

Consultation

Electricity Transmission Advanced Procurement Mechanism

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We are consulting on introducing an Advanced Procurement Mechanism into the electricity transmission price control which would fund transmission owners to book supply chain capacity in advance of certainty regarding project need. We would like views from people with an interest in the global and GB supply chain for electricity transmission equipment, as well as other interested stakeholders. We particularly welcome responses from equipment manufacturers. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Foreword

Government has an ambition for Great Britain to be supplied with clean power by 2030. Reaching this target requires the build-out of generation, storage and network infrastructure at a pace not seen in decades. This has led to an unprecedented volume of activity building energy infrastructure in this country. We fully support this drive and have already taken steps, including through our Accelerated Strategic Transmission Investment mechanism and RII0-ET3 framework, to ensure that the delivery of network infrastructure does not hold up the rollout of renewables and the acceleration towards clean homegrown power.

This is not a challenge specific to Great Britain. Many countries are stepping up their investment in clean energy at the same time, putting unprecedented pressure on the supply chain. We are alive to these pressures and want to play our part in relieving them by designing a regulatory framework that allows transmission owners to engage the supply chain in a manner that attracts as much interest as possible. We are especially conscious of enabling transmission owners to book capacity at an early stage, and to be able to procure at a scale which gains traction with the supply chain. Alongside this we would ensure that we, the transmission owners, and the National Energy System Operator provide industry with long-term visibility of the pipeline of work to bolster the confidence and growth of energy sector supply chain capacity.

In this consultation we propose a significant step change in how transmission owners are funded for their procurement of equipment and services: the Advanced Procurement Mechanism (APM). The APM would bring forward billions of pounds in allowances to de-risk the transmission owners in booking capacity for equipment years in advance of when it is needed, and often in advance of project designs being finalised. This would help to mitigate the detrimental impact that supply chain delays might have on the delivery of this nationally critical infrastructure and enable transmission owners to accelerate project delivery.

We are conscious however of the significant impact that the energy transition has had, and will continue to have, on consumer bills. As such, we would ensure that where transmission owners are de-risked by the APM that this does not disproportionately affect consumers. In the first instance the governance of the APM will be clear in how we would mitigate these risks, and where the transmission owners misuse the APM our governance arrangements will allow us to ensure that any such money is returned to consumers. The intention of the APM is to simply bring forward spending that would otherwise happen later (once projects reach specific funding milestones), rather than approving additional spend to what is proposed as part of wider system planning. The

APM design and governance proposed in this consultation aim to ensure that this spend is efficient and in consumers' best interests.

Akshay Kaul

Director General, Infrastructure

Executive Summary

Electricity networks in Great Britain (GB) require significant reinforcement and new network build over the coming years to help meet the government's ambition for GB to be supplied with clean power by 2030 and meet the UK's statutory net zero target and five-year carbon budgets. This requires significant investment in electricity transmission, but the transmission owners (TO) are facing considerable constraints to the supply of certain equipment and services that are critical for this network build. These constraints mean that TOs are experiencing extended lead times for equipment – if they wait to reserve equipment until the project-specific cost assessment has been completed this may be too late to get the equipment in time to deliver the project to the required timelines. These supply chain constraints could result in delays to project delivery and increases to consumer bills through constraint costs.

We therefore want to introduce a new regulatory mechanism for electricity transmission to mitigate current and future supply chain constraints which might otherwise result in delays to project delivery or increases in project costs. The Advanced Procurement Mechanism (APM) will de-risk the TOs securing supply chain capacity in bulk at a much earlier point in the project development cycle than currently, by funding spend earlier than it would be funded through other mechanisms. Subject to the outcome of this consultation, we intend to introduce the APM in early 2025.

In this consultation we set out and invite views on this proposed design of the APM as well as our proposed scope and governance arrangements.

Design

We are proposing the APM as an ex ante use-it-or-lose-it (UIOLI) allowance accompanied by a comprehensive APM Governance Document and APM Re-opener. This would involve setting allowances in TO licences so that they can then procure at short notice when required without new approval, but subject to strict governance that all parties were signed up to in advance – including reporting requirements.

The APM Re-opener would allow us to increase the allowances to reflect updated TO pipelines, and to add items to the APM scope to reflect new supply chain constraints or to remove items if some supply chain constraints ease.

Scope

We would use a qualitative impact assessment to determine eligibility for the APM to provide confidence that the APM funding will bring about a net benefit to consumers despite being unable to undertake a robust quantitative impact assessment. Our assessment focuses on confirming whether there is a demonstrable supply chain

constraint, how the TOs will reduce the risk of stranded procurement, and how the TOs will ensure that all APM procurement is traceable.

We propose to focus the scope of the APM on supply chains that are demonstrably constrained. We recognise that there could be consumer benefits in allowing advanced procurement of all TO activities. However, maintaining a targeted scope focuses TO spend at equipment that, without this mechanism, we are satisfied would be likely to cause delays to overall project completion. This reduces the volume of TO spend potentially at risk and focuses on reducing consumer detriment – together maximising the net benefit of the APM. This is a new mechanism, and so want to limit consumer exposure to areas where intervention is most clearly justified.

To minimise the risk of stranded procurement, we would require that the APM is focused on fungible procurement (ie of assets that are transferable between many different projects) or on flexible procurement (ie allowing the TOs time to determine the detailed specification of the asset). More bespoke procurement would be considered on a case-by-case basis to allow us to assess the net benefit and risk of stranded procurement.

We are also considering the extent to which services/labour will be eligible for the APM UIOLI or APM Re-opener. This could be required if there are specific supply chain constraints for services, but also may be required to allow TOs to secure contracts with third parties who will be responsible for procuring, designing and installing the equipment.

Governance

We intend to publish our decision in Q1 2025. The form of the APM as proposed in this consultation would require a statutory modification to the RIIO-ET2 licences, which would be done through a statutory consultation following any published decision.

To guide the day-to-day operation of the APM, we propose that the licence will be supported by an associated APM Governance Document. We propose that it will set out what the TOs must include in applications for APM funding, how we would evaluate APM applications, and also set out reporting requirements.

It is important that in all publications about the APM we consider both the benefits of transparency in supporting the delivery of consumer benefits, and the commercially sensitive nature of much of the information related to the APM. We therefore propose to publish high-level and non-TO specific information wherever possible, but the detailed expenditure under the APM will be kept confidential for Ofgem evaluation.

