



**Northeast
Utilities System**

Memo

TO: NUSCO Officers and Directors

FROM: Elizabeth A. Maldonado
Director, Purchasing

SUBJECT: Statement of Procurement Objectives, Policies and Procedures - NSE 31

Attached please find the Northeast Utilities Service Company Statement of Procurement Objectives, Policies and Procedures, which has been revised for the 14th time since first published in 1970. Please distribute this Statement throughout your organization to familiarize all personnel with its contents. If you have any questions, please contact me at extension 5664.

POLICY AND PROCEDURE MEMORANDUM

Statement of Procurement Objectives, Policies and Procedures

PURPOSE

To provide a formal Statement of Procurement Objectives, Policies and Procedures and to provide such additional statements as may be necessary from time to time to clarify and support the formal statement.

SCOPE

This Statement applies to all Northeast Utilities System companies.

POLICY

It is important that all key employees become familiar with system procurement policies and support them fully. This Statement is a public document and available to vendors¹ upon request.

The Statement of Procurement Objectives, Policies and Procedures is necessarily broad in its language. If additional procedures are necessary to meet specific business needs of the Northeast Utilities System companies, such procedures may be issued as the need arises.

¹ The references to vendor, contractor and supplier are used interchangeably for purposes of this policy.

**STATEMENT OF PROCUREMENT
OBJECTIVES, POLICIES AND PROCEDURES
BY
NORTHEAST UTILITIES SERVICE COMPANY
CORPORATE PURCHASING**

On behalf of:

The Connecticut Light and Power Company

Western Massachusetts Electric Company

Northeast Utilities Service Company

Public Service Company of New Hampshire

Yankee Gas Services Company

and other Northeast Utilities System companies

NORTHEAST UTILITIES SERVICE COMPANY**STATEMENT OF PROCUREMENT****OBJECTIVES, POLICIES AND PROCEDURES****I. Introduction**

Northeast Utilities Service Company ("NUSCO" or "Company") provides the necessary procurement services for its affiliates within the Northeast Utilities System. These companies include The Connecticut Light and Power Company, Public Service Company of New Hampshire, Western Massachusetts Electric Company, Yankee Gas Services Company and NUSCO itself, among others. The information contained in this Statement is intended to be informative and accurate. However, NUSCO reserves the right, without notice, to deviate from or amend the procedures and policies described herein as particular circumstances, in its sole judgment, warrant.

II. Objectives

The ultimate objective of the system companies is to safely, reliably and economically deliver energy to their customers. To this end, the Company's procurement function is designed to assure the system companies of a continuing, reliable supply of their requirements of equipment, materials and supplies, construction and services at the lowest costs which will ensure quality, reliability, service, and availability. The companies also provide energy for their customers pursuant to the statutory and regulatory requirements of each state. These energy purchases fall outside of the purview of this policy.

The procurement function is centralized in the Corporate Purchasing Department ("Corporate Purchasing") headed by a Director, which provides such procurement services for all system companies. In carrying out the procurement function, Corporate Purchasing has the following objectives:

- A. To maintain the resources and skilled, commercially and technically oriented personnel necessary to provide effective and economical procurement services to the system companies;
- B. To procure goods and services from a qualified, diverse supplier base at the lowest evaluated cost to individual companies and the NU system as a whole, which will ensure safety, quality, reliability, service and availability, and that any such goods and services are in the required place, in the required quantity, at the required time;
- C. To effect economies of scale by promoting standardization, to the extent practicable, of methods, materials and supplies among the NU system companies as a means of minimizing costs and inventories;

- D. To make every reasonable effort to assure reliable and competitive sources to meet requirements;
- E. To furnish timely information to management and appropriate departments concerning market conditions and trends, and the probable effect on supply and prices;
- F. To provide support to Materials Management in controlling inventories of regularly stocked items and other items in the Company's custody or under its supervision in such a way as to maintain levels that are economical, while maintaining the ability to meet emergency demands;
- G. To obtain the maximum benefit to the Northeast Utilities System from surplus or salvaged plant, equipment or material, either from reuse or sale, and to obtain the highest possible return when disposing of scrap materials;
- H. To contract for the proper disposal of hazardous wastes in accordance with applicable regulations;
- I. To be alert to changing technology, new or improved products or methods, and environmental and safety concerns and requirements;
- J. To keep abreast of developments in purchasing methods and techniques which may be advantageously adapted to its function;
- K. To conduct all procurement activities in such manner as to preserve and promote the reputation of the Northeast Utilities system companies and affiliates for integrity and fair dealing; and
- L. To attain the foregoing objectives at minimum cost through appropriate training and effective management.

