Warning:Printed copies of this document not in an official Manual MAY NOT BE THE LATEST. The most up-to-date version is located on The Volt.

PURCHASING AND PROCUREMENT POLICY

MANUAL

Please note: A **Purchasing and Procurement Policy Manual induction document** is available to assist with the Staff Induction Process. You can access this via Process Documents > 08-Procurement and Property > User/Training Docs > Induction Process – Purchasing and Procurement Policy Manual

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1. *Foreword*

This Purchasing and Procurement Policy Manual ('Policy') is available to all CitiPower Pty and Powercor Australia Ltd ('Business') personnel and where applicable, consultants and temporary personnel on contract, to provide guidance in the procurement of goods and services at all Business locations. The Policy is published and maintained as one of the key tools to assist employees to understand their responsibilities for all purchasing and procurement activities.

Any employee with an authority to commit the Business to purchasing or procurement must be familiar with and abide by the requirements of this Policy and in conjunction with other relevant business policies.

The Chief Financial Officer (CFO) owns this Policy and is ultimately responsible for monitoring its continued adherence. Suggestions for improvement and refinement are encouraged and should be forwarded to the Procurement Manager in Corporate Finance in accordance with the Developing, Revising & Publishing Documents Procedure 12-P600 available on The Volt.

2. *Purpose*

The Policy is to establish principles and practices that govern Business purchasing and procurement activities for all goods, materials, services and intellectual property assets ('goods and services').

3. *Scope*

The contents of this Policy will have relevance to any person with authority to spend or approve spend of Business funds through purchasing or procurement activities. It is important that all staff who commit to expenditure are aware of the obligations under this Policy.

4. *Application*

This policy applies to both purchasing and procurement activities and is structured accordingly:

- Part A – contains general Policy that applies to both purchasing and procurement activities for those staff undertaking the activities as well as those with the authority to approve them.
- Part B – applies to operational activities associated with purchasing.
- Part C – applies to procurement and strategic sourcing activities.

For the purposes of this Policy, purchasing and procurement are defined as:

- Procurement – process of setting up arrangements for the supply of goods or services to the Business. These arrangements may include preferred supplier lists, catalogues of approved items or contracts for supply of agreed goods and/or services.
- Purchasing – is operational procurement and refers to day to day tasks associated with acquiring items off preferred supplier lists, catalogues, contract or other arrangements that have been put in place for the Business.

Reference should also be made to the Contract Management Manual 08-M120 which establishes principles and practices of Contract Management and provides guidance in the formation, execution and management of contracts with Suppliers of goods and/or services.

5. *Guiding Principles*

There are six guiding principles surrounding the commitment of Business funds to external suppliers:

1. Any employee wishing to purchase goods and services must acquire these through pre-existing catalogues, contracts, supplier arrangements or through nominated preferred suppliers ('arrangements') that are in place.

2. Only the Procurement Group has the authority to *procure* and commit the Business to new arrangements or renew existing ones.

3. Procurement may delegate this authority back to Business Units for particular supply categories or commodities for reasons of practicality, economy or expediency.

4. The delegation of Procurement Authority back to Business Units will be determined by the Procurement Group and nominated representatives (Supplier Relationship Management (SRM) Champions) from the Business Units in regular planning sessions.

5. When a commitment is made to a supplier without the Procurement Group or where the Procurement Group is unable to influence a decision, it is deemed to be 'Expenditure Non-Compliance'. Expenditure Non-Compliances do not allow the Procurement Group the opportunity to ensure that the Company leverages spend and obtains fair value from purchases. The Procurement Group will track and report on Expenditure Non-Compliance and take action to ensure it is minimised where viable and/or beneficial to the Business.

6. This Policy recognises that there will be valid instances of Expenditure Non-Compliance where a particular good or service does not form part of an existing arrangement and/or the need to acquire it has not been captured in planning sessions and the need is urgent. In these instances, employees must follow the relevant processes and apply the principles and practices outlined in this Policy relating to purchasing and procurement.

6. *Review*

This Policy is intended to continue to evolve over time with business changes. The Policy will be reviewed on at least an annual basis by the Document Owner and the Procurement Steering Committee to ensure it remains relevant and facilitates leading practice.

This Policy is owned by the Chief Financial Officer. The Procurement Steering Committee is ultimately responsible for approving any changes to the Policy.

7. *Associated Documents*

Where indicated, this Policy should be read in conjunction with the referenced Policies, Procedures, Manuals, Work Instructions, Guidelines or Forms ('Documents').

PART A – GENERAL POLICY

8. *Governance and Ethics*

All permanent and temporary employees ('employees') engaging in the purchasing or procurement of goods and services must ensure that established procedures as referenced in this Policy are followed to ensure compliance. Reference should be made to the Procurement Group for areas where clarification is required.

Employees engaged in procurement and purchasing processes shall at all times conduct their responsibilities ethically and with integrity and in conjunction with the Employee Handbook and Code of Conduct Manual 11-M101.

8.1 Probity

Employees are expected at all times to avoid situations in which private interests conflict or have the potential to conflict or may be perceived to conflict with their business responsibilities.

a) Where an employee involved in purchasing or procurement has a direct financial interest in a potential supplier company or a relative or close personal friend of the employee has a direct financial interest in a supplier company, the employee must declare this interest and the nature of this interest to their Joint Management Team member. The employee must not be involved in any future assessment, selection or price determination that involves this Supplier nor should they be placed in a position that requires them to choose between the supplier and alternative suppliers of goods or services on a regular basis.

b) Where a supplier or supplier's representative is a known close personal friend or relative of the employee responsible for supplier selection or price determination, the employee must declare this interest and will not be able to partake in the assessment, selection or price determination of this particular supplier.

c) If an employee is going to become involved in a personal business venture with a supplier, contractor or competitor of the Business, the employee must get written permission to do so from the Chief Executive Officer.

d) The Company name may not be used by individuals to obtain personal discounts or rebates and any such opportunities must be brought to the attention of the employees Line Manager or Human Resources.

e) Declaration of Conflict of Interest Form (DCIF) 08-F002.

For all market engagement events greater than $250,000 in total value, a DCIF must be signed by all employees involved at any stage of the event. These include but are not limited to:

i. Employees providing technical specifications or involved in requirements gathering;
ii. Employees providing advice or analysis in relation to the goods or services (including specification, service and price etc) or advice on Occupational Health and Safety (OH&S), Quality or Environment etc;
iii. Subject matter expertise;
iv. Employees involved in formulating evaluation criteria or conducting evaluations; and
v. Employees providing signoff and developing recommendations.

