

To:
Scottish Hydro Electric Transmission
Scottish Power Transmission

Electricity Act 1989
Section 11A(1)(a)

**Modification of the special conditions of the electricity transmission licence held
by each of the above licensees**

1. Each of the licensees to whom this document is addressed is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6 (1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 20 March 2025 ('the Notice') that we propose to modify the Licence by inserting new Special Condition 3.43 in the manner set out in Schedule 1.
3. We stated that any representations to the modification proposal must be made on or before 17 April 2025.²
4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
5. We received four responses to the Notice, which we carefully considered. We have placed all non-confidential responses on our website. Our response to these comments is set out in the statutory modification decision published alongside this notice.
6. It is necessary to make a number of minor alterations to the modifications set out in the Notice. Additions are shown in underlined red text, and deletions are shown in strikethrough red text, in the attached Schedule 1. A non-tracked version is shown in Schedule 2. The reasons for any differences between the modifications set out in the Notice and the modifications reflected in Schedules 1 and 2 are:
 - a. to correct minor typographical errors or areas that required redrafting to improve clarity, including those raised in consultation responses;
 - b. to correct an error in the licence formula in Part A of the Special Condition, to be aligned with the policy intent – the earlier formula meant that any ineligible APM Expenditure (APMD_t) results in an increase to the APM Cap (APMC_t), which is no longer true in the corrected formula;
 - c. to provide further clarification and/or definitions for terms used throughout;
 - d. to better align Re-opener requirements in Parts B, C, D and E to those in the APM Governance Document, in response to consultation responses;
 - e. to better align reporting requirements in Part G to those in the APM Governance Document, in response to consultation responses; and
 - f. to provide clarification around the calculation of the 20% average.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² [Statutory consultation to modify the special licence conditions in the electricity transmission licences: Advanced Procurement Mechanism | Ofgem](#)

We are making these/these licence change(s) to give effect to our Advanced Procurement Mechanism (the 'APM') decision of 20 March 2025 (the 'APM decision'). The purpose of the proposed modification is to calculate APMt (APM use it or lose it allowance and Re-opener allowance term) and APMDt (the APM disallowance term).

7. The effect of the modification will be to:

- a. specify the APM use it or lose it allowance (APM Allowance);
- b. provide for an APM Re-opener;
- c. require the licensee to submit specified information in relation to the 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 licensees to comply with the APM Governance Document.

8. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.6 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules³ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.

Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special conditions of the electricity transmission licence of the licensees to whom this document is addressed in the manner specified in attached Schedule 1. This decision will take effect from 31/07/2025.

This document is notice of the reasons for the decision to modify the electricity transmission licence held by the licensees to whom this document is addressed as required by section 49A(2) of the Act.



.....
Steve McMahon, Director, Price Controls
Duly authorised on behalf of the
Gas and Electricity Markets Authority

4th June 2025

³ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Schedule 1

Special Condition 3.

Special Condition 3.42.43. Advanced Procurement Mechanism (APM) ~~use it or lose it allowance~~ Allowance and APM Re-opener (APM_t)

Introduction

~~1.1.13.43.1~~ The purpose of this condition is to calculate the APM_t ~~(Advanced Procurement Mechanism (APM) use it or lose it allowance and Re-opener allowance term).~~ which contributes to calculation of the Totex Allowance.

~~1.1.23.43.2~~ The effect of this condition is to:

- (a) specify the ~~Advanced Procurement Mechanism use it or lose it allowance~~ (APM Allowance);
- (b) provide for ~~a use it or lose it allowance~~ an APM Allowance adjustment ~~(APM Re-opener).~~
- (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) ~~prescribes~~ set out the process the Authority will follow when directing any changes to the appendices to this licence condition ~~or~~ and when issuing or amending the APM Governance Document; and
- (f) require the licensee to comply with the APM Governance Document.

Part A: Formula for calculating the APM Allowance term (APM_t)

~~1.1.33.43.3~~ The value of APM_t is derived in accordance with the following formula:

$$APM_t = \min \left(\begin{aligned} & (APMS_t - \cancel{APMD_t}) \\ & - APMR_t, \max \left(\left(APMC_t - \sum_{\substack{2024 \\ 25}}^{t-1} \cancel{APM_t} (APMS_t - APMR_t) \right), 0 \right) \right) \\ & - APMD_t \end{aligned} \right)$$

Where:

APM_t means the APM Allowance term;

~~APMS_t means the expenditure (including factory slot deposits) registered as incurred in the APM Register in accordance with the APM Governance Document;~~

~~APMD_t means the expenditure which the Authority determines to be ineligible under the APM in accordance with Part J;~~

~~APMR_t means the allowances initially incurred under APMS_t, which must not be a value greater than APMS_t, that have been added to Allowed Revenue through other special conditions of this licence; and~~

~~APMC_t means the cap on APM Allowances established by the Authority, as set out in Appendix 1.~~

APMS_t has the meaning given to APM Expenditure;

APMD_t has the meaning given to APM Disallowances;

APMR_t has the meaning given to APM Recovered Expenditure;

and

APMC_t has the meaning given to the APM Cap.

