

NON-CONFIDENTIAL VERSION

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Response of Sumitomo Electric UK Power Cables Ltd to OFGEM consultation “Growing Great Britain’s electricity network: Ofgem position and call for evidence

Sumitomo Electric UK Power Cables Ltd (SEUK) is pleased to provide the following comments on the above referenced consultation.

As a preface, SEUK fully supports the work of OFGEM, and of the UK Government, to ensure electricity network expansion which allows transmission and distribution owners to connect large volumes of low carbon generation, support electrification of the economy, and reinforce networks to meet rising demand from households, businesses, and new industries such as AI data centres.

This network build-out is a once-in-a-lifetime opportunity for the UK in terms of rebuilding an industrial base and expanding on the renewables supply chain already in the UK.

SEUK further agrees that when executing on the plan to build out the network, transmission and distribution owners must focus on resilience and sustainability of supply chains, and on the economic growth benefits of supporting the GB supply chain, to deliver the best long-term outcomes for consumers.

SEUK takes honour in being among the leading Tier 1 suppliers in the UK renewables supply chain having invested over *[approximately 350]M£* in a new high voltage cable manufacturing facility at Port of Nigg. This investment is among the largest in the UK over the past decade and is scheduled to come on-stream in 4Q2026 with start of commercial cable production in 1Q2027. The SEUK factory is expected to generate up to 246 direct jobs and approximately 655 indirect jobs in a region experiencing the effects of energy transition.

As OFGEM correctly points out at page 10 of the Consultation, SEUK committed, subject to confirmed orders, to further increasing the initial investment at Nigg, adding additional capacity and vertically integrating certain functions. These additional investments are designed to allow for increased domestic and local inputs, subject to required investments by Tier 2 and 3 suppliers. *[REDACTED]*

In this context, SEUK’s main objective with this Consultation response is to draw attention to the need for Tier 1 suppliers to have sufficient certainty of their order pipeline so as to justify not only investments at Tier 1 level, but also indirectly at Tier 2 and below.

This is particularly critical in the UK because of the very limited industrial base, and where potential new supply chain investors will be weighing UK investments against investments in more mature industrial markets such as Germany, France, Italy or Japan.

In our expert view, there is a risk that the UK is not as competitive a destination for investment as Government is thinking – and that the potential opportunity to reindustrialise the UK through the energy transition is lost, along with the potential jobs, income and social benefits that go with it.

In the interest of efficiency, SEUK is responding concisely to the 12 questions in Section 7 of the Consultation.

Questions

Q1. What level of additional investment in supply chain resilience and sustainability can be achieved within the current regulatory regime and what would you need to change in your current procurement arrangements (e.g. weightings or frameworks) to achieve it? Which trade-offs (if any) do you anticipate?

SEUK has already invested significantly in the UK and has recently announced conditional further investment at Port of Nigg.

The UK has seen positive effects of the ASTI program in the first two confirmed contracts for the new facility.

Unfortunately, SEUK has also had to realise that the visibility and certainty for customers in the UK is considerably more limited than in other markets.

As a result, SEUK has not been able to confirm the number of orders required to secure further investments. While the APM adds additional financial certainty for certain customers, the proposed scheme has limitations and does not resolve the investment concerns of SEUK and of likewise situated industrial investors in the UK.

SEUK's concerns about the APM program were set out in its response to the relevant consultation (See submission of 18 December 2024 by Sumitomo Electric in response to OFGEM's Consultation on the proposed APM scheme; attached).

Addressing the concerns relating to the APM, and focusing regulation on procurement decisions that directly affect long-term investments (such as investments in manufacturing facilities that require a 4 to 8 year runway) as opposed to comprehensive procurement solutions that include onshore and offshore installation (which often cannot be assessed in detail until shortly before project launch. (after site surveys), would likely allow for earlier and better investment decisions.

Q2. What barriers, if any, within the current regulatory framework discourage taking account of domestic sourcing, or wider social values in procurement decisions?

The current regulatory system does not require taking account of domestic sourcing or social value provided as part of procurement.

Some transmission and distribution owners have sought to address this issue through limited weighting in favour of local sourcing and social value. However, these attempts have

had very limited effects because the weighting was often in the range of [REDACTED] of the total evaluation package, and in all cases was limited to the non-economic and non-commercial factors in the evaluation.

