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Electricity Transmission – Advanced Procurement Mechanism Consultation

Dear Margaret,

This letter is National Gas Transmission's (NGT) response to Ofgem's consultation referred to above which was issued on 20 November 2024.

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

NGT Response. Our view is that there are issues of supply chain constraints impacting attainment of net zero ambition. However, we think the impacts are felt in both Gas and Electricity Transmission and therefore if an APM were to be introduced it ought to be a mechanism available to both gas and electricity transmission sectors. This is appropriate because both the gas and electricity transmission sectors are critical to underpin net zero transition and if their regulatory frameworks are not approached consistently this could distort the market with potentially unintended detrimental consequences to Government objectives.

In the National Energy System Operator's (NESO) advice¹ to the Government on how to achieve clean power by 2030, NESO states "It is non-negotiable that the power system must remain secure.... In 2030, gas-fired generators continue to be of vital importance to the operation and security of the energy system... The upstream gas networks are therefore critical to providing that security."

It follows that supply chain constraints impacting investments in the security and reliability of the gas transmission network have an equal claim upon access to an Advanced Procurement Mechanism to mitigate the detrimental impact that supply chain delays might have on the security and reliability of this nationally critical infrastructure.

¹ <https://www.neso.energy/document/346651/download>

In many cases the same supply chain is relied upon for both gas and electricity network investments: for example, in the areas of electrical, cyber and physical security. Consequently, if an APM were made available to Electricity Transmission only, the impact could be to introduce an unhelpful asymmetry. Without a level playing field supply chain capacity may become taken up with electricity sector projects thereby further exacerbating supply chain constraints in the gas sector.

This would be further exacerbated if this were to be extended to direct or indirect procurement of engineering services that are mutually required by Gas and Electricity, enabling commitments to be made by Electricity Transmission only. In these circumstances the supply market may be further skewed in favour of provision of Electricity Transmission activities over those to ensure the security, resilience and transition of the Gas Transmission network. This may exacerbate supply constraints and could act to drive up costs to consumer to enable Gas Transmission projects to secure resources on a shorter lead time.

In summary NGT does not support the introduction of an APM for Electricity Transmission only, but we would support an APM made equally available to Gas and Electricity Transmission sectors.

Scope of the APM

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

NGT Response. We agree that eligibility can be assessed by reference to the TO's demonstration of:

- **Requirement.** the constraint and risk of delay and/or consumer detriment;
- **Mitigation.** how the risk can be mitigated; and
- **Transparency.** how reporting will enable monitoring and assessment of the TOs' spend

We would recommend that OFGEM considers flexibility in consideration of Asset types (see response to Question 4), enabling Transmission Owners to respond efficiently and promptly to changes in market conditions, that occur due to wider geopolitical influences, therefore enabling opportunities to quickly address arising constraints and therefore mitigate cost to consumers. This flexibility however can only be applied by OFGEM where a clear case can be made against the Requirement, Mitigation and Transparency criteria.

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

NGT Response. We agree with the general definition of supply chain constraints as described in sections 2.9 to 2.13 of the consultation document.

We would, however, recommend that where products are demonstrated as being highly fungible that OFGEM considers that the APM is used to enable earlier commitment to be made to secure capacity associated with non-constrained but generally long lead time items. This could be a benefit to the Transmission Owners in enabling action to be taken to secure materials needed to make a smoother start on programmes of work where products have a significant lead time to be specified, manufactured, tested and delivered. This would also help give the market

confidence, through earlier commitment and continuity of workbook, to suitably grow capacity and invest in their people and manufacturing capabilities and capacity.

In addition, we think the APM should be capable of being used to address supply chain constraints in services (e.g. specialist engineering resources or skilled tradespeople), in addition to types of equipment. There are some areas of supply where markets require additional confidence to invest in developing skills and investing in developing capability. This might include apprenticeships for constrained skills, examples include Commissioning Engineers and Control & Instrumentation Engineers.

The opportunity to commit formally earlier would give many additional benefits including opportunities to work more closely and meaningfully with suppliers to look to standardise, reduce costs, innovate and reduce the carbon footprint of products.

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?

NGT Response. In the below table we list NGT's views on priority equipment types and service types which are most constrained or at risk of future constraint and which if not addressed could detrimentally impact consumers.