Part B: APM Re-opener of APM Cost Categories

~~1.1.43.43.4~~ The licensee may apply to the Authority to make amendments to the APM Governance Document by direction with respect to additions of new, or modifications of existing, APM Cost Categories.

~~1.1.53.43.5~~ ~~The licensee must make any~~Any application under this Part must be made in writing to the Authority and must include, for each proposed ~~amendment to an new~~ APM Cost Category, evidence or amendment to an existing APM Cost Category:

- (a) ~~explaining an explanation of~~ how the ~~APM can proposed inclusion or amendment of this APM Cost Category will~~ help to avoid delays to project delivery or increased project costs;
- (b) ~~of~~ whether the APM Cost Category is being proposed as Flexible Procurement or Bespoke Procurement, and evidence to justify any proposed categorisation ~~as Flexible Procurement~~;
- (c) an explanation of how the licensee will undertake tracking of expenditure of any relevant APM Allowance (including as part of any complex contractual arrangements) to ensure that it can comply with the reporting requirements as set out in Part G; and
- (d) ~~of~~ any further information as may be required ~~in by~~ the APM Governance Document.

~~1.1.63.43.6~~ An ~~APM Re-opener~~ application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or during such other ~~time periods~~ as the Authority may direct.

~~1.1.73.43.7~~ The Authority will make a direction adding new APM Cost Categories to the APM Governance Document for any proposed APM Cost Category for which it considers that the requirement under paragraphs 3.43.5 have been satisfied. The Authority will make a direction to modify existing APM Cost Categories where it considers that the updated APM Cost Category satisfies the requirements under paragraph ~~1.1.5 have been satisfied.~~3.43.5.

Part C: APM Re-opener of Bespoke Procurement Allowances

~~1.1.83.43.8~~ The licensee may apply to the Authority to make amendments to the value of the Bespoke Procurement allowance in Appendix 2 by direction.

~~1.1.93.43.9~~ ~~The licensee must make any~~Any application under this Part must be made in writing to the Authority and must include, for each ~~proposed amendment to the value in Appendix 2~~project for which the licensee is submitting an application for a re-opener under this Part:

- ~~(a) project details, including project timelines, to assist identification of the relevant investment and for understanding the need for APM funding and the likelihood that Equipment or Related Services are not used following their procurement;~~
- ~~(b) details of the relevant APM Cost Categories included in the request for Bespoke Procurement allowances, and details of how the eligibility criteria as specified in paragraph 3.43.5 are satisfied; and~~
- ~~(a) a spreadsheet setting out the licensee's calculation of the value of the proposed amendment, including relevant APM Cost Categories and reference to the relevant projects;~~
- ~~(b) project details relevant to the likelihood of stranded procurement (for example equipment that is procured but is not used), including project timelines, and the eligibility criteria as set out in Paragraph 1.1.5; and~~
- ~~(c) any further information as set out as required in the APM Governance Document.~~

~~1.1.10(c)~~ . An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or during such other ~~time periods~~ as the Authority may direct.

~~1.1.113.43.10~~ The Authority will make a direction amending the value in Appendix 2 where it considers that the requirements ~~underin~~ paragraph ~~1.1.93.43.9~~ have been satisfied.

Part D: APM Re-opener of the APM ~~cap~~Cap

~~1.1.123.43.11~~ The licensee may apply to the Authority to make amendments to the value of the APM Cap (APMC_c) in Appendix 1.

~~1.1.133.43.12~~ ~~The licensee must make any~~Any application under this Part must be made in writing to the Authority and must include, for each proposed amendment to the value in Appendix 1:

- (a) details setting out why the APM ~~cap~~Cap is insufficient to enable the licensee to procure effectively;
- (b) details setting out why an amended APM Cap would be to the benefit of consumers or, if none, would not harm the objectives/interests of the APM consumers;
- (c) details regarding the progress towards ~~full~~regulatory approval of projects ~~that~~for which the APM Allowance has been used to procure ~~for~~; and
- (d) any further information as ~~set out as~~may be required ~~in~~by the APM Governance Document.

~~1.1.14~~3.43.13 An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or such other time as the Authority may direct.

~~1.1.15~~3.43.14 A modification under this Part will be made under section 11A of the Act.

Part E: Authority-triggered Re-opener

~~1.1.16~~3.43.15 The Authority may make amendments to any APM Cost Category by direction where:

- (a) with respect to the addition of a potential new APM Cost Category, it considers that the ~~requirements set out in in Paragraph 1.1.5 are satisfied; or proposed amendment will help to avoid delays to project delivery or increased project costs;~~
- (b) with respect to the modification of an existing APM Cost Category, it considers that the updated APM Cost Category will help to avoid delays to project delivery or increased project costs; or
- ~~(b)~~(c)with respect to removal of an existing APM Cost Category, it considers that the ~~requirements set out in Paragraph 1.1.5 are no longer satisfied; inclusion of this APM Cost Category has ceased to help to avoid delays to project delivery or increased project costs.~~

~~1.1.17~~3.43.16 Where an APM Cost Category is removed, ~~existing~~any procurement undertaken prior to ~~when~~the date on which the Authority ~~consults on~~publishes a consultation to propose the removal of that APM Cost Category would remain eligible for APM Allowances.

