

To all holders of an electricity
transmission licence and other
interested stakeholders

Email: RIIO3@ofgem.gov.uk

Date: 4 June 2025

Dear licensees and stakeholders,

Decision to modify the special conditions of the electricity transmission licence to implement Ofgem's decision to introduce the Advanced Procurement Mechanism

We are introducing changes to the electricity transmission licences (the "**licence**") held by each of the Transmission Owners ("**TOs**") (National Grid Electricity Transmission, Scottish Hydro Electric Transmission and Scottish Power Transmission) to implement the Advanced Procurement Mechanism (the "**APM**") by introducing special condition 3.43. Our consultation¹ on these licence changes was published alongside our decision² to implement the APM on 20 March 2025.

Background

In November 2024 we consulted on our proposal to introduce the APM, designed to mitigate current and future supply chain constraints which might otherwise delay project delivery or increase project costs. We considered that there is material risk of consumer detriment if the TOs are unable to deliver planned network build out due to supply chain constraints, therefore justifying the intervention of the APM. On 20 March 2025 we decided to implement the APM.

We consulted on the licence modification to implement the APM on 20 March 2025, alongside a consultation on the APM Governance Document.

The APM will provide each TO with an allowance which can be used to procure equipment and services in advance of when they are needed, in line with the requirements established in the licence condition and associated APM Governance Document.

We have only issued the Notice of Statutory Modification and Direction under Part J of Special Condition 3.43 for Scottish Hydro Electric Transmission and Scottish Power Transmission today. This is because we are still finalising a couple of areas that are specific to National Grid Electricity Transmission's APM Register and with its agreement we have progressed the modification for the Scottish TOs now so as to avoid any delay for them.

Our proposed licence modifications

¹ [Statutory consultation to modify the special licence conditions in the electricity transmission licences: Advanced Procurement Mechanism | Ofgem](#)

² <https://www.ofgem.gov.uk/decision/electricity-transmission-advanced-procurement-mechanism>

The reason for modifying the licences of all three TOs³ is to implement our decision to introduce the APM by creating a special condition to allow expenditure under the APM.

The purpose of the condition is to calculate the APM_t (APM Allowance) and APMD_t (the APM disallowance term).

The effect of this condition is to:

- a) specify the Advanced Procurement Mechanism use it or lose it allowance (APM Allowance);
- b) provide for an APM Re-opener of the APM Cost Categories, APM Cap or Bespoke Procurement allowance;
- c) require the licensee to submit specified information in relation to use of the APM Allowance;
- d) provide for disallowance of ineligible APM expenditure under the APM Allowance;
- e) prescribe the process the Authority will follow when directing any changes to the appendices to this licence condition or when issuing or amending the APM Governance Document; and
- f) require the licensee to comply with the APM Governance Document.

We have published a Notice of Statutory Modification to enact this update alongside this covering letter.

APM Governance Document

Alongside this licence modification, we are also directing the introduction of the APM Governance Document. This sets out the day-to-day operation of the APM and provides the TOs with clarity on how to use the APM. The APM Governance Document describes:

- a) the eligibility criteria in respect of expenditure incurred in relation to the allowance provided by this licence condition and what evidence the licensee should provide to show that the criteria are satisfied;
- b) the operation of the APM Re-openers including what information the licensee should provide when applying for any APM Re-opener;
- c) the reporting obligations in respect of expenditure incurred in relation to the APM;
- d) information and guidance with respect to interactions with CATO Projects and ASTI; and
- e) the list of APM Cost Categories, including a specification as to which APM Cost Categories relate only to Bespoke Procurement.

We have published a Direction under Part J of Special Condition 3.43 to enact this update alongside this covering letter.

Next steps

The licence modifications for Scottish Hydro Electric Transmission and Scottish Power Transmission will take effect not less than 56 days after today's date.

We expect to issue an additional Notice of Statutory Modification and Direction under Part J of Special Condition 3.43 for National Grid Electricity Transmission in the coming weeks.

Kind regards

Joe Slater
Head of RIIO-ET3 Policy
Network Price Controls

³ Noting that we intend to issue this for National Grid Electricity Transmission slightly later than the Scottish Hydro Electric Transmission and Scottish Power Transmission for the reasons set out in this letter.