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Margaret Riach
18th December 2024

Dear Margaret,

We welcome the opportunity to respond to Ofgem's consultation on the Electricity Transmission Advanced Procurement Mechanism. We are responding as the statutory consumer advocate for energy consumers in Great Britain.

We are broadly in support of the proposal to introduce the Advanced Procurement Mechanism to address supply chain constraints faced by the Transmission Owners (TOs). We will need innovative solutions to meet both the Clean Power target of 2030 and 2050's Net Zero emissions target. The work for just one TO is enormous, with National Grid estimating that five times more network capacity will need to be developed until 2035 than has been built in the last 30 years.¹ Reducing bottlenecks in the supply chain and mitigating against the potential of rising costs during a time of low availability in particular materials, products and the skilled workforce could enable TOs to build at scale and at pace while also keeping costs lower than they might be if no action was taken.

We also recognise the potential direct consumer benefits that could come from building greater network capacity more quickly. Consumers paid nearly £1 billion in constraints costs in 2022, around £15 per year on each bill, and it could reach £3 billion in 2035, according to NESO modelling². It's clear that allowing TOs to build more quickly and effectively will mean that we can make better use of renewable generation sources at peak times and reduce constraint payments.

¹ <https://ukerc.ac.uk/news/planning-the-electricity-transmission-network-for-net-zero/>

² [Modelled Constraint Costs, NOA 2021/22 Refresh](#), National Grid ESO, August 2022



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Our main priorities for the implementation of the Advanced Procurement Mechanism are laid out below. We look forward to Ofgem addressing these factors in its final decision.

Availability of information

Ofgem states a key benefit of the APM is by minimising the risk that supply chains are constrained and that network build is delayed, meaning consumers continue to face costly constraint payments. However, Ofgem has indicated that a cost/benefit analysis will be difficult to undertake to evaluate how far the APM is able to mitigate against consumers paying constraint costs payments. We agree that the assumed benefits should make a strong case, but in light of this lack of evidence Ofgem should ensure that costs are efficient to provide the best chance for consumers to receive net benefits from this policy intervention. We therefore agree with Ofgem's proposed mechanism of a UIOLI allowance, and to keep costs capped at a 20% value of overall project funding.

Ofgem views costs associated with the APM to be commercially sensitive information for TOs and their projects, and could mean less public information than would be the case under a typical reopener. We agree that this may be necessary, however the ability for the APM to deliver net benefits to consumers will also rely on Ofgem ensuring that applications for funding are closely monitored and are aligned to the criteria. Ofgem should aim to publish as much data as it can to provide sufficient transparency of the funding bids being submitted, and of Ofgem's assessment of whether costs are efficient. We look forward to further detail to come on this issue.

Ofgem should be clear how it will resource this monitoring activity sufficiently and be clear that it will take action to disallow costs not within the criteria or which relate to any duplication of funding for the same assets delivered under the APM and any subsequent baseline or project funding. This is essential to prevent risks of consumers double funding activity.



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Ofgem should be confident that it has the appropriate tools to evaluate the effectiveness of the APM throughout the RIIO-T3 period. We would also like to see a document published that demonstrates how well (or not) the APM is working with benefits delivered to consumers clearly laid out.

The burden of risk

As Ofgem notes, this proposal will move risk from TOs to consumers, in spending money up front for equipment and resources that may not be needed in the long run. Supply chain constraints have also been cited as a risk by network companies, which the APM explicitly seeks to address. Both SSE and National Grid responded to the 'Securing the Domestic Supply Chain' inquiry held by the Energy Security and Net Zero Committee in May 2024, citing 'competitive pressures' from constrained supply chains and 'vulnerabilities' to shortages in crucial materials.³

Though the APM may ultimately be beneficial for consumers (in reducing constraints costs, as outlined above), the ability to deliver this net benefit to consumers relies upon Ofgem ensuring it is not eroded elsewhere. Alongside the APM other decisions have been made to reduce risks for TOs and other network companies. Price controls are moving to a much greater 'plan and deliver' model with the NESO and transitional CSNP giving a clear direction to where network build is needed.

In setting TOs returns we believe Ofgem should ensure that the cost of capital reflects the APM and the many other ways in which Ofgem's policy choices seek to incrementally reduce the risk for network companies in RIIO-3 and explain their effects line by line.

Without this, we believe it is reasonable to expect that any net benefits delivered to consumers by the APM and by moving this risk from TOs to consumers could be eroded by setting the cost of capital in a way that fails to reflect the interventions Ofgem is choosing to make.

³ [Securing the Domestic Supply Chain](#), Energy Security and Net Zero Committee, May 2024



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Yours sincerely,

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