

Key Issues in Negotiating a CMS Contract



Mike Meko - Supply Chain Manager
Diablo Canyon Nuclear Power Plant

9th Annual CMS Workshop
October 20, 2005

Scope of Contract

- Diablo Canyon has two 1150 MW unit pressurized water nuclear reactors.
- The scope was to manage twelve (12) Bulk Chemicals (320 gal. Totes and Tanker Trucks) including ordering, inventory management, logistics, driver access, off-load, and coordination with OPS, Security and Chemistry.
- We are starting with the bulk chemicals in our contract with the idea of expanding this in the future (after we have success).

Elements of a successful contract

- Know what you want (clear specifications, performance expectations and business concepts)
- Good history of usage (quantities & dollars)
- Detailed list of responsibilities for all involved parties and positions
- Involvement of all departments in the contract discussions
- Development of a good working relationship with the selected supplier and open sharing of information.
- The contract should stand on its own.
- Alignment of needs and incentives - create a win-win situation.

Transition issues

- Kick-Off Meeting
- Good Transition Plan with contingency plans
- Monthly Performance Review/check in
 - Performance Measures
 - Two way feedback
 - Open Issues
 - Upcoming considerations/schedule/initiatives
- Pay attention to the little things up front before they become big things

Performance Metrics

- Pricing (based on PPI) versus Baseline
- On Time delivery
- Standby time
- Acceptance Rate
- Gainshare Credits/Debits
- Process Efficiency Improvements

Incentives

- Savings Gainshare credits or debits based upon total costs versus baseline
- Options for two one-year extensions
- Increase the scope of chemicals that are managed

RFP vs. Contract Structure

- The structure of the RFP allowed us to evaluate the suppliers response on their program, cost structure and flexibility.
- When discussing the various proposals with the suppliers new ideas emerged in terms of how we could best structure a contract.
- Start with the end in mind...but stay flexible. We wanted improved quality and support to the plant with no cost increase or a cost savings.

Challenges and Lessons Learned

- Understand what you want before you get started and ensure your stakeholders agree.
- Understand (or ask) what your potential suppliers can do for you, their capabilities and their weaknesses.
- Benchmark others and visit your potential suppliers hubs and customers.
- During negotiations maintain alignment with all site stakeholder.