

Corporate Procurement Plan 2011/12



Table of Contents

Responsibilities	1
Definitions, Abbreviations and Acronyms.....	1
References	1
1. Corporate strategy defined	2
2. Sustainable Procurement Policy	2
3. Procurement Objectives 2011/12.....	3
3.1. 2015 Horizon 2 / 2020 Horizon 3	3
4. Procurement Goods and Services Profile (Estimated Spend 11/12).....	4
5. Procurement Systems	5
5.1. Operational	5
5.1.1 Ellipse System	5
5.1.2 TenderMax Evaluation	5
5.1.3 ContractMAX.....	5
5.1.4 Electronic Tender Download and Lodgement.....	6
5.1.5 Corporate Card SpendVision	6
5.1.6 Customer Service Desk	6
5.1.7 Electronic Document Management.....	7
5.1.8 Procurement and Logistics Intranet	7
5.1.9 Innovation Tool	7
5.1.10 On line Approvals.....	7
5.2. Strategic.....	7
5.2.1 Ellipse and Ellipse 8.....	7
5.2.2 Procurement Contracts Database.....	8
5.2.3 Barcoding.....	8
5.2.4 Payments/Invoice Scanning.....	8
5.2.5 Payments/Recipient Created Tax Invoice (RCTI)	8
6. Procurement Processes	9
6.1. Operational	9
6.1.1 Continuous improvement and development of documentation.....	9
6.1.2 Contract and Tender Management Planning	9
6.1.3 Quality Assurance system and Certification.....	9
6.1.4 Policy and business rules review (bi-annual).....	9
6.1.5 Governance and Due Diligence	9
7. Procurement Resources.....	10
7.1. Operational	10
7.1.1 Training	10
7.1.2 On the Job development.....	10
7.1.3 Tertiary qualifications	10
7.1.4 Networking	10
7.1.5 Cross Functional Co-operation	11
7.2. Strategic.....	11
7.2.1 ODR structure review.....	11

Corporate Procurement Plan 2011/12



7.2.2	Sustainability	11
7.2.3	Governance and legal expertise	11
7.2.4	Risk management	11
7.2.5	Risk and Pricing – Commercial Terms & Conditions, Reviews	11
8.	Sustainable Procurement Initiatives and Subject Matter Experts	12
8.1.	Operational	12
8.1.1	SPEC Roadmap – Benchmark present position and set plan.....	12
8.1.2	Supply Chain Relationship Program	12
8.1.3	Quality risk management – goods and suppliers	12
8.2.	Subject Matter Expertise Initiative.....	13
8.2.1	Strategic Sourcing Specialist	13
8.2.2	Procurement Advisory	13
8.2.3	Sustainability Procurement Policy and Process development.	14
9.	Procurement Program	14
9.1.	Operational	14
9.1.1	Contract Operations Committee.....	14
9.1.2	Contract Strategy Committee.....	15
9.2.	Strategic.....	15
10.	Fleet Procurement and Logistics 2010/11 Business Plan	15
11.	Ergon Energy / Energex Joint Business Practice	15

RESPONSIBILITIES

Group Manager Fleet, Procurement & Logistics is the Process Owner responsible for approving this Reference document.

Strategic Procurement Manager is responsible for maintaining this Reference document.

Principal Procurement Advisor is the Subject Matter Expert (SME) responsible for the content in this Reference document.

DEFINITIONS, ABBREVIATIONS AND ACRONYMS

MDM	Materials Demand Management
SME	Subject Matter Expert
SPEC	Sustainable Procurement Electricity Corporations
RCTI	Recipient Created Tax Invoice
APUG	Asia Pacific Utilities Group
ISO	International Standard
QGM	Queensland Government Marketplace

REFERENCES

[MP000200R100](#). Sustainable Procurement Policy Business Rules

[MP000201R100](#). SPEC Sustainable Procurement Road Map (Reference)

[State Procurement Policy 2008](#)

[EP19](#) Sustainable Procurement Policy

Australian Procurement and Construction Council 2007, *Australian and New Zealand Government Framework for Sustainable Procurement*, ISBN 978-1-920751-09-08.

1. CORPORATE STRATEGY DEFINED

Ergon Energy Corporation Limited has as its Vision: “A world class, customer-driven energy business”. Its stated purpose is “To enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions”.