III. Exceptions

Except as provided in Section IV (E) and IV(G)2, this Policy does not apply to the following purchases:

- A. Fuel Purchases;
- B. Wholesale gas or energy supplies;
- C. Purchases for certain unregulated affiliates; and
- D. Legal services, Government Relations services, Human Resources and Employee Benefits and other non-Purchase Order transactions as authorized pursuant to applicable Company policies and procedures.

IV. Procurement Policies and Procedures

- A. Corporate Purchasing is responsible for the proper conduct and conclusion of all contract negotiations in connection with procurement activities for system companies, including qualification of vendors, obtaining bids, bid evaluation, negotiation of contract terms, supplier performance evaluation and attending to all other commercial aspects of the procurement process.
- B. Suppliers representatives are encouraged to register online at www.nu.com/business/frictionless.

Any mail communications should be addressed to the Northeast Utilities Service Company, Corporate Purchasing, Attn: Supplier Relations, P.O. Box 270, Hartford, Connecticut 06141-0270. The telephone number is (860) 665-2222.

Potential suppliers may be invited to meet with buyers in order to provide additional information regarding products and services.

- C. It is the policy of NUSCO to encourage and maintain competition for its business. Bids are solicited from as many qualified sources as are considered necessary to realize the objectives both of procuring requirements at the lowest evaluated costs to individual companies and the system as a whole, consistent with reliability, quality, service and availability, and of having such requirements available at the required place, in the required quantity and at the required time. It is the general practice of NUSCO to include a minimum of three (3) bidders on the list for each procurement, unless the due diligence investigation performed by Corporate Purchasing fails to yield three or more viable bidders.
- D. Diverse Suppliers, defined as Small Businesses (SB), Small Disadvantaged Businesses (SDB), Women-Owned Small Businesses (WOSB), Service Disabled Veteran Businesses (SDV), Veteran Owned Businesses (VOB) and Historically Underutilized Business Zone Businesses (HUBZone), are to be provided the "Maximum Practicable Opportunity" to provide goods and services to the Northeast Utilities System companies. All buyers shall proactively seek to identify and qualify Diverse Suppliers, in collaboration with the Supplier Diversity Manager, which may include Suppliers from outside NU's geographic service territory. In all cases where a qualified Diverse Supplier is known or found to exist for a particular commodity, such Diverse Supplier should be included on the bid list for every procurement of that commodity. These suppliers are to be provided every opportunity to meet with members of Corporate Purchasing and the Supplier Diversity Manager and shall be evaluated on the same basis as all other suppliers.
- E. A prospective supplier may be qualified to receive an invitation to bid upon satisfying NUSCO of its financial stability, integrity and capability of supplying a product or service which will meet NUSCO's requirements.

Many items offered by new sources and presented as equivalent to those in general use are investigated by a Standards Engineering Group or other

qualifying authority as appropriate and approved or disapproved for use on the system in collaboration with Corporate Purchasing.

Notwithstanding product approvals by other departments, Corporate Purchasing, after consultation with users, has the final responsibility for determining whether or not a prospective supplier is to be invited to bid on any specific procurement.

Suppliers may be disqualified from a particular procurement or from doing business with NU for reasons deemed appropriate by NU, in its sole discretion, including but not limited to:

1. Failure to meet technical or commercial requirements;
2. Unsatisfactory safety record;
3. Unsatisfactory environmental record;
4. Failure to deliver as promised;
5. Unsatisfactory performance of product;
6. Unsatisfactory service of product;
7. Failure to respond to invitation to bid;
8. Failure to attend pre-bid meetings;
9. Failure to respond to bid invitations in accordance with specific instructions;
10. Unprofessional conduct or unsatisfactory business relations;
11. Consistently high bids;
12. Supplier's own request to be removed;
13. Failure to comply with and/or refusal to supply required documentation;

- F. For purchases governed by this Statement, NUSCO generally does not make any public announcement or public advertisement of its procurements nor are public sealed-bid openings held. All such information is considered commercially confidential.

Formal advance notice of intention to seek bids is usually not given to prospective suppliers. It is believed that the general advance publicity, together with the customary interviews with Corporate Purchasing and other departments, afford ample opportunity for suppliers to acquaint themselves with project construction or maintenance plans which might utilize their products.

