

18 December 2024

Ofgem
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By email: RIIO3@ofgem.gov.uk

**Response to the Consultation on the Advanced Procurement Mechanism (APM)
From the Perspective of Supporting Interconnectors**

Dear Sir/Madam,

MCL is the developer of the 750MW MaresConnect Interconnector project between GB and Ireland (**MaresConnect**), which has recently received a positive decision for its initial project assessment in Ofgem's third cap and floor window (**W3**). MaresConnect is a point-to-point interconnector between Bodolwyddan in Wales and North Dublin in Ireland with target operations by 2030. Further information on MaresConnect can be found at: www.maresconnect.ie.

Our responses to the consultation questions are set out below. These responses are conditional on the following concerns being addressed.

Market Challenges and Supply Chain Constraints

- The interconnector sector faces a congested and highly competitive market for resources, including HVDC cables, converter stations, and skilled labour. This congestion is driven by overlapping demands from transmission operators, offshore wind developers, and interconnectors themselves, with suppliers prioritising customers offering higher financial certainty and larger commitments.
- A result of the market competition in recent years is that supplier manufacturing slots are now often booked by developers years in advance of product delivery, however in the face of burgeoning demand such lead times are extending to unprecedented levels, and in some cases now precede project-specific approval milestones (e.g. Planning or

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Regulatory), thus substantially increasing the risk profile of pre-FID investment decision making.

- Supply chain tightness is also provoking an increase in the size of pre-FID reservation payments, which on a project-specific basis risks exceeding what many independent developers can accommodate within their development mandate or acceptable risk appetite.
- It should be noted that, while there can be project-specific differences in system procurement, the fundamental technology and primary equipment being procured by TOs and interconnector developers are the same or so similar that use the same manufacturing lines (and thereby the capacity).
- As highlighted in Baringa's April 2024 report to Government "*UK renewables deployment supply chain readiness study*"¹, this competition for the same equipment, coupled with limited manufacturing capacity, exacerbates delays and cost inflation, posing risks to projects aiming for timely delivery.

Views About APM's Proposed Scope

- The principle of the Advanced Procurement Mechanism is supported as it seeks to address the aforementioned challenges associated with accessing capacity within a constrained supply chain, which stands to benefit the overall energy sector's ambition to decarbonise in line with public policy objectives.
- The current APM proposal prioritises TOs, creating a competitive disadvantage for non-TO market participants. This may enable TOs to secure core transmission equipment while excluding other market participants. This has been highlighted directly as a concern from recent project-level engagement with the supply chain which has suggested that the APM may create a two-tier supply chain, impacting on the non-TO interconnector developers being able to secure capacity and further constraining what capacity is available to those developers.
- Without mitigation measures being established for development interconnectors, such as inclusion within the APM and associated direct support for reservation payments, non-TO developed interconnector projects risk significant delays or may become unviable.

¹<https://assets.publishing.service.gov.uk/media/6617b12ed88c988e81b95af8/uk-renewables-deployment-supply-chain-readiness-study-executive-summary.pdf>

Process Concerns

- GBIF is concerned that Ofgem has not conducted an impact assessment to evaluate how the implementation of APM might affect non-TO interconnectors and other transmission markets.
- Such an assessment is important to understand the broader implications of the mechanism and ensure that it supports all parties fairly.
- We urge Ofgem to carry out such an assessment publicly and engage with stakeholders, including GBIF, before finalising APM's design and implementation, to ensure that the introduction of the APM mechanism does not create an unintended consequence for non-TO interconnector projects. Ofgem should be aware that, in order to progress with Window 3 projects within the timescales set out within the regime, projects are likely to be seeking to secure capacity within 2025 and therefore regulatory certainty should be provided by the end of H1 2025, in order mitigate negative project deliverability impacts.

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

The challenges of supply chain constraints, including extended lead times for critical components, directly affect the ability of key infrastructure projects to meet the UK's 2030 clean energy targets. This is particularly relevant for projects like interconnectors, which play a vital role in energy security, decarbonisation, and delivering affordable electricity to consumers.

In our view, the APM is a positive initiative, and its benefits should extend beyond Transmission Owners (TOs) to include interconnectors. Interconnectors face similar procurement challenges for critical components such as submarine cables, converter stations, and skilled labour. Providing APM support for these elements would address constraints and accelerate delivery timelines.

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

We agree with the proposed framework for evaluating eligibility, particularly the focus on supply chain constraints and the requirement to demonstrate consumer benefit. However, we believe the eligibility criteria should ensure that the following specific criteria is met:

1. Demonstration of Supply Chain Constraints:

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- Interconnectors, like TOs, require upfront payments to secure contracts for key components, particularly submarine cables and HVDC converter stations. Evidence from our MaresConnect project confirms that supply chain participants increasingly require deposits to secure manufacturing slots. We have recently spoken with the leading cable and converter station manufacturers in advance of our procurement process. All parties indicated that some form of capacity reservation payment would be required to ensure capacity could be delivered by 2030.

2. Alignment with National Targets:

- The eligibility framework should prioritise projects that contribute to the UK's clean power ambitions by 2030. MaresConnect is one of the few interconnectors capable of delivering additional capacity within this timeframe, making it a prime candidate for APM support.