In line with these objectives Ergon Energy has developed an Horizons Strategic Plan. The plan provides a framework over three distinct planning periods to 2020 with each period defined as an ‘horizon’ (Horizon 1 was completed in 2010).

Horizon 2 – to 2015	Horizon 3 – to 2020
Customer driven	Customer empowerment
Leader in safety	World’s best safety practices
Leverage climate change	Leader in climate change performance
Expand network functionality	Modernise the network

Each of the initiatives under each Horizon has a Plan, a Purpose and Performance Criteria. Linked to these are the Customer Drivers of Affordability, Network safety and reliability, Energy solutions, Quality customer and community service and Environmental responsibility.

Changing business and operational environments in the future will be additional challenges, with State Government and Australian Energy Regulator determinations and requirements to be met in coming years. Ergon Energy needs to continue increasing efficiencies and cost savings to ensure planned capital expenditures deliver optimum outcomes. Future inflationary pressures, growing customer demand and ongoing network investment requirements present some of the biggest challenges to the sustainability of Ergon Energy’s business in the years ahead.

Ergon Energy’s Horizons Strategy combined with continued improvement in business practices and commercial operation will ensure not only “Value for Money” and “Whole of Life” outcomes but that Ergon Energy is positioned to grow from the opportunities that will arise.

2. SUSTAINABLE PROCUREMENT POLICY

Ergon Energy’s Sustainable Procurement Policy aligns closely with the State Procurement Policy. The Strategic Procurement Group is developing and implementing the Sustainable Procurement Electricity Corporations (SPEC) Roadmap to align the group’s objectives with Ergon Energy’s “Horizon 2” goals for 2011- 2015.

Sustainable procurement looks to minimise the environmental impacts of Ergon Energy’s growth and operations, as well as benefiting society, the natural environment and reducing overall operating costs.

Sustainable procurement is a process whereby an organisation can meet their needs for goods, works and utilities in a way that achieves value for money on a whole of life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment.

Sustainable procurement considers goods, services and suppliers. This includes issues such as: resources/materials and consumption; manufacturing and production; transport and logistics; product and asset design; use and maintenance: recycling and disposal options; employee rights and conditions; unfair competition and ethical behaviour.

The Policy is being supported by continued implementation and improvement of Procurement Policy Business Rules and other work process documents which have been developed to guide staff involved in procurement for their respective Business Units. In this regard, the Business Rules demonstrate compliance with the State Procurement Policy in terms of devolving to the lowest business risk.

The development and recent launch of the Fleet, Procurement and Logistics “Supply Chain Relationship Program” will play an important role in ensuring Ergon Energy’s goals in the implementation of the Sustainable Procurement Electricity Corporations (SPEC) Roadmap and Ergon Energy Horizons’ goals are met in 2011/2012.

3. PROCUREMENT OBJECTIVES 2011/12

Ergon Energy’s 2010 Horizon 1 goals have been successfully completed or incorporated in the Procurement landscape with an overall objective to ‘Get Fit’ and ‘*get our business commercially in shape*’, with initiatives and improved Processes delivering Value for Money, Whole of life and sustainable procurement outcomes.

Procurement is continuing on the Horizon path to support Ergon Energy’s vision of being “*A world class, customer-driven energy business*” by building on the achievements of Horizon 1 objectives and delivering Horizon 2 objectives in 2011/12 to meet the goals of the 2011-2015 Horizon 2 and building on the achievement of past objectives.

3.1. 2015 Horizon 2 / 2020 Horizon 3

Customer Driven

For Fleet, Procurement & Logistics this means understanding our customers’ existing needs and behaviours, so that we can better predict their future needs. The service that we provide needs to be affordable, dependable and smart in its application, whilst enabling us to leverage our buying power to achieve sustainable procurement outcomes.

Leader in Safety

This initiative underpins our ‘always safe’ motto. It requires us to continue our focus on safety for both our people and communities and maintain our status as an industry leader in safety.

Leverage Climate Change

To leverage climate change we must continue to demonstrate a commitment to protecting the environment and doing business with ethical and socially responsible suppliers. By increasing the proportion of procurement expenditure on goods and services which demonstrate improved sustainability outcomes we will reduce the “carbon footprint” of Ergon Energy.

Procurement in Horizon 2 will continue to improve efficiencies, bureaucracy busting, cost savings and containment to ensure planned capital expenditures deliver optimum outcomes. Future inflationary pressures, growing customer demand and ongoing network investment requirements present some of the biggest challenges to the sustainability of Ergon Energy’s business in the years ahead.

