

**Vlth IPA REGIONAL PUBLIC PROCUREMENT
CONFERENCE**

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

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Basic Data of **EVN** cedonia

■ 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



Grid

Number of transformer stations

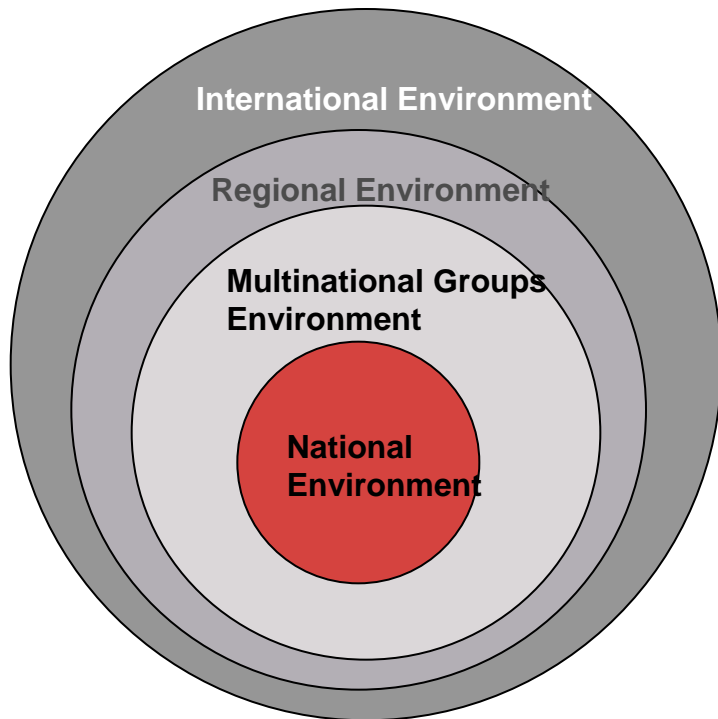
110 kV	53
35 kV	86
10/(20) kV	7 752



Grid per voltage levels

110 kV	168 km
35 kV	841 km
20,10, 6 kV	10 527 km
0.4 kV	14 599 km

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



Procurement entity

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
- **Threshold 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



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?

Mandatory

- Law on Public Procurement requirement
- Energy segment importance in each country
- EU Directives on Public Procurement adjustment
- Single Macedonian private company in Utility Agreements

EVN Aspects

Voluntary

- Highly competitive prices with Public tendering
- Increased competition vs. bids collection
- Transparent approach to vendors
- Equal opportunities to all
- Fairness
- Increased procurement proficiency
- Similar procedure applicable for all EVN Procurements

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
 - Stable & 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
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- 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
 - Constrains
 - 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 recourses & time

Evaluation techniques & Selection criteria



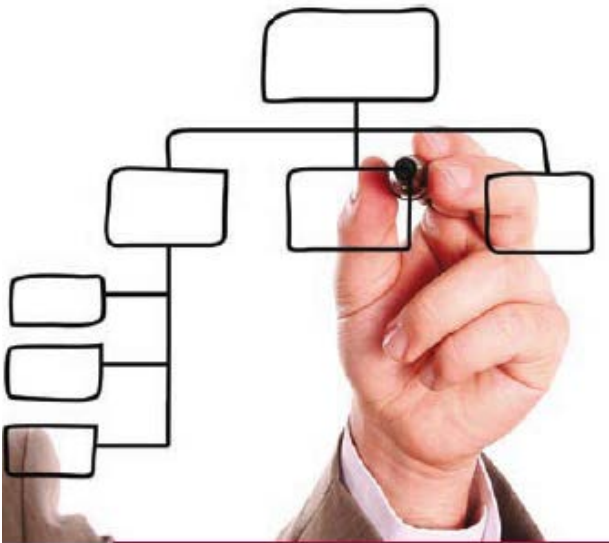
Selection Criteria

- 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

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

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 Complaints to Public Procurements
 - official, independent control & decision maker
- Internal approval & signing mechanisms
 - 4 eyes principals
 - signing matrix (rulebooks) & levels of controls
 - price comparisons, independent bench marking, 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