VIth IPA REGIONAL PUBLIC PROCUREMENT CONFERENCE

UTILITIES: HOW THE EU DIRECTIVE IS MANAGED IN A NETWORK OPERATOR OF THE WESTERN BALKANS

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Danilovgrad, Montenegro, 20-21 June 2013
Basic Data of **EVN Macedonia**

**Primary Activity**
- Macedonian Power distribution & Supply company

**Part of EVN AG - Austria Group**
- Lower Austria int. power supply & infrastructure company
- Vienna Stock Exchange listed
- Operates in 21 country

**Present at Macedonian Market since 2006**

**Remarkable grow of EVN strong brand in Macedonia**
- > 196 mil. EUR investments (2006-2012)
- Constructed or modernized >2.457 km grid & 1.192 Trafo stations
- Installed > 650.000 new digital meters
- Own 11 small refurbished & fully automated Hydro power plants
- 19 Customer Centers (KEC) & modern Customer Relations Center
- One of the largest employers in RM

**Company goal**
- Reliable & High quality power supply to customers
- Competitive prices

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### Grid

<table>
<thead>
<tr>
<th>Number of transformer stations</th>
<th>110 kV</th>
<th>35 kV</th>
<th>10/(20) kV</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>53</td>
<td>86</td>
<td>7 752</td>
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</table>

<table>
<thead>
<tr>
<th>Grid per voltage levels</th>
<th>110 kV</th>
<th>35 kV</th>
<th>10/20 kV</th>
</tr>
</thead>
<tbody>
<tr>
<td>168 km</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>841 km</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>10 527 km</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>14 599 km</td>
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Procurement Environment

International environment
- Wide choice potential bidders
- Domestic terms & conditions adjustment
- International finances rules

Regional environment
- Geographical region
- Economical special commercial &trade terms

Multinational environment
- Multinational working capital, rules, culture, procedures...
  - Mindset forming
  - Undertaking group suppliers & standards

National environment
- Statutory limitations
  - Domestic rules, laws, by-laws, rulebooks, regulator, customer conditions...
  - Unforeseen legal environment management
- Market limitations
  - Potential domestic bidders & limitations
  - Communication, language, response time, negotiations
MK National Legislative & EU Directives (Procurement)

National Procurement Law
- Significant improvement in LPP 2008
- Bylaws & Rulebooks
- Model documentations
- Forms

Company Procedures
- Company Rulebook for signatures
- Business Guideline Procurement
- Processes/ Forms

Group Procedure
- Group Guidelines & Procedures
- Model documentations
- Forms

Corporate Procurement Strategy
- General Corporate Strategy
- General Procurement terms & Conditions

How to balance all different requirements?
- National legislation is mandatory
- Adjustments of procedures, documentation & forms
- Getting close of National legislation to EU Directives
MK National Legislative & EU Directives (Procurement)

- Macedonian LPP Adjustment to EU Public Procurement Directives
  - Similar group procurement structure
    - Procurement phases, steps & strategies
    - Knowledge sharing & transfer
    - Organizational layout
    - Evaluation techniques & selection criteria
    - Controlling mechanisms unification

- Introduction of Qualification System instrument (LPP v. 2012)
  - EU Directives adjustment
  - Utilities needs
  - Benefits for Utilities
    - Fast, flexible procurement system
    - Fulfilling Utilities business requirements
    - Open system for the Economic Operators
    - Economic Operators Permanent improvements & development
    - Vendor’s fulfillment continual follow up
    - Transparent & equal Public Procurement system
Utilities Public Procurement

- **Law on Public Procurement (LPP) applicable for EVN Macedonia**
  - Utilities contractor, carrying out appropriate activity

- **Trash hold values for applying LPP**
  - 200,000 EUR / procurement of goods & services
  - 4,000,000 EUR / procurement of works

- **Applicable procedures as per LPP**
  - Open procedure
  - Restricted procedure
  - Negotiated procedure with prior publication of a contract notice
  - Negotiated procedure without prior publication of a contract notice
  - Simplified competitive procedure

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**Negotiated procedure - EVN Most Frequently used**

- Procuring technically sophisticated commodities
- All requirements & terms negotiated to details
- Cooperative approach, trust & confidence with vendors
- Competitive prices & terms
- Proper vendor management
# Why Private Company to apply Public Procurement?