Procurement is also addressing the challenge of climate change and the environment. Increased emphasis in the procurement process and the evaluation of suppliers, goods and services are being initiated in the business. Current and future regulatory and business developments in response to climate change are being incorporated in Procurement’s processes and procedures.

4. PROCUREMENT GOODS AND SERVICES PROFILE (ESTIMATED SPEND 11/12)

Spend analysis of the key areas of procurement are summarised in the table below.

Categories of Goods & Services	\$ AUD
Goods	
Remote Power Station Fuel	38,000,000.00
Power Transformers	26,000,000.00
Distribution Transformers	25,000,000.00
Overhead Conductors & Underground Cables	15,000,000.00
Hardwood Timber Poles	8,000,000.00
Overhead Line Hardware	5,000,000.00
Electricity Meters	3,600,000.00
Distribution Switchgear	3,550,000.00
Load Break Switches	3,000,000.00
Hardwood Timber Cross arms	2,500,000.00
Voltage Regulators	2,200,000.00
Bolts & Nuts	2,200,000.00
Air Break Switches	2,100,000.00
Forged Fittings	2,000,000.00
Galvanised Steel Products	1,900,000.00
Surge Arrestors	1,600,000.00
Protection Relays	1,400,000.00
Re-closers	1,400,000.00
Insulators	1,200,000.00
Pole Nails	1,100,000.00
Solar Panels etc	960,000.00
Conduit	650,000.00
Ladders	500,000.00
Fuses	490,000.00
Height Safety	300,000.00
Total Inventory	147,350,000.00
Services	
Substation construction	84,000,000.00
Powerlines Construction & Maintenance	50,000,000.00
Vegetation Management	41,000,000.00
Consultants & Project Resources	30,000,000.00
Asset Inspection & Defect Remediation	26,000,000.00
Civil Works	16,400,000.00
Solar & Photo Voltaic	9,900,000.00
Building Construction & Maintenance	9,000,000.00
Accommodation	7,000,000.00
Fleet – heavy vehicles	5,400,000.00
Stationery	2,100,000.00
PPE (Clothing, Wet & Cold Weather Gear)	1,200,000.00
Total Services	282,000,000.00
Total Inventory & Services	429,350,000.00

5. PROCUREMENT SYSTEMS

5.1. Operational

5.1.1 Ellipse System

Strategiser

This database product provides information that enables expenditure analysis to be undertaken to assist in targeting procurement opportunities and other associated activities including supplier management. Considerable work was undertaken in 10/11 to upgrade the quality of the supplier database information and improve the effectiveness of Strategiser as an analysis and management tool. The benefits of this work and initiatives will be a focus in 2011/12.

Optimizer

Optimizer is Ergon Energy's inventory analysis tool. Optimizer contains sophisticated algorithms that enable the inventory team to review inventory items whilst considering multiple scenarios to determine the appropriate inventory management intervention. The Optimiser system became operational in late 2010 and is now being used in the analysis of Inventory, supply chain and supply sourcing to deliver in 2011/12 inventory system management improvements.

Works Planning forecasting (MDM)

Ergon Energy will expand its use of the Materials Demand Management (MDM) module to assist in improving visibility of the works program which will in turn enable more accurate forecasting to improve inventory management outcomes. Procurement depends on Works Planning to accurately populate MDM. Structure changes are being made within Fleet Procurement & Logistics to support an end to end supply chain approach for materials and it is intended the manager responsible will drive and support required proficiency in the use of MDM by Works Planning and Operations generally.

5.1.2 TenderMax Evaluation

Ergon Energy purchased the software program TenderMaxPRO in 2006 and has used this functionality for the majority of tenders over the intervening years. The program allows tenders to be fully developed and evaluated, with savings realised in the evaluation process.

Each tender needs to be assessed as to its suitability, as not every tender lends itself to the software.

5.1.3 ContractMAX

ContractMAX™ is a standalone contract management system which integrates with the DecisionMAX tendering software application TenderMAX PRO currently being used by SPG. ContractMAX has a scalable architecture enabling users to design and manage any contract; from a small one-off works contract to a multi-stage construction contract or the traditional services /goods contracts.

