

Procurement Policy

ISSUE DETAILS

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TRANSPOWER APPROVED CORPORATE POLICY

This Policy was implemented: **26 September 2014**



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1. GETTING STARTED

1.1 Introduction and purpose

This policy sets out *procurement principles* and *procurement rules* for Transpower procurement activities. The purpose of this policy is to support the proactive management of the procurement process to mitigate risk and to deliver commercially robust outcomes for Transpower.

The Board approved *procurement policy* is supported by management rules and practice guidelines.

1.2 What is procurement?

Procurement covers all aspects of acquiring and delivering goods, services and works. It starts with identifying the need and finishes with either the end of a service contract or the end of the useful life and disposal of the asset. This policy focuses on the sourcing stage of the procurement life cycle.

Good practice procurement requires a strong understanding of all aspects of the procurement lifecycle. Compliance with principles, policies and procedure is important but procurement processes should be designed to match the value, risk and complexity of the purchase. It's about applying sound commercial judgement to achieve the best value for money, which isn't always the cheapest price, and drive innovation and performance

1.3 Coverage of the policy.

This policy applies to all Transpower procurement except for areas of procurement specifically excluded from coverage. Exclusions are set out in Appendix 1.

1.4 Responsibility for compliance with policy

Responsibility for compliance with this policy rests with the *DFA holder* for the relevant expenditure.

1.5 Monitoring compliance with this policy

Compliance with this policy is monitored by General Managers for their divisions and the Manager - Sourcing, Supply and Contracts. Any breaches of policy are to be handled in accordance with the Compliance Policy.

1.6 Definitions

Closed tendering means a tender process where a limited number of suppliers are invited to tender for a contract opportunity.

Commencement date means the date this version of the *procurement policy* comes into effect.

DFA holder means the person designated under the Delegated Authority Policy as having delegated financial authority for a decision.

ERR means an evaluation recommendation report at the end of a sourcing process that documents the outcome arising from the evaluation of the tender submissions and the recommendations of the evaluation team for the approval of the person with delegated financial authority.

Exclusions means those procurement areas which are not covered by Transpower's *procurement policy*. Refer Appendix 1 of the *procurement policy* for the list of excluded areas of procurement.

Exemptions are procurement activities which meet the greater than or equal to \$500,000 value threshold but qualify for an exemption from the open tendering rule. Refer Appendix 2 of the *procurement policy* for the list of reasons why an activity may be exempted from compliance with the open tender rule.

GETS means Government Electronics Tender Service, a free e-procurement service that Transpower uses for advertising open tenders.

Maximum total estimated value means a genuine estimate of the total cost that Transpower will pay over the whole-of-life of the contract. It covers the full contract cost of goods or services and any other expenses such as maintenance and repairs, and the cost of disposing of the goods at the end of the contract.

Notice of procurement means the documents published on GETS, Tenderlink or Transpower's procurement mailbox that advertises a new contract opportunity (e.g. a registration of interest or a request for tender). It sets out all the information that suppliers need in order to prepare and submit a meaningful response.

Open tendering means a tender process where the contract opportunity is openly advertised. GETS and other media are used to advertise the tender.

Panel of suppliers means the suppliers Transpower has pre-approved to supply particular goods or services and who have agreed to the Transpower's terms and conditions for supply.

Procurement policy means Transpower's Board approved procurement policy (this document)

Pre-qualified suppliers list means a list of suppliers Transpower has pre-approved as having the capability and capacity to deliver specific goods or services.

Procurement plan means the document which sets out the approach to a procurement activity. (Link to *procurement plan* template)

Procurement principles means Transpower's procurement principles as set out in clause 2.1 of the *procurement policy*.

Secondary procurement method means the method Transpower will use to award contracts to suppliers on a *panel of suppliers*

Sole sourcing means a tender process where Transpower directly approaches a single supplier to tender for a contract opportunity.

2. PROCUREMENT PRINCIPLES

Transpower's procurement principles

Transpower has largely adopted the principles of government procurement set out in the Government Rules of Sourcing 2013. The *procurement principles* set out below apply to all Transpower procurement and sourcing (subject to the exclusions set out in Appendix 1).