The Procurement Group will sign the DCIF on an annual basis. The signed DCIF's must be retained with all the relevant documentation relating to the event. Any recommendation must acknowledge that all participants have signed DCIF's and that no employee with a conflict of interest was involved in the process.

8.2 Former CP/PAL Employees

The Business will not accept former employees as suppliers or supplier's representatives for a period of 12 months after their employment with the Business if the former employee:

a) Is in a position of negotiating directly with the Business on issues pertaining to supplier selection or price determination; or

b) Is in a position of substantial influence at the supplier and the former employee has a relationship with the Business decision makers responsible for supplier selection and price determination; or

c) Has had access to significant information related to the goods or services being purchased which was not fully disclosed to competing suppliers and provides that supplier with an unfair advantage.

Any deviation from this must have written approval from the Procurement Steering Committee.

8.3 Business Conduct

a) Business Meals and Entertainment

Employees who work with suppliers may accept customary business amenities such as meals and entertainment provided the expenses involved are kept at a reasonable level and are not prohibited by law or known supplier business practices. If an employee is unsure if it is appropriate to accept an invitation to a specific event, the employee's Line Manager or the Procurement Group should be contacted. The only reason to accept business amenities from suppliers is to develop and strengthen business relationship with suppliers. Supplier personnel must participate and be in attendance when employees accept social amenities. If either party is missing from the event, then it is not possible to develop or improve supplier relationships.

If many employees are in attendance at a social event, the most senior employee should pay the bill to ensure someone not in attendance approves the associated expenses.

Entertainment should be limited to sporting and cultural events not involving an overnight stay. The total cost of any specific event should not exceed $100 per person (excluding any meal expenses).

Whenever a supplier or potential supplier provides such amenities, written documentation of the nature of the expenses and list of attendees must be sent to the Line Manager. This practice applies to all levels of management. If the amenity was provided as part of a business trip involving additional Business expenditures, this should be clearly documented on the expense claim.

Approval must be sought from the immediate Line Manager before accepting any entertainment from a supplier who should consider if there are any circumstances that would make this unacceptable (e.g. the supplier is in the process of negotiating contract terms with the Business).

No entertainment should be accepted from a supplier if they are in the process of submitting a response to a tender request from the Business (or other market engagement request), being evaluated as respondent to such a request or in negotiations with the Business.

The Procurement Group must maintain a register in which all business meals and entertainment are logged for the members of the Procurement Group 08-R001.

b) Gifts and Gratuities

Employees must exercise the utmost discretion with regard to accepting gifts or hospitality from contractors or their representatives or from organisations, firms or individuals with whom they have official dealings.

If an employee feels that there could be any suggestion of impropriety in accepting a gift or hospitality offered, the offer should be politely but firmly refused. This does not apply to trivial articles such as calendars and diaries which are clearly offered merely as advertisement.

Gifts unlike business meals and entertainment do nothing to improve relationship with our suppliers. Gifts give the appearance of influencing business relationship with a supplier and can place the employee in a position of compromise or special treatment.

No employee or any member of the employee's family may solicit or accept money, gift certificates, loans, food, liquor or anything other than nominal gifts from any supplier. An employee may only accept a gift of nominal value such as an advertising novelty when it is customarily offered to others having a similar relationship with the supplier. Gifts valued at less than $100 may be considered nominal. Gifts that exceed the nominal value should not be accepted unless cleared with a member of the Joint Management Team.

If an employee is offered a gift which has more than nominal value and arrives at either their home or office, they must immediately inform their Line Manager in writing with a copy provided to the Procurement Group. This will assist the Procurement Group monitor the conduct of particular suppliers. Management will make appropriate arrangements to return or dispose of the gift and remind the supplier of the Company's gift policy. If it is impractical to return the gift to the supplier or if direct gift refusal would be insulting, this must be advised to a member of the Joint Management Team who will give direction on retention or an alternative beneficiary. Gifts greater than $200 must be respectfully declined by the recipient.

The Procurement Group must maintain a register upon which gifts and gratuities are logged for the members of the Procurement group or where advised in writing by employees 08-R002.

c) Soliciting Contributions

Employees must not solicit any donation or contribution from a supplier. Suppliers should never be allowed to fund or purchase tickets to Business recreational activities. The supplier may be invited to participate, if appropriate, as a non-paying guest of the Business. The company name must not be used to obtain personal discounts or rebates.

8.4 Confidentiality

Protecting Business and confidential information that has been entrusted to the Business is extremely important.

Employees must avoid the inadvertent receipt or disclosure of confidential information with any other party. Therefore if there is no intention to exchange confidential information, the Company should instruct the supplier of this Policy prior to any in-depth discussions. The Procurement Group will not agree to accept a supplier's confidential information or disclose the Company's confidential information except under an appropriate confidentiality deed or agreement.

If an exchange of confidential information is appropriate, a Confidentiality Agreement or Deed must be signed by both parties prior to the exchange of information. A template can be obtained from the Legal Team. Confidentiality Agreements and Deeds can only be signed by authorised company signatories.

Receipt and disclosure of information should be managed by the Business Unit from which the information is being received or disclosed.

The following special situations require additional approvals from Legal:

- A need to impose or accept restrictions on the use of confidential information; or
- Periods of confidentiality in excess of 5 years.

There is no requirement to conduct security reviews or physical audits of suppliers' facilities prior to disclosing confidential information. However, if the discloser has reason to believe that the supplier is unable to protect the information, a security review should be conducted.

There is no requirement to retrieve Business confidential information that has been disclosed unless the discloser specifically requests this.

8.5 Protecting Supplier Information

Employees are required to use commercial business judgement to protect the release of any supplier information outside of the Business.

The following guidelines should be adhered to:

1. There should be no release of any spend data with a particular supplier except as may be necessary at an aggregate commodity level for supplier negotiation purposes or as required by law.

2. There should be no release of any specific supplier performance information to any external organisation other than to the specific supplier being evaluated.
3. Supplier names may only be released with supplier approval.

4. There should be no release of any supplier information that is Commercial-in-Confidence (such as prices, rebates, discount levels etc).

5. There should be no release of contract specific information. Only the Procurement Steering Committee may authorise the release of such information upon determining that the release of such information does not disadvantage a particular supplier. The supplier must also authorise the release of such information.