G. The procurement methods employed by NUSCO in providing procurement services for the system companies vary with circumstances, the nature of the item being purchased and the value of the transaction. The methods most commonly used and the considerations which determine the conditions under which each method is used are as follows:

1. Competitive Bid Solicitation

a. Electronic

The procedure most frequently employed for significant procurements consists of a competitive bid solicitation procedure, initiated by electronic communication addressed to qualified suppliers, containing all pertinent specifications, terms and conditions, and instructions, and inviting a bid. The bids received are then evaluated to determine which most fully meets the bid requirements. Any contract shall be awarded to the supplier submitting the best evaluated bid. It is NUSCO's policy to treat all bids submitted as confidential and to make their contents available only to authorized and responsible system personnel.

This formal bidding procedure is used in the purchase of equipment, materials and supplies, construction, and repair, maintenance and management services valued at \$50,000 or more, except as mentioned below under "Noncompetitive Procurements." For procurements less than \$50,000 in value, written bids may be utilized for complex transactions.

b. Verbal

When delivery time is an important consideration, procurements are frequently based on bids solicited by telephone or other personal contact from qualified sources. No firm upper limit of value has been established for this method, but the use of this method is generally restricted to items for which the value is less than \$50,000. The general treatment of such bids is similar to that described in paragraph (1.a) above.

2. Noncompetitive Procurements

Under certain circumstances, NUSCO may make procurements without obtaining competitive bids, including, without limitation:

- a) Purchase Orders issued to federal, state or municipal government entities or organizations;
- b) Purchase Orders issued for the primary purpose of making payments to parties other than Suppliers (i.e.- Conservation and Load Management rebate programs);

- c) Purchase Orders issued pursuant to federal, state or municipal regulation (i.e. – payments into a state fund required by the NERC, DPUC, DTE or PUC);
- d) Purchases of upgrades to software/hardware already licensed to NU Affiliates and/or annual maintenance Contracts for software/hardware already licensed to NU;
- e) Purchases of items valued at less than \$50,000 or otherwise so low in value that the cost of obtaining competitive bids would be disproportionate to any savings that a competitive bid process might produce.
- f) Purchases valued at \$50,000 or more for which a review of the marketplace reveals that there is only one viable Supplier who is technically and commercially capable of providing the good or service that is being procured by NU;
- h) Purchases for which the Chief Executive Officer, Executive Vice President of the Utility Group, Senior Vice President and General Counsel, Chief Financial Officer or a member of the Board of Trustees has determined that the use of a particular supplier is necessary due to exigent business circumstances for strategic confidential or essential projects.

H. Agreements for the provision of goods, materials, equipment and/or services are typically set forth in a document(s) which includes: (a) the applicable General Terms and Conditions; (b) the Special Terms and Conditions, if any; (c) the scope of work or specification; (d) the Purchase Order; (e) any applicable Safety and Environmental documents; and (f) any other relevant documentation (i.e. – Supplier's proposal, performance security instruments, insurance certificates, etc.,) In every instance, the agreement shall be signed by an authorized representative of Corporate Purchasing. If Corporate Purchasing and a vendor elect to transact business through the electronic exchange of business data using a point-to-point connection or a value added network, either directly or through a third party ("E-Business"), an Electronic Data Interchange ("EDI") agreement or NUSCO Purchasing Department E-Business Trading Partner Agreement or comparable agreement must be fully executed by the Supplier and filed with Corporate Purchasing.

A vendor taking exception to any statement or provision of a purchase order or contract issued by Corporate Purchasing is expected to make the fact known promptly by letter or electronic communication prior to the earlier of (i) the signature of the supplier; or (ii) the commencement of work. Changes or modifications to any purchase order or contract shall be effective only upon revision or amendment to the purchase order or contract signed by an authorized representative of Corporate Purchasing.

1. Purchase Orders

The purchase order form is a numbered form generally used to initiate a purchase which may include a description of the materials, equipment or services to be procured, the quantities, prices, discounts, delivery point, delivery dates, the delivery address, the billing address, buyer's name, and other pertinent information.

2. Credit Cards

The Procurement Card is valid for purchases of material or services which do not exceed \$3,000 in value, unless otherwise approved and encoded on the card exclusive of sales tax and freight.

The Travel & Expense (T&E) Credit Card is to be used for business related travel and expense purposes only.

Company business procedures outline the rules governing the use of Credit Cards.

3. Contracts

For complex or large procurements, such as for capital construction projects, large pieces of equipment, and maintenance requirements for more than a multi-year period, a formal contract may be entered into, in association with a purchase order. The types of contracts most frequently written are: unit price; lump sum; cost-plus incentive-fee; and cost-plus-fixed-fee or percentage of cost but with maximum price stipulated. The type selected for any specific procurement is usually dependent upon the nature of the work contemplated and the completeness of the specifications available at the time of bidding. Risk sharing provisions such as a bonus-penalty are sometimes incorporated. Other provisions reflecting the judgments of NUSCO and the contractor as to the stability of conditions which could affect costs during the term of the contract may be considered and incorporated in contracts.