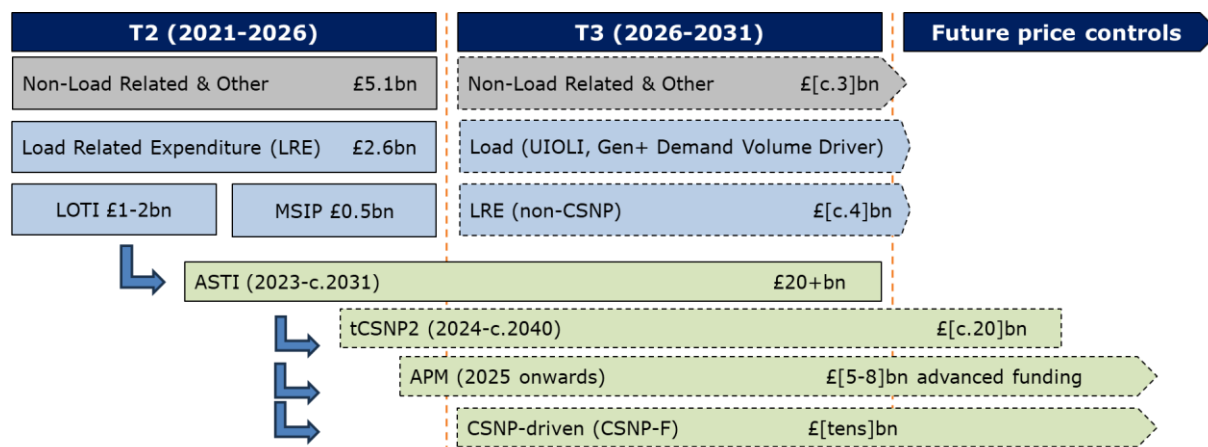
1. Introduction

Q1. Do you agree with our proposal to introduce the Advanced Procurement Mechanism to address supply chain constraints faced by the transmission owners?

Background

- 1.1 Electricity networks in Great Britain (GB) require significant reinforcement and new network build over the coming years to help meet government’s ambition for GB to be supplied with clean power by 2030 and to meet the UK’s statutory net zero target and five-year carbon budgets. To link new power sources, mainly offshore wind and nuclear, to the GB electricity transmission networks we need to invest roughly five times more in the next six years than in the last 30 years.
- 1.2 To achieve this, we, the National Energy System Operator (NESO) and the transmission owners (TO) are working together to improve coordination of investment plans. This will result in the Centralised Strategic Network Plan (CSNP), scheduled for 2027, while in the interim there are strategic plans and price control funding mechanisms already in place which seek to ensure that the GB network is reinforced at pace. These are shown in Figure 1.

Figure 1: Upcoming investment in electricity transmission¹



- 1.3 However, whilst we and the TOs are committed to delivering this investment, there are considerable constraints to the supply of certain equipment and services that are critical for the expansion of the electricity transmission network. This was recently discussed publicly² in the context of supply chain

¹ All numbers in square brackets in this figure are high-level estimates based on best information available at the time of publication. The RIIO-3 figures are drawn from draft Business Plans.

² Eg in an April 2024 government study: [UK renewables deployment supply chain readiness study - Executive summary for industry and policymakers](#)

constraints potentially being a key delivery risk affecting plans to build offshore generation capacity and the networks to get it connected. The TOs are also likely to face these issues in delivering their onshore build requirements. This has been caused by a multitude of factors including the war in Ukraine, the COVID-19 pandemic and the global push towards net zero which has increased demand for raw materials, equipment and skills.

- 1.4 These constraints mean that TOs are experiencing extended lead times for equipment required for projects, and in some instances supply chain capacity is already booked up several years out.³ If, as has typically been the case, the TOs waited to reserve equipment until the project-specific cost assessment that would occur through, for example, RIIO-ET3 baseline setting or a re-opener, this may be too late to get the equipment in time to deliver to the required timelines.
- 1.5 These extended lead times could result in delays to project delivery, which could put at risk the UK's plans to connect cheap, domestic sources of renewable generation, new hubs for demand growth such as data centres and the ability for the UK to be supplied by clean power by 2030. Project delays would likely cause increases to overall consumer bills through additional constraint costs. Delays to network build is also likely to mean fewer renewables on the system, and more fossil fuels in generation. This can be expected to result in higher wholesale electricity prices and higher carbon emissions.
- 1.6 The early construction funding (ECF) provided under our Accelerated Strategic Transmission Investment (ASTI) framework in RIIO-ET2 has provided funding for TOs to engage the supply chain at an earlier stage than was the case previously. Building on this we want to ensure that TOs continue to be able to engage the supply chain early but are able to do so in bulk, and across a broader range of projects than under ASTI ECF.

What we are consulting on

- 1.7 We want to introduce a new mechanism to operate across regulatory periods for electricity transmission price controls that will mitigate current and future supply chain constraints which might otherwise result in delays to project delivery and/or increases in project costs. The Advanced Procurement Mechanism (APM) will de-risk the TOs securing supply chain capacity in bulk at a much earlier

³ For example, transformers are now seeing lead times of 15-48 months as reported in April 2024: [UK renewables deployment supply chain readiness study - Executive summary for industry and policymakers](#)

point in the project development cycle than currently. The APM will allow the TOs to place deposits with suppliers based on the TOs' current estimates of project pipelines, without needing to wait for existing funding milestones to be met.⁴

- 1.8 We consider there to be three key principles in the development of the APM:
- **Agile.** The APM should enable TOs to react quickly to potential supply chain constraints at an early stage in the project development process, and should not create excessive regulatory burden for us or the TOs.
 - **Transparent.** The APM must be designed with reporting requirements that allow us, and ultimately consumers, to trace how the expenditure has been used, and to facilitate a robust efficiency assessment. The focus is on reporting information to Ofgem – we recognise the commercially sensitive nature of much of this information and discuss how we would handle this under 'Confidentiality' in Chapter 4.
 - **Protect consumers.** The APM must not transfer all risk to consumers – risk should be retained by the TO if it is best placed to manage that risk, such as through negotiations with suppliers. The scope of the APM should be carefully considered to ensure that any risk transferred to the consumer is justified, and mitigated wherever possible, eg through standardisation of equipment and booking equipment manufacturing slots that are not project specific until the need for that project is certain.
- 1.9 We expect that the APM would de-risk the unprecedented investment in new infrastructure that the TOs are committed to, accelerating each of their own procurement activities for delivering projects in the short to medium term. This should help to reduce the timescales for the delivery of projects by allowing TOs to acquire necessary equipment and services at an earlier date.
- 1.10 In the longer term we want to explore the potential to adapt the APM to allow TOs to develop a joint order book so that they can provide additional economies of scale and longer-term signals to the market. This should result in a commensurate development of capacity of the supply chain and workforce as they adapt and respond to the certainty the APM should provide. Nonetheless, we expect that the introduction of the mechanism as we currently envisage it

