

18 December 2024

Ofgem
10 South Colonnade, Canary Wharf
London E14 4PU

By email: RIIO3@ofgem.gov.uk

GB Interconnectors' Forum Response to Ofgem Consultation on Advanced Procurement Mechanism (APM)

Dear Sir/Madam,

The GB Interconnectors' Forum (GBIF) appreciates the opportunity to respond to the consultation on the proposed Advanced Procurement Mechanism (APM).

GBIF is an industry group representing interconnector projects with a Great Britain connection point. Our membership includes interconnectors at various stages of their lifecycle, from development and construction to operational. GBIF serves as a collective voice for the interconnector sector, advocating for policies and frameworks that support the efficient development and operation of these important transmission assets. Interconnectors play a vital role in enhancing GB's energy security, enabling renewable energy integration, and delivering affordable and reliable electricity to consumers.

We outline below our key observations and recommendations:

Market Challenges and Supply Chain Constraints

- The interconnector sector faces a congested and highly competitive market for resources, including HVDC cables, converter stations, and skilled labour. This congestion is driven by overlapping demands from transmission operators, offshore wind developers, and interconnectors themselves, with suppliers prioritising customers offering higher financial certainty and larger commitments.
- A result of the market competition in recent years is that supplier manufacturing slots are now often booked by developers years in advance of product delivery, however in the face of burgeoning demand such lead times are extending to unprecedented levels, and in some cases now precede project-specific approval milestones (e.g. Planning or Regulatory), thus substantially increasing the risk profile of pre-FID investment decision making.

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- Supply chain tightness is also provoking an increase in the size of pre-FID reservation payments, which on a project-specific basis risks exceeding what many independent developers can accommodate within their development mandate or acceptable risk appetite.
- It should be noted that, while there can be project-specific differences in system procurement, the fundamental technology and primary equipment being procured by TOs and interconnector developers are the same or so similar that use the same manufacturing lines (and thereby the capacity).
- As highlighted in Baringa's April 2024 report to Government "*UK renewables deployment supply chain readiness study*"¹, this competition for the same equipment, coupled with limited manufacturing capacity, exacerbates delays and cost inflation, posing risks to projects aiming for timely delivery.

Views About APM's Proposed Scope

- The principle of the Advanced Procurement Mechanism is supported as it seeks to address the aforementioned challenges associated with accessing capacity within a constrained supply chain, which stands to benefit the overall energy sector's ambition to decarbonise in line with public policy objectives.
- The current APM proposal prioritises TOs, creating a competitive disadvantage for non-TO market participants. This may enable TOs to secure core transmission equipment while excluding other market participants. This has been highlighted directly as a concern from recent project-level engagement with the supply chain which has suggested that the APM may create a two-tier supply chain, impacting the non-TO projects, including interconnectors.
- being able to secure capacity and further constraining what capacity is available to those developers.
- Without mitigation measures being established for development interconnectors, such as inclusion within the APM and associated direct support for reservation payments, non-TO projects, including interconnectors, risk significant delays or may become unviable.

Process Concerns

- GBIF is concerned that Ofgem has not conducted an impact assessment to evaluate how the implementation of APM might affect the non-TO projects, including interconnectors, and other transmission markets.
- Such an assessment is important to understand the broader implications of the mechanism and ensure that it supports all parties fairly.

¹<https://assets.publishing.service.gov.uk/media/6617b12ed88c988e81b95af8/uk-renewables-deployment-supply-chain-readiness-study-executive-summary.pdf>

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- We urge Ofgem to carry out such an assessment publicly and engage with stakeholders, including GBIF, before finalising APM's design and implementation, to ensure that the introduction of the APM mechanism does not create an unintended consequence for non-TO projects, including interconnectors. Ofgem should be aware that, in order to progress with Window 3 projects within the timescales set out within the regime, projects are likely to be seeking to secure capacity within 2025 and therefore regulatory certainty should be provided by the end of H1 2025, in order mitigate negative project deliverability impacts.

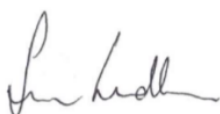
Recommendations

We recommend that Ofgem conduct an impact assessment on the proposed APM implementation. Where necessary, Ofgem should introduce measures to mitigate any adverse impacts on non-TO developers of transmission systems, including interconnectors.

Readiness to Collaborate

GBIF and its members welcomed Ofgem's initial commitment to "consider at pace" industry concerns raised in the recent conference call, and further outlined within this letter. Our members are available to discuss these concerns further and look forward to jointly, with Ofgem, exploring what solutions can be appropriately established.

Yours faithfully,



Simon Ludlam

Chairperson

GB Interconnector Forum

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