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Dear Irina,

SP Energy Networks and SPENW's response to Growing Great Britain's electricity network supply chains: Ofgem position and call for evidence

SP Energy Networks (SPEN) represents SP Distribution (SPD), SP Manweb (SPM), SP Electricity NorthWest (SPENW) and SP Transmission (SPT). This response covers both transmission and distribution and sets out SP Energy Networks' and SP Electricity NorthWest's perspective on the role that supply chain resilience, sustainability, and domestic value can play within the existing regulatory framework, and the practical conditions that would be required for this to be achieved effectively and proportionately in the interests of consumers. Our views are informed by direct experience of delivering large-scale transmission and distribution projects amid a period of unprecedented supply chain pressure, long lead times, and evolving policy expectations.

Following engagement with Ofgem, we have taken proactive steps to strengthen our understanding of local content within our supply chain by undertaking a review of our invoice data. This analysis, supported by internal cross-business discussions, indicates that where market capacity exists, SPEN already engages extensively with UK-based suppliers, particularly across service and construction activities that are inherently delivery-focused and reliant on a strong local workforce.

Our operating model, which is centred on "boots-on-the-ground" delivery, naturally drives significant engagement with domestic contractors, engineering services, and support activities. The analysis also confirms that areas of lower UK content are largely concentrated in major equipment categories where there is currently limited or no UK manufacturing capability at the required scale or technical specification. This evidence provides assurance that our procurement approach already involves local engagement where feasible, while recognising the constraints that shape equipment sourcing decisions.

When considering the scope to further prioritise local content within procurement decision-making, it's important to consider the existing legal and regulatory framework in which SPEN operates. Following review, there are potential risks associated with explicitly favouring domestic suppliers, particularly in relation to competition law, non-discrimination principles, and the UK's international trade obligations. Any approach that materially differentiates between suppliers based on geographic origin would, therefore, need to be carefully designed, justified, and supported by clear regulatory guidance to ensure compliance with these obligations and to avoid unintended legal or market consequences.

Currently we have an advanced procurement mechanism in transmission which enables capacity to be reserved ahead of need at a portfolio level. The advanced procurement mechanism further enhances resilience and sustainability in the supply chain, for our transmission operations, by enabling capacity to be reserved well ahead of individual project need. This provides greater certainty of delivery and reduces our exposure to market volatility whilst allowing suppliers to plan investment and resource allocation more effectively. As we are in the preliminary phase of APM's existence, we will continue to engage with Ofgem to help develop and improve this mechanism to ensure that it is able to adapt to the challenges of the supply chain for transmission. Expanding the categories eligible for APM to include constrained service providers (e.g. civils contractors who are very often local suppliers) would be a welcome change. Furthermore, through the Sector Opportunity Analysis, which makes up part of the Electricity Networks Sector Growth Plan that we are actively engaged in, as well as current considerations with our ED3 business plan, we intend to seek similar mechanism(s) to assist our distribution business, with the aim of replicating these benefits within our DNO operations. This is spearheaded by the fact that for distribution; in order to meet our demanding deadlines, we are already ordering in advance and at risk.

Throughout this submission, we have sought to balance the strategic ambition to strengthen and diversify supply chains, particularly through increased UK participation, with the statutory and licence obligations under which we operate. As a regulated network operator, SPEN must demonstrate that all expenditure is efficient, economic, and necessary, and that procurement decisions deliver long-term value for consumers. While we recognise the potential economic and societal benefits of increased UK manufacturing and service provision, these must be carefully weighed against the potential for higher unit costs, increased delivery risk, reduced regional or global competition, and ultimately impacts on consumer bills. Any move to adjust incentives or expectations in this area would, therefore, need to be applied consistently across the sector, supported by clear guidance from Ofgem, and underpinned by robust evidence that long-term benefits outweigh short-term costs. We believe it is Ofgem's responsibility to demonstrate that engaging with local suppliers at higher cost is in the consumer interests and then provide licensees with the framework and incentives to enable it.

Overall, this submission reflects SPEN's willingness to engage constructively on how regulatory frameworks can evolve to support resilient and sustainable supply chains, while maintaining a clear focus on deliverability, consumer value, and system reliability. We would welcome further collaborative engagement with Ofgem and wider stakeholders to develop clear, aligned guidance and appropriate incentive mechanisms that provide certainty, manage risk, and support the long-term objectives of the energy transition.

Please refer to Appendix 1 for our responses to the Call for Input questions.