⁴ At present, TOs receive funding for the equipment required for a project only once that project's needs case and planning consents have been confirmed, and once we have carried out our cost assessment. Our ASTI mechanism allows some advanced procurement expenditure through ECF.

will provide a clear and positive message to the supply chain regarding the scale of GB's investment in its electricity networks over the coming decade to allow it to take decisions to invest more heavily in its UK-oriented capacity and, ideally, in its UK-located operations. In this respect, the APM can help to support development of UK industry, in line with our growth duty.⁵

- 1.11 We are proposing the APM in the form of an ex ante use-it-or-lose-it (UIOLI) allowance that would be accompanied by a comprehensive Governance Document. We are also proposing an APM Re-opener that allows us to approve case-by-case funding requests and to update the scope and allowances of the APM to reflect changing market conditions and project pipelines. This would involve setting allowances in TO licences so that they can then procure at short notice when required without requiring our approval each time, but this expenditure would be subject to strict governance set out in our APM Governance Document as well as our supervision and enforcement of the conditions we would set out in the licence.
- 1.12 We consider that this combination of UIOLI and re-opener would allow the right balance between speed of TO access to funding and consumer protections:
- The APM UIOLI for spending against a pre-agreed list will mean providing the majority of APM funding rapidly to avoid delays to the TOs' procurement activities, where there is a clear net benefit to this funding.
 - The APM Re-opener will allow us to approve some spending on a case-by-case basis so that we can have more oversight where the case for APM spending may be less clear. It will also allow us to keep the APM UIOLI up to date.
- 1.13 We anticipate that the initial value of the APM UIOLI across all three TOs will be in the range £5-8bn. This number is provisional and is based on current estimates of near-term investment pipelines and supply chain constraints. We will continue to work with the TOs to understand their anticipated procurement requirements, and would assess their applications in line with the proposed eligibility approach set out in Chapter 2 to determine the appropriate allowances for each TO.

Interaction with onshore competition and OFTO build regimes

- 1.14 We remain committed to extending competition into the design, delivery and ownership of onshore transmission projects. The legal framework to allow for

⁵ [Growth duty - GOV.UK](https://www.gov.uk/growth-duty)

this was included in the Energy Act 2023 and the government's Transmission Acceleration Action Plan (TAAP) stated the ambition to identify the first eligible project(s) for competition from the projects identified in the tCSNP2.

- 1.15 We are also developing an Offshore Transmission Owner (OFTO) build model to facilitate additional offshore network co-ordination. We recognise that these third parties (including new OFTOs and/or interconnectors) would face equivalent issues to the TOs in terms of engaging with the constrained supply chain.
- 1.16 Given the focus on the development of an early model of competition under the onshore Competitively Appointed Transmission Owner (CATO) regime, successful CATOs should be able to engage with the supply chain sufficiently early to avoid project delays. Furthermore, we intend to design the APM in a manner that avoids distortion of competitive tenders, by ensuring that activity relating to projects that are to be competitively tendered under the CATO regime are not eligible for funding through the APM.
- 1.17 We welcome views from respondents to this consultation, or through the ongoing development of the CATO regime and OFTO build regime, on how best to apply similar principles to establishing an approach to supporting appointed CATOs and OFTOs in navigating supply chain constraints.

Impact evaluation

- 1.18 It will not be possible to reliably undertake detailed quantitative analysis of the risks and benefits of the APM, to support a typical cost-benefit analysis. The lack of quantitative data is in part because the APM will not require expenditure to be allocated to specific projects either when the APM allowance is set nor when it is spent, eg:
- We are unable to understand potential constraint costs which would result from extended project delivery times that are a consequence of delays in the procurement of equipment.
 - It will not be possible to reliably quantify the increased risk of stranding for each equipment type or service.
- 1.19 Nonetheless, we consider that the costs, benefits and risks on a qualitative basis and consider that the risk of inaction – resulting in project delays and network constraint costs – fully justifies intervention.
- 1.20 The objective of the APM is to accelerate the delivery of the network build, including what is needed to deliver Clean Power 2030 (CP30) and beyond. This

has real value for consumers. NESO has estimated an additional £7bn of constraint costs or more if the planned network is not delivered by 2030.⁶ The APM will contribute to the avoidance of these constraint costs by helping to avoid delays to some projects and accelerating the delivery of others. Due to the APM being intentionally designed to not restrict funding to specific projects it is difficult to say how much of this constraint cost the APM will help to avoid. If for example the APM brings forward the delivery of only 20% of the constraint cost reductions associated with the CP30 package by a year, that would suggest benefits of £1.4bn. Some of the benefits of the APM will occur beyond 2030, when the electricity network will need to continue to expand to meet growing electricity demand resulting from the increasing electrification of heat and transport.

- 1.21 The cost of the APM is fundamentally uncertain. The intention of the APM is to simply bring forward spending that would otherwise happen anyway later (once projects reach specific funding milestones), rather than approving additional spend to what is proposed as part of wider system planning including CP30, the tCSNP2 and CSNP. But approving funding without a clear needs case results in a potential direct cost. By providing funding ahead of specific project approval, there is some risk that elements of the investment are not ultimately needed, and so some procurement may be considered wasted.
- 1.22 Nonetheless, we are satisfied that supply chain constraints are real and risk causing significant issues in project delivery. In our view there is a clear need for regulatory intervention. The APM proposes to reverse our previous practice of addressing need for equipment on a project by basis, to instead approving spend across the entire transmission system. Taking this indirect approach, subject to proper oversight by Ofgem, should ultimately result in the viable long-term energy supply that is in the best interests of consumers.
- 1.23 In terms of the risk of wasted spend, we expect that this should be small assuming appropriate procurement strategies – eg the focus on fungible and flexible procurement as highlighted in Chapter 2. We expect the majority of the APM spend, expected to initially be £5-8bn, to be on equipment. This should be low risk - and as set out in Chapter 2 we expect the TOs to minimise the risk of stranding through pursuing flexibility/fungibility.