~~1.1.18~~3.43.17 The Authority may amend the value shown in Appendix 2 by direction where the licensee reports through the ~~Annual Iteration Process~~Regulatory Reporting Pack (RRP) that a portion of the Bespoke Procurement allowance specified in Appendix 2 has been allocated to the APMR_t since the ~~last Annual Iteration Process~~previous RRP submission. In such instances the amendment of the value shown in Appendix 2 directed by the Authority will be equal to the portion of the Bespoke Procurement allowance that has been allocated to the APMR_t since the ~~last Annual Iteration Process~~previous RRP submission.

~~1.1.19~~—The Authority may ~~amend~~increase the value of APMC_t ~~set out~~ in Appendix 1 by amendment under section 11A of the Act where it considers that such an amendment ~~will~~:

~~(a)3.43.18~~ ~~when increasing the value of APMC_t, ensure is required so~~ that the licensee has sufficient APMC_t available to make APM Allowances to engage the supply chain Expenditure at the scale required to avoid (i) delays to project delivery or (ii) increased project costs; ~~or,~~

~~(b)3.43.19~~ ~~when reducing the value of~~ The Authority may decrease APMC_t, ensure in Appendix 1 by amendment under section 11A of the Act where it considers that the reduction will ~~such an amendment is required so that APMC_t is not~~ introduce significantly in excess of what is required to make APM Expenditure at the scale required to avoid (i) delays to project delivery or cause increases in (ii) increased project cost costs.

Part F: Process the Authority will follow in making a direction

~~1.1.203.43.20~~ Before making a direction under Part B, Part C or ~~Part E, paragraphs 3.43.15 to 3.43.17,~~ the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction, excluding any Commercial Information;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

~~1.1.213.43.21~~ Before making a decision to refuse to make a direction under Part B or Part C, the Authority will publish on the Authority's Website:

- (a) the reasons for the decision not to make the proposed direction, excluding any Commercial Information; and
- (b) a period during which representations may be made on the proposed decision to refuse the direction, which will not be less than 28 days.

Part G: Reporting requirements

~~1.1.223.43.22~~ ~~The~~ To inform calculation of APMS_t, the licensee must report any expenditure it has incurred against the APM Allowance to the Authority through the Annual Iteration Process in the manner specified in the APM Governance Document, which RRP for each Regulatory Year. The information required in relation to APMS_t through the RRP will include:

- (a) the relevant APM Cost Categories the expenditure has been incurred against;
- (b) the number of units procured against each APM Cost Category;
- (c) the relevant ~~contract value(s) procured against each~~ APM Allowance that has been spent to secure procurement, split by APM Cost Category;
- (d) the expected delivery date for the ~~equipment~~ Equipment or ~~service~~ Related Service, or range of delivery dates permitted under the contract(s);

- (e) ~~where known~~, the named project that the ~~equipment~~Equipment or ~~service~~Related Service is intended be allocated to; ~~and, where known~~;
- (f) ~~the key~~any given contractual commitments or milestones;

Part H: ~~Reporting APM spend under another re-opener application~~

~~(g) As part of any application to the Authority for allowances under Chapter 3 to deliver a project that will use equipment procured in whole or in part using allowances specified in Appendix 1 forecast final total cost for delivery of the relevant Equipment or Related Service; and~~

~~(h) any other information which the Authority may require.~~

~~1.1.23~~—To inform the calculation of $APMR_t$, the licensee must report any allocation of APM-procured Equipment or Related Service to a project to the Authority ~~as part of that re-opener application~~:

~~(a) the final cost of through the equipment; and~~

~~3.43.23~~ ~~details of RRP for each Regulatory Year. The information required through the APM Allowance specifying RRP in relation to $APMR_t$ in the RRP will include:~~

~~(a) Ofgem scheme reference;~~

~~(b) project reference and scheme name;~~

~~(c) relevant ~~entry or entries~~ funding mechanism and licence condition;~~

~~(d) APM contract reference as given in the APM Register;~~

~~(e) APM Cost Category;~~

~~(f) the number of units procured against each APM Cost Category;~~

~~(g) the total APM Allowance that was spent to secure those units; and~~

~~(b)(h)~~ any other information which the Authority may require.

~~Part I:~~Part H: Status of expenditure

~~1.1.24~~~~3.43.24~~ No determination of an allowance specified in Appendix 1, 2 or 3 constitutes approval by the Authority of any project ~~to~~in respect of which the allowance ~~relates~~has been used to procure Equipment or Related Service.

