

FAO: Margaret Riach, RIIO-ET3 Policy

By email: RIIO3@ofgem.gov.uk

18 December 2024

Dear Margaret,

Consultation on Electricity Transmission Advanced Procurement Mechanism

Transmission Investment (TI) is a leading independent electricity transmission business in the UK, with over ten years of experience developing, acquiring and managing large complex infrastructure projects. TI manages one of the largest offshore electricity transmission portfolios in Great Britain (GB), in total we currently manage approximately 4GW of transmission and £3billion in capital employed. TI is also leading the development of two electricity interconnector projects in support of the UK's Net Zero ambition. This includes a proposed 700MW link between Northern Ireland and Scotland known as "LirlC", as well as the FAB interconnector between GB and France. We are a strong advocate of introducing competition to deliver electricity transmission faster and cheaper, and we continue to support the development of the required arrangements for these competitive processes.

We are grateful for the opportunity to respond to Ofgem's consultation on the Electricity Transmission Advanced Procurement Mechanism ("the APM"). As Great Britain steps up investment in support of Clean Power 2030 (CP2030) and Net Zero, the demand for equipment and services is growing too, putting pressure on the existing supply chain. As an active developer we understand and are concerned with the challenges this brings, for both regulated and unregulated businesses, and recognise the need for timely and cost-effective procurement of key assets. However, we are very concerned that the APM mechanism, as currently designed, will exacerbate the current supply chain challenges for the sector as a whole. The APM mechanism for the TO's appears to have been considered in isolation, based on limited evidence and without any impact analysis to understand if it is in consumers' overall interests. We see there is a real risk that all other parties are disadvantaged by this: distorting the market for renewable developers, interconnector developers and any party outside of the RIIO arrangements. We anticipate that the current APM concept will create cost inefficiencies, which ultimately will be passed onto the consumer.

In our consultation response, we have sought to highlight in more detail some of the risks for the wider market, as well as suggest some mitigations to minimise market distortions.

Wider impacts of the APM

In the consultation, Ofgem appears to recognise that the challenges the APM is seeking to address are faced by both regulated and unregulated businesses, stating in paragraph 1.3 that, *"...there are considerable constraints to the supply of certain equipment and services that are critical for the expansion of the electricity transmission network. This was recently discussed publicly in the context of supply chain being a key delivery risk affecting plans to build offshore generation capacity and the networks to get it connected."* This refers to Baringa's report for Government on "UK renewables

deployment supply chain readiness study”¹, which recognises that achieving renewable deployment ambitions will be challenging if there is not significant coordination across industry and Government to resolve supply chain constraints. The report includes an overview of the capacity constraints for key components and installation services², a number of which have medium to high supply chain risk across a number of sectors (e.g. transmission, interconnection, offshore wind etc).

Whilst we recognise the ambition to put in place mechanisms seeking to support accelerated network build, we are concerned that the absence of any impact analysis means Ofgem has not sufficiently defined the breadth of need (indeed allowing the licensee to establish this on a case-by-case basis) or assessed the impact of the APM, with particular reference to how it may impact wider industry. Ofgem estimates that the initial value of the APM use-it-or-lose-it (UIOLI) across all three incumbent TOs will be in the range of £5-8billion. It would seem reasonable to expect for a scheme of this magnitude that, in line with good regulation practices and principles, an assessment of need, evidence and impacts would be considered before implementation, especially given such a mechanism could be expected to have wider implications for industry delivery for the CP2030 plan as a whole.

We also note that as of 21 May 2024 the Growth Duty³ was extended to include Ofgem, and as a result Ofgem must have regard to how proposals promote economic growth. We are concerned that the APM as drafted appears to be at odds with driving medium and longer-term economic growth in the sector more broadly and may instead result in unfair competition through exacerbating the existing constraints for parties who are not captured by the APM. In addition, the APM, as proposed, does not support the expansion of supply chain capacity. As noted in Baringa’s report for Government, *“suppliers are often unwilling to invest speculatively in new manufacturing capacity without a concrete pipeline of orders and sufficient certainty around the size of components to be manufactured and installed.”* For the supply chain to invest, long-term signals are needed, which could be provided through the incoming strategic plans such as CP2030, Centralised Strategic Network Planning and Strategic Spatial Energy Planning. These strategic plans could provide sufficient signals if they represent a reliable tender pipeline that is open to a wide range of contractors and delivery models. The current framework approach has created feast and famine in the domestic supply chains, which will not be addressed via the APM.

We would request that Ofgem undertakes a full assessment of the impacts, in line with Ofgem’s own Impact Assessment Guidance⁴, to avoid unintended consequences potentially risking the delivery of non-incumbent TO projects. We would propose this is done transparently and publicly, with the opportunity for industry to engage to ensure a coordinated assessment and appropriate measures and mitigations going forward.