Plan and manage for great results

- Identify what you need and then plan how to get it – consider opportunities for achieving leverage through the structure of your procurement
- Set up a team with the right mix of skills and experience
- Involve suppliers early – let them know what you want and keep talking
- Choose the right process – proportional to size, complexity and any risks involved
- Encourage e-business (for example, tenders sent by email)

Be fair to all suppliers

- Create competition and encourage capable suppliers to respond
- Treat all suppliers equally – Transpower must treat suppliers from another country no less favourably than New Zealand suppliers. Suppliers are assessed on the basis of their financial, technical and commercial capacity
- Give NZ suppliers a full and fair opportunity to compete
- Make it easy for all suppliers (small to large) to do business with us – consider ways to reduce suppliers' cost to serve
- Be open to subcontracting opportunities in big projects
- Clearly explain how you will assess suppliers' proposals – so they know what to focus on
- Talk to unsuccessful suppliers so they can learn and know how to improve next time
- Protect suppliers confidential or commercially sensitive information

Get the right supplier

- Be clear about what you need and fair in how you assess suppliers – don't string suppliers along
- Choose the right supplier who can deliver what you need, at a fair price and on time
- Build demanding, but fair and productive relationships with suppliers
- Make it worthwhile for suppliers – encourage and reward them to deliver great results
- Identify relevant risks and get the right person to manage them

Get the best deal for everyone

- Get the best value for money- account for all costs and benefits over the lifetime of the goods or services
- Consider the health and safety implications of any purchasing decision
- Make balanced decisions – consider the social, environmental and economic effects of the deal
- Encourage and be receptive to new ideas and ways of doing things – don't be too prescriptive
- Take calculated risks and reward new ideas
- Have clear performance measures – monitor and manage to make sure you get great results
- Work together with suppliers to make ongoing savings and improvements
- It's more than just agreeing the deal – be accountable for the results

Play by the rules

- Be accountable, transparent and reasonable
- Make sure everyone involved in the process acts responsibly, lawfully and with integrity and can justify their procurement decisions
- Offsets¹ **must not** be asked for, taken account of or imposed at any stage of the procurement process
- Stay impartial – identify, notify and manage conflicts of interest
- Protect suppliers' commercially sensitive information and intellectual property

3. PROCUREMENT RULES

3.1 Procurements meeting or exceeding \$500,000 excluding GST to be open tendered

Subject to the *exclusions* any procurement of goods and services² valued at greater than or equal to \$500,000 (excluding GST) must be open tendered except in the following circumstances:

- The procurement is approved as an *exemption* in accordance with the criteria in Appendix 2 and documented in a *procurement plan* (in which case *sole sourcing* or *closed tendering* is permitted). *Exemptions* must not be relied upon for the sole purpose of avoiding competition; or
- A *panel of suppliers* is in place (in which case Transpower would follow its *secondary procurement method*).

An open tender can involve either a one-step process such as a request for quote or a request for tender; or it can be a multi-step process such as a registration of interest followed by a shortlisting and then a request for proposal or a request for tender.

¹ Examples of offsets include: requiring goods, services or works from a specific country; applying weighted evaluation criteria that favour local content or give local suppliers a price preference

² This includes goods or services procured by any contractual means including purchase and rental or lease with or without an option to buy, build-operate-transfer contracts accessed via third party commercial supply brokerage arrangements.

3.2 Setting up a *panel of suppliers*

The establishment of a *panel of suppliers* must be run as an *open tender* process. The *notice of procurement* used to establish the *panel of suppliers* must outline the method/s that Transpower will use to select suppliers when a contract opportunity arises (i.e. the *secondary procurement method*).

3.3 Setting up a *pre-qualification suppliers list*

Pre-qualification suppliers lists may be established where there are operational and commercial drivers for this. The establishment of a *pre-qualification suppliers list* must be run as an *open tender process*.

3.4 *Procurement plan and evaluation recommendation report* required where value of procurement meets or exceeds \$500,000

Any procurement of goods or services with a *maximum total estimated value* of greater than or equal to \$500,000 must be supported by an approved *procurement plan* and an *ERR*. Please follow [link](#) to *procurement plan* template and [link](#) to *ERR* template.

For a procurement of less than \$500,000 the preparation of a *procurement plan* and an *ERR* is good practice but not mandatory.

The Manager – Sourcing, Supply and Contracts (or delegate) must approve all *procurement plans* and *ERRs* for procurements valued at \$500,000 or greater to ensure compliance with this policy.

Procurement plans must address the management of any conflicts of interest. Questions regarding conflicts of interest should be addressed, in the first instance, to the Contracts and Tenders Team, or to the General Counsel & Company Secretary.

3.5 Estimating procurement values

For each procurement of goods or services, the total value of the procurement must be estimated to determine whether it meets or exceeds the \$500,000 value threshold. The *maximum estimated value* of the procurement must be included in the *procurement plan*. This estimate is referred to as the *maximum total estimated value*.

The total value over the whole-of-life of the contract(s) must be considered when estimating the procurement's maximum total estimated value. The estimate **must** include the value of all the contracts that may result from the procurement.

The value is the total amount excluding GST.

When calculating the *maximum total estimated value* of a procurement, the calculation **must** (on a best endeavours basis) include everything required for the full delivery of the goods, services or works. This includes the value of:

- Options to purchase additional goods, services or works
- Options to extend the term of the contract
- Paying any premiums, fees or commissions to the supplier or broker
- Any revenue streams a supplier receives
- Any other form of remuneration or payment due to the supplier or to a third party or any interest payable.