Part J:~~Part I:~~ Ineligible APM expenditureExpenditure

~~1.1.25~~~~3.43.25~~ The Authority may modify the value of $APMD_t$ ~~as set out~~ in Appendix 3 to disallow ~~expenditure incurred against the APM Allowance by the licensee~~Expenditure where the licensee:

- (a) procured ~~equipment~~Equipment or ~~services~~Related Services using its APM Allowance in a manner which did not constitute Flexible Procurement or Bespoke Procurement;

- (b) procured equipment or services ~~in relation to a cost area which do not included in fall within~~ the ~~APM Register~~ definitions of Equipment and Related Services ~~because, at the time of the procurement occurred, they did not fall within an~~ APM Cost Category;
- (c) ~~has not used 25% or more of the Equipment or Related Services it procured volumes of equipment or services in the five-year period since the APM Expenditure was incurred, and where the Authority considers that the procuring of Equipment or Related Services was significantly in excess of what it could have reasonably expected to use, resulting in, five years after the spend was first incurred by~~ was reasonable to expect the licensee, ~~25% of the to have~~ procured ~~volumes of equipment and/or services remaining unused by the given the information available to the licensee on a project at the time it incurred the APM Expenditure~~;
- (d) procured services for which use of the services was not possible to link to an APM Cost Category ~~in the APM Register~~;
- (e) procured ~~equipment~~ Equipment or ~~services~~ Related Service for a project which had, at the date of procurement, been designated as a CATO Project;
- (f) procured ~~equipment~~ Equipment or ~~services~~ Related Service for a project where the licensee has also received Early Construction Funding as provided for in Special Condition 3.41;
- (g) is able to benefit financially ~~benefit~~ from novating or otherwise transferring procurement undertaken through the APM to another licensee or a third party;
- ~~(h) the procured equipment or services were not or cannot be tracked by the licensee through the APM Register to provide evidence to the Authority that there is no double funding across the price control; or~~
- ~~(i) there is evidence of double funding across the price control.~~
- ~~(h)~~ has made use of APM Expenditure for which it has not provided the Authority with, either through RRP's or upon request, sufficient information for the Authority to achieve confidence that the licensee has not already received Authority funding for these activities; or
- ~~(i)~~ has already received funding, of which the Authority has become aware, for the same activity as the Authority might otherwise have allowed under the APM Allowance.

~~4.1.263.43.26~~ The licensee is only eligible to ~~receive~~ recover, on average (arithmetic mean) across the portfolio of APM Cost Categories, 20% of the expected cost of the ~~equipment and service~~ Equipment or Related Services procured using the APM. ~~Where the licensee incurs more than 20% the~~ The Authority may disallow ~~the~~ expenditure above 20%. This average will be calculated for a period of three Regulatory Years, using data submitted through the RRP's. The Authority will review licensee performance against this requirement ~~during following submission of RRP's following the end of each Annual Iteration Process~~ Regulatory Year.

~~1.1.273.43.27~~ A modification under this Part will be made under section 11A of the Act.

~~Part K:~~Part J: APM Governance Document

~~1.1.283.43.28~~ The licensee must comply with the APM Governance Document when incurring expenditure against the APM Allowance.

~~1.1.293.43.29~~ The Authority will issue and amend the APM Governance Document by direction.

~~1.1.303.43.30~~ The Authority will publish the APM Governance Document on the Authority's Website, excluding any Confidential Information.

~~1.1.313.43.31~~ The APM Governance Document will make provision about the governance and administration of the APM ~~use it or lose it allowance~~ Allowance and APM Re-opener, including:

- (a) the eligibility criteria ~~and what evidence the licensee should provide in respect of the criteria~~, in respect of expenditure incurred in relation to the allowance provided by this licence condition; ~~and~~ 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, ASTI, and any other related regulatory frameworks as specified in the APM Governance Document; and
- ~~(b)(e) the list of APM Cost Categories, including a specification as to which the licensee must meet.~~ APM Cost Categories relate only to Bespoke Procurement.

~~1.1.323.43.32~~ Before the Authority directs that the APM Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed APM Governance Document, excluding any Confidential Information;
- (b) the date on which the Authority intends the APM Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the APM Governance Document, which will not be less than 28 days.

~~1.1.333.43.33~~ Before directing an amendment to the APM Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended APM Governance Document, excluding any Confidential Information;

- (b) the date on which the Authority intends the amended APM Governance Document to come into effect;
- (c) the reasons for the amendments to the APM Governance Document; and
- (d) a period during which representations may be made on the amendments to the APM Governance Document, which will not be less than 28 days.

APPENDIX 1 (confidential)

Values of $APMC_t$

	Value of term (£m)
$APMC_t$	Confidential—shared directly with licensee through Has the value given in the APM Register

APPENDIX 2 (confidential)

Bespoke Procurement allowance

Value of Bespoke Procurement allowance (£m)
Confidential—shared directly with licensee through Has the value given in the APM Register

APPENDIX 3 (confidential)

Value of $APMD_t$

Term	APM Allowance $APMD_t$ value (£m)
$APMD_t$	Confidential—shared directly with licensee through Has the value given in the APM Register

Definitions that would be added to the definitions list in Special Condition 3.42 definitions to be added to the licence 1.1

