

AES Procurement Handbook
Non-Fuel Materials and Services

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Foreword

AES has a very diverse and unique portfolio of businesses and market environments. Despite the market and regulatory differences that exist across our many businesses it is important to assure that most of our procurement activities are carried in complete alignment with AES values, policies, and Operational Excellence Standards.

This Procurement Handbook has been developed to help guide AES businesses establish or improve procurement operations in conjunction with the AES Operational Accounting and other Policies (i.e. “Procure to Pay”, Environmental and Safety Standards, and others). The Procure to Pay Policy frequently referred to in this Procurement Handbook, acts as the overriding authority on matters covered in both documents.

The AES Procurement Handbook has been developed to try to provide as much practical information as possible, while maintaining straightforwardness. Included are model procedures that can be adopted as-is. The handbook includes some theory, but is meant to be as non-technical as possible and in spite of the specific market and regulatory realities of each business, the fundamentals of efficient procurement must be consistently applied throughout AES.

Purchasers across various sites have contributed to the development of this handbook. This input was vital in putting together a real world model. We encourage everyone reading this handbook to make his own assessment of these practices and provide his/her comments to continuously improve this document.

No single handbook can cover every possible situation and some of the material included may not be appropriate for each local business. Procurement leadership from each entity should check its procedures and interpretations with appropriate legal and internal control professionals and rely on that advice concerning regulatory requirements, contract templates, and terms and conditions.

For more information on supply chain areas not covered, the Strategic Sourcing staff at the Arlington office can be contacted for assistance.

Sincerely,

AES Strategic Sourcing

Chapter 1 – Introduction

Procurement is the process of acquiring all the goods and services necessary for a business to effectively delivery its services or products to its clients. Most of the money spent in each and every business goes through the procurement process and the correct management of this activity not only affects the economic result of our businesses but also most of the financial controls and other areas like safety and environmental.

In general, Procurement's goals are to:

- Purchase the proper good or service to suit all the possible business' needs.
- Get the best possible value for the good or service.
- Enable continued operations by having the goods or services available where and when it is needed.
- Ensure a continuous supply of needed goods and services.
- Ensure responsible bidders are given a fair opportunity to compete.
- Guard against any conflict of interest in all supplier relationships.
- Ensure a sound and sustainable relationship with potential suppliers and local communities.

Procurement Principles

AES' procurement requirements and strategies are based on the following four fundamental principles:

- Ethical Behavior and Conduct
- Open and Effective Communication (transparency)
- Safety, Health, and Environmental Compliance
- Value for Money

Ethical Behavior and Conduct

Any misuse of a local business' purchasing power carries consequences, and many such misuses arise from a lack of clear guidelines about what constitutes an abuse. All AES procurement personnel are responsible for knowing and understanding the policies and guidelines contained in the **AES Code of Business Conduct & Ethics** and are expected to conduct business according to this Code. Copies of this Code are available from the Chief

Compliance Officer and the Legal Department. In addition, this Code may be downloaded from the Compliance site on www.ouraes.com.

Ethical behavior and conduct helps ensure that in its procurement activities, AES will:

- Behave with impartiality, fairness, independence, openness, integrity and professionalism in its dealings with suppliers.
- Advance the interests of AES in all transactions with suppliers.
- Ensure that its Procurement personnel attain the highest level of credibility with suppliers.

The pursuit of ethical behavior and conduct necessarily requires:

- That appropriate training is provided to all Procurement personnel aimed at heightening their understanding of what constitutes accountability, ethical behavior and conduct.
- A framework for reporting compliance-related information to management.

Open and Effective Competition

AES must use competition to the maximum practical extent in the procurement process. In order to promote and preserve competition within the procurement process, AES strives to conduct business in a manner that is above reproach and completely impartial. This principle ensures that all AES personnel are aware of their responsibilities to safeguard the integrity of the procurement process.

The objectives of “Open and Effective Competition” are:

- To instill confidence throughout AES about the integrity and cost effectiveness of Procurement.
- To maximize the most economically beneficial outcome for AES.
- To ensure that all suppliers wishing to conduct business with AES are given a reasonable opportunity to do so.
- To ensure that bid documents and contracts reflect the requirements and desired outcome of AES and that all participants are subject to equivalent terms, conditions and requirements.

“Open and Effective Competition” means:

- Procurement procedures and processes are visible to AES.
- All Procurement personnel accept their accountability to AES.
- Suppliers have an equal opportunity to do business with AES.
- Competition is sought to provide value for money.

- Delegations, authorizations and associated financial thresholds are appropriate for the level of judgment and expertise expected of Procurement personnel.
- Purchasers have the required independence to act on the best interest of AES businesses.

Safety, Health, and Environmental Compliance

The procurement objectives of “Safety, Health, and Environmental Compliance” are:

- To address the nature, scale and safety concerns of its activities and services.
- To include a commitment to the continual improvement of occupational health and safety and risk reduction.
- To include a commitment to comply with relevant safety legislation and regulations, and internal requirements.
- To extend to our suppliers and community AES safety and environmental values.

“Safety, Health, and Environmental Compliance” means:

- Suppliers must follow AES’ Safety, Health, and Environmental policies, applicable legal regulations and compliance; suppliers must conduct work in a safe, healthy and environmentally responsible manner.
- Suppliers and/or contractors, who subcontract to third parties, if authorized by AES, must ensure that subcontractors, materials, and services comply with AES’ Safety, Health, and Environmental Policies.

Value for Money

“Value for Money” refers to the maximization of value for all expenditures. This does not necessarily amount to purchasing at the lowest price. The “Value for Money” principle embraces “Total Cost of Ownership” which takes a “big picture” perspective in purchase evaluation criteria that includes:

- Fitness for purpose of the goods or services.
- Timely delivery.
- Proper planning and scope of purchases.
- Consideration for all other relevant price and non-price factors.

Procurement Department Organization

Principles for Effective Operation

Every AES business needs to make purchases, small and large, to conduct business. There is no standard format that will fit all purchases. However, certain procurement principles can be generally applied to make them operate more effectively and efficiently.

The following principles are recommended for Procurement at local AES businesses:

- Establish a central Coordination of the procurement activities and centralize the procurement authority wherever possible and convenient.
- Centralized control and management of suppliers, materials and services database and registration.
- Always observe the duty segregation recommendations:
 - Whomever buys does not pay or receive the materials or services
 - Whomever pays does not buy or receive materials or services
 - Whomever receives materials or services does not buy or pay
- Establish and recommend written procurement policies and procedures that include all the safety and environmental recommendations according to AES policies and local law.
- Establish the procurement function at a level high enough in the organization to ensure its independence from control by any department or division of the organization.
- Establish an oversight committee to develop overall goals and strategies and to ensure that procurement practice is consistent with those goals and strategies.
- Consolidate purchases of similar items to take advantage of volume purchase discounts whenever possible, including joint purchases with other AES businesses.
- Track and require that all emergency purchases be fully justified so abuses of the system are detectable. As often as possible, eliminate so-called “*emergency*” purchases for non-emergency situations. Emergency purchases are not the same as “urgent” purchases on account of poor planning; emergency purchases generally address the need to ensure continued critical operations or workforce safety.
- Implement procedures to require requisitions and authorizations of all purchases of goods or services.
- Clearly define the scope of purchases that will be managed by Procurement.
- Develop an Annual Procurement Plan that is reviewed and accepted by the main internal stakeholders and incorporated in the budgeting cycle.

Methods for establishing these basic principles are explained in the remainder of this handbook.

Department Structure

The Procurement Department organization will vary according to the size and complexity of the business. Most businesses may include a full-scale procurement department and a materials management operation with a warehouse. The principles included in this handbook are adaptable to both smaller and larger business units.

A centralized procurement department is essential to efficient purchasing for the following reasons:

- It allows for consolidating smaller purchases by individual departments into larger volume purchases for the entire corporation.
- Vendors and the business community have a single point of contact to the business.
- Procurement and its personnel accumulate a solid foundation of knowledge and experience about purchasing, marketing trends, prices and vendors, which saves AES money and provides a more efficient purchasing process.
- Procurement is able to identify future needs and prepare the required resources to attend such future requirements.

The procurement function should not be subordinated to any particular division's operations but must maintain independence to serve the entire business fairly and impartially. If central procurement rests with an individual, that individual needs sufficient authority and responsibility to achieve the purposes of efficient, independent purchasing.

Procurement should be included in all stages of acquisition, from planning/budgeting, order placement, receiving the purchases and defining the correct processes to keep the company's systems updated. This will enable Procurement to take full advantage of the department's knowledge and expertise of purchasing techniques and products, while supporting other functions and processes affected by the procurement activity.

Whether Procurement is a department with a director and staff or a single individual, Procurement must effectively coordinate with other departments, prevent special interests from influencing purchasing decisions and assure complete adherence to all the other processes in the company affected by his activity.

Types of Purchases

There are several types of purchases that require different approaches. Non-routine categories such as large CapEx projects of purchases frequently will take longer to process and should be minimized.

Non-Stocked Items

These items are not stocked or warehoused by the business unit. They may or may not be a standardized item, but they are not in such constant demand to be considered a supply or other stocked item. These items are typically procured by either bids or negotiated price quotes, according to the business' requirements.

Stocked or Warehoused Items

These items are used regularly by the business units and are stocked routinely. They are usually purchased on annual or multi-annual contracts with provisions to replenish stocks as needed. These items should be standardized to the maximum extent possible to increase purchasing efficiency and cost effectiveness by consolidating individual purchases.

There are materials that are usable for both routine consumption processes (Opex) or capital projects (CapEx). Independent of the final destination of the items, the items should be received on a centralized fashion.

Emergency

Emergency purchases are made to meet a critical, unforeseen business need. Since the business' ability to operate would be impaired if supply of service is not timely, true emergency purchases are exempt from standard purchasing procedures. However, the details of all emergency purchases, including specific reasons for waiving the standard purchasing procedures, must be documented clearly for internal monitoring and audit purposes. Emergency purchases should be reported and justified periodically (at least once a year) in a consolidated report to the local Finance and Compliance representatives.

Sole and Single Source Purchases

Sole source purchases are goods and services available from only one supplier. There may be just one vendor because of patents or copyrights or simply because the vendor is the only one which supplies the good or service. These purchases are exempt from the standard bidding requirement; however, strategic sourcing approaches are available to manage such situations. The business unit may be required to certify that only one supplier is available and the justification submitted in written to the Procurement leader. Such explanations and justifications have to be incorporated on the procurement files in whatever format available (printed or digital copies).

Single source purchases exist when an end user actively selects one supplier although more than one is available. As with sole source purchases, the business unit must provide written

documentation, often in the form of a Sole Source Justification Form, to justify the use of one supplier. This practice is often more of a strategic decision common in setting partnerships, alliances, and just-in-time relationships.

Services

AES often contracts out for services to accomplish routine, continuing, and necessary functions such as line construction, tree trimming, outages, equipment maintenance and repair. Other services not directly related with our core businesses such as translation and janitorial services can also be outsourced and should follow the procedures detailed in this Procurement book.