Generally supplier information will only be disclosed to employees outside of the Procurement Group on a need to know basis. The Procurement Group has responsibilities regarding the control and release of information. (Refer Part C of this Policy).

9. *Responsibilities of Employees with Delegated Authority to Approve Expenditure*

Employees with a delegated authority to approve expenditure must satisfy themselves that:

- The Business has received optimum value;
- An order has been placed in suitable time for the requirements to be met;
- Competition has been encouraged where possible; and
- Methods of purchasing have been followed.

Employees may only approve expenditure up to their respective delegated levels of authority. Refer to CitiPower/ Powercor Delegations of Authority Manual 10-M500 / 10-M510.

10. *Separation of Duties*

There must be a separation of responsibilities between an authority to prepare an order, execution of an order and the receipt of goods and/or services.

Employees should not have responsibility for more than one of the following procurement related activities with the exception of (a) and (c) when goods or services are not received centrally:

a) Define the requirements (eg. quantity and date required or scope of work); or
b) Select the supplier and determine price, terms and conditions; or
c) Confirm the receipt of goods or services; or
d) Process the invoice for payment through Accounts Payable.

Audit Services will conduct sample random audits within the Business where (a) and (c) must be conducted by the same person to physically verify receipt of goods or services.

11. *Accountability of Decision Makers and employees with Delegated Authority*

Managers and employees that have the authority to commit funds are accountable for the decisions made. Before approving a commitment of funds, the following should be considered:

- Whether adequate information has been provided to make the decision and the rationale is appropriate.
- Review of the potential risk to the Business and whether the risk has been mitigated.
- Whether the request is in line with budgets and best interest of the Business.

PART B – PURCHASING

12. *Guiding Principle*

Any employee wishing to purchase goods and services must acquire these through pre-existing catalogues, contracts, supplier arrangements or through nominated preferred suppliers ('arrangements) that are in place.

13. *Purchasing Methods*

The following sections list the acceptable methods of purchasing goods and services. For additional information regarding the purchasing process and the creation of PO's refer to Guideline – Placing Orders 08-G002 and for goods receiving, refer to Guideline – Receiving Goods 08-G005.

13.1 Acceptable Methods of Purchasing Materials

The only acceptable methods of purchasing materials are:

- Petty cash for purchases up to $250; or
- Corporate Credit Card or supplier specific Purchasing Card where allocated.; or
- SAP generated Materials PO ('4 Series') for all recurring expenditure; or
- SAP generated Materials Agreement ('6 Series' Period Contracts) for all recurring expenditure (for issue of 'Material Delivery Instructions'); or
- Supply of Materials Contract referenced by a SAP generated Framework Order (7 series); or
- SAP generated non-order related payment (19000 series) where the expenditure is non-recurring and less than $1000.

Note: A Purchase Order must be generated for all purchases greater the $1,000.

13.2 Acceptable Methods of Purchasing Services

The only acceptable methods of purchasing services are:

- Petty cash or cash reimbursement for purchases up to $250; or
- Corporate Credit Card or supplier specific Purchasing Card where allocated; or
- SAP generated General Service PO ('8 Series'); or
- Supply of Services Contract referenced by a SAP generated Framework Orders (7 series); or
- Supply of Consultancy Contract referenced by SAP generated Framework Orders (7 series); or

- SAP generated non-order related purchase where the expenditure is non-recurring and less than $1000 or the service is listed as an authorised Service Without Order category (Refer section 13.8 below).

Note: A Purchase Order must be generated for all purchases greater than $1,000.

13.3 Petty Cash

Petty cash is only to be used as a last resort for non IT related goods and services. Preferred methods of payment are Corporate Credit Card 10-C500 or the Expenses Claim Form 10-F503.

Petty cash custodians or administrators must check all cash approvals against the Delegation of Authority listing. This is located on the intranet at:

Sites/Finance/Delegations of Authority.

If an employee regularly needs to use petty cash for purchases, a Corporate Credit Card should be requested through their Line Manager.

13.4 Expense Claims for Cash Reimbursement

- Where an employee is required to use their own funds for a purchase, an Expenses Claim Form 10-F503 must be completed to claim a reimbursement.
- Employees with Corporate Credit Cards should not be using their own funds for purchasing.
- Expense claims must be authorised by the employee's Line Manager.
- Under no circumstances should an Expense Claim be paid out of petty cash.
- Cash advances are only available for an employee who has an isolated requirement to travel and does not hold a Corporate Credit Card.

13.5 Corporate Credit Cards and Supplier Specific Purchasing Cards

The Procurement Group may from time to time specify that certain goods or services must be purchased via Corporate Credit Card or supplier specific Purchasing Cards. For example all travel and entertainment expenses should be placed on Corporate Credit Card. Conversely the Procurement Group may stipulate that certain goods or services may not be placed on the Corporate Credit Card.

a) Corporate Credit Cards should be used where:

- Expedient delivery is critical;
- Purchase is simple in nature and description;
- Risk is low; and
- The Procurement Group has designated the Corporate Credit Card as the preferred payment method for a particular commodity.

General Manager/CEO and Chief Financial Officer/Head of Finance and Commercial approval is required before a Corporate Credit Card can be issued. Cardholders and their Line Managers are responsible for ensuring that the cards are being used within the requirements of this Policy and the Corporate Credit Card Policy 10-C500.

b) Supplier specific Purchasing Cards should be used for all purchases from the issuing supplier. No other payment form should be used with the issuing Supplier.

Where the Procurement Group has set up a Purchasing Card arrangement with a particular supplier, that supplier becomes the preferred supplier for those goods or services. Like goods or services from alternative Suppliers should not be purchased.

13.6 Raising Purchase Orders / Framework Orders

a) Only authorised employees are able to raise a PO.
b) All POs raised must contain Business standard terms and conditions. These terms and conditions may not be amended without the approval of the Procurement Group and Legal Team.
c) Vendor Terms and Conditions must be specifically excluded.
d) A properly authorised source document is required to raise a PO. Refer to Guideline – Placing Orders 08-G002.
e) Wherever possible only one framework order should be raised per vendor. Additional framework orders can only be raised against the same vendor if this is required for operational cost control purposes.

13.7 Purchase of Non-Catalogued Materials

For purchase of non-catalogued materials, employees must refer to the Purchasing of Non-Catalogued Items Procedure 08-P100 where new items (not catalogued in the material master listing in SAP) brought into the Company are appropriately assessed by “Knowledgeable Persons” to assess health and safety and environmental risks before order placement and risk assessments are undertaken where new materials are introduced.

