experienced Project Director with 15 years' experience in project management supported by personnel who are skilled in procurement, construction management and project controls. In addition to this TCP is actively procuring additional resources, to ensure a full owner's team will be in place to manage the EPCM. The key potential liabilities of the EPCM contract which must be managed by the owners team relates to breach or negligence in the performance of the design work. TCP will therefore ensure that engineering managers are appointed to ensure that reasonable design completion targets are reached. The owner's team will also ensure that a scope change team are introduced and that scope changes are tightly controlled. TCP will ensure that a specialised project control team verifies these estimates and schedules and ensure a proper project control system supported by the proper software packages is in place. With EPCM's the execution contracts are between the owner and contractor with the EPCM not being a party to the contract other than managing the contract on behalf of the owner. The owners team must therefore ensure quality assurance of tender documentation, proper control of any DOA and ensure that contracts are managed in terms of NEC3. The NEC3 professional service tender documentation was updated to ensure a tighter control of the EPCM. In addition to the above the owner's team must ensure that governance are maintained through competent staff in environmental, safety and construction compliance.

FINANCIAL IMPLICATIONS

25. If approved, the total estimated contract value for the EPCM services in FEL-4 will be R220 million for phase 1 of the 16mtpa Manganese expansion project.

BUDGET IMPLICATIONS

26. The R220 million for the EPCM services in the FEL-4 stage of Phase 1 is included in the approved EPCM value for the project.

BBBEE IMPLICATIONS

27. When Transnet entered into the original contract with Hatch Africa, prior to the merger with Goba (resulting in Hatch Goba), Hatch Africa had a BBBEE contributor status level of 3. The BBBEE certificate currently in Transnet's possession was valid for the financial year 2012/13 and Transnet have been notified by Hatch Goba that they are currently in the verification process of obtaining a new valid BBBEE certificate. Hatch Goba's targeted objective to obtain a minimum level 3 contributor status in terms of the current Broad

Based Black Economic Empowerment (BBBEE) codes will be driven by an active BBBEE strategy to ensure that it contributes positively to transformation within its sector and society as a whole.

28. In addition to this, TCP also requests that Hatch Goba submit a B-BBEE improvement plan. Hatch Goba are therefore requested to indicate the extent to which their ownership, management control, employment equity, preferential procurement and enterprise development will be maintained or improved over the contract period.

SUPPLIER DEVELOPMENT IMPLICATIONS

29. SD will be implemented in the form of a pre-qualification criterion as well as a threshold
30. The minimum pre-qualifying criteria of 50% of contract value will be allocated to SD related initiatives. It is Transnet's preference that this be directed towards Small Business Promotion, for works to be sub-contracted to service providers that are preferably black owned, black women, black youth, people with disabilities or with the South African National Military Veterans Association (SAMVA).
31. Along with the SD pre-qualification, an SD threshold of 60% will also be required, with the service provider evaluated against predetermined criteria. The table below provides an indication as to the weightings developed per SD category:

SD Category	Weighting
Capability and Capacity Building	10%
Technology and IP Transfer	5%
New Skills Development	15%
Job Creation	15%
Job Preservation	10%
Small Business Promotion	45%

32. The SD plan/proposal will be negotiated if required to ensure maximum alignment with the criteria set. The service provider will be required to identify clear and tangible outcomes which can be achieved over the duration of the contract, based on the scope of works and the applicable SD pillars. These outcomes together with their key milestones and the methodology for achieving them will be documented within the SD plan and finally included in their contractual obligations by way of incorporation to the works information. The plan will among other things address how skills transfer will be realised to subcontractors and how capability and capacity building will be addressed. This plan to be fully documented within 90 days after award of the contract. Confirmation from contractor to be obtained that Transnet bears no risk for subcontractor non-performance.
33. The service provider will be liable to pay penalties on any undelivered portions of their SD commitments. Penalties will be negotiated with the service provider in question with the aim of securing a penalty not less than 100% of any undelivered SD obligations. This will be incorporated as a provision under the contract. Transnet will reserve its right to set off any penalty due against milestone payments.

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APPROVALS AND DELEGATIONS

34. Paragraph 5.4.3 (confinements) of the Transnet Delegation of Authority Framework effective 29 May 2013 will be applicable where the GCE has the authority to approve confinements up to R250 million.

RECOMMENDATION

35. It is recommended that the Transnet Group Chief Executive Officer approves the confinement and award of the Engineering Procurement and Construction Management (EPCM) services for FEL 4 Phase 1 of the Manganese 16mtpa TFR expansion project to Hatch Goba, the current FEL-3 service provider. The estimated value for this appointment is R220m with an estimated contract period of 34 months beginning in August 2013 to June 2016. The confinement award is subject to all of the following:

- Value of the contract not to exceed R 220m;
- SD prequalification of 50% be met;
- SD threshold of 60% be met;
- Penalty for un-delivered SD obligation be 100%;
- Skills capacity and transfer plan to be submitted within 90days;
- Subcontractor non-performance not Transnet's risk

Compiled and submitted by **Rudie Basson, GM: Project Execution Port and Rail.**

Recommended/Not recommended by:

Recommended/Not recommended by:

Gerhard Bierman
Chief Financial Officer, TCP

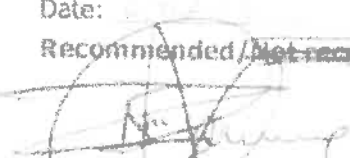
Charl Möller
Group Executive
Transnet Capital Projects

Date:

Date:

Recommended/Not recommended by:

Recommended/Not recommended by:


Siyahonga Gama
Group Executive
Transnet Freight Rail

Mohammed Mahomedy
General Manager Group Capital Integration

Date: 2013-08-07

Date:

Recommended/Not recommended by:

Recommended/Not recommended by:

Garry Pita
Group Chief Supply Chain Officer

Anoj Singh
Group Chief Financial Officer

Date:

Date:

Approved/Not Approved by:

Brian Molefe
Group Chief Executive, Transnet SOC Ltd
Date:

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