Also, with such limited weighting of the benefits, any use of local labour including of a transient nature (e.g., installation offshore or onshore) has in our experience led to companies with limited or no local commitment scoring as well as companies with full manufacturing capabilities in the UK.

If not addressed, this means the UK will capture little lasting benefit from the transition.

Given that the long-term positive effects of deeper supply chains in the UK do not manifest themselves in the initial projects, but the cost of new investments will inevitably weigh on new factories (amortisation) the UK has so far been unable to realise the long-term benefits. For that to happen, a material change in weightings is needed.

The obvious solution is to increase the weighting of domestic procurement and social value to a level between [REDACTED a number above 10%] of the scoring factors, and to recognise that the weighting advantage must be applied to the commercial factors in procurement evaluations, thereby having the effect of giving local jobs and new supply chain investments a chance to compete against fully amortised factories abroad.

Q3. How could Ofgem strengthen incentives to invest in resilient and sustainable supply chains, and remove regulatory barriers to doing so?

If OFGEM could incentivise or require transmission and distribution owners (TDOs) to fully reflect the benefits of new investments in the UK, this would likely give investors at all levels of the supply chain the confidence to invest in the UK. This was tried and proven in the US during the implementation by the Biden Administration of the Inflation Reduction Act; there is no reason this could not be replicated in the UK, in particular at a time when the current US administration is discouraging investment in the US in the renewables supply chain.

The most immediate tools for strengthening incentives would be (1) giving TDOs and investors in infrastructure projects better and earlier visibility and certainty of the project pipeline (and if needed early financing as in ASTI) and (2) appropriate weighting of domestic procurement and social value in the commercial evaluation element of bid scoring (see 2 above).

Q4. What definition of a UK-based supplier and UK “material value-add” (e.g. assembly, manufacturing) would keep reporting practical while delivering meaningful insight?

Given the significant diversity of products and manufacturing processes in the renewables supply chain, SEUK considers that the only practical solution would be to require qualifying products to have undergone the last substantial transformation in the United Kingdom.

This is the typical test used in local content for procurement rules, as well as in customs rules to avoid circumvention, and it is well understood in all industries.

In general, this this will require that in order for the product to qualify it must undergo a change of tariff heading of the Harmonised System at the four digit level.

In the case of power cables, this would mean that the first three main manufacturing steps of the cable manufacturing process would need to take place in the United Kingdom for the product to qualify as made in the UK and meeting the requirements of sufficient material value-add.

[REDACTED – DIAGRAM OF MANUFACTURING PROCESS]

Such a rule would avoid circumvention and would be easy apply and consistent with other regulatory regimes.

OFGEM may also be encouraged to consider applying the more stringent requirements of *preferential origin rules in customs law*. These would differ by product category, but in the case of cables would generally require that “non-originating materials” not account for more than 50% of the ex-works price. SEUK questions whether such rules from bilateral arrangements are suitable for the purposes of determining local value and social value added by manufacturing operations in the UK. Also, the rules will differ depending on the bilateral arrangement so that the choice of any such set of rules may inadvertently work to the advantage some non-UK producers over others (discrimination).

Q5. Should reporting cover both equipment and services? Are there categories that should be prioritised or excluded to keep burden proportionate?

SEUK considers that the reporting (and minimum standards) should apply to equipment, and that the accounting should in any event be done separately for equipment and services.

SEUK notes that the main services applicable to its industrial and supply activities are onshore and offshore installation services.

In the case of onshore installation local suppliers are abundant and have the required skillsets. They also appear competitive in recent experience.

However, the bulk of services bought in are offshore installation services [REDACTED]. In respect of offshore installation services, the United Kingdom is in the particular position of having no local suppliers [REDACTED].

While SEUK considers it important for the UK to focus on this industrial sector for additional investments (and may need to provide investment support), it would not be helpful at this stage to require reporting as 100% of procurement in this category will be from foreign sources.

Q6. Do you think a minimum contract value threshold should apply specific criteria (list if you have specific comments on certain criteria) and, if so, what threshold do you think would be appropriate? Please explain your rationale.