Chapter 2 – Requisition Process

The purchase requisition is an internal document that is created by a requisitioner to authorize Procurement to purchase specified materials or services in specified quantities on or prior to a specific delivery date. A purchase requisition contains items or services needed (preferably according to AES Taxonomy), the quantity needed, basic data about the requisition (including required financial and accounting information), and the requested delivery date. Based on the purchase requisitions, Procurement will plan and execute the proper sourcing and purchasing activities. Often, the business purpose of the material or service is also required.

When to Create Requisitions

The following situations will generate purchase requisitions:

- **Stock Material Requisitions** – frequently created through MRP (Material Requirement Planning) to maintain designated inventory levels on ERP, though these requisitions are based on reorder point.
- **Service Requisitions** – For direct services like network maintenance, operations etc. created based on planned work order requirements. For indirect services usually planned and requested by final user or contract manager.
- **Consumption Materials or General Services** – When an area or department needs to acquire consumption material or general services, a purchasing requisition is created.

The purchases requisition process is not followed at every AES business unit, due to size or other limitations. Where purchase requisitions are not used, the policies beginning at §306 of the AES Financial Policies Manual will be followed.

Required Elements of a Purchase Requisition

Purchase requisition must include information that:

1. describes the required supplies or services clearly and completely so that the Buyer may obtain acceptable offers to meet the needs; and
2. supports any contractual recommendation, such as a proposal to limit sources.

Required Elements:

- A clear and precise specification of material or statement of work being requested.
- A cost estimate according to budgeted values.
- Required delivery or performance schedules that are realistic and specific.
- A brief statement, in non-technical language, of the nature and purpose of the procurement.
- Quality requirements and inspection methods, if any.
- Finance information like cost center, project number or special taxes treatments.
- For direct awards, request justification for not performing a competitive bid.
- Account assignment data – financial requirement to verify and maintain budgets. Based on the account assignment data informed by the requisitioner, the system will verify the budget availability and it will only allow the creation of a purchase requisition if enough budget is available.
- Cost collector number (e.g., project, cost center, internal order) to charge for materials and services.
- Delivery address – where goods will be delivered or services will be executed.
- Authorized individual(s)' signature/approval.

The purchase requisition document can contain requirements for one or several materials; each material will be entered into the purchase requisition document as a separate line item. For each line item created, it is necessary to choose the accounts to be charged for the cost of the materials and services (e.g., project, internal order, fixed asset, cost center).

Purchase Requisition Approval

After preparing the requisition, route the requisition as follows:

1. **Departmental Approval** – for the signature of the Team Leader or assigned function.

2. **Additional Approval** – In accordance with AES Financial Policies and as defined by the business for signature approval limits based on position(s) and role(s).
3. **Procurement** – when completed, the requisition is forwarded to the Procurement Department, where it is processed.

The approval of purchase requisitions has specific requirements:

- All purchase requisitions must be reviewed and approved in writing or on-line.
- A single person may not initiate and approve the same purchase requisition.
- Procurement is authorized to approve only requisitions for Procurement or for stocked items following the reordering point or Operations Planning recommendations.
- Each AES business must have signature approval limits based on the position(s) and role(s) and in accordance with AES Global Financial Policies.

According to the procurement strategy defined by the company, all purchase requisitions, except for those covered under a blanket purchase agreement, must be approved. The purchasing requisition approval is in place to guarantee, by involving the appropriate approvers, that each stated requirement is a valid demand and should be acquired by Procurement. If the requisition is not approved, the requisitioner will be responsible for either modifying or canceling the purchase requisition.

Purchase Requisition Review

Where purchase requisitions are used, completed purchase requisitions will be submitted to a designated reviewer(s) within Procurement. Purchase requisitions will be reviewed for proper item description and technical references or specifications, clearances, and all other necessary data to include quality control and surveillance sufficient to initiate the required purchase.

The reviewer will review the purchase requisition with special attention to:

- Validity of requirements
- Reasonableness of delivery date
- Obvious errors
- Specifications, purchase description and adherence to AES materials/services database and taxonomy.
- Packing, transportation and quality requirements
- Required Finance and Accounting Information.

If the requisition is approved, the requirements are clear and contain enough information to create a Request for Quotation/Proposal. The correct identification of materials or services master data is needed, to ensure the use of default parameters for the purchase (lead-time, order increments, etc.) and better understanding of spend information.

The reviewer will return purchase requisitions, which do not contain sufficient information or lack proper documentation to permit the initiation of a procurement action or which otherwise do not conform to regulatory requirements.

Accepted purchase requisitions will be forwarded to Procurement for processing. A procurement history file (including all relevant supporting documentation) will be created and maintained.

Common Problems with Requisition Documents

Procurement personnel must have adequate and complete information from requisitioners in order to carry out acquisitions efficiently. The following is a list of deficiencies and inconsistencies that frequently need to be remedied, thus delaying the purchase.

1. **Inadequate description.** The buyer must deduce what is required and must either return to the requisitioner for further information or prepare a more adequate description in coordination with the requisitioner.
2. **Unrealistic delivery schedule.** The requisitioner must be made to determine if there is a justifiable urgency. In some cases, taking special action to meet an urgent delivery or performance schedule is warranted; in others, coordination with the requisitioner will result in more realistic delivery requirements.
3. **Discrepancy between quantity/packaging required and industry practice.** Adjustment may need to be made to ensure that AES makes the most economical buy, given the unit, quantity break, and packing practices which are standard for the potential suppliers.
4. **Inadequate indication of delivery point.** It is essential that suppliers are provided a complete address to which delivery shall be made and informed of the hours during which goods can be received at destination.
5. **Insufficient information on testing or quality control requirements.** If a specification provides for testing, it should indicate the standards to be considered and who will perform the tests, where, and when.
6. **Failure to attach or provide full information on drawings and plans, or other materials that are available to vendors.** Such documentation, or information on how it

can be obtained, must be provided, in PDF or other electronic form, as part of the requisition.

7. **Omission of proper authorization.** The requisition will need to be returned for the necessary authorization before processing.
8. **Insufficient budget allocation.** The Purchase Requisition cost estimate is greater than the funds available in the Cost Center's budget.
9. **Incorrect or Omitted Account Codes.** The requisition omits necessary accounting or includes other accounting or finance related discrepancies.

Chapter 3 – Specifications

What is a Specification?

A specification is a precise, detailed description of a product or service used to inform prospective suppliers precisely what is required. The nature of an item or service will determine whether specifications will be long or short and what descriptive format should be used. A purchase description must contain both a description of the requirements and any required quality assurance provisions. Regardless of length or format, however, the specification will define minimum requirements.

Object of a Specification

The object of a purchase description is to communicate to both the buyer and the supplier what is required. The description provides the basis for judging whether or not the vendor has met requirements. The key word is “communicate”. The specification must be written in clear, unambiguous, and precise language to communicate effectively.

Why is a Specification Needed?

Very simply, a specification is needed because it is the most appropriate way to obtain the goods or services required. It also enables the connection among other internal controls like Inventory Management, cost allocation, labor requirements etc... It is the heart of a contract document that will govern the supplier of required goods or services in the performance of the contract as well as the basis for judging compliance.

What is considered a well-written specification?

A good specification defines minimum technical and commercial requirements; it does not set forth desires. It promotes full and unrestricted competition through setting forth actual, minimum requirements, as opposed to desires. It contains quality assurance provisions which provide a means of determining whether the supplier has met contractual requirements. A well-written specification will be precise and clear. If requirements are not clearly and concisely stated, requisitioners may not get what they think they are asking for. If there is any ambiguity or room for interpretation, the suppliers are entitled to make interpretations that work to their own advantage. A good specification should:

- Be based on need
- Emphasize performance rather than design
- Not call for features not needed for an item's intended use
- Identify the essential characteristics of the item to be purchased
- Not be written by a bidder. (See Standards of Ethics and Conduct)
- Generally provide for commercial, off-the-shelf products
- Avoid unique requirements or biased descriptions
- Allow for competitive bids to the maximum extent practicable
- Should be quantifiable rather than qualitative
- Be verifiable
- Not overstate quality
- Attain to common and well known technical standards

Types of Specifications

The most commonly used specification types. The names may vary, but the following are the most common terms. A single specification may be a combination of two or more of these types, especially the first two.

Design Specifications

A design specification is one that sets forth physical characteristics in definitive terms. Design specifications may include the composition of the materials to be used in making the product as well as the size, shape, and mode of fabrication. As design specifications focus on how a product is to be fabricated or constructed they are normally used for engineering or construction projects.

Among the ingredients of a design specification would be the following:

- Dimensions, tolerances and specific manufacturing or construction processes and;

- Use of drawings and other detailed instructions to describe the product.

This type of specification carries a high risk for the user if used for commercially available products as it unnecessarily limits competition.

Performance Specifications

Performance specification (also known as a functional specification) is a method used to considerable extent, partly because it throws the responsibility for a satisfactory product back to the seller. Performance specification is results and use oriented, leaving the supplier with decisions on how to make the most suitable product. Some areas to consider are measurement criteria, speeds, compatibility with existing equipment, ease of operation, reliability, etc.

A performance specification identifies the requirements in such terms as capacity, function or operation. As such, the end user will be primarily interested in the service or function that the item will perform. Normally, the details of design, fabrication, manufacture and internal structure rest with the supplier. The end user is interested primarily in function and performance.

Whenever possible, performance specifications should state the item's intended function rather than excessive technical detail. Performance details should include such items as:

- Output in terms of available power, velocity, production per minute, area of coverage, depth of penetration, etc.
- Capacity in terms of total load, cubic content, etc.
- Dimensional limitations
- Hardness
- Maneuverability
- Degree of tolerance or accuracy
- Weight limitations
- Resistance to external physical and chemical influences
- Other properties or qualities that have to do with how the item should perform and to deliver the results expected from this acquisition.

Do not describe the best available item on the market, but what the business needs.

Particular care must be taken to consistently use performance-level details. For example, if the speed or capacity of a machine is stated, the horsepower of the power unit required would not be specified. Rather, a performance need would be stated: The power unit is to have sufficient capacity to operate the machine at stated speeds under stated loads. Whenever performance

details are specified there will also be a need to state the type of inspection or test that will be used to determine if the item furnished meets the performance requirements of the specification.

Brand-Name or Equal Specifications

Specifications that limit the competition to a single product are called brand specifications; these are the most restrictive type of specification. Similar types of products may exist, but only one brand, for reasons of expertise, standardization, quality, compatibility with existing equipment, specifications, and/or availability, is acceptable to meet a specific need. However, a sole acceptable brand may be available from more than one source, such as a distributor. Rejection of other products should be based solely on an equitable evaluation of comparable products and their failure to meet a specific stated need.

When brand specifications limit competition to one source, sole source justification is required. Documented justification of a proprietary specification must include three essential elements:

1. An explanation of the need for the unique features, applications, and circumstances that apply to the specified product, e.g. which part or parts of the stated specification restricts the requisition to one manufacturer or supplier.
2. The reason competing products are not satisfactory, e.g. a justification for the proprietary purchase. Documented evidence is required that other products have been investigated, including the name, manufacturer, and model number of the unacceptable product(s).
3. The specific impact on the business entity if the product were procured elsewhere (Total Cost of Ownership (TCO), quality requirements etc.).