The software design ensures Ergon Energy's Contract Service Advisors and Administrators can manage both simple contracts with minimal effort or complex contracts made up of thousands of transaction payments and KPIs from the same system; providing a one solution option for contract management.

ContractMAX is designed to streamline all the steps of building and managing a contract. Once a user sets the contract in motion they are able to target specific KPI'S and events that they want to manage, deciding on a per contract basis the levels and frequency of management needed.

ContractMAX will provide for the development of the functionality for the Works Enablement Contracts area, which has not had a quality software program to manage field-based contractors to date. ContractMAX will also be adopted by the Strategic Procurement Group; this latter Group currently has its own database to effectively manage both tenders and contracts.

The Project timeline is fluid to ensure both business units are given sufficient time to fully develop the functionality and to provide the end-to-end solution currently not available. The Project includes the implementation of TRIM as a Document Management tool.

5.1.4 Electronic Tender Download and Lodgement

Ergon Energy advertises all tenders on the Queensland Government Market (QGM) website as well as its own website. As an enhanced service to tenderers, Ergon Energy has provided additional functionality which enables tenderers to lodge their submissions electronically. This initiative has the benefits of saving time due to the Tender Box being located in Cairns. Appropriate security measures are a feature of the installation.

5.1.5 Corporate Card SpendVision

Ergon Energy currently uses the SpendVision product to manage Corporate Card transactions. While SpendVision has reporting capabilities over and above most other Corporate Card systems, the integrity of the data currently being provided by employees of the business remains a challenge both in terms of coding purchases and providing their description in the header. Procurement will commence work in 10/11 to educate employees on the benefits and merits of consistent description and coding of purchases when finalising their transactions and approvals in SpendVision. A review undertaken in May 2011 regarding the improvement in data quality will continue to look for improvements in data quality for the purpose of increased expenditure analysis.

5.1.6 Customer Service Desk

Procurement and Logistics provides a centrally managed customer service desk for both internal and external customers. The services include a dedicated telephone line, email account, feedback form and an intranet page.

Monthly reports are generated and provided to managers to enable an analysis of the nature of calls and to determine the best method of managing responses. This information provides an insight for Procurement into what procurement activities are working well and identifies where opportunities may exist to improve Procurement outcomes including service quality to customers.

5.1.7 Electronic Document Management

Procurement has identified a range of internal documents that can be converted to an electronic format that allows Procurement to interact with customers. This initiative will produce efficient turnarounds on required information including contract approvals, requests for contracts, enhanced online approval capabilities for a range of applications and reporting. The implementation of TRIM as a Document management tool in 2011/2012 for Contracts will be of major assistance in Electronic Document Management.

5.1.8 Procurement and Logistics Intranet

Procurement and Logistics maintain an intranet site linked to the Process Zone to supply internal customers with information, reports, news updates, and quick link reference guides. Details of current contracts and Pre-Qualified Contractor panels are also displayed so that the business has ready access to this information.

This assists in ensuring that customers utilise existing established contracts and panels or understanding the business rules and process required for purchases and procurement. The Process Zone also keeps updated (latest) versions of Business Rules, Guidelines and process for all Ergon Energy employees.

5.1.9 Innovation Tool

An online tool that was trialled by Procurement and Logistics and now utilised to promote and manage innovation activities business wide. Procurement has appointed Coaches to support and develop ideas and regular reporting on progress of innovation ideas is provided to management.

5.1.10 On line Approvals

This tool was adopted from functionality being used in a different application within Ergon Energy. It allows Subject Matter Experts (SME) to endorse recommendations made in relation to the awarding of contracts valued at less than \$50 million online, without the need to monitor progress of paper-based recommendations across the organisation. As each person endorses the proposal, electronic notification is automatically sent to the person originating the proposal, this keeping them informed of progress.

5.2. Strategic

5.2.1 Ellipse and Ellipse 8.

Procurement has recognised that the Ellipse System is not being used to anywhere near its capacity both within Procurement and Logistics and more broadly through the end to end Supply Chain.

The Supply Chain Integration Team has been operational for almost twelve months, providing a range of services to Fleet, Procurement & Logistics, including:

- Drive improved Ellipse competencies in the use of the system
- Identify sub optimisation and establish plans and actions to address
- Train and educate employees in the proper use of the system and importantly focus on the down stream and up stream impacts in using the Ellipse system.
- Analyse data and current processes that are supporting the Ellipse system, with the view to identifying improvement opportunities (including behavioural) across the Supply Chain.
- Work with Energex under the Joint Workings initiative to identify and share opportunities to improve Supply Chain performance.
- Introduce disciplines in the use of the Ellipse System by identifying business wide cross functional behavioural short comings and have these issues escalated to senior management for resolution.