⁶ [Clean Power 2030 | National Energy System Operator](#), page 36

- 1.24 Bespoke procurement would create an increased risk of stranding due to the inflexibility around which projects the procured asset/services can be used on. However, we expect bespoke procurement to be a relatively small proportion of overall spend under the APM.
- 1.25 Ultimately the size of the risk associated with the costs of these bespoke procurement projects will depend on our confidence around the planned projects, including the design that influences the equipment specification.
- 1.26 We assume that projects associated with CP30 are very low risk. If we then assume that beyond CP30 there is some moderate risk, we do not currently consider it plausible that the overall risk of waste/stranded procurement across the portfolio of investments subject to the APM would outweigh the potential scale of benefits from lower constraint costs. Earlier investment should also contribute to a faster shift to renewable generation, with lower wholesale prices and lower carbon emissions. Although we have not quantified the probability of additional costs to consumers, our view is that the scale of risk is relatively small, by comparison to the potential benefits.
- 1.27 We also consider whether accelerating investment would have the indirect effect of increasing or reducing the costs of equipment. TOs have provided evidence of efficiency from bundling supply chain bids. On the other hand, higher demand in a constrained international market could mean higher costs. On balance we do not have conclusive evidence to state that unit costs will be different as a result of the APM. More confidence should widen the supply chain options and therefore improve the efficiency of procurement. We therefore think it is more likely than not that costs will not be higher with the APM than without it, but do not make any assumption either way in our assessment of the APM.

Next steps

- 1.28 We invite your responses to the questions set out in this consultation by Wednesday 18th December 2024. Subject to responses to this consultation, we intend to publish our decision in Q1 2025.
- 1.29 The form of the APM as proposed in this consultation would require a statutory modification to the RIIO-ET2 licences, which would be done through a statutory consultation following any published decision. If the decision published following this consultation contains material changes to the proposals as set out here, the next steps may also change but we will endeavour to implement any decision in a timely manner to recognise the urgency of addressing these supply chain constraints.

2. Scope of the APM

- Q2. Do you agree with our proposed framework for evaluating eligibility?
- Q3. Do you agree with how we have defined supply chain constraints?
- Q4. What are your views on which equipment types are most constrained, which are at risk of future constraint, and which are less of a concern, and what are your views on the items we should include within the scope of the APM?
- Q5. What are your views on our intention to exclude strategic procurement from the APM, and the potential benefits of later expanding the APM to include it?
- Q6. Do you agree with how we have characterised fungible, flexible and bespoke procurement, and our proposed treatments of each of these? Do these definitions reflect real world contracting and engineering realities?
- Q7. Do you agree with our proposed approach to funding services contracts through the APM?

Background

- 2.1 In our RIIIO-3 Sector Specific Methodology Decision (SSMD) ET Annex⁷ we highlighted that our primary intended scope for the APM was to provide suitable funding for TOs to book multiple factory slots for agreed equipment classes (ie those with long lead times and/or very high demand) years in advance, even if the exact project detail or need is not yet certain. We also highlighted the importance of booked slots being flexible to allow for changes as project needs solidify over time, and for increased efforts for standardising equipment to aid with redeploying booked factory slots from one project to another.
- 2.2 To achieve the main objective of the APM – mitigating the impact of supply chain constraints to avoid delays to project delivery – while reducing the risk of waste or inefficient spend, we consider that the scope of the APM should be focused on procurement for which the TOs can demonstrate:
- the constraint and risk of delay and/or consumer detriment;
 - how the risk can be mitigated; and
 - how reporting will enable monitoring and assessment of the TOs' spend.
- 2.3 We discuss our proposed approach to assessing eligibility, including considering whether there is expected net benefit from APM funding, in further detail from paragraph 2.5.

⁷ [RIIO-3 Sector Specific Methodology Decision – ET Annex](#)

2.4 We then apply this evaluation approach to three key options for the scope of the APM, focusing on three areas:

- Supply chain constraints. How constrained does a market need to be to justify APM funding for 'constrained' equipment types?
- Avoiding stranded procurement. How flexible or fungible does the procurement or asset need be to justify APM funding?
- Services. Should service and labour contracts be eligible for APM funding?

Evaluating eligibility

2.5 To justify inclusion of any type of equipment/services in the APM, we need to have confidence that APM funding will bring about a net benefit. As highlighted under 'Impact Assessment' in Chapter 1, we will be unable to carry out ex ante quantitative assessment of the costs and benefits of potential expenditure under the APM, due to the uncertainty inherent to the APM's design.

2.6 We have therefore considered what an appropriate qualitative impact assessment could look like. We propose that for each asset category (or sub-category if there are variations on APM eligibility/need within the category) proposed for inclusion in the APM (see Table 1) the TOs need to demonstrate the following three areas:

- **Requirement.** For any procurement to be eligible for the APM we would need the TOs to provide evidence of the constraint to justify its inclusion. We intend to focus the scope of the APM on the areas where it can best address supply chain constraints, to maximise the consumer benefit of the APM. A conservative approach is justified to minimise the risk that consumers are exposed to, especially given that we will be unable to undertake a full formal quantitative impact assessment.
- **Mitigation.** We would also require that the TOs set out how they will mitigate the risk of waste given the provision of funding in advance of project need or detailed design. We would expect to see the TOs set out how they aim to achieve flexibility and/or fungibility in respect of the equipment procured.
- **Transparency.** Any expenditure under the APM needs to be transparent to ensure that we are able to monitor which projects the spend is later allocated to. We would request that TOs provide a full breakdown as to what will be included in the relevant supplier contract including the associated deposits and unit rates. We would also require assurances as to how use of their procurement will be tracked and reported, including consistency with

terminology used in wider reporting such as the Business Plans and Regulatory Reporting Packs (RRPs). This is important for monitoring the usage of the APM and for accurately allocating expenditure to enable efficiency assessment as part of our cost assessment – including avoiding double counting.

- 2.7 In demonstrating the requirement, the focus of the TOs' submissions will need to be on a demonstration of the constraint (eg low available capacity in the supply chain, or already increased lead times) and an indication of how this will lead to (i) project delays and/or (ii) increased costs. We would provide further information in the APM Governance Document to support TOs in making their case.
- 2.8 While we would not require that expenditure in the APM is allocated on a project by project basis, the TOs will make use of their existing project pipeline (which may be informed by specific portfolios such as tCSNP2) to develop their view of their upcoming procurement requirements. The TOs should therefore be able to provide examples of the potential delays they may face if we do not implement the APMs. We recognise that it would not be possible for TOs to provide a full quantitative cost benefit analysis, due to the early stage and high-level information available, but we do expect the TOs to provide as much information as they can to demonstrate the consumer detriment that the APM is intended to avoid.