Risks and recommendations

Whilst we recognise that Ofgem is seeking to focus the scope of the APM on supply chains which are demonstrably constrained, to limit consumer exposure to areas where intervention is most clearly justified, this risks severely distorting the market. For example, as outlined in the Baringa Report⁵, the key components facing the highest supply chain risk include items such as transformers, HVDC converter stations, HVDC cables, electrical design and services. All of these are components which are not exclusively needed by the incumbent TOs, they are also required for projects such as HVDC interconnectors, renewable projects and the soon to launch CATO projects. The APM is likely to result in an already scarce resource being allocated to the highest bidder, whose ability to reserve slots in advance is underwritten by consumers, creating a market distortion.

¹ [UK renewables deployment supply chain readiness study - Executive summary for industry and policymakers](#)

² Page 5 of the report

³ Section 108 of the Deregulation Act 2015, Growth Duty Guidance: [Growth Duty Statutory Guidance 2024](#)

⁴ Impact Assessment guidance, updated in December 2024, [Impact Assessment Guidance](#)

⁵ Page 5 of the report

In turn, this will place greater power in the hands of the supply chain to demand similar payments from all parties, or risk that they will be seen less favourably. Multiple parties acting independently to secure products or services risks creating additional inflationary pressures, as parties compete not just on (as currently) certainty or readiness of the project to use the manufacturing slot (i.e. prioritising the supply chain on readiness), but now on the value of the payments they can make to secure the slot. This could be reasonably expected to feedback into higher costs to consumers, as these payments need funding (for example, they may lead to increases in CfDs), and parties will delay projects due to lack of supply chain, or the need to secure additional funding ahead of the intended financial close. In the most extreme circumstances, project delivery may be at risk as a result of the unprecedented levels of financial expenditure required pre-Final Investment Decision to secure supply chain capacity, amongst other necessary payments. These risks are particularly pertinent for interconnectors, who all have the same backstop dates for delivery (i.e. all projects granted a cap and floor regime principle in the same window have the same longstop date), potentially forcing a highly competitive auction of who can bid the highest to secure the limited supply, increasing the non-delivery risk of projects and as such CP2030 targets. Introducing a single purchaser of these constrained products or service, e.g. in the form of the NESO, would help to mitigate this inflationary spiral.

To mitigate the risk of stranded procurement, Ofgem is requiring that the APM is focussed on fungible and flexible procurement. However, to ensure that procurement is truly fungible and flexible, it should be controlled by a central party, such as NESO, and the allocation of equipment aligned to strategic plans. The incumbent TOs are not naturally incentivised to support the transfer of assets to third parties, and in the context of the wider drive to build the necessary infrastructure for Clean Power 2030 and Net Zero beyond, the most efficient solution would be to ensure effective allocation of assets across industry. Recognising that it may not be possible to implement centralised procurement by NESO for day one, it is very important to ensure there is flexibility in the long lead equipment contracts procured, with clear and unconstrained novation rights to enable supply contracts to be passed onto third parties where appropriate. We would suggest that all parties accessing the APM prior to a centralised body being in place for procurement (e.g. NESO) should engage with it (or another impartial party) prior to putting in place supply contracts to ensure that appropriate fungibility and flexibility is achieved in the contracts.

We are also concerned that including services within the APM could be problematic, by decreasing service provider appetite to bid for work packages, where they do not have as 'soft' commercial terms as those they are likely to get as part of a bundled 'supply and services' contract for constrained equipment. This could drive up the cost of services across the sector, similar to what is being observed in transmission EPC services; where local tier-1 contractors are 'full' with incumbent TO framework services agreement works and will demand a high premium to participate in other works.

The existing framework for TOs

In paragraph 4.9 Ofgem recognises that, *"The TOs are able to make procurement arrangements with their suppliers at any time, regardless of the APM, and any such expenditure is typically incurred at their own risk."* This implies that the incumbent TOs have been able to pay to secure capacity reservations, albeit at risk, within the current regulatory framework, however they choose not to do so despite the reward incentive for early delivery. The APM must be considered in the context of the overall ASTI framework and where consumers are derisking delivery this should be reflected in a reduction in the opportunity for the TOs to receive a reward for accelerated delivery. This is important in the context of maintaining a level playing field between other means of delivery, for example CATO, where the early competition regime does not include reward for early delivery, yet the CATO is exposed to the risks of needing to commit in advance for long lead items.

It is also important to ensure that the TOs who procure equipment for regulated projects via the APM cannot leverage the enhanced market strength that this mechanism provides to give themselves, or a sister company, commercial advantages in areas where there is competition with other entities (i.e.

CATOs, interconnectors, OFTO-build). Again, this is integral in ensuring confidence that entities are competing on a level playing field.

We hope the contents of the letter are helpful, and we would be pleased discuss any points raised.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Mark', with a long, sweeping horizontal line extending to the right.

Mark Fitch
Corporate Development Director