
RIIIO-3 Advanced Procurement Mechanism (APM) Consultation Redacted Email Responses

We received 53 responses to the APM consultation. This document sets out the responses which came in via email. Where respondents provided separate documents, these are published alongside this document. Responses, or elements of responses, where respondents have not provided their permission to publish have been excluded.

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Anonymous Respondent

This approach rewards failure. Ofgem funding generally should not be a one-way bet. Transmission Owners benefit greatly from RIIO funding but, much like the water companies, have the attitude that shareholder dividends transcend the need to provide a robust network.

Transmission Owners argue that they have a licence obligation to provide an efficient network. However, they interpret such efficiency as simply maximising shareholder dividends.

Transmission Owners have had for decades to chance to perform advanced procurement, but instead choose to drag their feet. It could be said that it is a breach of licence to have not secured a robust supply chain already. Consumers and sensible business people know when to invest and when not to. What is needed is robust enforcement by Ofgem of their failure to invest.

In the area of customer connections, Transmission Owners have the obligation to provide connections with time being of the essence. This means not waiting around until the need arises but getting ahead of the need and therefore acting with urgency. It is implicit that Transmission Owners ought to have secured their supply chains ahead of time rather than pay out shareholder dividends.

Transmission Owners frequently use frameworks to obtain equipment. However, selecting suppliers from a small closed group does not support efficient expenditure. It is done this way to allow their procurement teams to operate at the lowest possible overhead. The result is high prices and ineffectual warranties. To the extent that Ofgem implement APM then it should include the proviso that all over-threshold purchases are fully and transparently competitively tendered to demonstrate good value.

Counsellor Martin Whiteley, Ardleigh Parish Council

Sir, Madam,

I write to object in the strongest terms to the proposed advance procurement mechanism.

The proposal would set a terrible and dangerous precedent for privately owned companies to put government, regulators and the public in a difficult position by incurring costs ahead of projects achieving key planning permissions. These costs will be highly visible 'regret costs' to be used as leverage by the companies against any associated delay or refusal of a project, thereby prejudicing the planning and project approval process.

In the specific context of the Norwich to Tilbury project, which is expected to be submitted for DCO next year, the scheme is fundamentally flawed in both design and consultation process. According to legal advice from KC, the project has a significant possibility to being rejected by the Planning Inspectorate. In any case, should it be accepted in the pre-application procedure it will without question be subject to judicial review supported unilaterally by county, district and parish councils along the route along with several campaign groups and individuals. As such the project, even if not initially rejected will be subject to inevitable delay measured in years and not months as the judicial process runs its due course. In such circumstance to allow advance procurement for any part of this project given tangible likelihood of planning rejection and the inevitability project delay, would create a burden for billpayers which is absolutely not necessary. Private companies should bear all risk and cost associated with these projects, especially since their ultimate returns are already guaranteed by regulation. Not to place this risk upon the private entity is simply to encourage companies to propose poorly devised and executed schemes and consultations such as the ongoing Norwich to Tilbury scheme without risk or consequence.

I am cc'ing fellow Parish Councillors in Ardleigh, the most impacted parish along the proposed Norwich to Tilbury transmission scheme route, my MP as someone who is fully engaged with this subject matter and leads the parliamentary OFFSET group which is also challenging the scheme, and the head of the Essex Suffolk & Norfolk Pylons campaign which is leading a fully scoped and funded objection to the scheme.

Regards,

Martin Whiteley

Councillor – Ardleigh Parish Council

Essex Suffolk Norfolk Pylons action group

Dear Ms Riach

We, the Essex Suffolk Norfolk Pylons action group, write in response to the Electricity Transmission 'Advanced Procurement Mechanism' consultation.

We contend that there should be **NO** project-specific early procurement funding from Ofgem.

To introduce this would undermine the entire consenting system, and would put consumers at a very high risk of exposure to payment for projects that do not receive consent, or that fail to progress for other reasons. There are no assurances that consumers would not be adversely impacted by this Advanced Procurement Mechanism proposal. Additionally, we are not convinced that governance arrangements will allow you to ensure that any such money is returned to consumers.