The brand-name-or-equal product specification is probably one of the most abused formats. This specification requires that bidders of other than the name brand must submit data to show the equality of the products being offered. The buyer must assess submitted data to determine equality. This determination should be based on whether the offer meets "salient characteristics" set forth in the solicitation. It is in this area that considerable differences in opinion arise as to what is salient and whether an offered "equal" does or does not meet salient characteristics. Many bid protests are a result of brand-name-or-equal acquisitions.

The brand-name-or-equal specification should include the common generic identification of the item, the make, the model or catalog number, and the name and address of the manufacturer. It must also include an itemization of the salient characteristics and of performance or other criteria that are required of the brand-name product. If dimensions are a part of the criteria, they should

be given. If there are methods or materials that are precluded, they should also be set forth so that offerors are aware of these conditions prior to going to the expense of bidding.

A brand-name-or-equal specification should only be used to purchase a standard item, available off the shelf, for which a complete definition is impractical.

When brand name or equal specifications are used as many different brands as practical should be named and the designation of any essential components or features.

Standard Specifications

A standard specification is used for all or most purchases of the item desired. The process of creating a standard specification examines the characteristics and needs for items of similar end usage and develops a single specification that will satisfy the need for most or all purchases.

Standard specifications:

- Are created for the purpose of establishing performance and quality levels
- May be useful for commonly used items
- May reduce the variety of things being purchased, resulting in simplified inventories or facilitating the consolidation of requirements into larger volume bids
- Eliminates duplicative specification writing

While standard specifications save time, promotes competition, prevents “maverick” purchasing, can reduce number of items being purchased they also require updating and may lag behind changes to state of the art.

Statement of Work

A statement of work is a specification which applies to the acquisition of purchased services or the development of hardware. Here again, it is the contractual vehicle for expressing exactly what services are required and for evaluating the product of a supplier. Special knowledge of the subject must be used in deciding the content of the work statement. The key elements are the same as those for any specification, with the added requirement of a statement of where the work is to be performed. The work statement must deal with these basic questions:

- What needs to be done?
- Where should it be done?
- What resources are needed to get it done?
- What should the final output consist of?

In some cases the work statement may also define how the work is to be accomplished. Many work statements are complex in that, because they require the use of special equipment or outputs, they must provide data in specific formats for future processing.

Numbering System for Specifications

Procurement should maintain a defined numbering system for its specification files. Any system that suits the department is acceptable unless a Global standard is defined by AES. One way is to use a standard commodity classification and item numbering system.

Writing Specifications

The first step in writing specifications should be to try to obtain an existing specification. Existing specifications will usually require rewriting. This section will help accomplish that task as simply and efficiently as possible. Specifications should be written by the right qualified person whether it be a more technically savvy end user, buyer, or both together in cooperation.

Step 1. Receive a requisition and determine that an acceptable written specification is available.

Step 2. Gather data for the specification. Sources are:

- user department - determine their needs and requirements
- vendors and manufacturers
- trade associations for that commodity, service or product
- other business entity specifications and standards
- private or public standards-writing organizations, such as the American Society for Testing and Materials (ASTM).

Step 3. Decide on parameters for the item of service and set minimum levels of acceptance so that the items purchased will meet the needs of the department.

Step 4. Write the proposed specification. Use a standard format for all or most specifications to ensure uniform preparation and easier understanding. Always write specifications to encourage competition by including as little restrictive language as possible. Use AES Taxonomy and industry standards and measures where appropriate to describe the items.

Step 5. Where applicable, and especially for standardized specifications, circulate the specification to:

- All potential users or stakeholders.
- Vendors on the vendors list that supply the item of service

- Buyers in Procurement. Request their comments. Strongly suggest that vendors submit comments promptly, since the final specification will be binding on all vendors. Users should comment on unsatisfactory aspects of the specification to avoid protests later.
- If available Standard Matter Experts in AES.

Step 6. Procurement should:

- Analyze and evaluate comments on the proposed specification.
- Tabulate recommended changes.
- Evaluate the effects on the proposed specification from a TCO (Total Cost of Ownership) perspective.
- Discuss them with users and buyers.

Step 7. Change proposed specification and if necessary, circulate the proposed specification again. Go back to Step 5, or if only minor changes were made, prepare final version.

Step 8. Assign a specification number.

Step 9. Assure registration on the local available system and that the required maintenance is in place.

Standards

Definition

Standards provide a universally recognized reference to measures of quality, quantity, size, weight, length, composition, purity, diameter or other measures. Standards typically fall into three categories: governmental, industry based, or organization-specific.

Government standards include regulations and codes, such as those covering the packaging, labeling, handling, storage, and transportation of hazardous materials.

National and international industry standards may be established by organizations such as the American National Standards Institute (ANSI), National Bureau of Standards, and International Organization for Standardization (ISO) among others. These organizations develop national and international standards by consensus of the participating organizations. Product interchangeability standards are created to produce similar specifications, measurements, and design across the entire industry. Regardless of who produces the product, it is functionally

interchangeable. For examples, it makes little difference who manufactures a light switch, machine bolts, or hex nuts.

Organizational standardization, on the other hand, is a managerial decision-making process that examines need and function and then selects the best available product to fill that need. The most effective solution is for an organization to use an industry standard. Industry standards have been shown to be significantly less expensive than, similar, custom products.

Benefits

Every business, no matter how small, can benefit from a standardization program. Such a program can identify conditions, practices and situations that create inefficiencies that can be eliminated or reduced by standardization. The group responsible for the standardization program typically works with all operating units to review existing practices and standards, and to detect the need for modification as conditions change. Once an organization standard has been selected, it will remain in place until a demonstrably superior product arises.

Standardization enables local businesses to get the best value for their money. It allows AES to establish a company-wide standard for needed items, while taking advantage of the ability to make larger purchases for lower costs, having fewer items to service, and having fewer orders to place. Many routinely needed items can be purchased on annual contracts at significant savings to AES.

Easy targets for standardization include office supplies, maintenance, repair and operating supplies (MRO), IT equipment, and temporary labor. In some instances, it may be convenient for individual departments to buy these items to suit their specific needs without consideration for standardization. However, by taking the time to implement such a program efficiencies in simplification and reduced costs can be gained through reduced unit prices by consolidating individual purchases, reducing inventory items having a common use, and increasing readily available inventory from suppliers. Furthermore, consideration should be given to larger and more expensive items as well. For example, if AES can efficiently use a fleet of vehicles of the same make and model instead of several different brands, then it will simplify parts stocking and engine maintenance. AES will probably also be able to negotiate a better price if it purchases the vehicles under a single contract.

Developing Standards

Standardization requires proper planning. Procurement, together with the user departments, technical areas and suppliers should form a committee to decide on the requirements for items

included in the standardization program. Then all purchases of standardized items must be made from that specification.

Here are the steps for establishing a standardization program:

Step 1. Determine the good or service to be standardized. A products standardization committee selects items based on established criteria. The standard specification may need to include a qualified product list, depending on the criteria adopted.

Step 2. Develop selection criteria. Few businesses will select a product based solely on minimal acceptable quality. Criteria should also include availability, cost, service requirements, availability of service, and cost of service. The item selected should be as compatible as possible with those already in use.

Step 3. If required, develop a standard specification for the good or service. See previous section on Writing Specifications. A standard specification will allow Procurement to proceed in a routine way to procure the items.

Step 4. Purchase all items on the list of standardized products from the specifications developed. Exceptions should only be on an emergency basis with full justification provided for any exceptions.

Chapter 4 – Competitive Bidding

Competitive bidding is used by AES and provides suppliers with the opportunity to sell their products and services in a fair and transparent competition with other interested parties. The process is based on the suppliers quoting against specifications or proposing a solution that satisfy AES' requirements.

The competitive bidding process is used because it:

- Enables AES to source products and services from the best suppliers at prices that reflect true market conditions.
- Provides a larger pool of bidders to evaluate and identify potential qualified vendors..
- Continuous competition demands continuous development of new solutions in the market and helps improve control and reward of our suppliers' performance.

Accessing the Market

Approved Vendors

When contemplating a purchase, a check should be made to determine if there are any existing deals/contracts with suppliers regionally, locally or globally or if there have been similar transactions made in AES.

In SAP, source determination functionality can be used to automatically propose vendors for materials commonly requisitioned. Procurement will ensure that all commonly used component materials have been added to the source and all updated contractual agreements including pricing arrangements, expirations, etc. are consistently maintained in SAP. The Procurement Director or Manager should review the SAP source list at least annually to ensure the information in the source list is accurate.

Minimum Three-Bid Guidelines

In general, a minimum of three written competitive quotations should be obtained for all purchases. The three-bid requirements should be fulfilled regardless of whether a formal RFX process takes place, except for purchases from sole source suppliers, small purchases (usually no greater than USD 5,000 as required by individual businesses) or purchases under an existing vendor contract. Note also that a competitive process is required for purchases over a certain cost threshold. The current threshold is available in the AES Procure to Pay Operational Accounting Policy.

For all purchases exempted from the three-bid rule, the requestor and Procurement need to maintain adequate documentation justifying sole/single source treatment (see Chapter 5 Sole Source Purchases) and evidence that proper consideration has been given to available competing vendors.

Determining a Bidding Strategy

The first step in the process is determining the bidding strategy that will best or most likely meet the goals of the purchase. This ultimately depends upon the outlined award criteria. If pricing is the primary factor when awarding the bid, and the product is sufficiently standardized in the market and there are enough qualified competitors willing to participate in the process then the reverse auction process is often the best strategy. However, for quality control and specific technical requirements, the RFP followed by an RFQ usually produces better results. In other cases yet, a combination of multiple RFX methods, such as an RFQ followed by an auction, can be the answer.

Reverse Auctions

Reverse auctions allow purchasers to use an auction format to obtain pricing via an online system. Bids are submitted electronically in real time and prices start high and decrease as suppliers, instead of buyers as in a traditional auction, bid for contracts to provide goods and services. Suppliers bid against each other online. The vendors remain anonymous to each other. Only the buyer can see the vendors' identities.

During a live auction, the suppliers can submit new offers until the auction closes. Since the reverse-auction exists as a real-time bidding process, requested information or clarification is sent real-time to all participants.

Once an auction is opened, it cannot be cancelled (it must be closed). During the auction process, the buyer has the following options:

- place the auction on hold
- reject bids and proceed to a subsequent round of bidding
- reject bids outright
- accept bids

It is always important that a reverse auction should only be used for items that are sufficiently standardized such that the products or services offered in the auctioning process can be easily and quickly be compared avoiding any additional analysis or evaluation to make a decision. Once again only registered and certified suppliers should participate on these processes to avoid that a non-qualified supplier is selected or has his offers considered during the competition.

Some of the great players in the market may refrain to participate in a reverse- auction process and it should be considered when determining your strategy.

RFX Elements

An RFX, which may be in the form of Request for Information (RFI), a Request for Proposal (RFP), or a Request for Quotation (RFQ) is required for purchases over business-specific dollar limits.

The proposals should be simple and practical and should be advertised as widely as possible to ensure fair competition. Complicated proposals discourage competition and drive up prices.

An RFX is actually a package of documents needed by the vendor in order to respond to the AES' requirements. It may include some or all of the below elements.