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

Yes, we agree with the definition of supply chain constraints, but we suggest expanding it to include interconnectors explicitly. Non-TO interconnector developers face the same challenges as TOs, including:

- Extended lead times for submarine cables and HVDC equipment.
- Labour shortages for installation and engineering works.
- Limited manufacturing capacity for key components, which is often booked years in advance.

By recognising these constraints for interconnectors, the APM can better address the risks of project delays and missed national targets.

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?

The following equipment types used in interconnectors are highly constrained and should be included in the APM's scope:

- **Submarine Cables:** Critical for the undersea connection, with manufacturing slots often booked years in advance. We note that all leading manufacturers are asking for capacity reservation payments in the region of 20% of contract value to secure deliveries for operation by 2030. The situation is further aggravated by many of the large TOs, including those in the UK, having already entered into APM agreements with suppliers further reducing the supply to the market.

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- **HVDC Converter Stations:** Complex equipment, including power transformers, with limited suppliers worldwide.
- **Onshore Cables:** Necessary for landfall and grid connection points.

These items are identical to those used by TOs and are subject to the same supply chain challenges. Including them for interconnector projects under the APM would ensure timely delivery and avoid additional costs from delays.

MaresConnect is currently engaging with the supply chain and would be happy to share further details with Ofgem.

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?

While we understand the current focus on constrained supply chains, strategic procurement should not be excluded entirely, particularly for interconnectors. Interconnectors involve long lead times and significant supply chain risks, which require proactive, strategic engagement with suppliers.

Expanding the APM to support strategic procurement for interconnectors would ensure supply chain readiness and enable bulk purchasing benefits, reducing overall costs. In addition, TOs benefit from Framework Agreements which non-TO interconnector developers do not. This further exacerbates the supply chain pressure on non-TO interconnector developers seeking to procure contracts to meet the 2030 target.

Q6. Do you agree with how we have characterised fungible, flexible, and bespoke procurement, and our proposed treatments of each of these?

Yes, we agree with the characterisation. However, bespoke procurement, such as HVDC converter stations designed for specific interconnectors, should be eligible for APM support on a case-by-case basis. The inclusion of such bespoke items would help address critical supply chain bottlenecks for interconnector projects.

Q7. Do you agree with our proposed approach to funding services contracts through the APM?

Yes, funding for services contracts, particularly labour, is essential. The interconnector sector faces severe labour shortages, especially for skilled engineers, specialist consulting

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services, and offshore installation crews. The APM should explicitly include support for these services, provided they are tied to eligible projects like MaresConnect.

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

We agree with the use-it-or-lose-it (UIOLI) mechanism, as it incentivises efficient and timely use of funds. However, interconnector projects often require longer planning and execution times. The APM governance framework should allow flexibility in the allocation timeline for interconnector projects. Unlike large TOs, most interconnectors are project specific and the proposed use of APM funds will have greater clarity. We recognise that TOs are regulated in a different manner to Cap & Floor interconnectors, however APM could be introduced as a variation to interconnectors' Special Conditions with similar, if not identical, mechanisms as will be finally agreed for TOs.

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

The 20% cap is reasonable as a starting point but may need adjustment for interconnector projects, given their unique funding and procurement structures. For critical items like submarine cables and HVDC equipment, suppliers often require higher deposit percentages to secure contracts. The exact status of the market is constantly evolving, and we would recommend that Ofgem retains some flexibility in the cap to ensure that the mechanism achieves its objectives today and tomorrow.

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

We support in-period updates to reflect evolving supply chain conditions and project pipelines. Licensed interconnectors with planning approval and demonstrated readiness (e.g., those with IPA) should be eligible for updates, ensuring that funds are allocated to the most critical projects.

Conclusion and Recommendation

The APM is a forward-thinking initiative that should be expanded to include licensed interconnectors like MaresConnect. This project is uniquely positioned to deliver capacity by 2030, contributing to the UK's clean energy targets. Interconnectors face identical supply chain constraints to TOs, and excluding them from the APM would create an unnecessary bottleneck in delivering critical infrastructure.

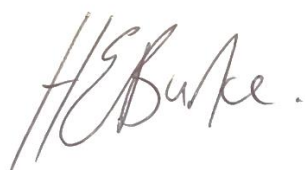
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We recommend:

1. Ofgem conduct an impact assessment on the proposed APM implementation. Where necessary, Ofgem should introduce measures to mitigate any adverse impacts on non-TO developers of transmission systems, including interconnectors.
2. Ofgem pro-actively engages with Window 3 Interconnector developers, both bilaterally and multilaterally, as well as central UK Government, so to fully understand the nature of delivery and investment risks posed by unprecedented supply chain congestion.
3. Ofgem, alongside UK central Government, establish appropriate solutions by no later than H1 2025, so to safeguard Window 3 interconnector investor confidence, and related project deliverability.
4. Expanding the APM's eligibility to include licensed interconnectors with Investment Planning Approvals and 2030 delivery timelines.
5. Prioritising UK-based assets and activities, such as submarine cables, onshore works, and converter stations.
6. Incorporating bespoke procurement and labour services contracts specific to interconnectors.

By supporting interconnectors under the APM, Ofgem would ensure a level playing field and accelerate the delivery of critical infrastructure to achieve the UK's energy security and net-zero goals.

Yours sincerely



Holly Burke

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