

Email to:

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18 December 2024

Dear Margaret Riach,

### **Response to Ofgem's Electricity Transmission Advanced Procurement Mechanism**

*Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.*

Scottish Renewables welcomes the opportunity to respond to Ofgem's consultation on their new Electricity Transmission Advanced Procurement Mechanism (APM) and commends the progress in developing this vitally important tool. Amidst a period of unprecedented change that is demanding a quadrupling of the rate of network build out<sup>1</sup>, early engagement with the supply chain will be vital. Delivering the UK's energy ambitions will depend upon a whole raft of skilled, experienced and innovative suppliers but these businesses will need visibility of network development and time to prepare for the volume of work to be delivered. Projects are being accelerated for delivery in the coming years, and enabling network operators to ready supply chains through a funding framework designed to maximise procurement for these immediate needs will be essential to meeting national climate targets.

Network operators and suppliers cannot wait until individual project confirmation of need. Compounded by the expedition of network build timelines, the issue of insufficient supplier availability requires bold policy choices that align with the ambitions of our national targets. As continually advocated for by Scottish Renewables, Ofgem must widen their perspective from individual projects to wider system risk, i.e., risk of stranded assets, significantly lessened by strategic plans, versus increased constraint costs. We welcome Ofgem's recognition of the success of Early Construction Funding (ECF) within the Accelerated Strategic Transmission Investment (ASTI) framework in advancing the delivery of projects, and Ofgem's subsequent adoption of elements within the APM. However, the revised context of current plans necessitates not only a continuation of the former instrument but an enhancement of its powers to mobilise the supply chain through appropriate design details.

The APM holds some potential to stimulate the supply chain generally by creating some longer-term visibility for suppliers through specifically addressing the needs of early deliverables within the RIIO-T3 pipeline. However, it risks exacerbating the existing challenges by simply providing upfront funding for TOs and not supporting a longer-term, system-wide solution that affords a wider view of projects,

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<sup>1</sup> Clean Power 2030

incentivising the supply chain to invest and increase capability. Businesses looking to expand their facilities and grow their capabilities while hiring and upskilling staff need to be able to justify the investment. Some of our members welcome the flexibility afforded by the proposals but also expect Ofgem to ensure the mechanism does not have adverse effects on competition between suppliers and/or transmission owners (TOs).

Furthermore, we would stress the importance of the continued effort for a more holistic approach to improved procurement, which supports delivery across all aspects of NESO's strategic plans. An evolution in procurement approach more generally is required to facilitate earlier and closer engagement with the supply chain in a way that improves process efficiencies, fosters greater symbiosis and ensures a level playing field between different businesses when competing for equipment or services.

Scottish Renewables welcome the initiative taken by Ofgem through the APM and the immediacy of its implementation for early RIIO-T3 deliverables; however, we have reservations about the potential impact for other projects if this mechanism distorts the supply chain to the detriment of achieving our climate goals. We present the following recommendations to optimise the intended output that Ofgem is seeking from the proposal.

#### Definition of constrained

While the APM intends to replicate the benefits seen from ECF, there are noticeable gaps where coverage is less comprehensive in the former despite a tightened resource landscape, such as strategic land purchases and early enabling works. The most evident example is the fact that the APM can only be employed for 'constrained' supply chains, unlike the ECF which was much wider in scope. Ofgem is requesting that the TOs evidence the constrained nature of a certain supply chain to recover costs for early procurement. However, the definition of 'constrained' is highly ambiguous and requires much greater clarity to ensure TOs have a clear, de-risked route to funding that affords the confidence to incur spending.

The definition of constrained could, importantly, take a broad or more narrow focus depending on how Ofgem's core intention for the APM is translated into the financially recoverable definition. As aforementioned, the context within which TOs must procure has changed; faster delivery dates inherently contract and constrain supply chains. A supply chain's delivery time might not have materially changed in comparison to past performance, but in real terms the external accelerated pace of project delivery presents a fundamental barrier to supply chain readiness, causing delays to new network construction. Whether constraints will be recorded against the average timeline for procurement or the availability of resource requires more clarity.

In essence, the definition of constrained now applies to all elements of the supply chain due to external pressures that are largely indiscriminate. Thus, when investigating the definition of constrained, the former model of the ECF seems appropriate. More detail on Ofgem's cost assessment process for the process, including that which informs re-openers, is a pre-requisite for ensuring the enduring success of the mechanism.

### 20% threshold

We believe Ofgem's proposal of a 20% cap on cost projections for the APM is overly restrictive and risks limiting the capacity of the mechanism to items that have already received regulatory approval. The mechanism reflects a level of risk more akin to securing manufacturing capacity for future deliverables while it arguably holds the greatest importance for immediate RIIO-T3 deliverables that are under pressure for delivery not least by the Clean Power by 2030 (CP30) plan. Ofgem should weave in more flexibility around this figure, considering the information TOs can provide, to set a more effective level.

While the APM means to empower network operators, it risks inadvertently stripping them of negotiation power that is key to keeping consumer cost low. Being cognisant of the 20% cap, supplier expectations around downpayments are inherently set and thus, TOs are limited in their ability to secure the best value for the consumer. Furthermore, the proposals may also lead to suppliers demanding similar payments from all parties, with those who are not able to match payments potentially being priced out of access to the supply chain.