1. **Standard Terms and Conditions** – Standard terms and conditions are all conditions of doing business with the local AES business that remain constant for all contracts and purchases, unless specifically deleted. They are usually presented in an attachment that goes out with all invitation, quotation, or proposal requests. Standard terms and conditions are also frequently incorporated into a business' purchase order forms.
2. **Intention to bid** – Suppliers should confirm in written their agreement to the RFX requirements and their intention to present the information, quotation or offers requested on the bids. This confirmation should be issued one or two weeks after the receipt of the RFX package by the suppliers and before
3. **Special Provisions** – Special Provisions refers to any terms and conditions not always required but required for **a particular** contract or purchase.
4. **Pricing** – The vendor quotes prices in accordance with the specification requirements in the offer and acceptance page. Prices are usually provided for each unit and the total cost for the estimated amount required. Include a template for vendors to use outlining all monetary and non-monetary factors to facilitate comparative analysis of proposals.
5. **Specification** – In place of enclosing the actual specification, information about where the specification may be obtained may be substituted.
6. **Compliance Due Diligence Questionnaire (DDQ)** – This form should go out to all bidders to complete as part of your RFX package (see “Contract Compliance Process” section of this Handbook for more details). To download the latest forms and view the latest Compliance policy requirements visit the Compliance Department webpage on the AES intranet (www.ouraes.com).

RFX Form Requirements

An RFX, which may be in the form of Request for Information (RFI), a Request for Proposal (RFP), or a Request for Quotation (RFQ) is the cover form for the quotation/proposal package. It requires certain information from the bidder or vendor making the proposal. Requirements on the RFX form should include:

- **Description** – A brief description of the materials or supplies to be provided.
- **Process Number** – The requisition number(s).
- **Closing Date** – The closing date and hour for receiving bids or proposals.
- **Delivery Address** – The place where bids or proposals are to be sent, including the address and office.
- **Contacts for Information** – Person to contact for information.
- **Instructions to bidders.**

- **Evaluation Criteria** – The factors to be used to evaluate the proposals and the weights attached to each factor (for RFP's only). Evaluation factors may include price, experience of requester's staff, ability to respond in a timely way, past recommendations, safety record and financial soundness, as well as any others necessary factors. Other evaluation factors will depend on the individual requirements attached with the procurement.
- **Is important to include a clause or information on the RFP that, unless clearly stated, AES is not responsible for any cost on preparing the offers and or negotiation.**

Request for Information

A Request for Information is used to seek information from a supply base to understand the vendors' capabilities and services. Typically, an RFI is used when AES is looking to identify prospective vendors to supplement the current list of vendors. An RFI is a very generic document and does not detail requirements. Instead, it focuses more on obtaining information about a vendor's capability. An RFI can be used to shortlist vendors to participate in Auctions, RFPs, and RFQs and to collect information that can be later used for negotiations planning.

Request for Proposal

A Request for Proposal is generally used when the user does not have exact specifications or procedures finalized. Essentially, in an RFP, AES provides vendors with information regarding their requirements and expects the vendors to return a proposal addressing those requirements. Typically, an RFP will deal with specific details about vendor R&D capabilities, process capabilities, and any specific recommendations from the vendor pertaining to value-added services benefiting AES. Most of the information in the RFP is qualitative and used to assess the capability of the vendor. However, an RFP can also capture pricing details, when necessary.

Request for Quotation

A Request for Quotation is generally used to obtain only pricing, delivery information, and terms from bidders. RFQ is normally used when other minimal criteria are already established by AES. Since most criteria the bidders must adhere to is specific normally price becomes the main driver in differentiating bidder's proposals. It aids in identifying percentage price adjustments, developing catalog contracts, purchasing terms and conditions, etc.

Bid Amendments

If, after issuance of a bid, changes must be made in quantity, specifications, delivery schedule, or closing date, or if corrections are needed because of defects or ambiguities, an amendment to

the bid should be issued. The amendment should be in writing to ensure consistent communication of all changes or clarifications. You will need to consider the time set for receipt of quotations and the necessity or desirability of extending the closing date. You may inform bidders of such extensions by telephone and then send confirmation by post or electronically. All firms to whom the original bid was sent must be notified of all changes and time extensions.

Oral solicitations may be amended orally. You must bear in mind that any information given to one prospective contractor which is different from that given to other bidders should be the subject of an amendment distributed to all bidders whenever: (1) the information is necessary for submitting quotations or (2) lack of the information might work to the detriment of uninformed bidders.

Bid Receipt and Opening

Bids are to be received by the time and date and at the location specified in the bid document. Recommendation is to open all the sealed offers all at the same place/time if possible with the participation of other stakeholders (not only Procurement team members).

Time and Date Received

AES logs proposals upon receipt and indicates the date and time each is received. AES may consider late proposals if a sufficient number are not received on time, but AES does not normally consider proposals received after evaluation begins. The purchasing agent may call anticipated bidders whose offers have not been received by the due date to determine their intentions to submit an offer.

Signed

In general, bids which are lacking an appropriate signature on the Offer and Award form will be rejected. Bids which are neither signed nor include satisfactory evidence of bidders desire to be bound by terms and conditions shall be rejected by Procurement personnel after review of all documents included in the bid.

Bids which include provisions for digital signatures may be accepted provided they otherwise meet bid requirements.

Bid Disclosure

Most transactions relating to Procurement are confidential, especially regarding suppliers and competitors. It is considered unethical and illegal to allow proprietary information about one

supplier's quotation to be obtained by another supplier. Proprietary information requires protection of the name, composition, process of manufacture, or rights to unique or exclusive information that has a marketable value and is upheld by patent, copyright, or non-disclosure agreement. AES should ensure that information is never given to one supplier about another supplier unless laws and regulations require that the information be made public

After the opening of bids, no information relating to the examination, clarification and evaluation of bids, and recommendations concerning awards, shall be communicated to any person not officially concerned with these procedures until the announcement of the award of the contract to the successful bidder has been made. Following evaluation, individuals participating in the proposal evaluation process should exercise due care in dissemination of any information related to AES or the business of its bidders and agree to and must maintain both vendor and AES confidentiality. As with all purchasing documents, files containing bids should be secured to prevent unauthorized access.

Bid Withdrawal

A bidder is permitted to withdraw their bid before the bid opening date/time. Bidders withdrawing their bids should do so via written communication.

Bid Evaluation

The main purpose of bid evaluation is to determine the "best value" bid.

Although the term "best value" is not defined, common sense and experience should lead to an understanding of the meaning. Best value may need to come into play when, in the judgment of the evaluation team (buyer and in cases other stakeholders such as end users), a higher bid has such outstanding qualities as to overcome its higher price. In evaluating proposals, the evaluation team needs to keep in mind the difference between judgment and personal preference.

Therefore, the "best value" bid may or may not necessarily be the lowest price bid. In order to determine accurately the "best value" bid in accordance with the terms and conditions of the bidding documents, a logical systematic evaluation procedure designed to cover all aspects of the evaluation process should be followed.

Step 1 – Preliminary Examination for Completeness of Bids

The purpose of this step is to examine whether the bids received were complete as required by the bidding documents before further detailed evaluation. The areas to be covered by the examination are:

- whether Compliance documentation in order to initiate the Compliance Due Diligence on the proposed business partner has been completed (it is recommended but not required that Compliance forms go out as part of the RFX package);
- whether documents required to assess the post qualification of a bidder with respect to its financial and technical capability to undertake the contract have been provided or not; and
- whether all required materials per the RFX have been submitted and satisfactorily completed.

Step 2 – Conformance to Technical Requirements

All bids must be checked for conformance to the technical requirements of the bidding documents. Examples of nonconformance to technical requirements, which are justifiable grounds for rejection of a bid, are as follows:

- failure to bid for the required scope of work (e.g., for the entire works or a complete package or a complete schedule) as instructed in the bidding documents;
- failure to quote for a major critical item in the package;
- failure to meet major technical requirements (e.g., offering different types of equipment or materials from the types specified, equipment not able to perform the basic functions for which it is intended, etc).
- [opportunity to clarify statement] MT

Step 3 – Conformance to Major Commercial Terms and Conditions

All bids must be checked for conformance to the commercial terms and conditions of the bidding documents.

Examples of nonconformance to commercial terms and conditions, which are justifiable grounds for rejection of a bid, are discussed below:

- failure to satisfy eligibility requirements, (i.e., bidder, contractor, goods or services are not from an eligible source country of AES);
- failure to satisfy the bid validity period (i.e., the bid validity period is shorter than specified in the bidding documents);

- inability to meet the critical delivery schedule or work schedule clearly specified in the bidding documents, where such schedule is a crucial condition with which bidders must comply;
- failure by supplier to comply with minimum experience criteria as specified in the bidding documents;
- conditional bids which limit the bidder's responsibility to accept an award (e.g., a bid submitted with a price escalation condition when a fixed price bid is specified, or other qualifications to the Conditions of Contract);

Step 4 – Check for Arithmetical Errors

The bids should be examined for arithmetical errors and the errors, if any, should be corrected as specified in the bidding documents. The bidders must accept the corrections of arithmetical errors in accordance with the bidding documents.

Step 5 – Evaluate the “Total Cost” of the Bids

Having determined the number of qualified bids which should be further evaluated in detail, the next step is to scrutinize the selected bids systematically in order to compare and evaluate the bids on a common basis. The appropriate way to present the evaluation is in the form of tables, so as to record and compare the salient features of all bids to be evaluated in detail for commercial terms and for technical requirements.

“Total Cost” method of evaluation attempts to arrive at a more realistic cost over the actual useful life of a product. The rationale is that a quality product may initially cost more than a lower quality one, but may last longer and/or incur less repair and maintenance costs. “Total Cost” comparison is usually the most critical step in the bid evaluation process. To do this properly the bid prices should be adjusted for the purpose of bid comparison for those deviations which are permissible and which can be "translated" fairly into monetary values. The prices should be adjusted to factor initial costs, operating and/or maintenance costs over the item's life, trade-in or salvage value, etc.

Below are some of the items that should be monetized (if possible) or at minimum be annotated as clarification point in evaluating the “Total Cost” of a bid:

- **Deviations from the Terms of Payment** – Bids offering different terms of payment should not necessarily be rejected as the monetary value of such deviation can be determined fairly. Therefore, instead of rejecting the bid, the proposed terms of payment should be analyzed and an amount added to the bid price to compensate for the earlier

or larger payment requested. The amount to be added should be calculated using the commercial rate of interest relevant to the situation.