Supply chain constraints

Introduction

- 2.9 The aim of the APM is to address the issue of supply chain constraints and as such in this section we consider:
- how to define and demonstrate supply chain constraints for the purpose of the APM;
 - a proposed list of constrained equipment/services; and
 - whether it would be beneficial to expand the scope beyond these constrained areas.

Definition of 'constraint'

- 2.10 To demonstrate eligibility of an expenditure category for APM funding, we are proposing to require the TOs to provide evidence of the constraint (eg through examples of current lead times or capacity) and the impact that this will have on project delivery timelines and any resulting increases in cost to the consumer.

- 2.11 We do not consider that there is a set lead time, or additional lead time, that alone would be sufficient to represent a 'constraint' for the purposes of the APM.
- 2.12 It is important that the APM is focused on alleviating supply chain constraints that risk delays to overall project delivery. Lead times should therefore be taken in the context of what is normal or tolerable for that type of procurement. For example:
- Equipment type 'A' would typically need to be delivered to the TOs by 18 months after we set allowances. This is the 'tolerable lead time'.
 - For the purposes of the APM we would only consider this market to be constrained once the lead time is significantly above that 'tolerable lead time', eg a minimum of six months.
 - We would require the TOs to set out the lead times that they are experiencing or anticipating alongside an indication of usual lead times from recent years and an understanding of what lead time would be tolerable.
- 2.13 We recognise that in some situations TOs may not yet be experiencing extended lead times, but can observe limited remaining capacity in the supply chains. We are open to the TOs providing such evidence of anticipated delays if they do not set contracts with supply chains early. In these circumstances we would still require the TOs to demonstrate that the potential delay in delivery of the equipment would put project delivery at risk.

Constrained equipment types

- 2.14 Table 1 sets out our best view of the equipment types that TOs might be required to procure over the next decade in order to build and reinforce their networks.

Table 1: TO equipment⁸

Asset Category	Asset sub-categories	(units)
Batteries	Batteries at substations	(each)
Cable	Circuit cable	(km)
	Submarine cable	(km)
	Substation cable	(km)
Circuit Breaker	Circuit breaker – air insulated busbar	(each)
	Circuit breaker – gas insulated busbar (indoor)	(each)
	Circuit breaker – gas insulated busbar (outdoor)	(each)
	Ground-mounted switch	(each)

⁸ A more complete list, including breaking some asset types into separate voltages, is available in the Business Plan Data Template Sheet "1.8 Asset Possibilities", available in Annex 7 of our [RIIO-3 Business Plan Guidance | Ofgem](#)

Asset Category	Asset sub-categories	(units)
Earth Wire	Overhead lines (tower line) earth wire Earth wire fittings	(km) (per set)
Flexible alternating current transmission system (FACTS)	FACTS equipment	(each)
High voltage direct current (HVDC)	Converter transformer Converter Onshore cable Overhead conductor Submarine cable	(each) (each) (km) (km) (km)
Instrument Transformers	Current transformer Voltage transformer High accuracy metering combined transformer	(each) (each) (each)
Switchgear	Air insulated busbar Gas insulated busbar (indoor) Gas insulated busbar (outdoor) Disconnecter (air insulated busbar) Earth Switch (air insulated busbar)	(metre) (metre) (metre) (each) (each)
Overhead Line Fittings	Fittings	(each)
Overhead Pole Line	Conductor High temperature low sag (HTLS) conductor Pole	(km) (each) (each)
Overhead Tower Line	Conductor High temperature low sag (HTLS) Conductor Tower	(km) (km) (each)
Wound plant	Series reactor Shunt reactor Tertiary connected reactor Transformer	(each) (each) (each) (each)

2.15 Our initial engagement with TOs and industry indicated that delays of varying lengths are being experienced in relation to procurement of equipment types that are contained within the list above.

2.16 We consider that the TOs have already provided some helpful evidence to show which of the areas above are constrained, but through this consultation we would like to gain a wider insight into which equipment types are most constrained, which are at risk of future constraint, and which are less of a concern. This will inform our final decision on which equipment types should initially be eligible for the APM.

2.17 In order to maximise our ability to effect positive outcomes through delivery of the APM our specific asks of respondents to this consultation are as follows:⁹

⁹ If respondents prefer to submit this information to us on a confidential basis we are happy to receive it as such and will not publish anything flagged as 'confidential' on our website.

- All three TOs should submit one joint 'market assessment' regarding the constraints being experienced in the supply of equipment. This should clearly set out where all TOs are aligned in their views, and any areas where there are differences of opinion. Where possible, this should encompass an assessment of the various levels of the supply chain, not just tier 1 suppliers.
- If necessary and not already covered by the joint market assessment described above, each TO should submit its own view regarding the constraints being experienced in the supply of equipment.
- We also welcome views from other respondents, especially equipment manufacturers and suppliers, as to their view on which parts of the supply chain are especially constrained at present, what is causing these constraints, and when we may expect them to ease.

2.18 While we expect there to be a great deal of commonality in the supply chain constraints and procurement requirements of the three TOs, we recognise that they will have differing demands and needs given their respective operating areas and geography.

2.19 Chapter 4 sets out our views on options for updating APM eligibility in the future.

Strategic procurement

2.20 We could allow a wider APM scope to focus on strategic procurement across all TO activities rather than only areas which are facing supply chain constraints.

2.21 The main benefit of this would be that it would de-risk programmatic bulk purchase agreements, which can offer potential savings for procuring at scale and offering suppliers certainty even where there are no current supply chain constraints. This can also offer the TOs greater resilience to unexpected supply chain shocks as a result of providing a large, long-term, stimulus to the supply chain.

2.22 However, while the likelihood of stranded procurement for this broad scope is not necessarily any higher than for a scope more focused on equipment with supply chain constraints, this broad scope would materially increase the total expenditure at risk. We are also conscious that this is a first-of-its-kind mechanism for GB network companies and initially we want to focus TOs' efforts on the areas of the supply chain that are most constrained, and thus likely to cause most consumer detriment if not addressed through the APM.

- 2.23 We recognise the potential for benefits in advanced procurement beyond the initial focus on constrained supply chains. We are in principle open to expanding the APM to include non-constrained procurement at a later date if the benefits case can be proven, eg demonstrably lower prices long term and greater supply chain resilience providing greater confidence for future ET projects.