13.8 Purchases of Goods and Services Not Requiring Purchase Orders

Services that are categorised as ‘Services-Without-Order’ (refer to Guideline – Placing Orders 08-G002) may be processed as a non-order related purchase in SAP or any good or service which does not exceed $1000 may also be processed as a non-order related purchase in SAP.

Compliance testing of “low value” non-order spend activity should also include testing for order splitting. Spend profiling at the supplier level should be conducted to provide visibility of leveraging potential with testing to ensure adherence to restrictions related to the appropriateness of the spend.

14. *Financial and Accounting Considerations*

14.1 Foreign Exchange Orders

Company preference is that all goods and services should be purchased in Australian dollars (AUD). Treasury must be consulted for advice whenever goods or services are quoted in a foreign currency or in both Australian dollars and the relevant foreign currency or where contracts are entered into with payment obligations in a foreign currency for amounts greater than $50,000.

Where the proposed amount of expenditure required in foreign currency is in excess of the equivalent of AUD$50,000 or is part of an ongoing contract, Treasury must be contacted to provide advice in the process.

Where a contract is likely to contain a ‘Price Variation Clause’ and the variation relates to foreign currency/commodity prices, Treasury must be contacted to provide the ‘Standard Price Variation Clause’ and to assist in any necessary variations to this standard.

If the proposed expenditure exceeds the equivalent of AUD$250,000, Treasury must fully hedge the foreign currency exposure from the time of committing the company to the expenditure. Foreign currency should be limited to major currencies such as US Dollars, Great British Pounds or Japanese Yen.

14.2 Embedded Derivatives

Where a contract is likely to contain an embedded derivative, Treasury must be contacted to provide advice.

For the purposes of this Policy, a derivative is a financial instrument with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other ‘underlying’;
- it requires no initial net investment;
- it is settled at a future date.

An ‘embedded derivative’ is a derivative instrument that is implanted in the host contract. The host contract in this case is a contract for supply of goods and services.

14.3 Goods & Services Tax (GST)

The majority of goods and services purchased are subject to GST at the prevailing rate. It is important that purchase prices include GST and that the order values reflect the total cost.

a) GST is a tax on the supply of goods and services which is eventually borne by the final consumer but collected by the Australian Tax Office (ATO) at each stage of the production and distribution chain.

b) Taxable goods and services are liable to GST at 10% as from 1 July 2000. GST is a broad based tax at 10% on the supply of most goods and services and anything else consumed in Australia.

c) CP/PAL is subject to GST of 10% on taxable supplies.

d) There are some supplies which are exempt and are called GST free supplies. No GST is charged but the Business is entitled to claim input tax credits.

e) Input taxed supplies are not charged GST but the Business is not entitled to claim input tax credits on anything acquired to make that supply.

f) A Tax Invoice is needed to claim back input tax credits for acquisitions with a GST exclusive amount of more than $50.

g) If a supply is made and an adjustment arises from an adjustment event, an adjustment notice must be issued within 28 days of being requested to or becoming aware of the adjustment event.

14.4 Stamp Duty

Stamp duty is imposed on documents (or instruments) necessary to evidence such things as share transfers and transfers of land. Stamp duty is imposed at either a fixed rate or at "ad valorem" rates depending upon the value of the transaction involved.

Generally speaking the Business may become liable to stamp duty in the following situations:

- Carrying on a business of renting or hiring goods;
- Entering a lease agreement (as lessee);
- Purchasing land;
- Applying to have a motor vehicle registered;
- Entering into an insurance agreement; or

- Being a party to a deed.

The Corporate Taxation Unit in Finance is responsible for the formulation of appropriate procedures to manage Business taxation affairs with the objective of legitimately minimising liabilities within the framework of tax law.

14.5 Payment of Invoices

Standard payment terms are 42 days after the receipt of a properly rendered invoice subject to satisfactory performance under the contract. Refer to Accounts Payable SAP Materials Orders and Services Guidelines 08-G006 and 08-G007.

PART C – PROCUREMENT

15. *Guiding Principles*

a) Only the Procurement Group has the authority to procure and enter into new arrangements or renew existing arrangements.

b) Procurement may delegate this authority back to Business Units or particular supply categories or commodities for reasons of practicality, economy or expediency.

c) The delegations of Procurement authority back to Business Units will be determined by the Procurement Group and nominated representatives from the Business Units in regular planning sessions.

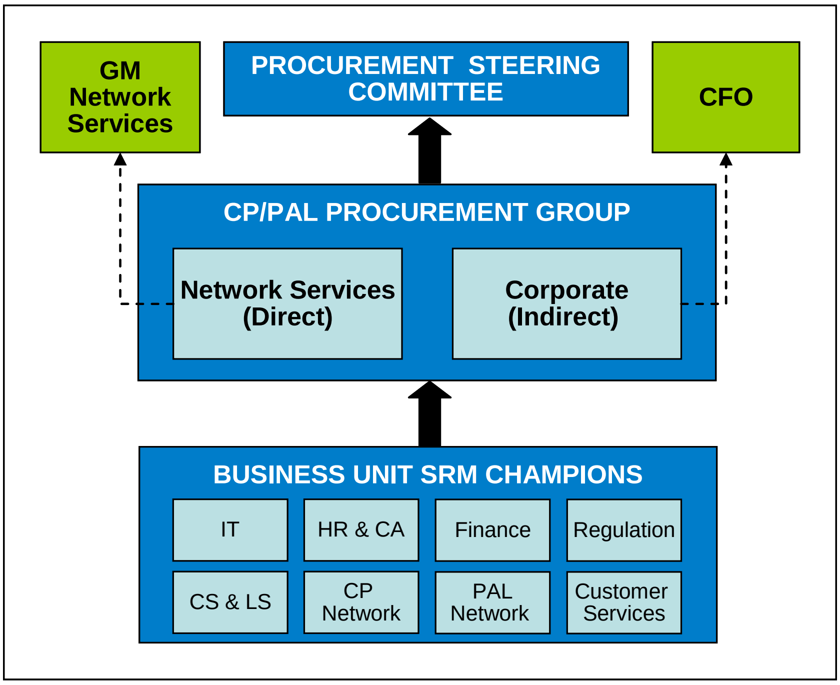
Where the 'Procurement Group' is referred to in this section, this may also include those employees that have had the authority to undertake Procurement activities delegated to them by the Procurement Group.

