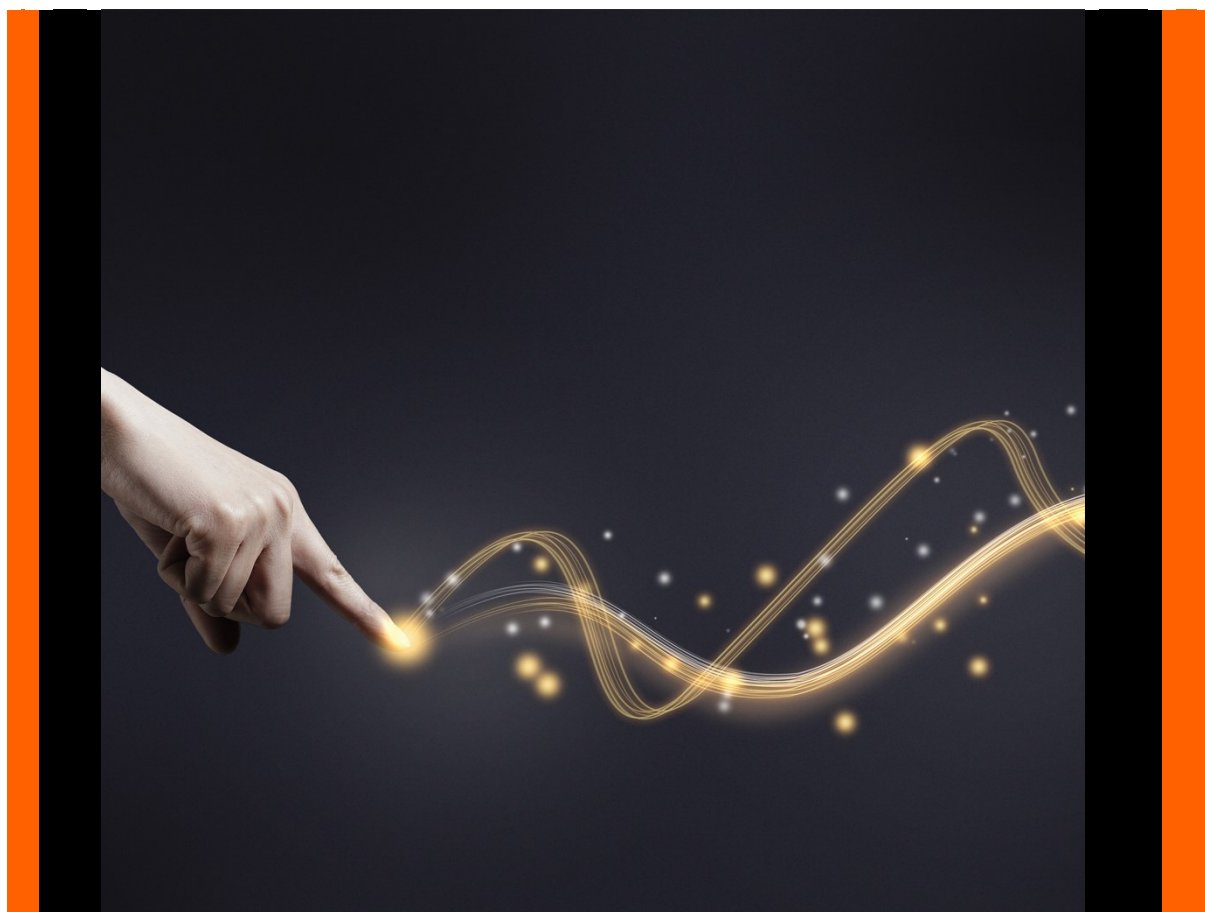


Ofgem Consultation: Electricity Transmission Advanced Procurement Mechanism

Consultation response
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Executive summary

Jacobs are delighted to respond to the Ofgem Consultation on Electricity Transmission Advanced Procurement Mechanism. We have responded in our capacity as a specialist delivery partner for complex capital delivery programmes around the world, including a growing number of Electricity Transmission programmes of scale i.e. SuedLink in Germany, Marinus Link in Australia and PG&E undergrounding in California.

Our response sets out our agreement to the principle that an Advanced Procurement Mechanism is required for Great Britain to meet its Net Zero goals. Combining such a mechanism with aggregation and ensuring timely access for OFTO/CATO projects could further enhance its benefits, as will standardisation across all licensees, as far as it is possible.

We welcome this positive step for Great Britain's Energy and the potential it has to unlock programmatic benefits for the delivery of Net Zero.

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1. INTRODUCTION

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 agree with the principle that an Advanced Procurement Mechanism (APM) is required for Great Britain to meet its Net Zero goals. Combining such a mechanism with aggregation and ensuring timely access for OFTO/CATO projects could further enhance its benefits, as will standardisation across all licensees, as far as it is possible. The latter is already a feature of the DNOs' procurement. Standardisation will also manage stranded asset risks by enhancing the fungibility.

Globally, several supply and demand-side mechanisms are being deployed to achieve similar goals in HVAC as well as HVDC networks. We note that while the APM will provide the licensees with a means to secure their project timelines, it does not capitalise on the scale of the network investment that will be required for Great Britain, to expand the UK's industrial base and develop new skills. This can be done through aggregation across different licensees and alignment with industrial policy. Recent examples of successful aggregation include the TenneT HVDC framework that aggregates procurement for onshore as well as offshore works and across multiple licensees, up to 2035.