Minimising stranded procurement

Introduction

- 2.24 The APM would provide the TOs with funding for the procurement of equipment without needing to demonstrate which projects that procurement is for. While the TOs would use their best understanding of their individual project pipelines to target their APM expenditure, there is a risk that some envisaged needs change or fail to transpire. If procurement through the APM cannot be used for another project, this could result in stranded procurement, with any related expenditure being written off.
- 2.25 It is therefore important that we minimise the risk of stranded expenditure. We propose to do this by treating types of procurement differently based on whether it is fungible, flexible or bespoke:
- Fungible procurement, where the procured asset is highly fungible and can be easily transferred to another project even when constructed (eg steel towers or wood poles, which are used on many different projects).
 - Flexible procurement, in relation to the contract allowing flexibility about the precise specifications of what is being procured until a reasonably late stage when project need is certain (eg the exact specifications of an air insulated switchgear (AIS) which can be narrowed down several months before manufacturing commences).
 - Bespoke procurement, where the procurement is not flexible and the asset is not fungible (eg gas insulated switchgear (GIS) that has very project-specific design specifications from an early stage).

- 2.26 We discuss how each of these could be treated in the APM below.

Fungible procurement

- 2.27 Fungible procurement focuses on the transferability of the asset itself. A highly fungible asset could be used on a variety of different projects, such that there is little risk of wastage if a large volume of assets is procured at an early stage.
- 2.28 For example, a TO could procure hundreds of steel towers with confidence that these could be used on a variety of projects even if there are some changes to

the capacity or location of where that equipment is used following its manufacture. The fungibility of these assets can therefore help to mitigate the risk of waste and asset stranding.

- 2.29 We want TOs to provide us with details of which assets can be procured 'fungibly' in this manner in response to this consultation, even if that comes in the form of confidential annexes to their responses. To demonstrate that equipment is sufficiently fungible for eligibility for the APM, we want TOs to set out multiple examples of projects that the equipment could be used for.
- 2.30 As set out at paragraph 1.9, in the medium/long term we are also interested in increasing cooperation between TOs in how they procure. As such, and in line with standardisation recommendations the Electricity Networks Commissioner's report on accelerating electricity transmission network build (ENC Report),¹⁰ where possible TOs should seek to procure standardised equipment which would be fungible between their networks. The government's TAAP suggested creating a forum between the ESO and TO equipment manufacturers to review and update equipment standards used within GB, and we understand that this working group is now live. Progress on standardisation should increase the fungibility of assets and should reduce the risk of asset stranding in the APM.

Flexible procurement

- 2.31 Flexible procurement focuses on allowing the TOs time to determine the detailed specification of the asset they are procuring. This means that when the TOs pay a deposit to reserve capacity with their suppliers, the TO will need to give a high-level view of the equipment required but will not provide a detailed specification until later in the procurement process, ie much closer to the delivery date agreed with the TO. This allows further time for the TO to develop its projects further, eg through the detailed design process, to understand the specifications of the equipment required. Standardisation, as discussed under fungible procurement, could also help to facilitate more flexible procurement by reducing the variation and specifications that suppliers need to account for.
- 2.32 For example, a TO could agree a high-level requirement for AIS with its supplier if the APM is active in 2025, but could wait to provide further specification until 12-24 months later, when it is certain which project the equipment will be used on.

¹⁰ <https://www.gov.uk/government/publications/accelerating-electricity-transmission-network-deployment-electricity-network-commissioners-recommendations>

- 2.33 We want TOs to provide us with details of which assets can be procured 'flexibly' in this manner in response to this consultation, even if that comes in the form of confidential annexes to their responses. We also want TOs to set out their strategies for procuring flexibly. While actual contract terms may differ, this will allow us upfront confidence that the TOs are taking steps to ensure flexibility to mitigate against waste, and provide a strategy to later assess actual contracts against if required.

Bespoke procurement

- 2.34 We also recognise that there may be bespoke equipment with constrained supply chains, where procurement cannot be flexible or fungible because the equipment is designed in a way which means it is specific to a particular project from a very early stage.
- 2.35 The risk of wasted APM spending – if the original project need disappears – is much higher with bespoke equipment, due to the limited ability to redeploy the capacity slot or asset. Therefore, there is less of a case for including bespoke equipment in the APM UIOLI. Nonetheless, we recognise the potential for consumer detriment if there are severe delays to the procurement of bespoke equipment required for critical infrastructure build.
- 2.36 As such, we propose that bespoke equipment can receive APM funding on a case-by-case basis through the APM Re-opener set out in Chapter 3, and that this funding would remain assigned to a particular project. This offers a balanced approach to provide advanced funding to the TOs to de-risk timely procurement of required equipment, while minimising the risk of waste (and thus higher costs).
- 2.37 We propose that if the TOs are aware of any immediate need for bespoke procurement, they would apply for this alongside their initial UIOLI application to take effect from the start of the APM.

Services

- 2.38 We are considering whether to allow the APM to be used to procure services (eg specialist engineering resources or skilled tradespeople), in addition to equipment. These markets are likely to face significant constraints in future due to competing demand for similar skills,¹¹ which may result in delays to the

¹¹ Services/installation supply chain constraints were also highlighted in the government's April 2024 study: [UK renewables deployment supply chain readiness study - Executive summary for industry and policymakers](#)

installation of procured equipment. Such constraints could be eased by including contracts for services in the APM. As with equipment, it is anticipated that the certainty provided to the market through APM deposits would encourage suppliers to build and retain a workforce to ensure they can fulfil upcoming GB demand.

- 2.39 We invite views on if and how we should account for services procurement in the APM, including whether there are particular types of constrained services to consider, and whether it should be included as part of the standard APM list or require case-by-case approval.
- 2.40 We also invite views on whether, if services contracts are included in the scope of the APM, they should be included within the APM UIOLI or require assessment on a case-by-case basis through the APM Re-opener. We note that ECF under the ASTI framework can be spent on services but is assessed on a case-by-case basis.¹²
- 2.41 We recognise that the TOs can procure services through 'direct procurement' or 'indirect procurement' and the different characteristics may justify different treatment under the APM. We provide further detail on the differences between these procurement types below.

Direct procurement

- 2.42 Direct procurement is where the TO procures directly and separately with the end supplier of the respective equipment or service being provided, ie the equipment and services contracts are not contractually linked.
- 2.43 For directly procured services contracts to be included within the scope of the APM, TOs should satisfy the three areas set out in paragraph 2.6, ie:
- **Requirement.** There is a common understanding that there is already, or will be, constraints for certain types of labour.
 - **Mitigation.** We expect that labour should be mobile and skills should be fungible across multiple projects, so we expect TOs to describe how this could be formalised in contracts.
 - **Transparency.** The usage of services procured by the APM over time would be more difficult to track than the usage of equipment. For example, it

¹² For example, the Main Works Contractor (MWC) in the HWUP project: [Statutory consultation on North London \(HWUP\) Early Construction Funding application and corresponding proposed modification to Special Condition 3.41 of NGET's electricity transmission licence](#)

would be straightforward for TOs to track and report which projects 100km of cable was used on, whereas it would be more challenging to break out which hours of labour were used on particular projects at particular times.