16. Role of Procurement

The role of Procurement is to acquire goods and services efficiently and effectively for internal and external customers while providing flexibility in response to market changes and assuring the most competitive total cost.

Procurement and practices which are described in this Policy and further detailed in the Procurement Operating Framework ('Procurement Toolkit') must be followed by all members of the Procurement Group and all employees.

The diagram below represents the operational structure for Procurement within the Business.



16.1 Roles and Responsibilities

The Procurement Group is responsible for the procurement of direct and indirect goods and services. Direct goods and services relate to the network operations and core business activity such as the purchase of transformers etc. Indirect spend is non revenue generated and includes areas such as IT, stationery, print, engagement of consultants etc.

The Procurement Group are also responsible for compliance against Policy and continually improving procurement practices.

The Supplier Relationship Management (SRM Champion) provides subject matter expertise on category spend with their respective Business Unit and participates in regular planning sessions with the Procurement Group to schedule procurement activity in line with other Business activities.

16.2 Joint Procurement with ETSA Utilities

The acquisition of all common goods and services should be jointly procured with ETSA Utilities to leverage a lower overall "total cost of procurement". In instances where joint procurement is not considered appropriate, the reasons must be detailed on the Authority to Raise Invitation to Tender Form 08-F170 and Supplier. Recommendation Form 08-F172 and approval to proceed independently obtained prior to engaging the market.

17. *Supplier Evaluation and Selection*

17.1 Negotiation

Negotiation is recommended as part of all procurement activity. Negotiation should include price and all terms and conditions relative to total value such as quality, lead-time, flexibility, payment terms, insurance, liabilities and warranties. Negotiation with all potential suppliers is not required and selective negotiation is permitted. However, the supplier with the lowest acceptable bid or the supplier with the best overall value as determined by a competitive evaluation must be included in the negotiation. It is acceptable to negotiate only with the supplier with the lowest acceptable bid or the supplier with the best overall value. The documentation should describe the results of these negotiations.

17.2 Supplier Evaluation and Assessment

Before business is conducted with new external suppliers, the Procurement Group has the responsibility to ensure suppliers are evaluated and assessed to verify that they meet procurement criteria for qualified suppliers. These criteria may include financial solvency, adherence to government regulations, compliance with technology and technical standards and the ability to meet Business demand.

17.3 Supplier Selection

The Procurement Group has responsibility for achieving best overall value for the Business when acquiring or contracting for goods and services. Procurement is therefore responsible for facilitating the selection of the best supplier and assuring fair value for the price. These two events do not always occur simultaneously.

a) Ensuring the supplier selected is in the best interest of the Business must be accomplished through at least one of the following methods:

- Competitive evaluation (with or without price); or
- Analytical techniques; or
- Competitive bidding.

b) Ensuring fair value is received for the price must be accomplished through at least one of the following methods:

- Competitive evaluation (with price as one of the evaluation criteria); or
- Analytical techniques; or
- Competitive bidding.

For events of $500,000 and above, exceptions to this must be approved by the Procurement Steering Committee.

When engaging Consultants or Contractors refer 08-W047

17.4 Validity of Supplier Selection Decisions over Time

The relative competitiveness of supplier's changes with time and therefore the results of a supplier selection technique or price/value determination must be reassessed for each category of products or services being purchased.

17.5 Supplier Selection Techniques

a) Competitive Evaluation

Competitive evaluation is a process which evaluates a supplier's overall competitiveness based on non-price factors such as quality, cost trends, lead-time, flexibility and technical capabilities. The list of relevant criteria and the associated weighting factors will vary by product or service. This evaluation may or may not include price. Evaluation criteria and weighting factors must be determined by a cross-functional team prior to bidding and performing the actual evaluation. Once a method has been decided by the cross-functional team conducting the evaluation, it must be adhered to and fully documented. A minimum of three suppliers must be included in the evaluation. The goal is to achieve best overall value for the Business. As part of the competitive evaluation, consideration should be given to regional suppliers as appropriate.

Documentation: Supplier selection decisions based upon competitive evaluation techniques should be supported at a minimum by documentation stating the team's conclusion and briefly describe the rationale used such as criteria and weighting factors. All team members should concur and sign the documentation. If the supplier selection team agrees, there is no need to support each element of the non-price criteria of the decision with detailed analysis as long as the documentation clearly depicts how the decision was derived. This applies to supplier selection decisions but not to price determination. It is not acceptable for the team to simply agree that a given price represents fair value without either competitive bidding or analytical techniques to support it.

b) Competitive Evaluation With Price

The price may be evaluated by competitive bidding and/or analytical techniques. The price evaluation is then supplemented with an analysis and weighting of the non-price criteria to determine the best overall value. A minimum of three quotes are required to be considered competitive.

c) Competitive Evaluation Without Price

This is typically used to select suppliers for early involvement support or when business requirements are not comprehensive. After supplier selection, fair value analysis must still be performed.

d) Competitive Bidding

With competitive bidding, the supplier selection technique is based upon the assumption that the market is competitive and simple market dynamics will ensure fair value. Competitive bidding is the process of soliciting quotes from potential suppliers. A minimum of three acceptable responses are required to constitute a competitive bid. Refer to Section 17.6 for Competitive Bidding Types.

The Procurement Group is responsible for ensuring the integrity of the bidding process and complying with the following process:

- Product or service requirements should be communicated to all suppliers participating in the bid at the same time. A copy of the signed and dated request which was sent to each supplier is sufficient documentation to demonstrate compliance.
- Any updates to requirements or extensions of due dates must be communicated to all participating suppliers at the same time.
- Request For Proposal (RFP), Request For Tender (RFT) and Request For Information (RFI) documents and responses should be in writing.
- Prior management approval is required to consider late bids and also if the lowest bid is not selected. All exceptions should be fully documented.
- Verbal quotes should not be accepted except where provided by this Policy as acceptable. Refer to Section 17.6.

e) Analytical Techniques

Analytical Techniques such as price comparison or cost build-up analysis based on available data may be used to select suppliers or determine fair value. An explanation of the analysis and any relevant data should be included and documented. Examples of Analytical Techniques are listed below:

a) Price Comparison:

1. Compare the proposed price to another published or documented price for the same or similar product or service. Available industry pricing information for the same or similar product or service must be used to determine fair value.