This secondary effect on parties outside of the APM, such as Competitively Appointed Transmission Owners (CATOs), could create inflationary pressures whereby competition shifts from project readiness to value of payments to secure slots. In turn, this could lead to negative impacts of increased CfDs to fund such payments, in turn increasing consumer cost. We would encourage Ofgem to more closely consider this consequence and develop protectionist measures to mitigate against it.

### Provision of services

Many of our members are strongly supportive of the APM's scope including services. Without the workforce to design, deliver and install the procured equipment, the APM will not be successful in avoiding project delays. However, all incumbent TOs advocate for flexibility of procurement within this remit whereby each party, that has unique means of procuring compared to their counterparts as well as between projects internally, can determine their own method. To avoid interference, Ofgem should avoid tying procurement strategies to a regulatory mechanism.

Similarly to drawbacks with the 20% threshold, allowing services to be within scope of APM requires careful consideration to avoid distorting the market. Bundling constrained equipment supply with service procurement risks decreasing supplier appetite to bid for work packages that are not bundled, increasing the cost-of-service provision for other parties. This can already be observed in transmission EPC services where local tier one contractors are unavailable due to incumbent TO framework services agreement works, and thus demand a premium to participate in other works, if at all.

Unintended consequences that threaten to weaken Ofgem's pursuit of competition in the onshore electricity market must be carefully managed to ensure whole-system success from a vitally important tool.

### Safeguarding the market

As referenced throughout, Ofgem must design the APM within the wider context of the energy system and with consideration for the various other industry players to avoid distorting the market. An element of this will be the retrospective cost-assessment process to ensure competition is not being squandered as a result, and inflationary pressures do not mount.

Furthermore, it is important to minimise conflicts of interest whereby TOs could gain a commercial advantage through cross-subsidisation resulting from the APM in the context of competition, e.g., with CATOs, interconnectors, OFTO-build etc. Within the context of offshore wind developers, the increased competition for limited resources such as cables, transformers and switchgears could exacerbate pre-existing issues of procurement, e.g., suppliers are already indicating lead times of five to seven years for HVDC equipment. As aforementioned, under provision of services, there is the risk that suppliers may prioritise fulfilling large orders to the detriment of small or regional ones, impacting the delivery of vital Contracts for Difference (CfDs). Ofgem must proactively engage with suppliers and the Department for Energy Security and Net Zero (DESNZ) to diversify supply chain strategies to mitigate against the unintended reverberations of enabling TOs to procure in advance at scale.

In addition, to truly build fungibility, flexibility and fairness into the mechanism, it should, over time, be managed and delivered centrally by NESO, supported by standardised equipment where possible. While implementing centralised procurement by NESO in the immediate term would be challenging, it is important to ensure there is flexibility in the long lead equipment contracts procured, with clear and unconstrained novation rights to enable supply contracts to be passed onto third parties where appropriate. New entrants to the market must be protected via careful monitoring of the mechanism and a robust governance structure.

Likewise, supplier competitiveness is enhanced by the amount of time and information associated with a project, allowing for greater innovation and preparation as well as the hiring and training of the right people. Longer lead times allow suppliers to have more engagement with developers and workshop more efficient, innovative designs, which can require new equipment and/or certain materials. Suppliers are reliant on the volatile price of material costs and long lead time items, such as critical minerals like lithium, cobalt, and rare earth metals, which face supply chain constraints. Limited local manufacturing and processing capabilities make the UK reliant on imports, exposing businesses to potential supply disruptions and cost increases. By empowering suppliers to procure such materials in advance protects their project bids from price fluctuations, thus allowing newer entrants into the market by de-risking material rates while simultaneously preventing future delays. In turn, suppliers can produce more competitive, appealing offers that ultimately reduce cost to consumer and can expedite critical project delivery.

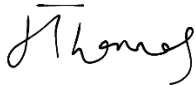
Supporting transformational supply chain investments will allow the UK to capture the maximum economic benefits from the clean energy transition. If large-scale tier one and two contractors have greater confidence of order need, the positive effect ricochets out to the wider community of associated small and medium-sized enterprise (SME) sub-contractors. If targeted correctly, the benefits from efforts to support the supply chain are naturally multiplied by the inter-connected nature of the supply chain,

creating green jobs and economic growth for smaller businesses also. Introducing instruments to mobilise the supply chain must be carefully considered to not inadvertently favour certain suppliers, leading to increased costs to consumers.

Ofgem needs to develop longer-term signals to promote supply chain investment and expansion alongside the APM for a more sustainable solution to the issue of constrained resources, as noted in Baringa's study for Government on UK renewables deployment supply chain readiness<sup>2</sup>. The NESO strategic plans should provide sufficient signals if they represent a reliable tender pipeline which is open to a wide range of contractors and delivery models. While the APM will help alleviate delivery issues for incumbent TOs, which is urgently needed, it must be expanded upon to serve a wider variety of contractors and delivery models to meet Ofgem's aims for competition as well as Government's ambition for Clean Power 2030 and Net Zero.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,



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<sup>2</sup> [UK renewables deployment supply chain readiness study - Executive summary for industry and policymakers](#)