- 2.44 We consider that it is likely to be difficult to sufficiently evidence the above three tests for direct procurement of services to justify inclusion in the APM, particularly based on what we have seen so far. We invite views on if and how such procurement could meet these tests.

Indirect procurement

- 2.45 Indirect procurement involves a TO procuring a contract with a third party which delivers a combined scope ie design and engineering as well as the equipment.

- 2.46 Indirect contracts are higher value for the same volume of equipment and so procurement through these types of contracts would increase the overall sum of money spent and put at risk through the APM. In addition to the requirements set out in paragraph 2.43 above, we would require the following information from the TOs to allow us to determine whether it should be eligible for the APM:

- **Requirement.** Setting out the equipment constraint consistent and why this procurement is best done jointly rather than as separate contracts.
- **Mitigation.** As these contracts are more complex and may contain more project-specific elements we would require additional assurances on flexibility/fungibility.
- **Transparency.** These types of contracts are likely to be adequately traceable for us to monitor these and allocate costs to a specific project once required. We do consider it a risk that these contracts could be complex and contain many elements, and we would require that the TOs provide a breakdown of expenditure within these contracts to facilitate cost assessment.

- 2.47 On balance, we consider that there is no increased consumer risk by including the indirect procurement of services where these services are within a wider contract that includes equipment that has a demonstrable supply chain constraint. This is because we would still be able to neatly track the use of the equipment, and corresponding services, through the APM Register. We are therefore open to including such expenditure in the APM, subject to views received in response to this consultation.

3. APM design

- Q8. Do you agree with our rationale for using a UIOLI mechanism for the majority of APM expenditure, rather than other regulatory tools?
- Q9. Do you agree with our proposal for the APM allowance to be capped at 20% of the estimated equipment cost?
- Q10. Do you agree with the use of a re-opener to update the APM in-period?
- Q11. What are your views on our proposed approach to cost reconciliation?

- 3.1 We are proposing the APM in the form of an ex ante UIOLI allowance that would be accompanied by a comprehensive governance document and a re-opener. This would involve setting details in the licence and accompanying APM Governance Document, allowing the TOs to then spend under the APM UIOLI when required without requiring our approval each time.
- 3.2 We consider that this combination of UIOLI and re-opener would create the right balance between providing the majority of APM funding rapidly to avoid delays to the TOs' procurement activities, where there is a clear net benefit to this funding, while allowing us more oversight where the case for APM spending may be less clear.

Ex ante UIOLI allowance

- 3.3 The initial value we propose to set under the APM UIOLI would reflect a high-level view of known projects submitted to us by the TOs, but this mechanism will not confirm the needs case for those projects and the APM allowances would not be project specific. It would be a flexible and fungible funding pot, consistent with our expectations set out in Chapter 2 regarding the procurement it supports.
- 3.4 Subject to the responses to this consultation, in late December 2024 we may issue the TOs with a request for information which would be used to inform the initial value of the APM UIOLI, and populate the first iteration of the APM Register, described further in the section below.
- 3.5 If some intended uses for procurement equipment fail to materialise (eg if the technical specification of a project changes) the intent would be to use the booked manufacturing slots for different projects that need similar equipment, given that the procurement will be flexible and/or fungible. This would require an initial degree of flexibility in how the slots are booked, which is then firmed up later, which is what we understand to be common practice based on our discussions with the TOs.

- 3.6 The TOs would report spending against the APM UIOLI as part of annual RIIO reporting and would report final total cost through the project cost submission, where APM expenditure will be netted off against final project costs. We elaborate further on reporting requirements and cost reconciliation in the section below.
- 3.7 We consider an ex ante UIOLI allowance to be the most efficient and effective way to provide the required funding to the TOs. The main benefit of a UIOLI is that the allowance is made available for the TOs to use as required, but any unused funds go back to the consumer in full (ie there is no incentive to underspend a UIOLI allowance).

Alternative regulatory mechanisms to a UIOLI

- 3.8 We have also considered whether we could establish the APM through other regulatory mechanisms, such as Price Control Deliverables (PCDs) or general totex.
- 3.9 We consider that PCDs would not be appropriate in this instance because these would tie the TOs to the procurement of specific equipment, potentially for specific projects, at a time when such information may not be known. This would run counter to what we are trying to achieve through the APM, ie advanced bulk procurement, and the principles of the APM set out in paragraph 1.7. Setting a specific PCD would require our intervention to assess projects at a time when the need for those specific projects would be highly uncertain, which itself would be very challenging and risk project delays.
- 3.10 We also do not currently believe that increasing totex allowances with no outputs attached to de-risk advanced procurement would be appropriate, because:
- This would not provide the consumer protections that the APM Governance Document we would introduce alongside the UIOLI will provide; and
 - The application of the Totex Incentive Mechanism (TIM)¹³ to placing deposits for early procurement could create perverse incentives, such as encouraging TOs to pitch an unattractive offering to the market or not engaging the market at all.

¹³ Under the TIM, a company is allowed to retain a share of any underspending of its cost allowance, and bears a share of any overspending. The TIM also works as a risk-sharing mechanism, as the company shares risks and benefits of under/overperformance with consumers.

3.11 As such, we believe the UIOLI mechanism is better suited to the needs of the APM. However, as explained in our ‘Cost reconciliation’ section below, the ultimate cost of equipment procured using the APM will still be subject to a cost assessment, at which point deliverables will be set for the delivery of the project including the procured equipment.

APM Register

3.12 To track the allowances and spend under the APM, we intend to maintain a confidential APM Register which includes a list of all eligible equipment for each TO. The expected categories for this Register are shown in Figure 2 below.

3.13 Through engagement with the TOs and their reporting of their engagement with suppliers, we propose that the default allowance for deposits in the APM will be 20% of the estimated final equipment cost, as included in Figure 2. We would seek to work with TOs to agree a value for the estimated final equipment cost when setting the APM. We are particularly interested in suppliers’ and manufacturers’ views on how to reach this figure.