2. Compare the proposed price to another company price with the same or similar product or service which has previously been determined by using one of the approved fair value techniques.

b) Cost Build-Up:

3. Compare the proposed price to a price calculated by building up the costs of the various components, process steps, rates, etc. Current material costs and labour rates should be used and updated periodically to ensure the most competitive cost. Analysing the supply chain or value chain costs should be included if appropriate.

4. Line Management guidance should be used if an estimated price cannot be determined from a historical price comparison or by building up the cost.

5. Differences such as freight, GST, premium charges, added value or age of the historic price should be considered when determining the new proposed price.

17.6 Types of Competitive Bidding

The Business defines the different methods of engaging suppliers in competitive bidding as follows:

a) RFI - used to establish market capability, external provider panel or determine potential sourcing solutions. Information provided is generally of a high level and responses will not be sufficient to move directly to a deal.

b) RFP - used when a company is seeking an outcome based solution and wishes to challenge the market for innovative or differentiated solutions. Contains the commercial and pricing parameters that will support commercial negotiation and a deal.

c) RFQ - used to seek a price bid for a highly defined and specific transaction (often smaller in size and scale). Specification is generally not negotiable with price being either the only or predominant determinant of outcome.

d) RFT - used to obtain bids from the market where each bid is directly comparable and the product or service being sought and the basis of supply has been precisely specified.

17.7 Financial Thresholds and Minimum Requirements

The Business defines different financial thresholds and minimum requirements for engaging suppliers in competitive bidding as follows:

a) **Expenditure less than $5,000** – acceptable to obtain verbal quotations. Details of the verbal quote should be documented immediately by the employee. A minimum of three quotations should be obtained.

b) **Expenditure from $5,000 up to $50,000** – acceptable to obtain written quotations. A minimum of three quotations should be obtained.

c) **Expenditure from $50,000 up to $150,000** – RFQ document must be sent out containing standard Terms and Conditions. Acceptable to obtain written quotations with a minimum of three quotations being obtained.

A Supplier Recommendation Form 08-F172 or an Authority to Raise Contract or Purchase Order Form 08-F173 must be completed to facilitate approval.

d) **Expenditure from $150,000 up to $500,000** – An Authority to Raise RFT or RFP Form 08-F170 must be completed. Upon granting approval, the Manager Corporate Property, Procurement and Risk or the Manager Logistics and Shared Services will either provide or complete the appropriate document templates and outline the process to be followed. The Procurement Group will run the supplier engagement event and following a more detailed procurement review may delegate this back to the requesting Business Unit. A Supplier Recommendation Form 08-F172 must be completed to facilitate approval.

e) **Expenditure of $500,000 and above** – Procurement activity at this level will not be delegated back in full to a Business Unit. The Authority to Raise Invitation to Tender Form 08-F170 or a Buying Strategy can be used. The delegated authority levels for the Authority to Raise Invitation to Tender Form 08-F170 and the Buying Strategy are the same as delegated levels for Supplier Recommendations unless the contract value is expected to be greater than $5M in which case CEO approval only would be required. The cross-functional team involved in the procurement event must demonstrate the best supplier has been selected for the Business and that the offer represents fair value for price using the methods outlined in Section 17.3 and described in detail in the Procurement Toolkit. Refer to the Procurement Group for the Buying Strategy document. A Supplier Recommendation Form 08-F172 must be completed to facilitate approval.

f) **Exceptions to (a), (b) and (c) above**

If in the opinion of the employee engaging the suppliers, the goods or services being procured carry a medium or high risk to the Business, the Policy outlined at (d) above should be followed.

Approving Managers should give careful consideration to potential risks and ensuring that these have been sufficiently documented before approving. Refer to Section 27 for guidance on medium and high risk gradings.

A minimum of three acceptable responses are required to constitute a competitive bid. In the case where less than three valid responses are received, there is not sufficient competition to ensure fair value. Therefore in these cases, additional cost analysis or price comparisons must be performed to demonstrate fair value. This must be contained in the recommendation.

Expenditure amounts must not be split into smaller transactions to avoid any requirements detailed in this section. If a particular purchase of a good or service is performed through multiple PO's and the cumulative value of these orders exceeds the established spend levels over a continuous 12 month period, the transaction that takes it over the relative threshold must be performed according to the Policy for that threshold.

This section should be read in conjunction with Procure IT Equipment and Software 12-P200 and Contract Management Manual 08-M120.

17.8 Special Situations in Supplier Selection

The following are situations when the requirement to perform both an approved supplier selection technique and a fair value determination technique has been modified.

a) Sole source - only one known supplier or sole distributor

If after exhaustive searching there is only one known supplier that can provide a particular product or service, supplier selection is not required. Fair value determination analysis is required and may be performed by price comparison or cost build-up.

If it is determined that the price does not represent fair value, an effort must be made to negotiate a more acceptable price and the documentation must include the results of this negotiation. If the final price does not represent fair value, the documentation must demonstrate that the requestor has been notified.

There may be cases where the requestor has effectively selected the supplier through the definition of requirements and the Procurement Group does not agree with the sole source justification but it is in the best interest of the Business to place the PO. The Procurement Group must document the concerns and notify the requester prior to placing the PO.

b) Early Involvement Partners

Effective procurement sometimes requires the supplier's early involvement during the requirement's generation process in order to assure a cost effective design and reduce the cycle time to design the product or service. These early involvement partners are typically selected before the exact product or service to be purchased is even defined. Therefore a competitive bid analytical technique may not be possible. In these cases, the early involvement partners may be selected using a competitive evaluation that does not include price as one of the criteria. However, if price information is available, it must be included in the competitive evaluation. For example, it may be possible to quote critical elements or raw materials of the expected final product or it may be possible to include the supplier's historical price performance or published industry price lists.

When the final product or service is defined, analytical techniques must be used to determine if the Business is receiving fair value for the price. An agreement must be reached with the early involvement partner in advance to define how the price will be established upon completion of the design. If such an agreement is reached, the terms of the agreement must be documented.

The Procurement Group must also continue to monitor competitiveness on an ongoing basis, renegotiate as appropriate and transfer the business if necessary. If it is determined that despite numerous attempts to negotiate a particular supplier is uncompetitive but due to the high costs of transferring to another supplier, the decision is made to stay with the uncompetitive supplier, this must be documented.

18. *Supporting Documentation and Document Retention*

Supplier evaluation and selection/fair value determination decisions must be effectively documented to demonstrate how key decisions were made and that all necessary requirements have been met and that all appropriate approvals have been obtained.