5.2.2 Procurement Contracts Database

The Contracts database provides Procurement with the required functionality to effectively manage tenders and the transactional side of the administration of contracts. Among the features of the database is the “Events Manager” which records progress through each stage of the tender as well as administration of the contract; and system-generated email reminders to carry out various tasks and reporting capabilities.

Demand for access to the database from other Ergon Energy Business Units is increasing as improved control is sought over the administration and management aspects of contracts and as the business moves towards more enhanced reporting capabilities

5.2.3 Barcoding

Procurement and Logistics have identified potential benefits with the introduction of bar-coding designed to improve warehouse efficiency, goods tracking from suppliers, improved inventory management practices including substantially better financial management of inventory assets.

Budget constraints have seen this project placed “on hold”, although Fleet, Procurement & Logistics Management will seek budget provision when the opportunity arises.

5.2.4 Payments/Invoice Scanning

All invoices have been held electronically from 1 July 2010. As a widely dispersed business, Ergon Energy staff from across Queensland have direct access to the document pertaining to that financial record. Invoice scanning with Character Recognition was considered in the past and for the 2010/11 Plan it was decided not to take Invoice Scanning past .PDF capabilities for commercial reasons. Invoice scanning with character recognition (e.g. Readsoft) requires a significant investment with at present questionable returns. Procurement will continue to promote with its suppliers the electronic transfer of tax invoices and use of RCTI. All other invoices will continue to be scanned on receipt at Accounts Payable.

5.2.5 Payments/Recipient Created Tax Invoice (RCTI)

Ergon Energy has signed three suppliers to the RCTI process. RCTI provides an automated invoicing process when Procurement receipts the goods and services have been delivered in good order and condition. The market’s ability to meet with Ergon Energy’s needs for RCTI is limited but Ergon Energy will continue to promote RCTI wherever possible and in particular with Inventory purchases.

Since the introduction of the Supply Chain Relationship Program, the concept of RCTI is promoted during each meeting with suppliers.

6. PROCUREMENT PROCESSES

6.1. Operational

6.1.1 Continuous improvement and development of documentation.

The Strategic Procurement Group in its ten years has always had the view that continuous improvement in both process and documentation is paramount to delivering its charter and in meeting its performance indicators. This is evident in its ability to identify new initiatives and to position itself to take on those initiatives with minimum disruption – and without the need for management direction, in a majority of cases

6.1.2 Contract and Tender Management Planning

Tender Management Plan is a framework whereby “transaction” has been replaced with “discussion, negotiation, advice and leadership”. This is designed to improve understanding of both the customer’s needs and identify important risks by market and each specific procurement. This approach is also designed to reduce risk and improve service by developing relationships and understanding by replacing document completion with customer/stakeholder interaction including collaboration.

6.1.3 Quality Assurance system and Certification

Procurement & Logistics in 2010/11 developed a Quality Assurance system which was awarded with ISO Quality certification on the 26th June 2010. Procurement & Logistics had recognised the need to introduce ISO Quality certification. This is a strategic move designed to drive continual improvements in customer service, efficiency and quality outcomes for the Procurement & Logistics Group while at the same time recognising that certification is important in a competitive situation.

6.1.4 Policy and business rules review (bi-annual)

Ergon Energy’s Sustainable Procurement Policy and Procurement Policy Business Rules have been reviewed regularly over the last nine years, with the latest version being approved by the Chief Executive in June 2010. Currently is being updated to continue improve Ergon’s adoption of Sustainability in procurement and to ensure the State Government’s Contract disclosure requirements and other operational, commercial or regulatory changes over the past year are met.

6.1.5 Governance and Due Diligence

The Strategic Procurement Group has a Governance role to ensure that procurement of all goods and services is carried out in accordance with both Government and Ergon Energy policy. Ergon Energy’s Corporate Legal team provides excellent legal and business risk advice and support when required.

Due diligence checks are made on all short-listed tenderers, using the services of an external Service Provider which specialises in providing current, up-to-date written reports. The due diligence reports are considered current for up to six months, being utilised where tenderers bid more than once in any six-monthly period.