This differs from the APM which is similar to the approach for the CopperString project in Australia, used by Powerlink Queensland to secure major equipment up to 2032.

The TenneT program is not underwritten by the government but is part of regulatory and industrial policy that has provided medium-term certainty that the projects will be funded, rather than funding in normal five-year regulatory cycles. The projects are part of a larger long-term investment program identified by ENTSO-e.

The TenneT program also differs through its high-level of standardisation that produces further volume cost benefits that the flexible procurement approach proposed here would negate. Standardisation will also manage the risks by making the orders fungible. The requirement to be fungible and flexible may be contradictory in many cases.

2. SCOPE OF THE APM

Q2. DO YOU AGREE WITH OUR PROPOSED FRAMEWORK FOR EVALUATING ELIGIBILITY?

Yes, we broadly agree with the eligibility principles proposed and assets / equipment that these apply to. However, the proposed definitions focus on realising programme benefits rather than realising capacity benefits. We also note that the proposed eligibility criteria requires the demonstration of constrained supply capacity, i.e. there needs to be a shock to happen before retrospective action can be taken.

The APM could be amended to allow the forecast of a generic need rather than a specific one. This would enable the delivery entity to manage risk through advance bulk procurement. For example, a TSO could forecast a requirement across their portfolio for 10 Transformers a year but reserve the right to buy as many as 15. If the actual need is 5 transformers, then there is a commitment to pay for 10 transformers to the OEM regardless, with the TSO managing the supply chain and demand.

Q3. DO YOU AGREE WITH HOW WE HAVE DEFINED SUPPLY CHAIN CONSTRAINTS?

Yes. However, we feel that applying this mechanism to time constrained equipment only will not produce the full cost benefits available through a Flexible and Strategic Procurement approach. See our responses to Q1 and Q4.

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 agree in principle that the equipment listed covers all primary substation equipment (except for surge arresters and post insulators) and most cable and overhead line components. As noted in the consultation document, a 'market assessment' (paragraph 2.17) will provide additional information and this could be used to manage stranded asset risk by flexing the list depending on demand. However, that would require regular updates to the 'market assessment' and may create undesirable churn and uncertainty.

If the APM is to be broadened to achieve the Strategic Procurement aims (consultation document, paragraph 2.20 to 2.23), then limiting the qualifying equipment may be an unnecessary constraint, and for this type of use all equipment should be permitted including secondary equipment.

Strategic Procurement should also consider areas where TO, OFTO and DNO demand overlaps such as for 132kV equipment where the Scottish TOs have significant demand.

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?

See our response to Q2 and Q4. We recognise the need to build a dataset to support the value for the consumer case by implementing an APM.

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?

Yes, the characterisation of fungible, flexible and bespoke procurement as well as the proposed treatments by Ofgem align well with real work contracting and engineering practices.

The concept of fungible procurement mainly emphasises the transferability and re-use of components across multiple projects which will minimise and/or generate no waste. We also suggest ensuring the standardisation of design and material as per industry trends. We strongly recommend a periodic review of these standards to ensure alignment with evolving technologies and requirements.

Flexible procurement accurately reflects a practical procurement strategy where technical specifications may evolve during the project life cycle. The main factor to be considered is the supplier's ability to accommodate any changes to specifications while maintaining lead times.

The explanation of bespoke procurement acknowledges its unique challenges including limited transferability and increased risk of waste. We note that the funding requirement for bespoke equipment via the APM Reopener is reasonable. However, evaluation criteria for funding approval would help. Collaboration with suppliers to streamline the lead time would help the re-opener.

Q7. DO YOU AGREE WITH OUR PROPOSED APPROACH TO FUNDING SERVICES CONTRACTS THROUGH THE APM?

No response.

3. APM DESIGN

Q8. DO YOU AGREE WITH OUR RATIONALE FOR USING A UIOLI MECHANISM FOR THE MAJORITY OF APM EXPENDITURE, RATHER THAN OTHER REGULATORY TOOLS?

We have no view on your rationale for using UIOLI mechanism for the majority of the 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?

Yes, the proposed cap of 20% of the estimated equipment cost for the APM allowance seems reasonable with the following points:

- The cap helps avoid overfunding and minimises the risk of stranded or unused procurement, ensuring that funds are allocated efficiently. Emerging common industry practice to secure the manufacturing slots with 20% deposits.
- It may protect consumers with an allocated maximum risk exposure of 20%.
- Governance mechanisms and transparency also support this proposal.
- Maximum limit of 20% may not be applicable for all cases. Depending on the project criticality and equipment demands, additional funding may be required to maintain the critical programme.

Q10. DO YOU AGREE WITH THE USE OF A RE-OPENER TO UPDATE THE APM IN-PERIOD?

No response.

Q11. WHAT ARE YOUR VIEWS ON OUR PROPOSED APPROACH TO COST RECONCILIATION?

No response.

4. GOVERNANCE

Q12. WHAT ARE YOUR VIEWS ON HOW WE SHOULD APPROACH IN-PERIOD UPDATES TO THE APM?

No response.

Q13. DO YOU AGREE WITH OUR PROPOSAL REGARDING RETROSPECTIVE APPLICATION OF THE APM?

No response.

Q14. DO YOU AGREE THAT THE PUBLICATION OF DETAILED APM COSTS AND VOLUMES COULD BE COMMERCIALY DETRIMENTAL TO TOS, AND BY EXTENSION CONSUMERS? IF SO, WHY?

No response.