Equipment / Service type (E/S)	Asset Sub-category	Units
Valves (E)	Large bore fully welded valves	(each)
Actuators (E)	Electric actuators	(each)
	Electro-hydraulic actuators	(each)
	Gas-hydraulic actuators	(each)
Control & Instrumentation (E)	Panels	(each)
	Switches	(each)
	Cabling	(meters)
	Programmable Logic Controller	(each)
Gas Quality and Metering (E)	Ultrasonic flow meters	(each)
	Gas Chromatograph	(each)
	Analysers	(each)
	Flow computers	(each)
	Valves	(each)
	Programmable Logic Controller	(each)
	Industrial PC's	(each)
Electrical (E)	Switchboards	(each)
	Uninterrupted power supply (UPS)	(each)
	Battery charger systems	(each)
Wound Plant (E)	Transformer	(each)
Generators (E)	Standby Generators	(each)
Control & Instrumentation (C&I) Engineers (S)	Various levels	(ea/days)

Electrical & (C&I) Designers	Various levels	(ea/days)
Cyber Technicians (S)	Various levels	(ea/days)
Welding (S)	Welders	(ea/days)
	Inspectors	(ea/days)

Examples included above are fungible and demonstrate the eligibility criteria set out in the APM document by OFGEM.

- Lead times for large bore fully welded valves was historically reliable at approximately 32 – 36 weeks. Following challenges to the supply chain, resulting from various geopolitical shocks, the lead times on these items has increased to between 50 and 60 weeks.
- Lead times for VA1 actuators have increased from 36-40 weeks to 46 – 50 weeks
- Lead times for VA2 actuators have increased from 16-20 weeks to 28 – 32 weeks.

These lead times are historic to currently only. We anticipate that should carbon capture, hydrogen and other greener gas projects receive funding (within the UK or Globally) there will be a significant increase in lead time and constraints on supply.

For select services we are seeing challenges with competition for key skills between clients, this could be exacerbated should the APM expand to include direct or indirect services. We are seeing capacity & capability constraints with lack of confidence to invest due to an uncommitted future workbook. The supply chain for control system replacement is especially constrained for technicians trained in cybersecurity ISA/IEC 62443. This is causing consumer detriment with respect to delayed delivery, higher costs to secure these limited skills and carrying cyber risks for longer. Further to the above, we consider that TOs may need to consider early investment in products that are consumable to ensure that there is sufficient availability at the time of building, this could include low carbon concrete and steel. This is an alternative perspective on constraints that are expected to arise from competition to build and develop complete infrastructure, from new turbine bases to substations and compressor stations.

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?

NGT Response. Our view is that strategic procurement could be included in the APM for the benefit of consumers.

Where supply chains although not constrained are lengthy, an ability to commit early would reduce the risk of delays. As workload increases, availability of materials to the right quality on time is increasingly critical allowing work to take place on time. Any uncertainty in availability of products can result in delay to planned work, create challenges in continuity of order books for works and services providers and can result in additional costs for consumers. Additionally, this approach would enable TOs to leverage their volumes to procure at scale.

This has benefits for the supply chain and consumers as it would offer suppliers certainty, which will stimulate the supply chain to invest and develop. This also enables clients to work more

closely with suppliers to look at wider benefits over a longer time period, exploring standardisation, sustainability, innovation as well as investing in capacity.

The risk associated with strategic procurement can be minimised by considering the application of transparency and fungibility eligibility criteria.

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?

The concept of fungibility and flexibility seems appropriate.

For some products there may be challenges based on supplier / market appetite to allow commitment to slots, therefore some equipment that could be flexible or fungible may resultingly be required to be considered bespoke. A case-by-case approach seems sensible but the APM Re-opener would need to be robust but simple to enable involved parties to drive benefit for consumers.

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

NGT Response. Our view is that services contracts should be included within the remit of the APM.

Design of APM

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?

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?

Governance

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.

NGT Response. Our NGT response focuses on questions 1 to 7 concerning the concept and scope of the APM. We have not responded to the individual detailed questions 8 to 14. This consultation response is non-confidential.

We would be happy to discuss our response with you should you seek any points of clarification or further information. NGT's designated point of contact is Jonny Hosford email jonny.hosford@nationalgas.com.

Yours sincerely



Tony Nixon
Regulation Director