Fact based decisions supported by strong objective data is required and the Procurement Group must make full use of readily available objective data regarding supplier performance when selecting suppliers. Soft copy documentation is preferred when available to validate and support actions taken and transactions initiated.

All original documentation and contracts for materials and Legal contracts must be centrally archived within the Records Management area in Corporate Finance. Services documentation is currently held in regional offices and the documentation and retention of this is being reviewed.

All procurement tools should be utilised to store documentation for review, legal and audit purposes. At a minimum, summary data should be stored with a pointer to supporting documentation stored elsewhere.

In an environment where hard copy documents are still generated or required, it is essential that they comply with policy and practices requirements and are retained for future reference. For information regarding the disposal of documents refer to Guideline – Document Disposal Schedule 08-G011.

19. *Feedback to Suppliers*

Timely and meaningful feedback must be provided to all suppliers on the outcome of their participation in a selection process. It is recommended that this feedback be in writing. If the feedback is verbal, the details of the discussions must be documented.

20. *Contract Expenditure and/or Time Reviews (CETR)*

A CETR form 08-F171 must be completed when an approved contract expenditure limit is likely to exceed the determined spend or the time period will extend beyond the original specified timeframe. The request must be authorised by the CEO or the General Manager in line with the Delegations of Authority guidelines on the aggregate total of the contract expenditure. CETR's should be closed off in SAP by the Responsible Officer if the supplier is no longer required or there is no procurement from that supplier for six months.

20.1 Monitoring Contract Projected Value

The Business Unit is ultimately responsible for the projected value of the contract and these should be captured in the SRM Champion planning sessions held with the Procurement Group. The Procurement Group will provide regular reporting to enable contract owners to monitor the project value of a contract.

If the total aggregate of the extensions raised exceeds 20 percent of the contract value or timeframe of the contract within a 12 month period, the Procurement Group must re-evaluate the contract and determine if the price, terms or conditions should be renegotiated (unless the original contract contained an option to extend detailing rates and terms to apply to that extension).

20.2 Time Extensions

If there are more than two contract time extensions, the Procurement Group must re-evaluate the contract and determine if the price, terms or conditions should be renegotiated (unless the original contract contained an option to extend detailing rates and terms to apply to that extension).

21. *Samples from Suppliers*

The Company solicits as few samples as possible and if required by the supplier, the Company will pay for samples.

22. *Procurement Non-Compliance*

When a commitment is made to a supplier without the Procurement Group or where the Procurement Group is unable to influence a decision, this constitutes non-compliance.

22.1 Non-Compliance Reporting

Non-compliance activity should be reported to various levels of management depending upon the number of occurrences in a continuous 12 month period.

Non-compliances above $500,000 must be reported immediately to the Procurement Group. A summary of all non-compliances should be reported quarterly to the Procurement Steering Committee and relevant management.

23. *Approvals*

The approval required depends on the contract value:

- $250,000 - $500,000 – Chief Executive Officer (CEO) and Chief Financial Officer (CFO) (both or one plus the initiating officer)
- $500,001 - $1,000,000 – CEO and CFO (both or one plus the Chairman or their delegate)
- $1,000,001 - $5,000,000 – CEO and CFO (any one plus the Chairman or their delegate)
- Greater than $5,000,000 – Board of Directors

A business case and relevant documentation of the process undertaken and recommendations should be provided for approvals above $500,000. A checklist confirming all Legal, OH&S, Environment, Risk, Insurance, Contracts and Taxations areas have reviewed should be included.

24. *Supplier Performance Management*

Formation of an appropriate framework for monitoring and managing supplier performance in a contract must be developed prior to establishing the arrangement and form part of evaluation criteria and service agreements. This includes but is not limited to:

- determining the activities or characteristics which are critical to the success of the arrangement;
- developing a set of key performance indicators to measure the supplier's performance and the success of the arrangement; and
- developing a review regime.

Employees with SRM responsibilities are responsible for providing performance feedback to suppliers at least once per year. The Procurement Group should use the following guidelines:

- Core and strategic suppliers – all suppliers should be formally assessed.
- Emerging suppliers – all suppliers should be formally assessed.
- Regional and niche suppliers - coverage to be determined by Procurement Group.
- Acquired suppliers – assessment not required.
- Non strategic suppliers – assessment not required.

The process should focus on key criteria such as technology, flexibility, quality, performance to commitments and communications. Business Units may change these criteria to form the most comprehensive view possible of a supplier's performance.

Documentation should be maintained on supplier activity and feedback communicated to the supplier during reviews.

Employees with responsibility for managing contractors will have specific responsibilities and duties. Refer to the Contractor Management Manual 08-M150 for further information on Supplier Performance Management.

24.1 Security for Performance

Purpose

Security shall be sought for the purpose of ensuring the due and proper performance of contracts.

Forms of Security

The security provided for the performance of contracts shall be in the form of an unconditional bank undertaking.

There may be cases where it may not be in the commercial best interest for the business to seek such security for performance. In these cases, approval must be obtained from the General Manager and Chief Executive Officer that the security is not required.

25. *Legal, Risk, Insurance, Contracts and Taxation Requirements*

Except with prior written approval:

- All system generated PO's and contracts must contain the Business standard terms and conditions;
- Vendor terms and conditions must be specifically excluded or cleared through Legal, Risk, Contracts, Insurance and Taxation;
- Employees may not amend any standard terms and conditions without prior approval of the above areas; and
- The appropriate terms and conditions are to be used for the size and type of purchase contemplated.

Standard Service Agreements (SSA's) and Statements of Work (SOW's) must be used in conjunction with POs when POs do not provide adequate terms and conditions especially for legal protection. These situations include but are not limited to the following transactions where:

- Some form of risk to the Business must be mitigated;
- Terms and conditions are too complex to be covered via a PO;
- Specific commitments must be detailed and assigned;
- Duration of the agreement is longer than normally covered by a PO; or
- It is necessary to accumulate requirements or activity from multiple organisations executing releases against the agreement.

Agreements other than SSA's or SOW's must be approved by Legal, Risk, Contracts, Insurance and Taxation.

Refer to Contract Management Manual 08-M120 for further information regarding terms and conditions, acceptance and orders and variations to contracts.

26. *Contract Publicity and Public Comments*

Upon entering into an agreement with a supplier, the supplier may request that the Company release (or authorise the release of) a formal communication regarding the relationship. Many companies consider this publicity and endorsement from the Company to be valuable.