Probity Plans are developed for every tender, with staff from the Strategic Procurement Group acting in this capacity for less complex tenders. A decision to engage external Probity Auditors for large, complex tenders is made by senior procurement management as part of the tender strategy development phase in line with the State Procurement Policy.

7. PROCUREMENT RESOURCES

7.1. Operational

7.1.1 Training

The training needs of staff are assessed each year as a part of the Performance Review process, which entails developing criteria against which each staff member must perform. A Development Plan, consisting of both formal study and training courses/workshops/conferences is agreed between staff and supervisor at the beginning of each financial year, with progress discussed and assessed during six-monthly performance reviews.

7.1.2 On the Job development

Significant on-the-job development occurs, due to the nature of the work, particularly in the Strategic Procurement and Supply Chain Integration Teams. Ergon Energy's Corporate Legal Team provides ongoing Corporate Law and Trade Practices Act training.

7.1.3 Tertiary qualifications

A number of team members have obtained tertiary qualifications in procurement and logistics disciplines; whilst others have business qualifications.

Management strongly recommend and support staff in further education and training. Three team members have recently graduated and a number are investigating and looking at future courses and qualifications.

7.1.4 Networking

Networking is being given more attention now that the Procurement and Logistics team has matured. Close relations have been developed with our sister energy distributor in Queensland (Energex) and with Power Link, the main Transmission Authority in Queensland.

The need to address Sustainability in Procurement has brought about the creation of the Sustainable Procurement Electricity Corporations (SPEC) Taskforce, which has developed a Roadmap for the introduction of Sustainability. This close co-operation has seen discussion and a transfer of ideas in other areas.

Ergon Energy is a member of the Asia Pacific Utilities Group (APUG) which has members across Australia, New Zealand, Papua New Guinea, Malaysia, Hong Kong, India and China. APUG, one of 8 such organisations worldwide, maintains a database of suppliers which members access on a regular basis.

APUG's intent is for members to continuously improve the efficiency of their key procurement processes to deliver quantifiable benefits for their own organisations and their suppliers through:

- Common supplier management systems
- Joint benchmarking & performance sharing and
- Collaboration on supply chain activities

7.1.5 Cross Functional Co-operation

Representatives from all areas of Procurement and Logistics meet to discuss ways in which they could better interact as a workgroup and thereby develop more cohesion and understanding across our teams and improve our business performance. The team meet regularly to develop and promote activities/issues that focus on improving our cross work group co-operation and take the current level of co-operation to a much higher level. Membership is voluntary.

7.2. Strategic

7.2.1 ODR structure review

Ergon Energy in 2010/11 completed an Organisational restructure to streamline work processes and create efficiencies in the tender/procurement process, where the value for money proposition is expected to be continually enhanced.

7.2.2 Sustainability

Strategic Procurement is continually developing and implementing Sustainable Procurement Policy and Business rules to be incorporated in business practices and procurement. This is aligned with State Government and the Sustainable Procurement Electricity Corporations (SPEC) policy and directives.

7.2.3 Governance and legal expertise

Work has already commenced in developing a greater Governance role within the Strategic Procurement Group, with the main focus on leading the tender strategy development. SPG has subject matter experts working closely with Contract officers and with Ergon Governance and Legal to assess procurement tender and contract risk and to ensure these are identified, and mitigated. This initiative is to expedite workloads, improve tender efficiency and outcomes whilst reducing risk: including a greater role in the management of the resultant contract to ensure continued compliance with the contractual terms and conditions.

7.2.4 Risk management

In a similar vein to Governance, the approach to Risk Management has been given greater prominence and enhanced. A Tender Management Plan is used by members of the Strategic Procurement Group to lead the various Subject Matter Experts through all aspects in developing the tender, with a major emphasis on the management of risk. To this end, a Tender Management Plan document, guidelines and enhanced procedures have been developed to identify both the risk and the best mitigation strategy available.

7.2.5 Risk and Pricing – Commercial Terms & Conditions, Reviews

Increased emphasis is on the assessment of risk and to look at improved pricing in the Tender Management process, Evaluation and the whole of contract outcomes which include future pricing and reviews.

Procurement Advisory subject matter experts with Contract Advisers/Officers look at Ergon's commercial risk, price and cost risk and other liabilities and look at solutions within the Procurement tender process, evaluation and final procurement decisions how these risks can be mitigated or covered.