Should you have any questions or require any further information please do contact me and my team.



Yours sincerely,

A handwritten signature in dark ink, appearing to be "NH", with a long horizontal line extending to the right.

Neil Harkins

Head of Networks Procurement

Appendix 1: SP Energy Networks response to Call for Input

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?

Within the current regulatory regime, a meaningful but proportionate increase in investment in supply chain resilience and sustainability can be achieved. Moving away from a strictly project-by-project approach towards strategic, long-term agreement structures help enable a more programmatic view of delivery and improves utilisation of resources. A more joined up approach allows capacity gaps to be managed more effectively while providing suppliers with the confidence to invest in skills, sustainability, and resilience. These arrangements also create an audience through which environmental sustainability requirements and initiatives can be consistently embedded and scaled. We have successfully utilised strategic agreements within our transmission operations to support improved supply chain resilience and sustainability.

However, replicating this approach across the wider supply chain is more challenging due to the nature of our distribution delivery model, which relies to a much greater extent on reactive works and service level agreements. Our distribution activity comprises a combination of planned and reactive works, resulting in variable demand. Nevertheless, our distribution model continues to support supply chain resilience and sustainability, albeit in a different way. Rather than relying on long-term strategic agreements, we utilise flexible contractual arrangements that enable resources to scale efficiently in response to changing demand, ensuring continuity of service and operational efficiency. Overall, while this approach differs from the transmission model, it is well suited to the operational needs and realities of distribution and remains an effective means of maintaining a resilient and sustainable supply chain.

Additionally, the introduction of the advanced procurement mechanism further enhances resilience and sustainability in the supply chain, for our transmission operations, by enabling capacity to be reserved well ahead of individual project need. This provides greater certainty of delivery and reduces our exposure to market volatility whilst allowing suppliers to plan investment and resource allocation more effectively. As we are in the preliminary phase of APM's existence, we will continue to engage with Ofgem to help develop and improve this mechanism to ensure that it is able to adapt to the challenges of the supply chain for transmission. Expanding the categories eligible for APM to include constrained service providers (e.g. civils contractors who are very often local suppliers) would be a welcome change. Furthermore, through the Sector Opportunity Analysis, which makes up part of the Electricity Networks Sector Growth Plan that we are actively engaged in, as well as current considerations with our ED3 business plan, we intend to seek a similar mechanism to assist our distribution business, with the aim of replicating these benefits within our DNO operations.

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

Our DNO and TO procurement processes typically prioritise lowest cost, technically compliant bids, which limits the flexibility to incorporate local value considerations such as local employment, and SME participation. The decision to utilise this priority criteria in our

procurements is to ensure that we are compliant with the licence and statutory expectations on our organisation. While we recognise that domestic sourcing is important to consumers and can deliver wider economic and societal benefits - adopting a stronger local approach may mean higher supply chain and unit costs compared to a lowest-cost approach. This could result in increased consumer bills. To ensure fairness and avoid competitive distortions, any move towards embedding domestic sourcing in network procurement would need to apply consistently among all network participants; otherwise, those not adopting these principles could gain a financial advantage.

Furthermore, the licences granted to SPEN by Ofgem require demonstration that all expenditure is efficient, economic and necessary. This obligation places a strong emphasis on cost efficiency and value for money as assessed through economic benchmarking and regulatory scrutiny. As a result, procurement decisions that prioritise domestic sourcing or wider social outcomes, where these may carry higher upfront costs, delays in delivery, or are more difficult to evidence in traditional efficiency terms, can be harder to justify within the regulatory framework.

This emphasis is further reinforced through legislation. The Electricity Act sets out the general duties of licence holders, requiring electricity distributors and transmission licensees to develop and maintain an efficient, co-ordinated and economical system of electricity distribution and transmission. This statutory duty focuses on efficiency and economy of the system and does not explicitly reference domestic sourcing or wider social value considerations. Consequently, licence holders may perceive a regulatory risk in weighting procurement decisions towards social or local economic outcomes where these are not clearly aligned with statutory conditions. As Ofgem implements the outcomes on the recent DESNZ review, there may be new opportunities to consider how regulatory frameworks can support UK supply chains, noting the reviews emphasis on placing net zero, economic growth and consumer outcomes on more equal footing.

Ofgem is bound by a statutory Growth Duty, which requires it to consider the impact of its decisions on economic growth alongside its primary duties. Because these duties must be balanced, it is not obvious how Ofgem could introduce any form of “local content” requirement without conflicting with its overriding obligation to protect consumers and ensure affordability.