- **Deviations from the Delivery Schedule** – The bidding documents should specify the limits which are acceptable to AES and/or the cost of late delivery should be factored-in.
- **Adjustment for Energy Efficiency/Economical Performance** – For energy consuming equipment and facilities, adjustment for efficiency over and above the minimum functional guarantees specified (e.g., generators, pumps), losses (e.g., transformers) and future operating costs of the equipment may be taken into account in determining the evaluated bid price.
- **Adjustment for Spare Parts** – Only those spare parts and tools which are specified on an item wise basis in the scope of supply shall be taken into account in the bid evaluation. Suppliers' recommended spare parts for a specified operating requirement should not be considered in bid evaluation.
- **Adjustment for Transportation, Duties and Taxes** – For example, if bidders are required to include the cost for local handling and inland transportation from the port-of-entry or EXW to the project site and fail to include such cost in their bids, the cost for local handling and inland transportation may be estimated, based on prevailing rates, and added to the bid price. The additional values should be adjusted based on the selected INCOTERMS offered by the suppliers and adding all the other costs (Duties, taxes) from that point to the final delivery/use of the materials or services being offered.
- **Deviations in Warranties** – There is perception that “a warranty is a warranty” and they are equal among similar products. This is not necessarily so. Many warranties are not the same, and coverage may be substantially different. Each product's warranty should be carefully evaluated for its potential to save money in repairs or down time.
- **Price Breakdown Analysis**– The analysis of prices for components that aggregate to a final bid price is carried out for three purposes:
 1. **To examine whether the underlying prices and rates of the bid are balanced.** A bid is considered unbalanced if the unit rates or component prices are substantially higher, in relation to the estimate and the rates quoted by other bidders, for items of work to be performed early in the contract or for underestimated quantities for certain items of work.
 2. **To verify whether the bid price is reasonable.** An unreasonably low bid price may reflect the bidder's misunderstanding of the specifications and, accordingly, this bidder may incur substantial financial losses and fail to complete the work satisfactorily if awarded the contract. To determine the reasonableness of a bid price, it is necessary to consider all circumstances affecting the bid and determination of bidder's misunderstanding can be further clarified through subsequent

correspondence or meetings. A bid should not be rejected solely because the bid price exceeds or is lower by a certain percentage of the estimate.

3. **To examine the completeness of pricing components.** Where bidding documents require the bidder to provide a breakdown of price, any components that are missing from the price breakdown of a bid item can be added during evaluation for the price of the missing component by inserting an estimated fair market price of that component (this assumes that the bidder is either able to supply the missing line item if awarded or that the missing line item won't necessarily disqualify his bid).

 - **Evaluation for Other Factors** – Consideration may be given for other factors not mentioned such as quietness of operation, cleanliness of operation (freedom from emissions of different pollutants, by-products, etc.), impact on insurance coverage cost for using after market parts, training, etc. Factors should be fairly translated to monetized costs when possible to ensure a fair analysis of all factors.

Step 6 – Clarifications, Correspondence and Meetings

The bid evaluation team may wish to correspond with the bidders for clarifications of their bids. Especially in connection with service agreements, almost invariably the buyer will require meetings separately with all, or the lowest, bidders who are selected for detailed evaluation, in order to clarify their bids. Details of pricing, work methods, scheduling and resourcing are usually the principal subjects of such bid clarification meetings. Since the information provided by bidders in such meetings often forms the basis of the conclusions of the evaluation team, the minutes of the meetings should be recorded and these minutes should be attached to the evaluation report for the use of the approving authority in reviewing the findings of the evaluation.

Step 7 – Determination of the “Best Value” Bid

After going through the above six steps, the “best value” bid shall be determined in accordance with the provisions of the bidding documents. As the final step, the evaluation team should always ensure that the bidder whose bid has been evaluated as the “best value” bid has the financial and technical capability to execute the contract.

Negotiations

Once the proposals are evaluated, the phase begins that truly sets proposals apart from competitive bids: the negotiations for the final form of the proposal. It is recommended that no proposal should be discarded (at least from the short listed bids) till the final negotiation is performed and the contract signed.

With a proposal, when the first proposal is received and evaluated, then the buyer may meet in private session with each bidder, personally discuss and confirm the understanding about the main topics in the offer and negotiate for exactly what the local business needs, or as close as possible to the desired system or service as can be agreed upon.

Negotiations are not limited to one meeting. There are many ways of preparing for the negotiations and you should look for conceptual training to perform this task. We recommend following the “Seven Elements of Negotiation” suggested by Roger Fischer and Danny Ertel on their book “Getting Ready to Negotiate” published by the Penguin Group, NY, NY.

Below are some suggestions on conducting negotiations:

- **Have goals firmly in mind.** Conceptually develop the ideal system, and use it as a guide in negotiations. Try to negotiate toward the ideal.
- **Maintain flexibility.** Although the end user and/or sourcing lead may have conceptualized an ideal system, improvements are possible or even likely. Keep an open mind to improved concepts offered by bidders. As improvements are noted and accepted as desirable, incorporate them into the desired system.
- **Have a lead negotiator.** While it is essential to have a free exchange of ideas, and to be able to disagree within the negotiating team, the place to do so is not at the negotiating table. There, it is essential to present a united front. Negotiators might develop internal signals, for example, to say, “do not make any agreement here until we discuss it,” or develop ways to pass other non-spoken messages.
- **Do not confuse rhetoric with ability to deliver.** There are many vendors willing to “promise the moon,” even while planning not to deliver. The rule is “Check it out.” Make sure that a vendor can deliver what is promised. Do not put too much faith in a contract, either. Even with a contractual agreement, the cost of time and money to manage a supplier can transform a successful negotiation into a failed agreement.
- **Find common ground.** The first meeting is to establish common grounds, and to explore the bidder’s willingness to compromise. In turn the bidder will feel out the local business’ position. Do not plan to make firm decisions here. Other proposals will be available to explore. Be prepared to move as far as possible without making a commitment.
- **After the first round, meet to evaluate the bidders position.** Determine the relative positions of each proposal. Rank by the weighting factors to see how close the proposals are to one another. Ask, “what improvements are needed?” with each proposal. Ask, “If we receive all the modifications requested, how will this proposal rank against the rest?”
- **Make judicious cuts. If a proposal is never going to be in the running, cut it.** This way, time is not wasted negotiating with a vendor who has no chance to win the contract.

However, document the reasons for the cut. This way there will be no accusations of favoritism or unfair treatment.

- **Make the decision.** Award the contract based on the weighted factors contained in the RFP.

Negotiations Waived

AES may waive the requirement to negotiate and decide to make an immediate award to the best value offer only in the following documented circumstances:

- **Insufficient time** – In spite of reasonable advanced planning, there is not sufficient time for discussions to meet the required time of delivery.
- **Favorable to initiate without discussion** – Acceptance of the most favorable initial proposal without discussion would result in a fair and reasonable price.
 - Previous full and open competition or prior cost experience with the product or service demonstrates a favorable proposal.
 - The solicitation must contain a notice to all bidders of the possibility that AES may make the award without discussion of proposals received.

All the reasons and rationale to wave a negotiation should be well documented and agreed before making such decision.

Contract Compliance Process

The Compliance Process is comprised of conducting due diligence on the prospective business partner for potential involvement in corrupt or terrorist activities, incorporating the appropriate contract compliance language in the written agreement/purchase order with the business partner, and due diligence results and contract approval from the Compliance Department prior to contract signing with the business partner.

Important details about the Compliance Process:

- AES will only engage in transactions that receive Compliance approval for the proposed business partner and therefore the Compliance Process should be initiated well in advance of and completed prior to agreement signing.
- Compliance is conducted on a per transaction basis so even if a vendor has been approved for a previous transaction you will need to go through the Compliance Process again with the same vendor.

- The only transactions exempt from the Compliance Process are those that are “Low Risk” AND the dollar amount is less than your country’s “Minimum Threshold” (“Low Risk” and “Minimum Threshold” as defined by Compliance).
- As a general guideline if you conduct multiple “Low Risk” transactions all of which are below your country’s “Minimum Threshold” but the sum of these transactions over the course of a year surpasses the “Minimum Threshold”, you should attain Compliance approval for that vendor at least once over the course of that year.
- The details in this section may have become outdated. Consult with your Regional Compliance Officer or the latest **AES Contract Compliance Review Process Handbook** for the latest policy details.

AES strongly recommends to:

- Integrate Compliance into the procurement process at every business with at least one staff member fully trained in Compliance (preferably dedicated to Compliance) and all of Procurement should be at minimum Compliance “awareness” trained.
- Identify requisitions that will require Compliance as soon as the requisition is approved or sooner in order to initiate the Compliance Process as early as possible.
- Work with your local Compliance Officer to incorporate a system for tracking and monitoring the status of transactions that have undergone or are undergoing the Compliance Process (see Annex 1 for a sample Compliance Monitoring Log).
- Initiate the Compliance Process in parallel with the RFX process to expedite the transaction processing time.
- Involve as much as possible suppliers that are already registered with the business unit to participate in the RFX process. Suppliers that have previously received Compliance approval are more likely to re-achieve Compliance approval.
- Refrain to engage in any formal discussions with bidders that are unwilling to complete the documentation or information required by Compliance.

Please consult the **AES Contract Compliance Review Process Handbook**. The handbook and all forms necessary to conduct the compliance process are available on the Compliance Department webpage of the AES intranet (www.ouraes.com) under Compliance Resources.

For additional guidance or questions, contact the Compliance Department in Arlington or your Regional Compliance Officer.

Attaching Compliance Documents to an RFX Package

When an RFX package goes out to bidders it should include the Compliance Due Diligence Questionnaire (DDQ) that each potential business partner must complete. In addition to the DDQ, an RFX package should include these or similar instructions for the bidders to follow:

“Attached is our compliance Due Diligence Questionnaire (DDQ) that each potential business partner must complete. This request for a DDQ and Code of Conduct is sent to all potential bidders. If your company is awarded we will need the following forms completed in order to conduct our business partner due diligence process before finalizing any contract or purchase order. This is part of the U.S. anti-corruption/anti-terrorism programs we are required to have.

The DDQ needs to be completed with the exact business entity name we would be dealing with. Do not leave any blanks otherwise we will need to return the DDQ until it is fully completed. If an item is not applicable simply state “Not applicable” (do not leave blank). Please also submit your company’s Code of Conduct if your company has one.”

Bid Award

In the bid evaluation process, the buyer has the option to reject bids and proceed to a subsequent round of bidding, open an auction, reject bids or accept bids. Since more than one bid can be accepted for a single bid invitation, AES can award a bid invitation to multiple suppliers.

Following evaluation, the purchasing agent selects that proposal(s) which is most advantageous to AES. Individuals participating in the proposal evaluation process agree to maintain both vendor and AES confidentiality. AES notifies unsuccessful bidders as soon as possible. Regardless of notification method used, timely (same day) action should be taken to notify all bidders of the award decision. Evidence of notification of all bidders may be maintained in the purchase file (when delivered on a electronic or digital file they could be incorporated on the local systems available for that).

Bidding Documentation

The purchase file should at minimum contain the following bidding documentation:

- **Bidder Selection Rationale** – The number of offers solicited and the rationale for determining the number and identity of bidders selected for solicitation.
- **Response Tabulations** – A tabulation of the prices, delivery, payment terms, and other provisions offered by each responder.

- **Negotiations** – The purchasing agent’s evaluation of the factors negotiated and rationale for selecting the successful offer.
- **Special Considerations** – The purchasing agent gives special attention to any situation where other than the lowest price is accepted.
- **Copies of Vendor Quotations/Proposals**
- **Technical Data** – Copies of technical data, such as engineer’s technical evaluations, drawings, specifications, inspection requirements, and lists of special equipment required.
- **Related Correspondence**
- **Negotiation Meeting notes** – Depending on the complexity(contract duration, exposure to labor and regulatory rules, safety and environmental concerns) negotiation meetings reports should be prepared, validated with major stakeholders and kept on file

There are additional items (i.e. POs) that as a minimum should be included in the purchase file, to view these requirements please see “Chapter 6 – Purchase Order/Contract” or refer to the latest version of the AES Financial Policies Manual.