This allows negotiations regarding risk and pricing for the appropriate commercial terms and conditions of contracts to ensure Ergon Energy's interests are met and risk is mitigated.

8. SUSTAINABLE PROCUREMENT INITIATIVES AND SUBJECT MATTER EXPERTS

8.1. Operational

8.1.1 SPEC Roadmap – Benchmark present position and set plan

Significant work is being undertaken in the 2011/2012 financial year to conduct expenditure analysis and to set targets, utilising the tools available from the QGCPO website. Fleet, Procurement and Logistics will lead Ergon Energy in developing its sustainability credentials as part of its expanded leadership role.

Sustainability has been given a higher profile within Ergon Energy, through its inclusion in both Business Plans and as a Key performance Indicators in a number of managers' Performance Agreements.

8.1.2 Supply Chain Relationship Program

Ergon Energy has introduced this program in order to develop better relationships with its suppliers, allowing both organisations to understand the other party's needs, where costs can be stripped out of both organisations and where opportunities exist for the development of the value chain.

Ergon Energy surveyed over 300 of its suppliers in early 2011, achieving a 47% response rate. The information gleaned from the survey has seen Ergon Energy develop an Annual Meeting Schedule allowing it to conduct Supplier Meetings with its top fifty suppliers. The success of this initiative can be gauged by the fact that Supplier Meetings are attended by State Managers of most Supply firms. This follows on from the survey which revealed that, even though we had targeted different levels within supplier organisations, almost invariably responses were received from management-level.

Ergon Energy has also initiated a quarterly Newsletter to all suppliers, keeping them informed of the latest developments. Again, the success of this initiative can be gauged through the receipt of requests from other organisations that are keen to know what is happening within Ergon Energy.

8.1.3 Quality risk management – goods and suppliers

Ergon Energy has introduced risk analysis matrices for the purchase of goods and for the delivery of services. The two procurements are quite separate and require different approaches.

In the case of goods, inventory items are considered in terms of disruption to the electricity network through failure to obtain supply. Compounding this is the need to consider supply on a one item basis or on a batch basis. The matrix for suppliers considers the source and the delivery processes in terms of capability and test regimes dealing with type, routine and batch testing.

Quality risk management integrates with the Supplier Relationship Programme and the Strategic Sourcing Specialist.

8.2. Subject Matter Expertise Initiative.

8.2.1 Strategic Sourcing Specialist

Strategic sourcing is a systematic procurement process that continuously improves and re-evaluates the purchasing activities of a company in line with the long term business and market needs. Strategic Sourcing is a closed loop from identification of procurement item/activity to review of contracts and back to identification.

Activities covered by the role:

- Specialist knowledge of Network Materials
- Market research (Internal and External)
- Develop and maintain program for tenders (Materials and Services)
- Joint Business Process program
- Regular meetings with Standards Staff to ensure achievement of program
- Management relationships with internal staff to ensure timely completion of procurement program.
- Maintain knowledge of, and relationships, key supplier groups.
- Development of procurement strategies for various materials categories.
- Creation and Maintenance of FPAs

8.2.2 Procurement Advisory

Procurement Advisory provides comprehensive analysis, guidance and expert advice to the Procurement and Logistics Management Team in the development of strategies; including delivering timely and accurate information on Foreign currency, commodity markets, market trends, internal analysis of corporate spend, quantification and measurement of current and future sustainability initiatives for the various categories for the procurement of goods and services.

This role also includes research or comment recommendations for Management when required on broad range of commercial topics from:

- Sustainability
- Renewable Energy
- Impact of carbon costs on procurements
- Timber Pole supply
- Economic Market trends

Procurement Advisory Subject Matter Experts (SME) work with Contract Services Advisors to identify and analyse commercial risk and develop appropriate risk responses to reduce the probability and consequence of adverse events on the procurement process. Procurement Advisory SME also works closely with the Corporate Legal Team to expedite the tender process and contract negotiations. SPG has experienced a significant improvement in its capacity to handle all matters of limitations of liability. Procurement Advisory also works closely with Strategic Sourcing and on other specific procurement tenders and projects to improve outcomes.

