

Suffolk Energy Action Solutions (SEAS)
Response to Ofgem consultation:
"Electricity Transmission
Advanced Procurement Mechanism"

Deadline: 18 December 2024

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Suffolk Energy Action Solutions (SEAS) is a community-initiated, solutions-focused body of stakeholders and experts which was created to ensure that more economically and socially rational solutions can be found in our region to meet the UK's energy transition and Net Zero targets.

This is our response to your consultation: '[Electricity Transmission; Advanced Procurement Mechanism](#)'. We have answered principally your first, second and sixth questions, the first being:

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

No, we do not. This proposal would introduce unmanageable risks directly to the consumer; it threatens yet another reduction in the benefits of competition, and reduces the incentives in the supply chain to explore and competitively adopt innovative and strategic developments, that might benefit the market.

The fundamental issue with this proposal is that it exists solely to mitigate the effects of setting an unrealistic and strategically incoherent target for the transition to 'clean power'. This political imperative has the entirely foreseeable effect of prioritising what *can* be done over what *should* be done, and thus forcing commercial decisions that cannot (in the language of the consultation document) be quantifiably justified.

The contortions this introduces into the concepts of risk management, governance, effectiveness and efficiency mean that the proposals cannot be justified as they stand, and most certainly not from the consumer viewpoint. Ofgem's Multiyear Strategy currently under consultation states that your first priority is to shape '...a retail market that works for consumers...', and adding unquantifiable and unnecessary risk to critical procurements *at the potential expense of the consumers* is quite obviously a major obstacle to that aim.

There is of course an excellent alternative to much of what is proposed under the rush for the 2030 clean power target, especially for consumers in the Eastern region where a massive proportion of early funding under APM will be spent – that option being an offshore grid planned carefully to take strategic advantage of new technologies already being exploited across the North Sea. Planning at this more strategic level would have the advantage of giving Ofgem and the TOs time to plan expenditure more strategically, and to avoid the rushed and unquantifiably risky mechanisms proposed here.

The proposals set out are throughout given in little detail, which is a necessary consequence of this reactive approach to investment planning. The financial justification for the proposed but obviously not detailed £5-8bn expenditure programme (1.13) is given throughout purely as the ability to gain priority with suppliers - ‘...to be able to procure at a scale which will gain traction with the supply chain...’. The cost advantages of ‘traction’, again, are not apparently to be assessed at this stage. The risk/benefit calculation is implicitly (but without any detail) based purely on and derived from an assessment of future constraint costs; and yet again from Ofgem there is a simplistic correlation of ‘consumer benefit’ with ‘lower retail energy costs’ (again, no details or assurances given here), rather than considering the other side of the coin – the huge environmental and community costs that will follow the rush to 2030 that APM is designed to promote.

The intended structural features of the APM (agility, transparency and consumer protection) each have their obvious flaws:

- **Agile.** *The APM should enable TOs to react quickly to potential supply chain constraints at an early stage in the project development process....* It’s not clear how ‘agility’ will be a feature of an annual process (admittedly with a ‘re-opener’) that will be in place for less than six years;
- **Transparent.** *The APM must be designed with reporting requirements that allow us, and ultimately consumers, to trace how the expenditure has been used...* It is odd that this criterion is sabotaged in 4.14 by the admission that transparency to consumers is not as important as the commercial interests of the TOs, and so their project expenditure reporting will be confidential to the regulator.
- **Protect consumers.** *The APM must not transfer all risk to consumers...risk should be retained by the TO if it is best placed to manage that risk...* We strongly disagree with this proposal. If the numbers are not available for scrutiny from the developers, it would be absurd for the consumer to carry and of the risk attached to these project – all more so as there is no straightforward claim in the document that future costs to consumers will fall, or that benefits of this expenditure will flow to consumers.

Your consultation questions 2 (eligibility) and 6 (fungibility and flexibility) raise further issues about the intent and the management of the proposed mechanism.

The framework in section 2 on eligibility is riddled with disclaimers that make it hard to discern any effective distinction between acceptable and unacceptable proposals for early funding for incomplete proposals/programmes of work. We have:

- *'We assume that projects associated with CP30 are very low risk...'* (1.26); there is no evidence for this apart from: *'Although we have not quantified the probability of additional costs to consumers, our view is that the scale of risk is relatively small, by comparison to the potential benefits.'* And yet *'We do not know if the APM will affect equipment costs'* (1.26).

In (2.5) we have: - *'We will be unable to carry out ex ante quantitative assessment of the costs and benefits...'*, as a result of the *'..uncertainty inherent in the APM's design...'*. This is before we get to (2.13) – *'We recognise that in some situations TOs may not yet be experiencing extended lead times...'*, and to paragraphs (2.15) and (2.16) where it is noted that there may not 'yet' be any evidence of supply chain constraints, but that if TOs are able to say that they have *'observed'* them, that will currently be sufficient for this process.

Proceeding with the APM on this basis would be a huge risk, especially to consumer costs of all sorts in the longer term. To add to it the concepts of 'fungibility' and 'flexibility' removes what remains of the governance of eligibility, and leaves the APM merely representing a strong presupposition that advance funding of unfinished proposals is a Good Thing, or perhaps that governance of risk is subordinate to maintaining the pace of the programme. 'Fungibility' as defined here - 'transferability' (2.27) of an asset from one project to another - is merely stockholding financed by taxpayers; 'flexibility' is merely allocating funding (via the TOs) as deposits to suppliers, who will no doubt be happy to be in business with such desperate-seeming customers. Allowing the TOs to apply retrospectively to the APM after publication of these proposals will have already had a distorting effect, no doubt, on their planning and procurement priorities.

In summary, we strongly oppose the institution of an advance funding mechanism that will emphasise the vulnerability of consumers, local communities and valuable environmental and biodiversity assets, by injecting risky investment into programmes that have not yet been fully planned, with both the risks and the costs borne ultimately by the consumer.

In conclusion, this is yet another proposal that appears to be irrational and ill-conceived from the outset. We are gravely concerned that Ofgem is submitting such flawed proposals, and transparency is essential if we are going to place our faith in these developers.

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