Chapter 5 – Exceptions to Standard Competitive Bidding

This section recommends procedures to expedite and effectively control the purchase of goods and services that are under bid limits, or are exempt from standard bidding requirements.

Bidding limits are established to ensure that sizable purchases are subjected to fair competition among available, responsible vendors. Even though certain purchases may be exempt from requirements for bids, there still should be adequate controls and competition. Several categories of purchases are exempted from the bidding process.

Purchases under the Competitive Bid Limit

AES requires the use of competitive bids for any contract of more than \$50,000 plus Value Added Tax (VAT) or other applicable fees and taxes.

If the expenditure for an individual purchase is for less than \$50,000 (values can be reviewed according to each businesses reality and changed per AES Global Financial Policies), the business unit can proceed in one of three ways:

- **Standard competitive bid:** Although the amount of the purchase may be below \$50,000, the business entity may still ask for a bid. This approach offers a number of advantages. For example, if later purchases cause the total purchase price to exceed the bidding level, the competitive bidding requirement is satisfied. Provisions allowing later purchases on the same terms might be written into the original contract. In addition, bids may be more competitive through a bidding process. Another advantage is that potential conflicts of interest between the vendors and Procurement are minimized.
- **Price quotations:** If competitive bids are not used, price quotations should be solicited from an adequate number of vendors to ensure competition. The quotations may be in writing or by telephone for less expensive items. Another advantage is that vendors are more willing to respond and more responses are received when quotations are requested. The buyer should negotiate price and conditions.
- **Non-competitive purchase:** If the price is low enough that it is not worth obtaining several price quotations, the purchase may be made on a non-competitive basis from the vendor that is most convenient, without contacting other vendors.

Normal Non-bid Purchases

Price quotations obtained by telephone (for values lower than \$5k) or in writing (for values from \$5K to 50K) may be used to negotiate non-bid purchases. After the vendor is selected, the procedures are identical to those used for purchasing competitively bid items. Procedures should be in place to ensure that the user is not splitting orders to avoid the limit for competitive bids. For any purchase that costs less than \$50,000, the procedure described below should be followed.

Obtaining Price Quotations

Price quotations should be obtained from a sufficient number of vendors to ensure competition (minimum three quotes whenever possible). The required number may be established by an office procedure, or based on the buyer's professional judgment. Usually three to 10 quotes are requested. The more quotes gathered, the greater the possibility of obtaining the best terms for AES.

The following procedures for obtaining quotes are suggested, although each AES business should set the dollar levels based on its own requirements.

Purchases Between \$5,000 and the Bid Limit

Upon receiving a requisition for a purchase below bid limits, but for more than \$5,000, Procurement consults a vendor file for reliable vendors. Written requests for quotes are sent to at least five vendors.

The request for quotes should be on a standard form. It should contain at least the following information:

- name and address of vendor;
- description of item;
- quantity required;
- last date quotations accepted;
- approximate date delivery is required; and
- terms and conditions of purchase.

The standard form should request certain specific information, such as total or unit price and the dates the quoted price will be effective.

The request for price quotations should require the quoted price be honored during the stated period.

Purchases That Cost Less Than \$5,000

For purchases less than \$5,000, Procurement need not be involved in the purchase; the Requestor may complete the purchase without Purchasing involvement. Payment can be arranged by signature approval of a No P.O. invoice or using an AES business approved company credit card or Procurement Card. Should the Requestor submit a requisition for a purchase of less than \$5,000 (or a level set by the local AES business), Procurement may consult a vendor file for reliable vendors providing the desired materials and supplies.

Written or telephone requests for price quotations should be made to at least three vendors. The list of vendors should be rotated so that all listed vendors are contacted an approximately equal number of times.

For telephoned price quotations, certain information should be provided to the vendor, including:

- description of the item;
- number of items required;
- date delivery is required; and
- the terms and conditions of purchase.

Whether a written or telephoned request, certain specific information should be obtained from each vendor and recorded in writing, such as:

- the name and address of the vendor;
- the total or unit price;
- the date through which quoted price will be effective;
- the name of the representative giving the quote; and
- the product offered if different from the product requested.
- Other legal, environmental or safety requirements associated with that service.

After price quotations are taken, a vendor is selected. The selection is based on several factors, including:

- Price or total cost of ownership - if other factors are equal, the lowest value price should be taken
- quality of good or service - if more than one vendor can deliver at an acceptable price, the relative quality of each should be considered
- reliability of the vendor - based on past performance as documented in the vendor file
- ability to provide service for the item (if applicable)
- historic relationship with the potential supplier.

Making the Purchase

After price quotations are obtained, Procurement selects a vendor and makes the purchase.

Price quotations are tabulated on a summary evaluation sheet. The sheet should include:

- the participating vendors names and highlight the winning vendor
- the quoted price
- the delivery time, quality, and payment terms (unless conditions are the same for all quotes)
- information relating to the vendor's reliability and past performance
- Procurement's evaluation of the quality of the product, if known

The lowest and best offer should be selected, based on price, reliability of the vendor and quality of the product.

Blanket Purchase Agreements

Blanket Purchasing Agreements (BPAs) are used to speed-up the processing of small, repetitive orders using short-term releases to satisfy demand requirements with a single vendor. The BPA contains ordering and billing instructions, a price agreement, a description of the goods or services that can be ordered, and the effective time frame of the agreement. When this method is used, Procurement will issue material releases or requisitions that identify the order quantity to be delivered per the pricing and terms of the base or Blanket Purchase Order. Material releases are generally repetitive in nature and define requirements on a regular interval (for example weekly or monthly). By setting up a BPA, pricing and terms for a series of transactions is predefined eliminating the need to seek multiple quotes and re-negotiate individual transactions which effectively reduces transactional costs by increasing transactional efficiency. Furthermore, by committing to a stream of purchases with a supplier, AES should emphasize during negotiations lower unit costs due to a larger volume commitment and building a stronger business relationship.

Procedures for Making Blanket Purchasing Agreements

Blanket Purchasing Agreements (BPAs) are large negotiated agreements with vendors that allow smaller purchases by individual departments without going through the standard purchasing procedures for each transaction. For example, establishing a BPA with a spare parts supplier allows for the quick and efficient purchase when a needed part is not in stock or meets a predetermined reorder point. BPAs also reduce administrative costs for small purchases by eliminating the need for requisitions and purchase orders.

To establish a BPA, follow the steps outlined below:

Step 1. The department requiring a purchase submits a routine requisition. Full justification is required, including suggested vendors. Often, Procurement determines the need for a BPA and generate the agreement to attend many different requests from different areas.

Step 2. The requisition is routed for authorization and encumbrance of funds (if applicable).

Step 3. When the approved requisition is received or generated in Procurement, several vendors are contacted, usually including the suggested vendors. The vendor giving the best commercial conditions on purchases is normally selected, but convenience may be considered.

A sample agreement is shown as **Exhibit 6** and should contain:

- monthly and single purchase dollar limits
- persons authorized to order under the BPA

- order placement process
- category of items (not a complete listing)
- terms of the sale, including discounts
- required information needed on each vendor sales ticket, such as:
 - vendor name and address
 - BPA number
 - department/location
 - description of items purchased
 - unit price/total price
 - call number
 - person calling order/making purchase
 - name, title and signature of person receiving delivery
 - the date

Step 4. The person accepting the delivery is responsible for obtaining a sales ticket that will be entered on the monthly log form.

Step 5. All purchases are entered into SAP, another ERP, or manually on a monthly purchase log. See Exhibit 7.

Step 6. An invoice, or preferably a consolidated monthly invoice, is issued for all purchases during the month and sent to the same office as all purchase invoices, usually Procurement.

Step 7. Payment is made within the monthly and single purchase limits that were ordered, by authorized persons only.

Emergency Purchases

AES businesses may make emergency purchases without competitive bidding under specific circumstances. AES recognizes emergency procurements only in the case of a genuine emergency as described in the definition section below. Such procurements must demonstrate discretion and not function as a substitute for sound, advanced planning.

Proper execution of this process will guarantee that the appropriate documentation is in place to track all emergency purchases. In tracking this process and conducting root-cause analysis on the unplanned requirements, AES stands to reduce future emergency purchases and the added costs associated with them (premiums, etc.).

Emergency purchases are exempt from the PO process; however, these purchase still require a purchase requisition and PO once the emergency has been addressed.

Emergency Definition

AES recognizes the following as emergency situations, and it is only in such cases that this process will be applicable:

- The health or safety of AES employees / contractors are involved
- There is immediate danger of loss or damage to AES business
- Some phase of critical operations may experience an interruption if immediate action is not taken
- The environment or AES site surroundings may be damaged

Failure to anticipate purchasing needs is not considered a bona fide emergency situation. If there is time to give proper notice and for an advertisement to be made, then it is not an emergency situation. Do not simply wait until the last minute and try to make a purchase without bids claiming there is an emergency. If the requisitioning department or individual is responsible for creating the so-called emergency then there is no emergency.

Requestor Procedures

Following are suggested guidelines for dealing with emergency purchases.

Normal working hours: All emergency purchases occurring during normal working hours are processed through Procurement as follows:

1. The using department will notify the Procurement immediately, with as much information as possible about the emergency purchase required, so that the purchasing action can be initiated immediately.
2. Simultaneously, a purchasing requisition is prepared and hand-carried through the approval process.
3. Procurement or using department Leader contacts as many vendors as necessary to arrange the emergency purchase. If there is not enough time to get authorization, the purchase can be completed by telephone, and the purchase order completed after the fact and delivered to the vendor.
4. The buyer requests expedited delivery. The person making the requisition may be required to pick up the emergency purchase from the vendor if timely delivery is not available.

Evenings, weekends and holidays: When Procurement support is unavailable, process emergency purchases as follows:

1. The responsible member of the using department takes whatever steps are necessary to procure needed supplies, services or equipment to relieve the emergency. These should include only those goods or services needed during the evening, weekend or holiday are procured.
2. When the materials are delivered or services performed, the responsible member physically acknowledges receipt and separates the accompanying physical documents (for example Bill of Lading, Packing Slip, etc.).
3. On the first working day following the emergency, the responsible member:
 - a. Prepares a purchase requisition and marks it "Emergency Procurement".
 - b. Attaches the supplier's invoice or packing slip verifying receipt of all items indicated on the invoice or packing slip.
 - c. All purchase requisitions created to support an emergency transaction require proper approval. The approval follows the same hierarchy and process as detailed in "Chapter 2 – Requisition Process" in this handbook.
 - d. Writes a memorandum detailing the circumstances necessitating the emergency action.
 - e. Routes this package through his department Leader to the Director of Procurement.

Emergency Action Review

Upon receipt of the requisition package, the Director of Procurement reviews the circumstances leading to the emergency procurement and approves or disapproves the emergency action.

In the event of disapproval: If the Director of Procurement disapproves the emergency action, Procurement will:

- Process the procurement in accordance with AES' unauthorized procurement procedure.
- Notify the Team Leader of the denial and rationale.