Term	Definition	Is this already defined?
<u>Advanced Procurement Mechanism (APM)</u>	<u>means the regulatory funding mechanism established by Special Condition 3.43 which is designed to facilitate licensees' early engagement with the supply chain to mitigate current and future supply chain constraints which would otherwise threaten delay to infrastructure projects on the electricity transmission network.</u>	<u>No, include in Special Condition 1.1.</u>
<u>Allowed Revenue</u>	<u>is the amount the licensee should aim to recover through its Network Charges, derived in accordance with the formula in Part C of Special Condition 2.1 (Revenue restriction).</u>	<u>Yes, in Special Condition 1.1</u>
APM Allowance	means the Advanced Procurement Mechanism Use it or lose it (UIOLI) Allowance, established by Part A of Special Licence Condition 3.42. This includes any allowances for Bespoke Procurement, as set out in Appendix 2.43.	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
<u>APM Cap (APMC_t)</u>	<u>means the cap on the APM Allowance established by the Authority and specified in Special Condition 3.43 Appendix 1.</u>	<u>No, include in Special Condition 1.1.</u>
APM Cost Category	means an expenditure category that the Authority has deemed eligible for the licensee to use its APM allowance against as set out in the APM Governance Document.	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
<u>APM Disallowances (APMD_t)</u>	<u>means APM Expenditure that has been determined as ineligible in accordance with Special Condition 3.43 Part I.</u>	<u>No, include in Special Condition 1.1.</u>
<u>APM Expenditure (APMS_t)</u>	<u>means the amount that the licensee has spent for the purpose of booking supply chain capacity for the procurement of Equipment or Related Services in relation to an APM Cost Category, and which the licensee has reported or intends to report as APMS_t through the RRP.</u>	<u>No, include in Special Condition 1.1.</u>
APM Governance Document	means the document issued by the Authority in accordance with Part K of Special Condition 3.42 <u>43</u> .	No, in this licensee condition as it will only be used here <u>No, include in</u>

		<u>Special Condition 1.1.</u>
<u>APM Recovered Expenditure (APMR_i)</u>	<u>means the allowances initially incurred and reported as APMSt, which must not be a value greater than APMSt, that have been added to Allowed Revenue through other special conditions of this licence.</u>	<u>No, include in Special Condition 1.1.</u>
APM Register	means a licensee-specific document held and updated by the Authority based on information provided by the licensee in relation to its use of APM Allowances, <u>and which is</u> shared only with the <u>relevant</u> licensee and <u>will</u> otherwise <u>be</u> kept confidential.	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
APM Re-opener	means <u>any of the Advanced Procurement Mechanism Re-opener, re-openers</u> established by Part B, Part C, Part D and Part E of Special Licence Condition 3.42 <u>43</u> .	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
Bespoke Procurement	means procurement that is not Flexible Procurement, or is procurement that the Authority otherwise decides to be bespoke and is thus assessed for APM eligibility on a project-specific basis by the Authority, and is specified as such in the APM Register.	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
CATO Project	means a project which the Authority has decided should be delivered by a Competitively Appointed Transmission Owner.	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>
<u>Confidential Information</u>	<u>means any information, which is commercially sensitive, and relates to or derives from the management or operation of the Transmission Business.</u>	<u>Yes, in Special Condition 1.1</u>
<u>Equipment</u>	<u>means any equipment specified as an APM Cost Category in Appendix 1 of the APM Governance Document.</u>	<u>No, just in this licence condition.</u>
Flexible Procurement	means procurement for equipment <u>Equipment</u> or services <u>Related Services</u> which, at the time APM Allowance was used to secure the equipment <u>Equipment</u> or services <u>Related Services</u> , did not have project-specific design characteristics that would prevent the	No, in this licensee condition as it will only be used here <u>No, include in Special Condition 1.1.</u>

	equipment Equipment or services Related Services being used on multiple different projects.	
<u>Regulatory Reporting Pack (RRP)</u>	<u>means the reporting process required by Standard Condition B15 (Regulatory Instructions and Guidance).</u>	<u>No, include in Special Condition 1.1.</u>
<u>Regulatory Year</u>	<u>means a period of twelve months commencing on 1 April.</u>	<u>Yes, in Special Condition 1.1</u>
<u>Related Services</u>	<u>means services provided in connection with the delivery, installation, or commissioning of the Equipment, where these services are necessary to ensure or support the proper functioning of the Equipment.</u>	<u>No, just in this licence condition.</u>
<u>Totex Allowance</u>	<u>means the sum of values under the heading "Totex allowance" in the "Input" sheet of the ET2 Price Control Financial Model.</u>	<u>Yes, in Special Condition 1.1</u>

Schedule 2

Special Condition 3.43. Advanced Procurement Mechanism (APM) Allowance and APM Re-opener (APM_t)

Introduction

- 3.43.1 The purpose of this condition is to calculate the APM_t, which contributes to calculation of the Totex Allowance.
- 3.43.2 The effect of this condition is to:
- (a) specify the APM Allowance;
 - (b) provide for an APM Allowance adjustment.
 - (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) set out the process the Authority will follow when directing any changes to the appendices to this licence condition and when issuing or amending the APM Governance Document; and
 - (f) require the licensee to comply with the APM Governance Document.

