

To: RIIO3@ofgem.gov.uk

Date: 18 December 2024

Dear RIIO3 team,

Consultation Response: ET Advanced Procurement Mechanism

Eclipse Power is pleased to respond to this consultation.

We are broadly in favour of the approach suggested, but are concerned that whilst providing some support for the incumbent TOs, the wider plans for the country will also be delivered by DNOs, IDNOs and CATOs. These groups may find procurement tougher if capacity is taken up earlier by the TOs, who are themselves competing for limited resources with large buyers from other countries. Suppliers generally respond to strong commitments by buyers, and given enough warning, will ramp up investment to meet this.

We would like these APM proposals to have more ambition in their scope, to meet the big challenges that are being set for greener power for the country.

Our response is non-confidential.

Responses to OFGEM's Questions

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

Agree that there is an urgent need to address how critical plant will be procured and funded in an increasingly heated marketplace, which is exacerbated by shorter-term procurement horizons. We note too that although the focus for the APM is on onshore Transmission for RIIO-ET3, similar challenges exist for Distribution too, particularly in overlapping areas such as 132kV switchgear, transformers, cabling, overhead line conductors and various electronics.

The proposed combination of UIOLI allowance and APM re-opener is sensible.

We do have some reservations. The intentions behind the APM are laudable, but there is a significant risk that non-TO players involved in delivering elements of the various national plans will be effectively locked out by suppliers (unless significant new manufacturing capacity is developed). We note that this is alluded to in paragraph 1.17.

We note from the Baringa report "UK renewables deployment supply chain readiness study" that TenneT has been particularly successful in mainland Europe at securing a significant share of supplier capacity.

The suggestion of a joint order book for TOs (para. 1.10) is interesting, but there is the problem that DNOs and IDNOs are likely to be disadvantaged here.

We are encouraged that consideration is being given to how OFTOs and CATOs could get support too, albeit not in the immediate proposals. The Winsor Report (Recommendation 14) noted that it will be hard for CATOs to develop the type of long-term procurement relationships that will increasingly be needed. This is given in that report as a reason why CATOs would be less effective. Given that

OFGEM is pushing back against that recommendation by being keen to have CATOs for onshore transmission, more support than currently envisaged in the Early Competition model will be needed.

A strong play by the incumbent TO sector of the UK market, coupled with co-ordinated procurement from continental Europe, may distort pricing and availability in others.

It may be that independent UK developers are currently getting better prices than the incumbent TOs, in which case the APM could tend to lock in higher prices. The question of standardisation is important here – are TOs still aiming to procure using UK-specific standards, when international ones might offer better value (see Q6 response below)?

With all these factors in mind, anything which gives a strong signal to manufacturers to address forward capacity is to be welcomed, but ideally the ambition for APM needs to include more than just the incumbent TOs.

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

The qualitative impact criteria for evaluation appear to be satisfactory and reasonable. If the TO investment plans are themselves driven by central plans, would it not be simpler to centrally define the qualitative eligibility evaluation directly from those plans, and avoid too much drawn-out analysis from multiple sources?

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

The definition of supply chain constraints suggested (in terms of capacity or delivery lead time) is good from an academic perspective, but getting hard, justifiable data will be difficult. We should not be overly theoretical here; in any situation where demand is being ramped up massively without corresponding supply capacity increasing, there will be longer delivery dates and higher prices.

Buyers will be aware of industry capacity limits without too much further digging needed; what they will not necessarily be aware of is what other buyers are wanting too.

We are concerned that attempting to analyse and predict the impact at a very granular level becomes an exercise in false precision.

The approach of using a forward volumes discussion with suppliers was used for many years in the Transmission market, but didn't deliver benefits as the volumes discussed were not backed up by hard funding, and generally did not fully materialise. Volumes and expected commissioning dates expressed early, and (crucially) backed up with funding, will provide sufficient signals to the market to gear up and invest for more production.

4. 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?

With the envisaged ramp up in investment, all equipment types have the potential to become constrained. There are some obvious candidates with ordinarily long lead times, such as large wind power plant, but cables, conductors of various sorts and switchgear will also be likely to become quickly constrained. As noted above, there is a danger in indulging in false precision.

5. 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?

As noted above, the process of analysing likely constraints to create a basket of APM equipment, as opposed to wider strategic procurement, is essentially an academic differentiator. Including "strategic procurement" in the APM from the start therefore makes better sense.

The needs cases behind the strategic plans are presumably being robustly assessed, in which case there should be minimal regret in starting the procurement processes for those schemes earlier.

6. 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?

Agree with the suggested categories.

Fungible - reasonable to ask for details of which types of assets these may be, and agree that confidentiality could be needed (but note our response to Q14 below. National standardisation would be good for this.

Flexible - agreed, and again agree that standardisation would help.

Bespoke - agree that advance funding for this type of equipment is much more difficult to do without significantly raising the risk of higher costs to the consumer, but is still necessary.

Regarding flexibility generally, we note that UK standards may still tend towards “gold plating”, and that by adopting the globally used IEC standards at national level, would simplify and speed up design and procurement. It would also simplify international benchmarking and facilitate price negotiations.

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

This is an important area too. Equipment such as protection and control electronics may become constrained not just physically, but also in terms of the specialist configuration skills needed to commission them. Similarly, design, outline planning and feasibility study skills are increasingly becoming constrained.

As noted, funding this kind of procurement presents some difficulty when compared to physical equipment. If provided, the funding should be used to ensure that suppliers plan for and deliver against timely recruitment, training, and development of key skill areas. We agree that indirect procurement of services fits more easily for an APM mechanism.

There is clearly a big risk that this could be misused by being spent early and still not receiving the services required, when needed. Perhaps this sort of funding should be provided, but placed in escrow, and released to suppliers in stages against specific, verifiable events?

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

Yes. Using the UIOLI approach for the majority of APM expenditure, with the proposed governance, allows more flexibility, without creating short-term or other perverse incentives to spend TOTEX.

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

No specific knowledge here, but in general 20% seems like a reasonable figure for a non-refundable deposit. However, it should be noted that as order books tighten, suppliers may require “full order deposits” up front, and in these cases the APM should be flexible enough to increase accordingly.

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

Yes. Agree that it allows flexibility in a changing market. Presumably, it would not result in existing commitments already made, being reduced.

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

Approach appears to be straightforward. As noted in the consultation document, an international comparison exercise would be worth considering too, but we again observe that the wider adoption of international (IEC) standards would make this a much more powerful tool, as well as making it easier to apply.

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

As noted in the response to Q10 above, flexibility is needed in a changing market. We have no specific knowledge here, but observe that turning items in Table 1 "off" would only apply to situations where a commitment has not already been made.

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

This is clearly a trickier area, as there is a potential for unfairness against companies which are (presently) not going to be party to the APM. However, this is presumably a one-time situation, for a fairly short period after the APM has been introduced, but before it goes live.

14. 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?

Whilst there may be strong arguments companies (TOs and suppliers) may make for keeping this information confidential, the capacity for this kind of data to be deemed anti-competitive increases as the volumes increase. Visibility reduces the potential for suppliers to quote less efficient prices, as well as giving TOs an incentive to buy as efficiently as possible, both of which should benefit consumers. As noted above, the volumes themselves can be inferred in general terms by looking at NESO's plans.

Kind regards,

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