<table>
<thead>
<tr>
<th>Mandatory</th>
<th>Voluntary</th>
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</thead>
<tbody>
<tr>
<td>▪ Law on Public Procurement requirement</td>
<td>▪ Highly competitive prices with Public tendering</td>
</tr>
<tr>
<td>▪ Energy segment importance in each country</td>
<td>▪ Increased competition vs. bids collection</td>
</tr>
<tr>
<td>▪ EU Directives on Public Procurement adjustment</td>
<td>▪ Transparent approach to vendors</td>
</tr>
<tr>
<td>▪ Single Macedonian private company in Utility Agreements</td>
<td>▪ Equal opportunities to all</td>
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<tr>
<td></td>
<td>▪ Fairness</td>
</tr>
<tr>
<td></td>
<td>▪ Increased procurement proficiency</td>
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<tr>
<td></td>
<td>▪ Similar procedure applicable for all EVN Procurements</td>
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**EVN Aspects**
Successful Procurement Objectives (Private & Public)

- **Fairness**
  - Reasonably defined rules
  - Reasonable evaluations, equal approach
  - Pressure or misuses avoidance

- **Consistency**
  - Pre-defined requirements & rules

- **Transparency**
  - Procedure, responsibilities allocation

- **Equal opportunity for all vendors**

- **Efficiency**
  - Increasing proficiency in procurement entity
  - Over centralization elimination
  - Decision makers levels & Bureaucracy
  - Speeding procurement process

- **Traceability**
  - Documented process/ procedure
  - Awareness/ cautions & responsibility of all involved
  - Evaluations process facilitation & audits

- **Accountability**
  - Procurement staff/ department liability to owners & authorities
Procurement Strategies

“Standardizing” Strategy ( = Model Based Procurement)

- Technical standardization (goods/service/works)
  - Saving time & efforts
  - Clear technical requirements

- Tenders/bid inquires/contracts models
  - Increased efficiency
  - Uniformed professional approach
  - Easy preparation of offers
  - Minimized mistakes/complains risk

- “4 eyes” principle

- Intensive Framework Agreements
  - Repeating work reduction
  - Accelerating procurements
  - Minimized financial risk
  - Stabile & long term vendor cooperation

- Centralization to reasonable level
  - what & why?
  - high potential for cost reduction

- Operative & Strategic Procurement Groups

- ERP Systems maximal exploring
  - analyses, statistical data & planning

- “Maintain & Invest” in Procurement Top Achievers
Important Procurement Points

- Market Situation, Vendors
  - current & potential
  - restrictions & advantages

- Procuring Entity market position & Power

- Procuring Entity Strength & Weaknesses

- Strengthening Procurement Entity Competitive Edge
  - staff trainings, soft skills improvement
  - new techniques
  - rotations

- Future Market Trends
  - domestic & international
  - new procurement methods & technologies...

- Single or Multi Sourcing
  - delivery risk
  - stock level
  - commercial terms
  - reliability performance factor
  - increased work load
  - risk of unjustified results/ competition
Procurement Knowledge Preconditions

Procurement is far beyond simple paper work

- Strategic lead buyer awareness of
  - Scope management
    - Available technologies
    - Clear specifications
    - Mandatory technical/professional requirements
    - Interfaces with environment
    - Legally mandatory requirements
  - Costs management
    - Available budget
    - Estimated costs incl. options
  - Time Management
    - Available timeframe & options
    - Delivery times
  - Quality Management
  - Risk Management
    - Major procurement risks
    - Specific optional risks
    - Assessment of control of risks

- Permanent Training & Education
  - commercial & marketing
  - legal aspects
  - Public Procurement Trainings
  - Soft Skills Trainings
  - Commodity technical trainings