Part A: Formula for calculating the APM Allowance term (APM_t)

- 3.43.3 The value of APM_t is derived in accordance with the following formula:

$$APM_t = \min \left((APMS_t - APMR_t), \max \left(\left(APMC_t - \sum_{2024/25}^{t-1} (APMS_t - APMR_t) \right), 0 \right) \right) - APMD_t$$

Where:

- APM_t means the APM Allowance term;
- APMS_t has the meaning given to APM Expenditure;
- APMD_t has the meaning given to APM Disallowances;
- APMR_t has the meaning given to APM Recovered Expenditure;
- and
- APMC_t has the meaning given to the APM Cap.

Part B: APM Re-opener of APM Cost Categories

- 3.43.4 The licensee may apply to the Authority to make amendments to the APM Governance Document by direction with respect to additions of new, or modifications of existing, APM Cost Categories.
- 3.43.5 Any application under this Part must be made in writing to the Authority and must include, for each proposed new APM Cost Category or amendment to an existing APM Cost Category:
- (a) an explanation of how the proposed inclusion or amendment of this APM Cost Category will help to avoid delays to project delivery or increased project costs;
 - (b) whether the APM Cost Category is being proposed as Flexible Procurement or Bespoke Procurement, and evidence to justify any proposed categorisation;
 - (c) an explanation of how the licensee will undertake tracking of expenditure of any relevant APM Allowance (including as part of any complex contractual arrangements) to ensure that it can comply with the reporting requirements as set out in Part G; and
 - (d) any further information as may be required by the APM Governance Document.
- 3.43.6 An application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or during such other periods as the Authority may direct.
- 3.43.7 The Authority will make a direction adding new APM Cost Categories to the APM Governance Document for any proposed APM Cost Category for which it considers that the requirement under paragraphs 3.43.5 have been satisfied. The Authority will make a direction to modify existing APM Cost Categories where it considers that the updated APM Cost Category satisfies the requirements under paragraph 3.43.5.

Part C: APM Re-opener of Bespoke Procurement Allowances

- 3.43.8 The licensee may apply to the Authority to make amendments to the value of the Bespoke Procurement allowance in Appendix 2 by direction.
- 3.43.9 Any application under this Part must be made in writing to the Authority and must include, for each project for which the licensee is submitting an application for a re-opener under this Part:
- (a) project details, including project timelines, to assist identification of the relevant investment and for understanding the need for APM funding and the likelihood that Equipment or Related Services are not used following their procurement;
 - (b) details of the relevant APM Cost Categories included in the request for Bespoke Procurement allowances, and details of how the eligibility criteria as specified in paragraph 3.43.5 are satisfied; and
 - (c) a spreadsheet setting out the licensee's calculation of the value of the proposed amendment. An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April

2028, April 2029 or April 2030, or during such other periods as the Authority may direct.

- 3.43.10 The Authority will make a direction amending the value in Appendix 2 where it considers that the requirements in paragraph 3.43.9 have been satisfied.

Part D: APM Re-opener of the APM Cap

- 3.43.11 The licensee may apply to the Authority to make amendments to the value of the APM Cap (APMC₁) in Appendix 1.
- 3.43.12 Any application under this Part must be made in writing to the Authority and must include, for each proposed amendment to the value in Appendix 1:
- (a) details setting out why the APM Cap is insufficient to enable the licensee to procure effectively;
 - (b) details setting out why an amended APM Cap would be to the benefit of consumers or, if none, would not harm the interests of consumers;
 - (c) details regarding the progress towards regulatory approval of projects for which the APM Allowance has been used to procure; and
 - (d) any further information as may be required by the APM Governance Document.
- 3.43.13 An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or such other time as the Authority may direct.
- 3.43.14 A modification under this Part will be made under section 11A of the Act.

Part E: Authority-triggered Re-opener

- 3.43.15 The Authority may make amendments to any APM Cost Category by direction where:
- (a) with respect to the addition of a potential new APM Cost Category, it considers that the proposed amendment will help to avoid delays to project delivery or increased project costs;
 - (b) with respect to the modification of an existing APM Cost Category, it considers that the updated APM Cost Category will help to avoid delays to project delivery or increased project costs; or
 - (c) with respect to removal of an existing APM Cost Category, it considers that the inclusion of this APM Cost Category has ceased to help to avoid delays to project delivery or increased project costs.
- 3.43.16 Where an APM Cost Category is removed, any procurement undertaken prior to the date on which the Authority publishes a consultation to propose the removal of that APM Cost Category would remain eligible for APM Allowances.
- 3.43.17 The Authority may amend the value shown in Appendix 2 by direction where the licensee reports through the Regulatory Reporting Pack (RRP) that a portion of the

Bespoke Procurement allowance specified in Appendix 2 has been allocated to the $APMR_t$ since the previous RRP submission. In such instances the amendment of the value shown in Appendix 2 directed by the Authority will be equal to the portion of the Bespoke Procurement allowance that has been allocated to the $APMR_t$ since the previous RRP submission.

- 3.43.18 The Authority may increase the value of $APMC_t$ in Appendix 1 by amendment under section 11A of the Act where it considers that such an amendment is required so that the licensee has sufficient $APMC_t$ available to make APM Expenditure at the scale required to avoid (i) delays to project delivery or (ii) increased project costs.
- 3.43.19 The Authority may decrease $APMC_t$ in Appendix 1 by amendment under section 11A of the Act where it considers that such an amendment is required so that $APMC_t$ is not significantly in excess of what is required to make APM Expenditure at the scale required to avoid (i) delays to project delivery or (ii) increased project costs.