Requisition routing: After the Director of Procurement reviews the purchase requisition, Procurement routes it through the normal requisition channels.

Unauthorized Procurement Action

AES delegates authority to certain employees to negotiate with suppliers and commit the company for materials, equipment, supplies, and services. The Procure to Pay Operational Policy establishes criteria for the documentation and resolution of procurement actions by those without delegated authority.

Authority

The Procurement Policies delegate authority to certain employees within AES to approve procurement documents which commit AES. Individuals that do not have this delegation are not authorized to commit AES for the purchase of materials, equipment, supplies or services.

Unauthorized Procurement: Commitments to suppliers made by individuals to whom procurement authority has not been delegated are unauthorized procurements.

Role of Procurement Director: When it is discovered that a supplier is performing work or supplying materials, equipment, supplies or services as a result of an unauthorized procurement, the Director of Procurement is the only individual authorized to document and resolve the unauthorized procurement. AES will hold individuals who initiate unauthorized procurements accountable for their actions and subject to AES' disciplinary rules.

Review of Unauthorized Requisition

The Director of Procurement reviews the circumstances of a commitment by an individual if he:

- Receives a purchase requisition for which delivery or performance has begun or is completed without the proper purchasing authorization.
- Receives notification that an unauthorized procurement has been made.

Results of Review

If, after the Director of Procurement review, it is determined that an unauthorized individual has committed AES for the procurement of materials, equipment, supplies or services, the following procedure must be followed:

1. The individual who made the unauthorized procurement furnishes the Director of Procurement through the individual's Team Leader or Cost Center Manager, a written statement disclosing:
 - a. All facts and information concerning the unauthorized procurement

- b. An explanation describing the reasons for failing to follow procurement procedures.
2. The Director of Procurement evaluates the individual's statement, obtains other such information as necessary, and determines whether or not to approve the unauthorized action.
 - a. This evaluation takes into account the legitimacy of the need for such an item for AES purposes, the reasonableness of source selection and price, and the funds available for the purpose.
 - b. The Director of Procurement advises the supplier that work performed during the process of fact finding and determination is at the supplier's risk.
 - c. If the Director decides to approve the action, he authorizes the issuance of an appropriate purchase order.
 - d. If the Director decides not to approve the action, he issues a letter to the supplier disassociating AES from any responsibility for the action.
3. The Director sends a letter of notification to the Team Leader or Cost Center Manager of the individual who made the unauthorized procurement detailing the findings of the investigation and recommending corrective action.
4. Procurement maintains documentation of the ratification in the procurement document file.
5. Procurement maintains a listing of all unauthorized actions showing the item, price, individual involved, and the resolution of the action.
6. Procurement must maintain records associated with unauthorized actions and report it to the proper internal governance teams.

Sole Source Purchases

Purchases available from only one supplier or reasonably justifiable to the use of a single supplier are also exempt from bidding requirements. AES discourages end-users from preparing requisitions that limit the solicitation to one supplier; therefore, AES requires certification that other reasonable sources of supply do not exist or that the use of a single source when others do exist is reasonably justified.

Sole Source Conditions

The term "sole source" refers to:

- The use of *one source when there is only one available supplier* for the product or service, and/or

- The use of *one source among others in a competitive marketplace when circumstances clearly preclude competition*. A single source is not necessarily the only place which can supply a particular item, therefore, one must be aware that other sources can and do exist.

The term “single source” refers to:

- An end user’s decision to use one source although more than one is available. This practice is a strategic decision common in setting partnerships, alliances, and just-in-time relationships.

For the purposes of this Handbook, where used the term “Sole Source” is meant to encompass both sole and single source conditions.

Sole Source Procedures

Sole source purchases are handled the same as other purchases, with these exceptions:

1. If the requisitioning party determines that the item is a sole source purchase, a “Sole Source Justification Form” must be submitted with the requisition.
2. If the purchasing agent determines that the item is a sole source purchase, a statement to that effect must be included in the purchase file.
3. The Director of Procurement or other authorized personnel should approve all sole source purchases. The approval should be done before a purchase order is issued.
4. After the requisition is approved, the purchasing agent will prepare the purchase order.

Sole Source Justification Criteria

Requesters should prepare a “Sole Source Justification Form” (see **Exhibit 8** for a sample form) to support sole supplier requisitions. The justification form clarifies the need for a sole supplier by stipulating one or more of the following requirements:

- **Regulated or Natural Monopoly** - The product or service is only available from a regulated or natural monopoly.
- **One-of-a-kind** - The product or service has no competitive product alternatives available.
- **Compatibility** - The product or service must match existing brand of equipment for compatibility.
- **Replacement Part** - The product is a replacement part for a specific brand of existing equipment.

- **Project or Research Continuity** - The product or service is needed to maintain project continuity.
- **AES Business Standards** - The product or service must comply with established standards at the AES business.
- **Unique Design** - The product or service must meet physical design or quality requirements.
- **Delivery Date** - Only one supplier can meet necessary delivery requirements.
- **Substantial Technical Risk** -The supplier is a reputable entity recognized in the market and society for it's specific knowledge on a certain technological field.

Sole Source Minimum Information

A "Sole Source Justification Form" includes the following minimum information as an attachment to the purchase requisition:

- Description of product/service capabilities
- Intended use of the material / service
- Explanation that sufficient number of vendors have been contacted or explored before to determine that only one practical source of supply exists
- Reason the sole supplier can furnish the requirement to the exclusion of any other provider. See above for examples
- Actions the requester is taking to preclude the future need for a sole supplier

Sole Source Negotiations

Under most conditions, a sole source purchase should be subjected to negotiation. The lack of competition may otherwise result in a severe case of sellers market, where the seller can charge unreasonably high prices. The purchasing agent should prepare a detailed list of requirements relating to delivery, quality, performance and other conditions, and be prepared to withhold the purchase to ensure compliance. The buyer should do everything possible to strengthen his bargaining position. Costs related to a purchase should always be considered before an order is issued. Post-purchase costs could include multi-year maintenance contracts, replacement parts or trade-in value.

Chapter 6 – Purchase Orders / Contracts

General Description

A purchase order (PO) is a formal document that Procurement creates and sends to a vendor that is to supply goods or services. A PO specifies payment terms, delivery dates, item identification, quantities, freight terms and all other obligations and conditions. A PO is only placed when there is demand for goods or services and that demand has been approved. In some circumstances a Purchase Order signed by the buyer and seller may replace a written contract.

Purchase orders are created based on the purchase requisitions.

- *If no contract or P.O. for the materials or services requested exists*, Procurement will create and send Requests for Information/Quotation/Proposal (RFX) to at least three different vendors. In the case where it is not possible to gather three different quotations, Procurement must provide documentation.
- *If a valid blanket purchase order exists for the requested material or service*, the purchase requisition will be automatically converted into a purchase order, referencing the contract with all terms and conditions.

Purchase Order / Contract Content

If the purchase requisition process is followed, the Buyer will receive the approved purchase requisition as notification to initiate a PO. In all cases, the PO/contract will be prepared to include the following information:

- A clear and precise specification or statement of work according to published AES technical standards and other safety and environmental requirements, if applicable
- A brief statement, in non-technical language, of the nature and purpose of the procurement
- Sequentially assigned PO number and date of order, if applicable
- Vendor's name, address, point of contact and phone number
- Ship to address/shipping terms (INCOTERMS named point)
- Work order/job order/account number
- Payment terms
- Mode of shipment (ship via), if applicable
- Delivery/completion date, if applicable

- Item number, if applicable
- Complete description of items or services identifying all applicable technical requirements, if applicable
- Quantity, unit, unit price and total for each item
- Purchasing Officer's ID code and phone number, if applicable
- Authorized signature(s) (see AES Financial Policies Manual).

Overview to Creating and Releasing Purchase Orders

Outlined below are the general steps to creating and releasing a purchase order:

Step 1 – Review the Purchase Requisition

The buyer verifies whether or not the material and/or service descriptions in the approved purchase requisition are sufficiently accurate and detailed to ensure that the vendor is clear on the procurement expectations. Material master data should be used to facilitate this, as it provides such information as material descriptions, lead times, and lot sizes. Businesses that still do not have a materials and suppliers database should seek support from the IT areas to help developing solutions for this need.

Step 2 – Aggregate Similar Requisitions

Once the buyer validates the requisition information, he/she should look for opportunities to aggregate multiple requisitions with similar requirements. This is important because it reduces the number of POs and thus the related administrative costs.

Step 3 – Determine Appropriate Source of Supply

After validating and aggregating requirements, the Buyers will determine the appropriate source of supply for the materials. They start from existing contracts and info records and:

- If there is not an approved vendor for this material or service, the buyers must create and send requests for quotation (RFQ) or auction invitations to at least three different vendors.
- If the material or service has a contract, the purchase requisition will be converted into a PO referencing the contract and all its terms and conditions.
- For critical materials or services, vendors should be financially and technically qualified prior to bid invitation.

Step 4 – Purchase Order Approval

After creation, all POs must be approved according to procurement strategy defined by the AES business. See the next section of this handbook, “Purchase Order / Contract Approval”.

Step 5 – Vendor Acceptance Confirmation

Once the PO is approved, a copy is sent to the vendor via email, fax, mail, or the web so that it can be reviewed and accepted against its stated conditions. All orders sent to the vendor require a written or electronic confirmation from the vendor that the terms, conditions and requirements are accepted and will be met.

Step 6 – Delivery, Receipt, and Invoice Processing

Once POs are acknowledged by the vendors the next steps are delivery of the purchased goods and services, receipt of these goods and services, and invoice processing.

Purchase Order / Contract Approval

After creation, all POs must be approved. Each AES business should have its own purchase order authorization levels and limits defined per its procurement strategy and per the authorization levels and limits and policies of the AES Financial Policies Manual.

AES Purchase Order / Contract Authorization Levels

Purchase Orders (PO), Scheduling Agreements (SA), and Contracts within the value range established by each AES business. POs, SAs, and Contracts must be approved by every level up to and including the highest level required to approve the PO, SA, or contract amount. ,

Stock Purchase Orders / Contracts and Blanket Releases

The purchase of materials, equipment, and supplies that are approved stock items often involve inventory system generated requisitions using the approved stocking level and reorder point to determine the size of the reorder.

Non-Stock and Services Purchase Orders / Contracts

This covers the purchase of materials, equipment, and supplies that are not stock items as well as services.

Non-Stock and Services Blanket Releases

Blanket purchase order releases, off of previously executed itemized agreements, are generated and approved by the end-user of the materials, equipment, supplies, or services. Releases off itemized blanket purchase orders typically allow for higher approval levels because the associated agreements have been previously approved.

Designated Non-Stock & Services under \$5,000

The Director of Procurement may designate certain employees in the operating unit the right to create purchase orders that are under a certain limit as defined by the AES business; typically \$1,000 or \$5,000. These purchases do not require a requisition or a purchase order and may also be purchased through a Procurement Card. Any purchase below this business specified limit that does not use a Procurement Card must follow the No P.O. purchase and payment process.

