

Material Expense Reduction Strategies

Rapid Conference

5/17/16

Bob Tilton – Director Procurement, PSEG Nuclear
Salem and Hope Creek

PSEG Nuclear Supplier Relationship Model

- **Establish long term relationships for critical areas**
 - Suppliers willing to share in the performance of our plants
 - Suppliers willing to work on our behalf even when not their most revenue producing choice in the short term
 - Use of performance based scorecards to measure performance
 - Know the Supplier's Organization, management and staff
 - Open and honest discussions on performance- PSEG and Supplier
 - Encourage innovation, continuous improvement and use of industry experience
 - Compelling reason to change is required
- **Help the supplier be successful at our sites and across the industry**
- **Be fair with our all suppliers and expect the same in return**
- **No single approach to contracting- use competition and available leverage**
- **Demand and expect excellent performance**

Why is PSEG Nuclear concerned about Material Expense?

- **PSEG Power, as de-regulated power producers, the cost of materials competes with funding for other important initiatives - more efficient use of materials can provide much needed funding for other important projects or initiatives**
- **Gap to top quartile is significant for our plants (3rd and 4th quartile presently) indicating we have a large opportunity to improve**
- **Material expense continues to increase well beyond inflationary rates**
 - Escalation for some OEM supplied parts >75% in a 5 year period!

Let's get aligned about what we mean

Is

- **Expense- what is being charged under the accounting category of materials**

Is not

- **Services**
- **Inventory Value Growth**

Simple Formula

Price x Volume (Consumption)= Expense

- There is opportunity on both sides- Important to address both

Not so simple to fix

- Sustainable improvement can be complex

We all have examples of this- can drive you nuts!!



3/8" Stainless Steel Nuts - \$1,030 each

Price x Volume Considerations- PRICE DRIVERS

Category	Focus Area	Issue
Price Drivers	Negotiated Price	Are unit prices higher for us than others?
	Price Escalation	Is price escalation affecting us more than others?
	Over-Specification	Are our material specifications an outlier causing increased unit costs?
	Commercial Grade Dedication and Reverse Engineering	Are we missing opportunities for CGD/RE/Alternate Suppliers?
	Over-Classification	Are systems and materials classified at overly conservative levels?

Price x Volume Considerations – CONSUMPTION/Other DRIVERS

Category	Focus Area	Issue
Consumption Drivers	Cost Awareness- behaviors	Is there adequate focus on the costs of materials through the planning and maintenance processes
	PM/CM Frequency	Are our maintenance practices resulting in more work than others'?
	Repair vs. Replace	Are our maintenance behaviors or decisions using more high cost materials than others?
	Use of materials <ul style="list-style-type: none"> Scrap of materials versus returned to stores Use of Safety Related in Non Safety Applications 	Are materials being used cost effectively?
Other considerations	Capitalization	How do our capitalization practices affect our rankings?
	Other Accounting	How do other accounting differences affect our ranking?
	Outage Frequency	Does our 18 month outage frequency affect our ranking?
	Brackish Water	What is the impact of salt water

Material Cost Reduction Activities

Shorter Term Opportunities

- Cost Awareness Reinforcement
 - Incorporated projected and actual material costs into the Work Week Process E-12,9,5 and +1
 - Utilization metric of parts reserved on work orders to influence behaviors related to over ordering – primarily to address inventory growth
- PM Optimization
 - Completion of on-going project to adjust frequencies/demand

Shorter Term Opportunities- Continued

- Examples of reduction of reliance on distributors – Sometimes called OEMs

Description	Distributor Price	MFG Price	Savings	Usage in 2016	Projected Saving in 2016
RELAY- 120VAC	\$ 3,900	\$ 400	\$ 3,500	15	\$ 52,000
RELAY-125VDC	\$ 3,900	\$ 400	\$ 3,500	61	\$ 260,000
RELAY-24VDC	\$ 6,700	\$ 400	\$ 4500	34	\$ 190,000
RX Head 'O' Rings	\$ 96,000	\$ 36,000	\$ 60,000	2 Per Outage	\$ 120K per Outage

Material Cost Reduction Activities

Longer Term Opportunities

- Commercial Grade Dedication Expansion- Goal is to ramp from \$1.1M to \$3.5M in average annual budget savings by end of 2016
 - Conducted an evaluation of frequently used Safety Related parts
 - Pilot underway to address on a proactive approach
 - Daily review of Safety Related and High Dollar demand to:
 - Target for CGD, Reverse Engineering or Alternate Suppliers
 - Reduce Quantities requested
 - Adjust stocking levels
 - Cancel purchase
 - Looking to partner with others to share CGD/RE information/plans
- Member of a pilot with others in the industry for inventory sharing and potentially leveraged buying
- Behavior modification for over ordering by Maintenance and Engineering
- Working with our Suppliers to determine how to develop cost effective approaches to purchasing expensive parts and materials- we need help

Bottom Line

- **Great opportunity for cost reduction available- even if you are in an upper quartile currently**
- **Collaboration between utilities makes sense and is starting to happen**
 - Delivering the Nuclear Promise- SC-02 is Reduction in Material Expense focused
- **Some suppliers seem to get it- we need more**
- **Devil is in the detail- requires human intervention to make informed decisions at the purchase requisition level**