You highlight concerns about supply-chain constraints resulting in possible delays to project delivery, as well as increases to consumer bills through constraint costs. However, when considering these issues, you should please note:

Firstly, with increased demand for materials and resources (such as for HVDC cables) the industry responds by both innovating and adding supply. This can help to reduce lead times and costs. Ofgem must note that supply chain pressures therefore work both ways, and that this APM proposal may in fact be entirely unnecessary. Ofgem should in fact be carefully monitoring transmission operator proposals to ensure that those costs submitted are up to date.

Secondly, Ofgem should fully scrutinise all the projects (including Accelerated Strategic Transmission Investment, or ASTI) that are presented to it and should take heed of issues raised by external stakeholders such as our group. Regrettably, the ASTI process has already led to a dramatic reduction in scrutiny, and this proposed APM process would reduce scrutiny even further.

Your own consultation states "We would use a qualitative impact assessment to determine eligibility for the APM to provide confidence that the APM funding will bring about a net benefit to consumers despite being unable to undertake a robust quantitative impact assessment." Yet these projects need more robust quantitative impact assessment, not less.

To give just one example, the Norwich to Tilbury overhead lines proposal desperately needs due diligence by Ofgem and we have repeatedly raised concerns. Our analysis shows that the project will likely cost at least four times the amount presented to you by National Grid.

We reach this conclusion by looking at comparable projects and by adding "real world" costs such as community benefits, biodiversity net gain and a Treasury Green Book compliant contingency to the published costs. It should also, and does not, include full compensation for business and homeowners.

Frustratingly, as we have previously commented, it is nigh-on impossible for stakeholders to analyse proposals in depth due to the lack of transparency of the transmission operators. You would be acting negligently to your consumers should you ignore these concerns about transparency and project costs. If National Grid were to be granted APM funding for this project, it would be done without any true understanding by Ofgem of the real costs of the proposal. We MUST see robust appraisals.

Finally, Ofgem is disinterested in considering cheaper, better, and more popular alternatives to projects such as Norwich to Tilbury. Those alternatives:

- upgrading the existing grid be upgraded using advanced technologies before building new infrastructure, as in the USA.
- the use of HVDC undergrounding, as in Germany.
- and (imperative, given the growth in offshore wind), an integrated offshore grid as in Belgium Holland, Denmark and Germany.

All of these approaches offer advantages to consumers, each being cheaper than the properly costed pylons proposal. They would also be achieved more quickly than overhead lines, with legal challenges reduced or removed, allowing the regulator to focus on the best solution for consumers, rather than wasting time, money, and effort on untested and unconsented proposals.

We agree with your analysis that there are risks to consumers under this new mechanism, but do not agree that the risks are justified or can be managed. We believe that the APM proposal directly contradicts Ofgem's principal objective "to protect the interests of existing and future consumers". Contrary to the consultation, we do not believe that any risk to the consumer can be justified.

Rosie Pearson

Founder, Essex Suffolk Norfolk Pylons action group

GSR Services

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Regards

Gareth

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Fiona & John Lucas

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Yours sincerely,

Fiona & John Lucas

Mary Bancroft

Dear Ms Riach

I totally endorse the points made by Rosie Pearson on behalf of Pylons Essex Suffolk Norfolk when she says

"We write in response to the Electricity Transmission 'Advanced Procurement Mechanism' consultation. We contend that there should be NO project-specific early procurement funding from Ofgem.

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Please register my views which align with those of Ms Pearson.

Thank you.

Mary Bancroft

Mrs Jane Richardson

Dear Ms Riach,

RIIO3@ofgem.gov.uk

I am writing in response to the Electricity Transmission 'Advanced Procurement Mechanism' consultation. I contend that there should be NO project-specific early procurement funding from Ofgem.

