

NKT's response to Ofgem's consultation on the Electricity Transmission Advanced Procurement Mechanism

Introducing NKT

NKT connects a greener world with high-quality power cable technology and takes centre stage as the world moves towards green energy. NKT designs, manufactures and installs low, medium and high voltage power cable solutions enabling sustainable energy transmission.

- Offices and production sites in more than 16 countries
- 5000+ employees
- NKT A/S is listed on Nasdaq Copenhagen.
- Production facilities powered by 100% renewable electricity
- AA MSCI ESG Ratings
- Platinum 2023 Ecovadis Sustainability Rating

Our response:

Appendix 1 Consultation Questions

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

A1. NKT sees the APM as a great initiative if it will support TOs in being able to make earlier commitments to their long-term portfolio which we believe is necessary to secure capacity for HV power cables. Further, such long-term commitments to supply chain can help facilitate potential further investments in capacity.

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

A2. The eligibility criteria lend themselves more to product/commodity procurement rather than overall system procurement. We offer complete cable solutions for our customers which might include the design, manufacture, installation and testing of offshore cables, onshore cables, substation cables and circuit cables. Not all of these may be constrained to the same extent and our concern is that the TOs would have to split the scope into separate categories in order to qualify under APM which would not be our preferred approach.

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

A3. It's not clear whether all suppliers of a particular asset would have to quote significantly longer lead times in order for the TO to qualify for APM.

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?

A4. HVDC cable (onshore and submarine) is particularly constrained at the moment. HVAC @400kV & 275kV are also at risk, whereas 132kV and below are probably less of a concern.

Our own installation assets along with associated subcontractors are also a constraint on the market; these include our cable laying vessels and burial tools. Installation sub-contractors scope includes for example, civil works, landfall HDDs, dredging, rock placement, trenching and nearshore scope.

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?

A5. It seems sensible to focus on assets that are considered to be most constrained for now and consider expanding to include other areas once the new mechanism has been proven. We see value in considering the strategic procurement element to allow commitments to a range of projects through framework agreements that can give the supply chain the necessary confidence in long-term portfolio to trigger potential investments in capacity beyond current capacity constraints and avoid these becoming constrained in the future.

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?

A6. Fungible is not a term we have encountered before. In our experience, most procurement is either flexible or bespoke. Sometimes individual site conditions can vary significantly which often has an impact on the design and may prevent cable assets from being interchangeable between different projects. More flexibility can be offered as far as the specification of the cable is concerned, however in the current market it can be difficult to incorporate changes to the delivery date agreed with the TO in the early stages of the APM process due to the knock-on effect for other customers.

If TOs were prepared to consider standardizing products and technical specifications it may allow some of the concepts of APM to be more manageable. The drive to submit the cheapest price to win the work does not favour a standard approach and this is something TO's need to consider. TO's might also want to review their asset approvals process for production facilities which at the moment is considered a barrier to unlocking more capacity in the market.

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

A7. Our preferred contracting model is EPCI where we are responsible for all aspects of project delivery. We would not want to be in a situation where we are competing against the TOs to secure specialist subcontract activities such as directional drilling or cable jointing works.

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

A8. Yes, the UIOLI mechanism would appear to be the most practical method for TOs to receive payments under the APM. However, for cables, there is a subtle difference in the way in which TOs secure production capacity. Rather than paying a deposit, the TO is expected to accept the liability of a cancellation fee and if the project proceeds as planned, the fee does not have to be paid. In this case it is not clear whether the TO would have to pay the unused allowance back to consumers.

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

A9. A 20% reservation fee would be valid for a certain time period, but when getting closer to the actual manufacturing window the percentage may need to be higher. Hence it is important to put these figures into context. Part of the reservation fee could be defined as a commitment (i.e. only payable in case the slot is not used). Also, if any specific investments were necessary to increase capacity or capability, the value of the required prepayments could vary. Finally, as subcontractors are also a constraint on the market, we could also foresee a benefit for having flexibility to increase commitments to also cater for specific subcontractors that are bottlenecks for the projects.

Q10. Do you agree with the use of a re-opener to update the APM in-period?

A10. Yes, although it would be more useful if the window was open twice a year rather than just for a week in April.

Q11. What are your views on our proposed approach to cost reconciliation?

A11. How do the TOs demonstrate that they have undertaken competitive procurement especially when evaluation criteria are becoming more focused on non-price related factors such as sustainability? Whatever evidence is required, the process of providing it should not become a burden on the TOs or their suppliers.

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

A12. In-period updates could have a tendency to create more uncertainty in the supply chain if not administered carefully.

Q13. Do you agree with our proposal regarding retrospective application of the APM?

A13. Any retrospective application would be at the TO's risk and therefore seems unlikely to be taken up.

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?

A14. Not sure how it would be detrimental to consumers, although agree that publication of detailed costs & volumes could place TOs in a difficult position.