



FAO: Margaret Riach
By email

18 December 2024

Dear Margaret

Electricity Transmission Advanced Procurement Mechanism

This letter sets out XLCC's response to this important consultation.

XLCC is building the world's largest and most advanced HVDC cable factory in Hunterston, on Scotland's West Coast. Not only will this factory deliver significant volumes of HVDC cable that the UK's transition to net zero requires, but it will also establish a new green industry in Scotland.

We welcome the introduction of the APM and the proactivity Ofgem is demonstrating in developing new mechanisms to support the net zero transition. Nowhere is this more important than HVDC supply. The government's Clean Power 2030 plan requires an even faster acceleration of the net zero pathway. This is putting significant pressure on the already constrained HVDC supply chain – with delivery times now reaching 10 years.

But 2030 is only a stepping stone. Once we have decarbonised our current electricity needs, the system will need substantial further expansion to enable the decarbonisation of heating, transport, and industrial processes. Without action to ensure the UK secures the supplies of HVDC it needs, the Government's Clean Power 2030 ambition and the wider transition to net zero will be jeopardised.

The net zero transition is a unique opportunity to create a new green industrial legacy in the UK, attracting investment and creating jobs and growth across the country. However, this will not happen on its own. We cannot repeat the mistakes of the past, notably for fixed bottom offshore wind where, despite the UK being a world leader, the wider economic benefits have been exported as we did not create a robust domestic supply chain. To ensure we secure sufficient supplies, we consider it vital for HVDC cable that homegrown manufacturing capability is established.

While broadly supporting the APM, we believe that Ofgem should consider how it can be used to maximise the potential economic benefits to the UK. This is key to delivering the stated objective that the APM should enable investment in UK-based facilities. This is vital to supporting Ofgem's Growth Duty. Our main comments are:

- **UK content.** The APM should be designed to ensure a level playing field, particularly for those suppliers in the UK. Consistent with Ofgem's Growth Duty, it may be appropriate to go further to implement specific measures that would support UK providers over time.
- **Supporting the UK to secure supplies.** The transmission network will need to expand significantly to accommodate the scaling of offshore wind. There are a significant number of new developments scheduled to come onstream. However, many of these have not yet engaged the supply chain. In particular, offshore wind developers have yet to secure HVDC cable and therefore face the greatest scarcity risk. The APM could be one option to mitigate the risk that the UK, as a whole, fails to secure the components it needs for net zero. Alternatively, this could be a starting point for other policy options that also would require Ofgem, government and industry to collaborate.

We have expanded on these points in the answers below. We would be delighted to speak with you to discuss this response further.

Yours sincerely

George Mayhew



XLCC responses

Q1. Do you agree with our proposal to introduce the Advanced Procurement Mechanism to address supply chain constraints faced by the transmission owners?

- Yes - we support the APM. We consider this a critical mechanism to facilitating early supply chain engagement.
- However, the current design may not support a meaningful change in the volume of UK based supply chain content.
- Ofgem must be mindful of this, and we would argue should consider how to design the APM so that it is fully open to UK suppliers. We consider this is key to delivering against Ofgem's Growth Duty.

Supporting UK content

- There are various options for how Ofgem could alter the proposed design of the APM. At a minimum we consider it is vital that there is a level playing field for UK suppliers. This should include strongly encouraging the TOs to structure their procurement processes so that UK suppliers can participate.
- Going further, Ofgem may want to actively remove barriers to engaging with UK suppliers. For instance, as part of the application process, Ofgem could include a step that questions the TOs on whether the particular part/component could have been sourced in the UK, and setting out the trade-offs of doing so (if there are any).

Incentivising UK content through the funding model

- Ofgem may also want to consider an approach similar to the Government's recent changes to the Contracts for Difference (CfD) scheme.
- The government has recently launched the Clean Industry Bonus as part of the CfD scheme whereby developers will be rewarded with additional revenue if they can demonstrate how they are supporting sustainable UK-based supply chains.
- A similar approach could be adopted for the APM, where the mechanism is designed in such a way as to financially incentivise contracting with UK-based facilities. This would actively support the Growth Duty.
- We appreciate that such a change would require careful construction of the uncertainty mechanism. However, given the vital role the TOs can play in supporting UK based supply chains through the investment that Ofgem will be allowing through RII0-3, we do think it is appropriate for Ofgem to consider how to construct incentives to ensure they support domestic economic growth.

Expanding the APM

- The TOs alone will not build the transmission grid required for net zero. Much of the offshore network will be built by offshore wind developers who will build the assets that will connect wind farms to the national transmission network. If not the developers, this will be done by OFTOs under the OFTO-build model Ofgem is developing.
- Given the constrained nature of supply chains, the challenges TOs face in securing critical parts and materials are similarly impacting the offshore wind industry, which may struggle to engage the supply chain early and secure the components needed. This poses a serious risk to achieving net zero targets, with nationwide implications.
- One option to resolve this could be to use the APM to enable the TOs to procure additional parts and materials that they then can novate or sell via a managed process to the offshore wind industry.
- We do appreciate that this would be material expansion of the scope of the APM. The point to stress is that the scale of supply chain constraint and the impact of this means it is imperative that all parties - government, Ofgem and industry - think creatively and come together to develop new solutions. This could be adaption of the APM but there are likely also alternatives that need to be fully scoped out.



Q2. Do you agree with our proposed framework for evaluating eligibility?

- As set out in response to question 1, we consider that the framework should consider how to maximise UK based content. This is currently missing.
- We are further concerned that the design of the APM will only support engagement with the current supply chain rather than enabling supply chain expansion and diversification through new UK-based entrants.
- We think it is important that the APM at least provides a level playing field for UK providers to supply the asset categories listed. Without this consideration, there is a risk that the APM funds the export of economic benefits rather than UK-based growth.
- To allow for this, we think Ofgem must support the UK TO's to procure, via the APM, with new entrants. This could mean allowing greater flexibility in the application of existing procurement rules or providing the TOs greater regulatory comfort that they will not be penalised for contracting with a new entrant.

Q4. What are your views on which equipment types are most constrained, which are at risk of future constraint, and which are less of a concern, and what are your views on the items we should include within the scope of the APM?

- We are pleased that Ofgem has recognised submarine cable as a constrained asset category. We agree this is certainly the case with lead teams now extending between 7-10 years.