POs for Tracking Expenses and Utilities Payments

There are very specific situations where purchase orders are created for the sake of tracking expenses. In these situations, the PO is created only after the goods or services have been delivered and the invoices have been received from the vendor. These specific cases are:

- Real Estate Rental payment
- Utilities Bill payment
- Employee Travel Expenses

Purchase Order Modification

If a PO has been released to the vendor, any modifications required to the PO can be made only if the vendor agrees to the changes. When the vendor requests the changes, the buyer consults the requisitioner before taking the appropriate actions.

Purchase Order Changes or Cancellation

All changes to, or cancellations of, POs/contracts will be documented and approved by the individual making the change. All changes and cancellations made to POs/contracts will be reviewed and approved by authorized personnel consistent with policies set by the AES business and in accordance with the AES Financial Policies Manual.

Modifications “Within Scope” of Original Requisition

If the requested changes can be considered “within the scope” with regard to the original requisition data, the PO can be changed without having to change the original purchase requisition. As much as possible internal users should be aware of changes on the purchase orders. For example, situations on changes within the scope of the requisition, can include, but are not limited to:

- Changes on the delivery dates that will not affect the service level expected by the requisitioner.
- Payment information / payment terms are incorrect on the PO.
- Vendor communicates that a newer model is available (e.g. a newer laptop model is available now, which is better than what was requested for the same cost).

Modifications “Out of Scope” of Original Requisition

There may be situations where requests are made for changes to a PO that are considered “out of the scope” with regard to the original requisition data. In these cases, the original requisition will have to be changed by the requisitioner and re-approved before the PO can be changed. For example, these situations can include, but are not limited to the following:

- Requested material is not available, but vendor has alternative recommendations, with different specifications and prices.
- Vendor cannot supply the quantity requested and the quantity will have to be modified.
- Pricing conditions need to be changed.

Purchase Order / Contract Register

Register Content

Where POs are used, a register will be maintained by Procurement at minimum to reflect the following:

- Purchase requisition number, if applicable
- PO number
- PO date
- Date PO received
- Vendor name
- Goods/services ordered
- Requestor/buyer

This information may be maintained on-line and access will be restricted (via password control) to authorized employees.

Register Access

PO/contract preparation responsibilities will be segregated from requisition, accounts payable, materials and services receiving. Access to the PO system and related documents will be restricted to those who can initiate, approve and process orders. A current list of those individuals with authorization to access the system will be maintained and reviewed by the Accounting Manager independent of the PO process on a regular basis. This information may be maintained on-line and access will be restricted (via password control) to authorized employees. Please refer to the AES Financial Policies Manual for the latest requirements.

Filing of Purchase Order/Contract Transactions

The following list includes materials that will be found in purchase files. If automated systems are not used to maintain this information, hard copy files will be maintained in a secure location with access restricted to authorized personnel. The purchase files will contain at a minimum:

- Approved PO/Contract
- Approved PO/Contract modifications or Change Orders
- Request for quotation (RFQ), showing all bidders solicited, for amounts greater than \$50,000 (or lower, per business-specific policy)
- Copies of the vendor quotations/proposals
- Vendor selection criteria and explanation
- Copies of technical data, such as engineer's technical evaluations, drawings, specifications, inspection requirements, and lists of special equipment required
- Related correspondence

Federal and local laws for the most part determine the period of retention of records and the needs of your Business will also influence record retention policy. In establishing a record retention policy a balance needs to be achieved in lowering costs by eliminating unnecessary and wasteful records but at the same time making sure to retain important records that if missing especially in case of audit or litigation could cost the Business dearly.

Chapter 7 – Goods/Services Receipt

Goods/Services Receipt Overview

Goods/Services Receipt is the process that deals with both the receipt of materials at the time of delivery and the services confirmation, after they have been executed. The process is initiated by means of a Purchase Order and will also include verification of goods and services received. In certain cases, additional inspections for material quality will need to be performed, after goods are received.

Responsible Members

The process is performed by the person designated to be the Goods or Services Receiver. In the case of materials, the receipt occurs generally at the storage area (but may occur at other delivery points, such as at job sites), and in the case of services, the receipt is performed by the person confirming the performance and accepting the services.

Goods Receipt Process

A Purchase Order (PO) or contract is a prerequisite for a materials receipt process. All items will be received in secure locations by the Receiving Clerk. Access to the receiving area will be restricted to authorized personnel. The designated Receiving Clerk should follow general guidelines described below during the materials receipt process:

Step 1 – Check PO/Contract Number or References

If a shipment arrives without a PO or contract number or references an incorrect PO/contract number, the goods should not be accepted unless a PO or contract is created and all approval procedures executed.

If there is no PO or contract, the receiver should check if it is an “Emergency Purchase”. If it is an “Emergency Purchase”, materials will be received according to the procedures described in Chapter 5 for “Emergency Purchases”.

Step 2 – Inspect Package against PO/Contract Information

The basic verification of a delivery should be done based on the bill of lading documents, which may include general inspection of the package received, the quantity and materials enclosed, and the verification of PO or contract information. Receiving reports will be completed for all items received. The receiving report will identify the quantity and description of products accepted. Receiving reports will be matched to approved POs/contracts and packing slips (if available).

Changes to the receiving report will only be made by the receiver and a detailed explanation as to the reasons for the change will be documented on the receiving report.

If there are discrepancies in either quantity or value exceeding tolerances, the receipt should not be processed and the buyer will be contacted to take the appropriate action.

Step 3 – Visually Inspect the Goods

Once the paperwork has been verified, a visual inspection of the goods should be performed.

Step 4 – Process the Receipt of Goods

If there are no discrepancies the receipt of goods can be processed. Notice of receipt and acceptance will be sent to the Accounts Payable department either manually using a Material Receiving Report form or automatically within SAP using the Goods Receipt workflow.

If materials require quality inspection, the materials will be sent for quality control process and the goods receipt will remain blocked in the system until quality inspection is complete.

Step 5 – Place Materials into Available Inventory

Materials not requiring quality control will be placed directly into available inventory.

If a delivery is partially approved after quality inspection, the approved portion can be placed in available stock, and the remaining portion must be returned to the vendor. If a material does not require quality inspection but it will be partially received due to out-of-specification issues for example, the portion being accepted will be posted into available stock and the reprovved portion will be posted into blocked stock and then will be returned to the vendor.

Any rejected items will be segregated from other inventory. Accepted items will be immediately stocked in inventory or delivered to appropriate personnel.

Step 6 – Return Goods to Supplier if Necessary

Damaged items will immediately be documented by the Receiving Clerk and returned to the vendor. Notification of damaged items will be made to the Buyer for follow up with the vendor and communicated to the Accounts Payable Accountant.

If a decision has been made to return the goods to the supplier and is possible to simply refuse the goods, AES will avoid paperwork and effort to receive items and then return it to the vendor.

Services Receipt Process

The receipt of services is a process in which the Service Receiver, usually the requisitioner, approves the service performed by a vendor. The receipt process is performed only when the services have been completed and the quality of service is satisfactory.

Step 1 – Check the Invoice against the PO

The process is initiated by the receipt of the invoice or other service document sent by the supplier. When the Service Receiver receives the document, he/she will verify the purchase order, to ensure that the value is correct, and confirm that the service was performed according to the description in the supplier's invoice. This confirmation comes in the form of signed timesheets or invoices. SAP and other leading ERP systems also allow for on-line receipt of services.

Step 2 – Approve Invoice Discrepancies

The invoice will not be released for payment prior to this signature approval or automated Services Receipt. If the invoice value is incorrect, an analysis should be conducted jointly by the Buyer and Service Receiver to determine what action must be taken.

If the discrepancy is approved, the purchase order should be modified, before the Service Receipt can be processed. If the discrepancy is not approved, the supplier invoice should be placed on hold, and the supplier should be notified about the discrepancy.

If a service invoice arrives without a PO or contract number or references an incorrect PO or contract number, the service should not be accepted unless a PO or contract is created and all approval procedures executed. If there is no PO or contract, the receiver should check if it is a "Emergency Purchase". If it is an "Emergency Purchase", materials will be received according to the procedures described in Chapter 5 for "Emergency Purchases".

Step 3 – Release Invoice for Payment

Once approvals for all invoice discrepancies are attained the invoice may be released for payment. Notice of receipt and acceptance will be sent to the Accounts Payable department.

Chapter 8 – Accounts Payable

Invoice Payment Minimum Requirements

- Invoice processing duties will be segregated from purchasing and receiving duties.
- All available discounts will be accepted, if the terms are advantageous to AES.
- Payments should be made after goods have been received.
- Payments should be made to the suppliers in a timely manner as agreed in terms and conditions at the time of creating PO / contract.
- There should be checks and balances to ensure that supplier are paid only once for the goods and services provided.

Accounts Payable Clerk Responsibilities

The Accounts Payable Clerk will receive POs/contracts/other once approved, as noted in §309 in the AES Financial Policies Manual. Upon receipt, the Accounts Payable Clerk will code the approved invoice to the appropriate account and match the invoice to a PO and receiving report (if applicable).

After review and match to the authorized invoice, the Accounts Payable Clerk will record the liability in the Accounts Payable Subsidiary Ledger or directly to the General Ledger Account.

If an Accounts Payable Subsidiary Ledger is used, a monthly reconciliation to the General Ledger account will be prepared by the Accounts Payable Clerk and reviewed by the Accounts Payable Supervisor/Team Leader.

Invoice processing duties will be segregated from purchasing and receiving duties.

Annex 1 – Exhibits and Templates

To save template to your hard drive double click the document icon to open the file and select “File” > “Save as...” and save to your computer.

To view and download these and other templates visit the Strategic Sourcing intranet page at www.ouraes.com > Our Companies > Strategic Sourcing > Resources.

Exhibit 1: Purchase Requisition Template



PR Template.xls

Exhibit 2: Incoterms Chart



Incoterms Chart.pdf

Exhibit 3: Request for Quotation Template



RFQ Template -
Feb09.doc



RFQ Response Form Sample Conditions of
Template - Feb09.xls



Purchase of Goods.doc



Compliance Due
Diligence Questionnai

Notes:

- Embedded “Sample Conditions of Purchase of Goods” is a sample only and each Business Unit should have its own Standard Terms and Conditions. If your Business does not have its own Standard Terms and Conditions you may use the attached as a template and should seek appropriate legal and internal control professional assistance to craft your own.
- Visit the Compliance Department webpage of the AES intranet (www.ouraes.com) under Compliance Resources, for the latest version the attached Due Diligence Questionnaire (DDQ) and other compliance forms. For additional guidance or questions, contact the Compliance Department in Arlington or your Regional Compliance Officer.

Exhibit 4: Sample Bid Evaluation Table



Sample Bid
Evaluation Table.xls

Exhibit 5: Compliance Monitoring Template



Compliance
Monitoring Template.

Exhibit 6: Sample Blanket Purchasing Agreement

[Reserved for future version]

Exhibit 7: Sample Blanket Purchasing Agreement Log

[Reserved for future version]

Exhibit 8: Sole Source Justification Template



Sole Source
Justification.doc

Exhibit 9: Purchase Order Template



PO Template.xls

Exhibit 10: Receiving Report Template



Receiving Report
Template.xls

Exhibit 11: AES Materials & Services Taxonomy v4.65



AES M&S Taxonomy
v4 65.pdf