This is not a practical issue in the field of offshore cable contracts as contracts are likely to exceed by a significant margin any minimum contract value of threshold that may be chosen.

OFGEM may consider whether to not require reporting or compliance for contracts below a threshold such as £50 million to reduce compliance burdens.

Q7. For the core metrics, do you agree we should capture £ value and % share for UK vs non-UK spend, by broad categories? Which broad categories (e.g. Tier 1, etc. develop) would you recommend? Are there refinements we should consider?

SEUK agrees that the GBP value and % share for UK versus non-UK spend would be useful information to collect.

SEUK also notes that by collecting information on Tier 1 versus Tier 2 and below spend OFGEM will be able to better understand whether the supply chain is being developed in a sustainable matter and not only at the level of tier one suppliers. SEUK considers that a supply chain in the UK that is largely limited to Tier 1 investments will not be long term viable and raises significant energy and national security risks because of reliance on Tier 2 and below suppliers abroad.

Above all SEUK considers that reporting requirements alone will not achieve any of the goals and that OFGEM must require TDOs to comply with scoring measures that ensure that domestic supplies and social value is given appropriate weight.

Q8. Should we include social-value and/or supply-chain-length indicators where proportionate? Which indicators are most useful for resilience monitoring and why?

SEUK considers that reporting requirements alone will not achieve any of the goals and that OFGEM must require TDOs to comply with scoring measures that ensure that domestic supplies and social value is given appropriate weight.

Fundamentally, local procurement and impact on the UK's ability to capture the value from the transition must be made stronger factors in contract awards – or else the UK will effectively be exporting jobs when engaging in energy transition.

Q9. Should the reporting be delivered through RIIO RIGs processes, via a standalone annual return, or alternative data collection options? Please set out pros/cons, including assurance and administrative burden.

SEUK has no view on the reporting form but considers that reporting requirements alone will not achieve any of the goals and that OFGEM must require TDOs to comply with scoring measures that ensure that domestic supplies and social value is given appropriate weight.

Q10. What publication approach (and level of aggregation) strikes the best balance between transparency and commercial sensitivity?

SEUK does not see the need for detailed reporting. With a limited and concentrated supplier base in the UK (often only one supplier by sector) public reporting of data will put UK suppliers at a disadvantage and will mainly serve as a means for foreign suppliers to target nascent UK industries.

Governmental reporting requirements and cost benefit analyses can be published without detailed by sector reporting to the public.

Q11. What evidence could you provide to demonstrate that a higher-cost option delivers proportionate long-term benefits for consumers?

The UK is today one of two G8 countries without domestic high voltage direct current (HVDC) cable manufacturing and supply. As such the UK is today, in particular in sectors with constrained supply (see APM consultation results and conclusions) exposed to market constraints and trade diversions. Securing long term national supply of mission critical equipment supporting the national electricity grid is a significant objective of the government, and rightly so. In certain cases, this may lead to higher short term costs for consumers, but experience in recent tenders shows that, absent predatory pricing by incumbents, local supply in SEUK's market was price competitive with imported products of a similar quality.

Domestic UK production may in the long term be more expensive than imported products from China and certain other similarly situated countries, but in such a case national security considerations would likely exclude use of the imported alternative. [REDACTED]

Q12. Are there any implementation risks, costs or unintended consequences we should consider at this stage?

SEUK considers that the main risk facing the UK renewable supply chain today is that lack of order certainty will lead to cutbacks in existing Tier 1 investments, limit or eliminate further Tier 1 investments, and lead Tier 2 and below investors to focus on markets with great order certainty, in particular in the EU.

Beyond lack of order certainty, the UK today has a much higher risk profile than other markets as a result of the UK being outside of the EU, the EU considering and having announced "Made in EU" regulations that are likely to weigh on long term procurement decisions in the EU, and the upcoming entry into effect of the EU CBAM carbon levy scheme.

Given all these risk factors, lack of order certainty from local customers, and TDOs in particular, is having a significant impact on the outlook for current and future investments. OFGEM is urged to go beyond reporting requirements and apply all levers possible to overcome such risks. Introducing a requirement of scoring in procurement that appropriately reflects the value to the UK and UK consumers of a UK supply chain should be the first step. Detailed solutions are discussed above.