3.6 Extending contracts

The provisions of the *procurement policy* apply when it is proposed to extend a contract beyond its expiry date. In other words if the *maximum total estimated value* of the new contract (or the extension) meets or exceeds \$500,000 threshold the open tender rules apply.

3.7 Non-avoidance of policy

The process (including the preparation of the *procurement plan*) must not be prepared, designed or otherwise structured or divided at any stage in order to circumvent the application of the policy. Use of a third party as an agent or consultant (not being the prime contractor) to advise on, arrange or manage a procurement process does not remove the requirement to comply with this policy or to observe the same ethical standards, principles and behaviour that apply to Transpower.

3.8 Conflict of interest declarations

Conflicts of interest declarations must be completed by individuals involved with a procurement and must be kept with the tender records (e.g. Project Advisory Team, Tender Evaluation Team, Project Managers, Commercial Managers, DFA holder etc).

Conflicts of interest must be managed in accordance with Transpower's Code of Ethics and Conduct. Conflicts of interest must be eliminated, isolated or minimised.

3.9 Commencement date and transition arrangements

This policy takes effect from 26 September 2014. For procurements in process or entered into before the commencement date compliance is assessed against the 1 June 2011 *procurement policy*.

APPENDIX 1

PROCUREMENT ACTIVITIES EXCLUDED FROM THE PROCUREMENT POLICY

This policy does not apply to the following procurement activities that are directly governed by separate processes:

- a) Hiring of staff
- b) The acquisition of persons covered by the **Acquisition and management of temporary (non-staff) resources policy**;
- c) Purchase and compensation associated with the acquisition of property and easements; and
- d) Debt and other capital raising (including securing insurance) conducted by the Treasury Group in accordance with the Treasury Policy and by delegation from the Board to the Audit & Risk Committee.

APPENDIX 2

EXEMPTIONS FROM OPEN TENDERING FOR PROCUREMENT OF GOODS AND SERVICES WITH A *MAXIMUM TOTAL ESTIMATED VALUE OF GREATER THAN OR EQUAL TO \$500,000*

Exemptions to open tendering, set out below, may be used as long as they are not being used to avoid competition. Any decisions made to use any exemption must be supported by a *procurement plan*.

A1 Sole sourcing or closed tendering

Sole sourcing or closed tendering is justified in the following circumstances:

- a) The required goods or services are available from only one source or where the goods or services require specialised skills or are very complex and there is a limited number of qualified suppliers.
- b) Only one supplier has the capacity to deliver goods or services at the time required.
- c) Standardisation or compatibility with existing goods or services is necessary, or is an approved Transpower strategy for that asset, and can be achieved through only one supplier.
- d) For procurements made under exceptionally advantageous conditions that only arise in the very short term, including but not limited to a procurements resulting from liquidation, bankruptcy or receivership.
- e) For goods and services procured pursuant to a negotiated government supply agreement.
- f) For goods or services procured at a public auction or tender.
- g) For goods and services where no reasonable alternative/substitute exists.
- h) Where additional deliveries of goods by the original proprietary supplier are intended for use as replacement parts or for upgrades which would otherwise compel Transpower to not meet interchangeability or warranty needs or where additional services are required as part of fulfilling an existing contract.
- i) For goods and services procured from a Transpower subsidiary where it can be demonstrated that the subsidiary's Least Cost/Value Proposition is at least as good as a comparable competitor or other market participant.
- j) In order to comply with specific legislative or regulatory requirements.
- k) The System Operator's procurement of ancillary services under Part 8 of the Electricity Industry Participation Code 2010.
- l) For goods and services procured in relation to a customer investment project where the customer has requested direct procurement and understands the risks involved in such direct procurement.
- m) For purchases and compensation associated with the acquisition of demand response capability.

A2 Secondary procurement process where there is an existing *panel of suppliers*

Where a *panel of suppliers* is in place Transpower may purchase directly from the *panel of suppliers* in accordance with the *secondary procurement method* set out in the original *notice of procurement*.

COMPLIANCE REQUIREMENT REFERENCES

Compliance with international agreements

This policy takes into account New Zealand's trade policy interests in open and transparent government procurement markets. (Refer to the [Ministry of Business and Innovation web site](#).)

Government policies and guidelines

This policy takes into account the following government policies and external documents:

- Procurement guidance for public entities (OAG document, June 2008);
- Government Rules of Sourcing 2013
- Government Electronic Tender Service ("GETS");

Corporate policies

Procurement activities will be conducted in accordance with Transpower's policies as well as with standards of behaviour that are specified and/or implied in the following Corporate Policies:

- Code of Ethics and Conduct
- Compliance Policy
- Delegated Authority Policy
- Discretionary Expenditure, Gifts and Travel Policy
- External Communications Policy
- Privacy Policy
- Safety and Health Policy
- Treasury Policy.