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

For the purposes of this response, it has been assumed that resilient and sustainable supply chain investment relates specifically to UK manufacturing.

Firstly, it should be noted that investment in new manufacturing equipment is subject to significant lead times. Current market conditions require materials to be procured up to four years in advance of project delivery. As a result, a substantial proportion of our requirements for the RIIO-T3 period have already been secured, which limits the immediate benefit to new suppliers entering the market. In addition, given the high quality and technical standards required for a safe and resilient network, the approval of any new supplier necessitates extensive due diligence and qualification processes.

Considering these factors, and from an incentivisation perspective, SPEN would require an element of commercial risk underwriting in order to utilise a new and unproven supplier,

particularly due to delivery and performance risks associated with untested supply chains. Accordingly, it may be more commercially effective for Ofgem to focus any incentivisation on the procurement of standard, lower-complexity equipment from local suppliers. This approach would reduce commercial risk and, consequently, the level of incentive required.

Beyond commercial considerations, clearer guidance from Ofgem would be required regarding the intended outcomes of increased UK manufacturing. This would help ensure consistent interpretation and messaging across the organisation. Recent discussions on local supplier strategies have, at times, appeared to be in tension with Ofgem's assessment of economic and efficient investment principles, which are required to be followed by Network Owners. Therefore, we would require specific guidance to be developed on how local content was to be assessed in submissions and evidenced in order for Network Owners to justify costs and approaches.

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?

When developing our definition of local content, we were conscious of the need for a clear, consistent, and transparent approach that captures outcomes which are both measurable and meaningful. Therefore, we sought a definition that enables tangible outputs to be identified and quantified, providing clarity on what is included and how local content is calculated. Our proposed definition is as follows;

"Local content is deemed to have been engaged where investment has been made with UK legal entities for the provision of goods, services, or labour that contribute to the delivery of our projects, which have a measurable effect on local economic development through the creation of local jobs and investment in the UK economy."

This definition achieves our objective by linking local content explicitly to verifiable commercial activity with UK-registered entities and to outcomes that can be clearly measured, such as expenditure, employment, and investment. As a result, local content can be consistently calculated and reported, providing confidence that the stated impacts reflect tangible contributions to the UK economy.

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

We agree that reporting should encompass both equipment and services, as together they provide a more complete view of supply chain exposure and local content. Including services is important to reflect areas such as engineering, construction, and specialist support activities, which can represent a significant proportion of overall expenditure

However, to ensure the reporting requirement remains proportionate and does not place an undue burden on Network Owners, we consider that equipment reporting should be limited to high-level, major asset categories. This would include large, material pieces of plant and equipment that are readily identifiable, have longer lead times, and can be monitored consistently, such as transformers, cables, switchgear, and HVDC equipment. Focusing on these categories would provide meaningful insight while avoiding the complexity associated with tracking lower-value or commoditised components.

More detailed or granular categorisation of minor equipment items and components should be excluded, as the effort required to collect and validate this data would be disproportionate to the additional insight gained. Overall, a high-level, risk-based approach to categorisation would best balance transparency with deliverability and proportionality.

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.

We do not believe that a minimum contract value threshold should apply for the purposes of this reporting. While individual contracts may vary significantly in value, collectively they provide an important and holistic view of our exposure to, and engagement with, the UK supply market. Introducing value-based thresholds risks excluding cumulative expenditure that is material and relevant to understanding overall local content utilisation.

Instead, we consider that the primary focus of reporting should be on whether contracts are placed with UK-based entities, rather than on the specific financial value of individual contracts. This approach would better capture the breadth of engagement with domestic suppliers and service providers. Maintaining an inclusive approach to contract coverage, while reporting at a suitably high level, would provide meaningful insight into UK supply chain participation, while avoiding unnecessary complexity or administrative burden.

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?

We would be comfortable sharing high-level information that provides a clear narrative of our engagement with local content, provided that this does not require the disclosure of commercially sensitive information, such as details of secured suppliers or routes to market for equipment. Such information could include both percentage shares and value captured (£) relating to UK versus non-UK expenditure.

In addition, we would be able to provide equipment-level percentages and values aggregated into broader categories, for example HVDC components, transformers, switchgear, and cables. To support this approach, further guidance would be required and agreed regarding the categorisation of equipment, including clarification on whether activities such as assembly and repair contracts should be within scope. We would also be able to present services expenditure data in a similar format. We have taken the initiative as an organisation to plan future proactive local content information gathering on suppliers through our tenders to gain greater insight into our local content involvement. However, it is unclear how long it will take for this bank of information to be built up and to be productive for analysis.