- In house (group) knowledge sharing
Procurement Phases & Time

Phases
- Request (Demand) for procurement
  - Need Identification & Approval
- Procurement Concept Development
  - Constrain
  - Concept Development
  - Approval
- Drafting/ documentation preparation
- Procurement management (realization)
  - Solicitation
  - Evaluation (technical & commercial)
  - Sourcing/ Vendor selection
  - Contracting
  - Delivery management
- Consignments
  - delivery, control, change requests, improvements

Time
- Required time
  - Average 1-3 days min up to > 90 days
- Project Required Procurement time
  - Mostly forgotten to be not planned
  - Frequent time pressure for Procurement dept
  - Legal restriction in case of public procurements
  - High Complexity & costs of procurement part of project
  - High demand for resources & time
Evaluation techniques & Selection criteria

Evaluation techniques

- Clear assignment Vendor- Buyer
  - TCO calculation
  - Mistakes & additional costs avoidance
- “4 eyes” principal
  - Double check commercial / technical
  - External consultants engagement
- Useful tracking & risk sharing tools
  - “4W” matrix usage (Who, What, When, Why)
  - Supplements usage (summary reports)
- Price Schedule & Schemes
  - ½ works is done with good price schedule
  - “Apple to apple” comparison
  - TCO price schedules & PBS Structure
- Results Measurement & Monitoring
  - Market price (offers); Historical & group prices
  - Prices benchmarking
  - KPI permanent monitoring

Selection Criteria

- Lowest price after fulfillment technical requirements
  - Most frequently used by EVN
  - Objective measurement
- Best offer
  - Complicated technical evaluation
  - Causes vendors comments/complains
  - Achieved price levels are higher
Procurement Entity Layout

- Simple organization of procurement entity
  - Centralized since 2006 (24 employees)
  - Precise & Fast reply to increasing demands
  - Precise & proper internal customer communication
  - Balance external & internal requirements
  - Simultaneous vertical & horizontal responsibility lines

- 3 procurement groups
  - Procurement of services & goods
  - Procurement of works
  - Central warehouse & material management
  - Sales of waste

- Clear Internal Process & Business Guidelines
Control Mechanisms

- State Commission for Complains to Public Procurements
  - official, independent control & decision maker

- Internal approval & signing mechanisms
  - 4 eyes principals
  - signing matrix (rulebooks) & levels of controls
  - price comparisons, independent benchmarking, frequent tendering

- Control of performance
  - on site during project realization
  - technical control during warranty period
  - independent (supervision, institutes)
  - performance bond mechanisms & production guarantee

- Staff control
  - rotations
  - awareness of responsibility & consequences
  - conflict of interest avoidance
  - codex of behavior

- Internal Audits & Controlling
  - planned & not planned controls & audits
  - good traceability system
  - budget control & spending controls
E- Relevance for Future Procurements

- Phases of E- Procurements
  - E- Tendering Preparation (E- Planning, E- Design, E- Doc. Drafting)
  - E- Sourcing (e- RfX, E-Tendering, E- Commerce)
  - E- Valuation (E- Pointing system, E- Analyses, E- Decision)
  - E- Selection (E- Auction, E- Negotiations, E- Selection)
  - E- Contracting & E- Purchasing

- Relevance of E- Procurements
  - Reducing procurement capacity
  - Human factor influence decreasing
  - Strong ERP system support & clear E- Catalogue
  - Internal E- Procurement as 1st step to external E- Procurement

- Legal E- Procurement Aspects
  - Thorough Establishment legislation
  - No country/ region borders
  - Place of concluding Contract, applicable law & jurisdiction
  - General Procurement & Contracting conditions awareness
  - Trust issue- Procuring Entity & Vendor

- Future of E- Procurements
  - Terminology Standardization on highest level, commodities groups
  - E- Valuation & E- Contracting extremely difficult
  - Significant corporate changes requirements
Thank You!

Questions & Answers