The publishing of documents for processes or guidance is planned in 2011/12 include contribution or authorship by Procurement Advisory for the release of:-

- Procurement Risk Identification and analysis Guide.
- Limitations of Liability Reference guide
- Sustainable Procurement incorporated in Procurement and Supply – Including Emissions - Measurement, Reporting and Analysis.

Released in early 2011 new Pricing review terms and conditions documents are now being implemented by the Strategic Procurement Group combined with reviews of existing contracts. Focus on Pricing reviews mechanisms and conditions have recently identified substantial cost/price savings which are being negotiated with suppliers.

Improved contractual pricing basis and review methodologies are required for improving price/cost risk identification and analysis. This will be beneficial to the upcoming Foreign Exchange and Commodity risk project commenced by Ergon Treasury.

Incorporation of sustainability and emission requirements in the Procurement process and Final contracts is also required for increasing State and Federal reporting requirements such as the NGER Act.

8.2.3 Sustainability Procurement Policy and Process development.

Ergon Energy's Sustainable Procurement Policy released in 2010 aligns closely with the State Procurement Policy and looks at the core directive of:-

“Lead Sustainability through the procurement process”.

Therefore Strategic Procurement Group has taken a lead role with sustainability in the procurement process. Strategic Procurement is looking to continue to develop, improve and implement the Sustainable Procurement Electricity Corporations (SPEC) Roadmap and aligning with Ergon Energies “Horizon 2” goals for 2011- 2015 through it processes and documentation.

This includes ensuring Fleet Procurement and Logistics Develop strategies and procedures required for any new regulations nationally for Carbon Pricing, Reporting and any future carbon trading scheme implementation.

9. PROCUREMENT PROGRAM

9.1. Operational

9.1.1 Contract Operations Committee

This committee replaces the former Contracts Forecast Action Committee and has as its charter the purpose of providing a forum to oversee the operation of contracts for goods and services in respect to the delivery of the Ergon Energy Works Program and ensure that contracts mitigate risk and provides opportunities for optimal resource efficiency and value for money.

The Strategic Procurement Manager chairs this Committee which meets monthly to review progress. All existing contracts have recently been reviewed so that a revised program can be developed to ensure the timely development of strategies for new tenders.

9.1.2 Contract Strategy Committee

This is a new committee which has as its charter to provide a forum to determine the strategic direction of contracts for goods and services in respect to the delivery of the Ergon Energy Works Program and ensure that these strategies are aligned with Ergon Energy's strategic direction.

The Group Manager (Fleet, Procurement and Logistics) chairs this committee which meets as necessary.

The fact that both committees are chaired by managers from within Fleet, Procurement and Logistics demonstrates the importance of FP& L and its contribution to the overall success of Ergon Energy.

9.2. Strategic

It has been a standard approach to develop Corporate-wide contracts for inventory items for the last ten years. On expiry, new contracts have been negotiated. In relation to services, contracts have been established on demand from across the business to meet needs that existed at that time. We are now able to identify where needs are similar, thus enabling the bundling of contracts to deliver efficiencies and better value for money.

The Contracts Strategy Committee sets direction for future tenders to ensure alignment with Ergon Energy's strategic direction and to ensure completion of the Works Plan.

10. FLEET PROCUREMENT AND LOGISTICS 2010/11 BUSINESS PLAN

The FP&L Business Plan provides cross functional support to the Corporate Procurement Plan.

11. ERGON ENERGY / ENERGEX JOINT BUSINESS PRACTICE

In 2008 Ergon Energy and Energex commenced working together on Procurement and Logistics improvement activities. A formal project (Joint Workings) was established in 2009 and the benefits of the two companies working together have been validated through early success in both streams.

During 2011/11 Ergon Energy and Energex disbanded the JW Procurement and Logistics project by integrating and implementing a "Joint Business Practice" model that will see formal protocols put in place to progress the early successes in a more efficient manner free of ongoing and unnecessary project costs.

Representatives of both Ergon Energy's and Energex's Procurement Groups have been holding monthly meetings to identify opportunities for joint tenders. Whilst two contracts have been established to date, the end-to-end process has been reviewed to ensure the initially-identified savings and efficiencies can be realised.

To this end, a program of potential tenders for both the next twelve and months (and potentially the next five years) has been developed and recommendations made to the Joint Business Practice Procurement Steering Committee have been approved. Strategic Procurement will commence in 2011/12 to commence the rollout of the program in Ergon Energy and work with Energex on a number of selected procurements to go to market as a Joint tender.