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# Laing O'Rourke response to the Ofgem Consultation

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## **Electricity Transmission Advanced Procurement Mechanism**

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## Consultation Questions

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

*We are supportive of mechanisms which encourage and enable early appointment of the supply chain. We believe the derisking of projects increases the certainty that the project, as a whole, will progress on time and budget, benefitting all stakeholders and suppliers.*

*We welcome similar principles being applied for CATO and OFTO projects.*

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

*Yes, this seems a sensible approach given the nature of the mechanism and how funding is to be allocated.*

- Q3. Do you agree with how we have defined supply chain constraints?

*Yes and please see in Q4 our comments on other areas that we believe are constrained and should be included.*

- 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?

*In our view the equipment items listed are those most constrained. Others may be better placed to comment in detail. We would suggest including in the APM, any initial design required to inform scoping and placement of an order.*

- Q5. What are your views on our intention to exclude strategic procurement from the APM, and the potential benefits of later expanding the APM to include it?

*We understand Ofgem's approach in starting with the most constrained items for a new mechanism.*

*Strategic procurement would realise benefits that can be obtained through bulk purchasing power and programmatic approaches. The TOs procuring on a programmatic/strategic basis, would provide the correct signals to the market on intent and increase certainty for the supply chain to invest to develop capacity, resource, and skills.*

*We agree with the principle that Ofgem should consider appropriate funding models to support strategic early procurement activity by TOs. Others, such as the TOs, are likely to have a more informed view of what that mechanism could be i.e. the APM or another mechanism.*

- Q6. Do you agree with how we have characterised fungible, flexible and bespoke procurement, and our proposed treatments of each of these? Do these definitions reflect real world contracting and engineering realities?

*Please see our answers to other questions, flagging the initial design that in our experience has been required for certain pieces of equipment to be ordered.*

- Q7. Do you agree with our proposed approach to funding services contracts

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through the APM?

*We agree with the APM applying where constrained equipment is provided by third party suppliers who are responsible for design and engineering (i.e. indirect procurement). Without this, an unlevel playing field may be created, where directly procured projects are prioritized and derisked, and indirect procurements could become more at risk relative to those procured directly.*

*See above our comments on initial design services being covered by the APM.*

*We do believe in our sector (construction) that capacity is also constrained. As the construction industry moves towards modern methods of construction, modularised solutions and standardisation, the rationale for applying funding models, such as APM, to construction services and works becomes stronger.*

Q8. Do you agree with our rationale for using a UIOLI mechanism for the majority of APM expenditure, rather than other regulatory tools?

Q9. Do you agree with our proposal for the APM allowance to be capped at 20% of the estimated equipment cost?

*We believe that the percentage may need to be higher to include things such as the initial design cost we have referenced elsewhere.*

Q10. Do you agree with the use of a re-opener to update the APM in-period?

Q11. What are your views on our proposed approach to cost reconciliation?

Q12. What are your views on how we should approach in-period updates to the APM?

Q13. Do you agree with our proposal regarding retrospective application of the APM?

Q14. Do you agree that the publication of detailed APM costs and volumes could be commercially detrimental to TOs, and by extension consumers? If so, why?

*Publishing detailed information would also be of concern to the supply chain if including commercially sensitive information.*