In such circumstances before making commitments regarding communications, the Procurement Group must obtain prior approval from Corporate Affairs and Legal.

Employees should not make any comments on the Company's business performance or prospects e.g. major contracts to be signed, financial outlook, etc. Any communication should be made through Corporate Affairs once cleared by Legal.

27. *Risk Management*

All procurement activities must comply and observe Business Risk Management practices and thresholds for decision making.

Grading of risk will generally be based on the following factors:

27.1 High Risk

- Financial impact could be more than $10m.
- Potential to cause permanent disability or death or multiple fatalities.
- Potential to cause significant pollution or long term environmental damage.
- Potential to require repeated intervention by the Regulator or Ombudsman or loss of Distribution Licence.
- Over 40,000 customers without supply for greater than 48 hours or loss of Melbourne CBD or provincial city for longer than 24 hours.

27.2 Medium Risk:

- Potential to cause a lost time injury.
- Escape of pollutant causing environmental damage.
- Potential to require intervention by the Regulator or Ombudsman or trigger adverse media campaigns by customers, media or industry groups.
- Financial impact greater than $1m but less than $10m.
- Up to 40,000 customers without supply up to 48 hours.

28. *Health, Safety and Quality*

28.1 Health and Safety

Procurement of goods and services will be performed in consultation with the health and safety team. Procurement of all goods and services will be in alignment with the company vision on health and safety and will include appropriate safety standards when selecting suppliers and awarding contracts.

Health and Safety requirements including the right to conduct audits and/or inspections shall be defined in all Competitive Bidding documents.

28.2 Quality

Employees engaged in procurement will encourage suppliers of goods and services to have in place or be prepared to put in place appropriate Quality Control management systems to create and promote a culture of continuous improvement. The Business prefers suppliers to have in place appropriate quality management measures or to have achieved acceptable and continuing progress towards accreditation.

a) Conformance to ISO standards

A Quality Management system conforming to AS/NZS ISO 9001 is to be specified for the following types of purchases –

- Goods or services whose unplanned non-conformance or failure may interrupt the supply of electricity to customers;
- Goods or services whose unplanned non-conformance or failure may interrupt construction or maintenance of the electricity distribution system;
- Goods or services subject to statutory or regulatory control; or
- Goods or services which may have Health and Safety implications for employees, customers, general public or potential harmful implications for the environment or other significant risk exposure to shareholders, customers, employees or the community.

Guidance may be sought from the Procurement Group and/or the Quality Management team.

b) Quality Audits

Quality Management requirements including the right to conduct audits and/or inspections shall be defined in all Competitive Bidding documents.

29. *Environment*

Procurement for goods and services will comply with the business vision and commitments to the environmental policy. Refer to the intranet Environment/Environment Management System/Environment Issues (or Aspects) and Risks.

29.1 Environmental Considerations in Procurement

- Encourage and support suppliers who follow environmental standards similar to our Business;
- Include environmental standards when selecting suppliers and awarding contracts;

- Encourage working with suppliers to identify and adopt alternatives for goods and services that have or could have a harmful effect on the environment; and
- Encourage continuous assessment of the effect of procurement activities on the environment.
- Environmental requirements including the right to conduct audits and/or inspections shall be defined in all Competitive Bidding documents.

29.2 Environmental considerations as evaluation criteria

The evaluation of a supplier's environmental capabilities and systems is an important consideration in the selection process. The Business will:

- Evaluate and verify the supplier's environmental management system or plan and establish performance/measure criteria;
- Determine the supplier's understanding of environmental responsibilities; and
- Review how the supplier will manage environmental issues associated with the contract works and services.

29.3 Green Purchasing Policy

The Business has a Green Purchasing Policy that should be observed and complied with for procurement of goods and services wherever possible. Refer to the intranet Environment/ Environment Management System/Environment Issues (or Aspects) and Risks.

APPENDIX A – HIGH LEVEL ROLES AND RESPONSIBILITIES

Group	PROCUREMENT STEERING COMMITTEE	NETWORK SERVICES	CORPORATE PROCUREMENT	OTHER BUSINESS UNITS
Roles	▪ ***Appointed General Managers representing each Business Unit***	▪ ***Logistics and Shared Services Team***	▪ ***Manager Procurement, Property and Administration Services*** ▪ ***Procurement Manager***	▪ ***Category Subject Matter experts and/or Appointed Supplier Relationship Managers***
Resp.	• Ensure Procurement strategy is aligned to Corporate strategy. • Provide information that may impact on Procurement decisions (e.g changes to corporate structure, acquisitions, regulatory concerns etc). • Meet as a Committee on a regular basis (initially monthly then quarterly after implementation). • Act as a final point of approval for policy or process improvement and actions implemented. • Enforce mandate for Procurement Policy across the business ensuring Business Unit compliance.	• Procurement of direct goods and services. • Category and Supplier Relationship Management (SRM) of direct categories not owned by other Business Units. • Monitor compliance with policy and contracted supplier arrangements. • Work with Corporate Procurement to maintain leading practice strategic sourcing and SRM methodologies and tools. • Provide specialised resources as required to assist with strategic sourcing engagements (e.g. use of TenderMax, negotiations). • Work with Corporate Procurement to identify process or policy improvements. • Provide representation on Procurement Steering Committee.	• Procurement of indirect goods and services. • Category and SRM of indirect categories not owned by other Business Units. • Monitor internal compliance with policy and contracted supplier arrangements. • Run planning sessions to schedule strategic sourcing activities across the organisation on a quarterly basis. • Coordinate cross-functional teams for sourcing engagements as required. • Work with Network Services team to maintain leading practice strategic sourcing and SRM methodologies and tools across the company. • Maintain Policy and associated procedures ensuring consistency of application across the organisation. • Implement identified process and policy improvements (as they relate to corporate operations or the Procurement Policy). • Co-ordinate the Procurement Steering Committee.	• Manage specific Business Unit categories and supplier relationships. • Provide subject matter expertise on category including market trends, supplier trends, product or service specifications etc. • Monitor internal compliance with specific contracted arrangements. • Participate in planning sessions to schedule procurement activity for the Business Unit in line with market conditions and activities of other Business Units. • Engage Procurement Group to conduct strategic sourcing reviews and/or engagements or use at stage gates in the process as required by Policy. • Work with Corporate Procurement to identify process or policy improvements as they relate to the particular category.