To introduce this would undermine the entire consenting system, and would put consumers at a very high risk of exposure to payment for projects that do not receive consent, or that fail to progress for other reasons. There are no assurances that consumers would not be adversely impacted by this Advanced Procurement Mechanism proposal. Additionally, i am not convinced that governance arrangements will allow you to ensure that any such money is returned to consumers.

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To give just one example, the Norwich to Tilbury overhead lines proposal desperately needs due diligence by Ofgem and we have repeatedly raised concerns. Our analysis shows that the project will likely cost at least four times the amount presented to you by National Grid.

As stated by the Essex, Suffolk and Norfolk Pylons Group.

We reach this conclusion by looking at comparable projects and by adding "real world" costs such as community benefits, biodiversity net gain and a Treasury Green Book compliant contingency to the published costs. It should also, and does not, include full compensation for business and homeowners.

Frustratingly, as we have previously commented, it is nigh-on impossible for stakeholders to analyse proposals in depth due to the lack of transparency of the transmission operators. You would be acting negligently to your consumers should you ignore these concerns about transparency and project costs. If National Grid were to be granted APM funding for this project, it would be done without any true understanding by Ofgem of the real costs of the proposal. We MUST see robust appraisals.

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We agree with your analysis that there are risks to consumers under this new mechanism, but do not agree that the risks are justified or can be managed. We believe that the APM proposal directly contradicts Ofgem's principal objective "to protect the interests of existing and future consumers". Contrary to the consultation, we do not believe that any risk to the consumer can be justified.

Yours sincerely

Mrs Jane Richardson

No Pylons Lincolnshire

No Pylons Lincolnshire to Advanced Procurement Mechanism consultation.

Submitted by Andrew Malkin, Press Officer, No Pylons Lincolnshire.

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

No. This would undermine the consenting system with a suggestion of predetermination, ignoring the views of the paying public with a predetermined assumption of project approval. This would be undemocratic. Planning predetermination is unlawful.

<https://www.gov.uk/guidance/determining-a-planning-application>

Consumers may be at risk of payment for projects which do not materialise and difficulty in retrieving that money.

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

No. Preprocurement should only be on the basis of multifunctional items and not a broad spectrum of what may, or may not, be required. Items, services and suppliers should be ineligible if they refer to specific projects before full approval for the projects has been finalised. There is an assumption that supply chains will be constrained. With increased demand the industry responds by innovating and stepping up manufacture to meet demand. Supply chain pressures can work in favour when demand increases.

More detail is required for evidence of constraint to justify its conclusion. It could be open to abuse from suppliers keen to secure business in the face of potential competition.

2.8: " We recognise that it would not be possible for TOs to provide a full quantitative cost benefit analysis, due to the early stage and high-level information available". This sounds like a recipe for disaster!

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

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?

Equipment constraints do not take into account the possibility of cheaper, better and more popular alternatives to, for instance, Grimsby to Walpole, which could include upgrading existing infrastructure, HVDC undergrounding, an integrated offshore grid, which would require different equipment types.

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?

These projects require the most robust quantitative impact assessment and not reductions in scrutiny. We can see no benefits to the public purse in introducing the risks you have identified yourselves.

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?

No. They remove potential cost savings created by any competitive element among suppliers.

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

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?

General feedback, item 3:

3. Was it easy to read and understand? Or could it have been better written?

This consultation was not written with the intention of consulting with anyone outside the industry and so ordinary members of the public are severely challenged in understanding fully all the questions posed. The explanatory notes were verbose and full of industry technospeak, so, again, difficult for ordinary members of the public to fully understand. We did not feel that the views of the public were welcomed.

6. Any further comments?

Alternative approaches, which appear to have been dismissed ahead of time, have not been considered, strengthening the feeling that predetermination is at work here.

The alternatives listed in response to question 4 would be achieved more quickly than overhead lines allowing the regulator to focus on the best solution for consumers rather than risking untested and unconsented proposals.

We agree with you, that there are risks to consumers, but do not agree that the risks are justified and they contradict Ofgem's principle objective "to protect the interests of existing and future consumers".