Part F: Process the Authority will follow in making a direction

- 3.43.20 Before making a direction under Part B, Part C or paragraphs 3.43.15 to 3.43.17, the Authority will publish on the Authority's Website:
- (a) the text of the proposed direction, excluding any Commercial Information;
 - (b) the reasons for the proposed direction; and
 - (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.
- 3.43.21 Before making a decision to refuse to make a direction under Part B or Part C, the Authority will publish on the Authority's Website:
- (a) the reasons for the decision not to make the proposed direction, excluding any Commercial Information; and
 - (b) a period during which representations may be made on the proposed decision to refuse the direction, which will not be less than 28 days.

Part G: Reporting requirements

- 3.43.22 To inform calculation of $APMS_t$, the licensee must report any expenditure it has incurred against the APM Allowance to the Authority through the RRP for each Regulatory Year. The information required in relation to $APMS_t$ through the RRP will include:
- (a) the relevant APM Cost Categories the expenditure has been incurred against;
 - (b) the number of units procured against each APM Cost Category;
 - (c) the relevant APM Allowance that has been spent to secure procurement, split by APM Cost Category;
 - (d) the expected delivery date for the Equipment or Related Service, or range of delivery dates permitted under the contract(s);

- (e) the named project that the Equipment or Related Service is intended be allocated to, where known;
 - (f) any given contractual commitments or milestones;
 - (g) forecast final total cost for delivery of the relevant Equipment or Related Service; and
 - (h) any other information which the Authority may require.
- 3.43.23 To inform the calculation of $APMR_t$, the licensee must report any allocation of APM-procured Equipment or Related Service to a project to the Authority through the RRP for each Regulatory Year. The information required through the RRP in relation to $APMR_t$ in the RRP will include:
- (a) Ofgem scheme reference;
 - (b) project reference and scheme name;
 - (c) relevant funding mechanism and licence condition;
 - (d) APM contract reference as given in the APM Register;
 - (e) APM Cost Category;
 - (f) the number of units procured against each APM Cost Category;
 - (g) the total APM Allowance that was spent to secure those units; and
 - (h) any other information which the Authority may require.

Part H: Status of expenditure

- 3.43.24 No determination of an allowance specified in Appendix 1, 2 or 3 constitutes approval by the Authority of any project in respect of which the allowance has been used to procure Equipment or Related Service.

Part I: Ineligible APM Expenditure

- 3.43.25 The Authority may modify the value of $APMD_t$ in Appendix 3 to disallow APM Expenditure where the licensee:
- (a) procured Equipment or Related Services using its APM Allowance in a manner which did not constitute Flexible Procurement or Bespoke Procurement;
 - (b) procured equipment or services which do not fall within the definitions of Equipment and Related Services because, at the time of the procurement, they did not fall within an APM Cost Category;
 - (c) has not used 25% or more of the Equipment or Related Services it procured in the five-year period since the APM Expenditure was incurred, and where the Authority considers that the procuring of Equipment or Related Services was significantly in excess of what it was reasonable to expect the licensee to have procured given the information available to the licensee at the time it incurred the APM Expenditure;

- (d) procured services for which use of the services was not possible to link to an APM Cost Category;
 - (e) procured Equipment or Related Service for a project which had, at the date of procurement, been designated as a CATO Project;
 - (f) procured Equipment or Related Service for a project where the licensee has also received Early Construction Funding as provided for in Special Condition 3.41;
 - (g) is able to benefit financially from novating or otherwise transferring procurement undertaken through the APM to another licensee or a third party;
 - (h) has made use of APM Expenditure for which it has not provided the Authority with, either through RRP's or upon request, sufficient information for the Authority to achieve confidence that the licensee has not already received Authority funding for these activities; or
 - (i) has already received funding, of which the Authority has become aware, for the same activity as the Authority might otherwise have allowed under the APM Allowance.
- 3.43.26 The licensee is only eligible to recover, on average (arithmetic mean) across the portfolio of APM Cost Categories, 20% of the expected cost of the Equipment or Related Services procured using the APM. The Authority may disallow expenditure above 20%. This average will be calculated for a period of three Regulatory Years, using data submitted through the RRP's. The Authority will review licensee performance against this requirement following submission of RRP's following the end of each Regulatory Year.
- 3.43.27 A modification under this Part will be made under section 11A of the Act.