NUSCO customarily reserves the right, in its agreements with contractors, to approve or disapprove of any subcontractors selected for the principal trades, and of any subsequent changes in the subcontractor list.

- i. It is the general policy of NUSCO to award purchase orders and contracts to the bidder submitting the "best evaluated bid." The best evaluated bid is the lowest bid which will ensure quality, reliability, service and availability, and it may or may not be the lowest-priced bid. Such factors as the manufacturer's service on its products, reliability of

products in service, price, escalation provisions, any special terms or conditions proposed

by the bidder, payment schedule, delivery, engineering and operating characteristics, vendor's past performance record (especially with regards to safety), estimated costs of ownership and operation, and any other considerations which, in the opinion of NUSCO, are relevant are taken into account in arriving at the best evaluated bid.

Notwithstanding this general policy, NUSCO may undertake negotiation as described in paragraph G (1) above, if, in its opinion, all bids as submitted are unacceptable or if there is reason to believe that negotiation with one or more of the bidders might be expected to result in improving the overall terms of the procurement.

- J. In order to take advantage of the efficiencies associated with global procurement, it is now the policy of NUSCO to procure products that provide it with the lowest total cost of ownership, without regard to whether they are manufactured domestically or internationally. Prior to purchasing products manufactured internationally, Corporate Purchasing, along with user departments and/or the Standards Engineering group as appropriate, must conduct a commercially reasonable evaluation, taking into account any special factors attendant upon international procurement.
- K. NUSCO has no special procurement policies or restrictions relating to regional, state, or local suppliers. All suppliers for a particular procurement shall be evaluated on the same criteria.
- L. NUSCO, acting as agent for the other NU System companies, has submitted a sub-contracting plan to General Services Administration (GSA). This plan outlines NU's policy on locating and doing business with Small Businesses (SB), Small Disadvantaged Businesses (SDB), Women-Owned Small Businesses (WOSB), Service Disabled Veteran Businesses (SDV), Veteran Owned Businesses (VOB) and Historically Underutilized Business Zones (HUBZones).
- M. NUSCO does not tolerate the acceptance by employees of entertainment or gifts which may influence the award of contracts to a particular supplier nor does it allow employees to accept any loan from vendors or their representatives.
- N. NUSCO strives to carry out its purchasing activities in conformity with the highest ethical standards of the purchasing profession and in such manner as to preserve and promote the reputation of the Northeast Utilities System companies for integrity and fair dealing. Accordingly, it endorses the Principles and Standards of Purchasing Practices advocated by the Institute for Supply Management™ (attached hereto) as a guide to its purchasing personnel.
- O. NUSCO intends to comply with all applicable laws and expects its suppliers to do the same. It has no agreement with any employee organization and has no knowledge of any federal or state law which might cause it to change its procurement policies as herein stated.

**PRINCIPLES AND STANDARDS
OF
ETHICAL SUPPLY MANAGEMENT CONDUCT
Advocated by
INSTITUTE FOR SUPPLY MANAGEMENT™**

Loyalty To Your Organization
Justice To Those With Whom You Deal
Faith In Your Profession

From these principles are derived the ISM standards of supply management conduct.

1. Avoid the intent and appearance of unethical or compromising practice in relationships, actions and communications.
2. Demonstrate loyalty to the employer by diligently following the lawful instructions of the employer, using reasonable care and granted authority.
3. Avoid any personal business or professional activity that would create a conflict between personal interests and the interests of the employer.
4. Avoid soliciting or accepting money, loans, credits or preferential discounts and the acceptance of gifts, entertainment, favors or services from present or potential suppliers that might influence, or appear to influence, supply management decisions.
5. Handle confidential or proprietary information with due care and proper consideration of ethical and legal ramifications and governmental regulations.
6. Promote positive supplier relationships through courtesy and impartiality.
7. Avoid improper reciprocal agreements.
8. Know and obey the letter and spirit of laws applicable to supply management.
9. Encourage support for socially diverse practices.
10. Conduct supply management activities in accordance with national and international laws, customs and practices, your organization's policies and these ethical principles and standards of conduct.
11. Develop and maintain professional competence.
12. Enhance the stature of the supply management profession.

WE SUBSCRIBE TO THESE STANDARDS