However, we do not consider it appropriate to undertake a more granular breakdown of the supply chain across multiple tiers. The additional complexity associated with this level of analysis would place a disproportionate burden on the organisation and is unlikely to deliver commensurate or tangible benefits.

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

We do not consider the inclusion of social-value or supply-chain-length indicators to be proportionate or effective for resilience monitoring at this stage.

While some data may be available through preparatory tendering activities, we have limited visibility of the full extent of our suppliers' supply chains. Supply chains are also a moving picture, with expanding networks increasing complexity and uncertainty, which limits the usefulness of static indicators.

Additionally, we already have an established and extensive social value plan, as set out in RIIO-T3 submission. More detailed requirements, such as local content metrics, would require additional evidence gathering and create further administrative burden without delivering practical resilience insights on suppliers supply chain.

Finally, we consider it important to manage contractual risk appropriately. Suppliers are responsible for the resilience of their own supply chains, and it would not be proportionate for us to assume responsibility or risk beyond our direct contractual relationships.

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.

We do not consider it appropriate to incorporate a new standardised reporting requirement within the RIIO RIGs framework. Instead, we believe that any future reporting arrangements should be developed collaboratively with stakeholders, with a clear preference for a public-facing, insight-led report that focuses on high-level trends and aggregate outcomes, rather than detailed, compliance-driven data collection. This could be a standalone report or incorporated within the annual performance reports. This position is consistent with the rationale set out in our response to Question 7 above.

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

Similarly to our points mentioned in Question 7, any publication of SPEN's commercial information would need to be developed in a collaborative manner with Ofgem and the other Network Owners to ensure that capture and publication of information is consistent. We would not be opposed to yearly reporting of high-level figures such as high-level trends and aggregate outcomes per high level equipment category, so long as the requested data cannot be re-engineered to the detriment of SPEN's commercial data and that the data needed for any reporting is not overly burdensome to the detriment of our business operations.

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

As this would represent a new practice for our organisation, and a departure from our current bid evaluation approach based on lowest cost and technical compliance, further clarity would be required from Ofgem on how this should work in practice. We believe it is Ofgem's responsibility to demonstrate that engaging with local suppliers at higher cost is in the consumer interests and then provide licensees with the framework and incentives to enable it.

Our existing approach has been developed to ensure alignment with Ofgem's requirement that investment is efficient, economic and coordinated in the best interests of consumers. We would therefore welcome additional guidance from Ofgem on how any deviation from this framework would remain consistent with these statutory and regulatory obligations.

On a preliminary basis, we consider that any demonstration of proportionality could be linked to clearly defined measures, such as the creation of UK jobs or commitments to invest in the local economy, potentially captured through tender evaluation criteria. In our current procurement practices, for some pieces of equipment we already apply a whole life cost approach for acquiring new assets, using defined and objective assessment factors. This demonstrates that we have both the capability and experience to move beyond a purely lowest-cost basis when making procurement decisions. However, to apply such measures in practice, we would require robust, evidence-based guidance to demonstrate that accepting a higher-cost tender would deliver a material and demonstrable benefit to the wider UK economy or to supply-chain resilience.

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

There are a number of potential implementation risks and unintended consequences that should be considered at this stage. In particular, a strong commitment or expectation to engage new UK suppliers could, unintentionally, lead to a contraction of the overall supply base. Well-established international partners, who currently provide critical capacity, capability, and resilience, may reconsider or reduce their long-term commitments to the UK market if they perceive diminished opportunities or increased uncertainty. This could reduce competitive tension and, over time, weaken supply chain resilience.

Additionally, investment in new UK suppliers may introduce delivery and operational risks where some suppliers are unable to meet the required technical specifications, quality standards, or production capacities. Any shortfall in capability or scale could result in project delays, increased costs, and potential contractual penalties, particularly given the critical and safety related nature of transmission assets.

Furthermore, given that the sector operates within what can be characterised as a mature and well-developed global manufacturing market, there is a risk that significant investment to establish or materially expand new UK-based manufacturing capability may not deliver long-term value. Such investments could be vulnerable to subsequent acquisition by larger, non-UK entities (as we have seen in the past), limiting the strategic benefit and potentially diluting the original policy intent.