Part J: APM Governance Document

- 3.43.28 The licensee must comply with the APM Governance Document when incurring expenditure against the APM Allowance.
- 3.43.29 The Authority will issue and amend the APM Governance Document by direction.
- 3.43.30 The Authority will publish the APM Governance Document on the Authority's Website, excluding any Confidential Information.
- 3.43.31 The APM Governance Document will make provision about the governance and administration of the APM Allowance and APM Re-opener, including:
- (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, ASTI, and any other related regulatory frameworks as specified in the APM Governance Document; and
 - (e) the list of APM Cost Categories, including a specification as to which APM Cost Categories relate only to Bespoke Procurement.
- 3.43.32 Before the Authority directs that the APM Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed APM Governance Document, excluding any Confidential Information;
 - (b) the date on which the Authority intends the APM Governance Document to come into effect; and
 - (c) a period during which representations may be made on the content of the APM Governance Document, which will not be less than 28 days.
- 3.43.33 Before directing an amendment to the APM Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended APM Governance Document, excluding any Confidential Information;
 - (b) the date on which the Authority intends the amended APM Governance Document to come into effect;
 - (c) the reasons for the amendments to the APM Governance Document; and
 - (d) a period during which representations may be made on the amendments to the APM Governance Document, which will not be less than 28 days.

APPENDIX 1 (confidential)

Values of $APMC_t$

	Value of term (£m)
$APMC_t$	Has the value given in the APM Register

APPENDIX 2 (confidential)

Bespoke Procurement allowance

Value of Bespoke Procurement allowance (£m)
Has the value given in the APM Register

APPENDIX 3 (confidential)

Value of $APMD_t$

Term	$APMD_t$ value (£m)
$APMD_t$	Has the value given in the APM Register

Definitions that would be added to the definitions list in Special Condition 1.1

Term	Definition	Is this already defined?
Advanced Procurement Mechanism (APM)	means the regulatory funding mechanism established by Special Condition 3.43 which is designed to facilitate licensees' early engagement with the supply chain to mitigate current and future supply chain constraints which would otherwise threaten delay to infrastructure projects on the electricity transmission network.	No , include in Special Condition 1.1.
Allowed Revenue	is the amount the licensee should aim to recover through its Network Charges, derived in accordance with the formula in Part C of Special Condition 2.1 (Revenue restriction).	Yes , in Special Condition 1.1
APM Allowance	means the Advanced Procurement Mechanism Allowance, established by Part A of Special Condition 3.43.	No , include in Special Condition 1.1.
APM Cap (APMC _t)	means the cap on the APM Allowance established by the Authority and specified in Special Condition 3.43 Appendix 1.	No , include in Special Condition 1.1.
APM Cost Category	means an expenditure category that the Authority has deemed eligible for the licensee to use its APM allowance against as set out in the APM Governance Document.	No , include in Special Condition 1.1.
APM Disallowances (APMD _t)	means APM Expenditure that has been determined as ineligible in accordance with Special Condition 3.43 Part I.	No , include in Special Condition 1.1.
APM Expenditure (APMS _t)	means the amount that the licensee has spent for the purpose of booking supply chain capacity for the procurement of Equipment or Related Services in relation to an APM Cost Category, and which the licensee has reported or intends to report as APMS _t through the RRP.	No , include in Special Condition 1.1.
APM Governance Document	means the document issued by the Authority in accordance with Part K of Special Condition 3.43.	No , include in Special Condition 1.1.
APM Recovered Expenditure (APMR _t)	means the allowances initially incurred and reported as APMSt, which must not be a value greater than APMSt, that have been added to Allowed Revenue through other special conditions of this licence.	No , include in Special Condition 1.1.

APM Register	means a licensee-specific document held and updated by the Authority based on information provided by the licensee in relation to its use of APM Allowances, and which is shared only with the relevant licensee and will otherwise be kept confidential.	No , include in Special Condition 1.1.
APM Re-opener	means any of the re-openers established by Part B, Part C, Part D and Part E of Special Condition 3.43.	No , include in Special Condition 1.1.
Bespoke Procurement	means procurement that is not Flexible Procurement, or is procurement that the Authority otherwise decides to be bespoke and is thus assessed for APM eligibility on a project-specific basis by the Authority, and is specified as such in the APM Register.	No , include in Special Condition 1.1.
CATO Project	means a project which the Authority has decided should be delivered by a Competitively Appointed Transmission Owner.	No , include in Special Condition 1.1.
Confidential Information	means any information, which is commercially sensitive, and relates to or derives from the management or operation of the Transmission Business.	Yes , in Special Condition 1.1
Equipment	means any equipment specified as an APM Cost Category in Appendix 1 of the APM Governance Document.	No , just in this licence condition.
Flexible Procurement	means procurement for Equipment or Related Services which, at the time APM Allowance was used to secure the Equipment or Related Services, did not have project-specific design characteristics that would prevent the Equipment or Related Services being used on multiple different projects.	No , include in Special Condition 1.1.
Regulatory Reporting Pack (RRP)	means the reporting process required by Standard Condition B15 (Regulatory Instructions and Guidance).	No , include in Special Condition 1.1.
Regulatory Year	means a period of twelve months commencing on 1 April.	Yes , in Special Condition 1.1
Related Services	means services provided in connection with the delivery, installation, or commissioning of the Equipment, where these services are necessary to	No , just in this licence condition.

	ensure or support the proper functioning of the Equipment.	
Totex Allowance	means the sum of values under the heading “Totex allowance” in the "Input” sheet of the ET2 Price Control Financial Model.	Yes , in Special Condition 1.1