Figure 2: Categories for the APM Register

1. APM allowance Proposed by the TOs and approved by Ofgem				2. TOs report on procurement			3. TOs report on allocation to projects				4. Cost assessment Ofgem approval			
Item	Estimated final equipment cost rate	APM unit	Assumed volumes	Indicative APM allowance	Contracts signed	Deposits placed	Remaining APM allowance	Project name	Volume	APM max	Actual spend	APM allowance allocated	Agreed equipment cost	Additional equipment allowance
(a)	(b = a*20%)	(c)	(d = b*c)	(e)	(f)	(g)	(h = b * g)	(i = f * g/e)	(j = min (h, i))	(i)	(j = i - h)			
Item 1	£20m / km	£4m / km	200km	£800m	200km	£700m	n/a	Project A Unused	50km 150km	£200m £600m	£175m £525m	£175m £525m	£900m n/a	£725m n/a
Item 2	£5m / item	£1m / item	250	£250m	-	-	n/a-							
Total				£1,050m		£700m	£350m							

3.14 The first set of columns of the APM Register shown above (“1. APM allowance”) would be populated by the TOs, to be agreed with us, in advance of formal market engagement based on the best information available at the time regarding a potential project pipeline.

3.15 Each item in the APM Register should be defined with three columns of detail, aligned with the Asset Category, Asset Sub-category, and Voltage as given in the Business Plan Data Template (BPDT).¹⁴ If procurement is flexible to any part of this, eg to the voltage, then the TO should indicate this for recording in the APM Register.

¹⁴ Sheet “1.8 Asset Possibilities”, available in Annex 7 of our [RIIO-3 Business Plan Guidance | Ofgem](#).

- 3.16 Under the second section ("2. TOs report on procurement"), the TOs will then be required to provide us with updated information when they commit to spending under the APM through supplier contracts, and would also be required to provide updates once allocating APM-procured equipment/services to specific projects.
- 3.17 The remaining columns would be populated at a later stage: "3. TOs report on allocation to projects" when the booked equipment slots are assigned to a specific project, and "4. Cost assessment" demonstrates how the APM allowances would interact with the final project allowances, set at cost assessment.
- 3.18 The APM Register will therefore include the following categories for each equipment type for each TO, provided by the TO at different stages:
- When requesting allowances under the APM, the TO must inform us of estimated total cost per unit and number of units.
 - Upon signing contracts with suppliers, the TO must inform us of the number of actual units booked and the deposit placed.
 - When allocating APM-procured equipment/services to projects, the TO must inform us of which project the equipment/services have been allocated to how many units have been allocated, and the final total equipment cost for these units.
- 3.19 The full APM Register would be established upon commencement of the APM. The APM Register would be confidential; these details would not be published or included in the TOs' licence, but would provide part of our monitoring and understanding of how the APM is being used. The licence for each TO would include a list of eligible equipment/service types and total allowed expenditure, without splitting this expenditure by equipment/service type. The published decision for the APM will set out the list of equipment/services and allowances as a total for all three TOs combined.

Cost reconciliation

- 3.20 The TOs will need to demonstrate that they have undertaken competitive procurement, to help ensure cost efficiency. The total cost of equipment and efficiency will be assessed as a whole at the point that full project costs are sought (eg at project assessment stage for ASTI projects), including any deposit placed through the APM. In setting final project allowances, we would net off the relevant allowances used under the APM against the total project cost. The calculation for this is shown in the final column of Figure 2.

Cost efficiency

- 3.21 As set out in the section above, we are proposing that TOs provide us with information to allow us to track spend under the APM from the point of requesting funding, to understanding which projects APM procurement have been used on. Once APM procurement is allocated to a project, the TOs would be required to inform Ofgem of the volume allocated to which project, allowing us to understand (1) how much of the APM expenditure is allocated to that project and (2) how much APM spend for that procurement category remains unallocated.
- 3.22 In Figure 2 we set out an illustrative example of the information we would record on APM spending and how it will feed into the additional allowance offered after full cost assessment. The full assessment cost would be eligible to cost assessment – ie including the deposit paid, such that the efficiency of the entire project is assessed as one. The allowance through the APM will not change, and as a result of this any inefficiency will be reflected in the allowance offered in the full cost assessment.
- 3.23 We recognise that by procuring when the market is constrained, TOs may be tied to a higher price. Therefore, to fairly assess cost efficiency, we would compare market rates of equipment achieved by all three TOs. We may look to create a cost benchmark that takes into account performance internationally.

Inefficient expenditure

- 3.24 We set out above how APM spend once it feeds into cost assessment. It will also be important that we monitor spending under the APM that has not yet been allocated to a project. This would be recorded in the APM Register as set out in Chapter 3 (eg in the 'unused' row in Figure 2).
- 3.25 We would review expenditure under the APM periodically, using the information as in the APM Register, and would seek to understand from the TOs when they anticipate using APM spend on specific projects. As part of this review, we would then request further information and/or assurances from the TOs regarding the justification for undertaking the procurement, eg how they determined this element of their procurement pipeline. In considering whether spend is inefficient, we would take account of the knowledge and the information that should have been reasonably available to the licensee at the time of incurring expenditure.
- 3.26 Should we determine that any expenditure has been inefficient, we would seek to disallow this. As funding would have already been drawn down through the

APM, any disallowed expenditure would need to be clawed back through an adjustment to allowances.

- 3.27 We do not propose to set a time limit for allocating expenditure of allowances under the APM UIOLI to specific projects. We consider that the TOs are best placed to judge and prioritise use of their secured capacity. Indicatively we anticipate that the time between drawing down APM funding and allocating spend to a specific project will be between three and seven years.
- 3.28 We would include further guidance on how we would determine and treat inefficient expenditure in our APM Governance Document. We welcome views on how we should determine and treat inefficient expenditure, including whether we should include time limits on this within the APM Governance Document.

Adjusting baseline allowances

- 3.29 Some APM procurement may be allocated to projects that will be allocated funds under RIIO-ET3 baseline allowances. It is important to ensure there is no double counting of APM expenditure, and so baseline allowances will need to be adjusted to remove APM expenditure on deposits and to reflect only the remaining cost for these cost items (eg the remaining 80% after the deposit has been paid). Our APM Register and reporting requirements should provide us with the information to ensure full tracking of expenditure to avoid double counting.
- 3.30 We would ask TOs to report the actual use of the APM within projects in the RRs and we would then deduct the relevant APM allowance from this project through the relevant licence condition(s).

APM re-opener

- 3.31 We propose to use a re-opener to allow the APM to remain up to date as market situations change.
- 3.32 The APM Re-opener would be used to update the eligible categories of procurement, allowing new items to be added to the APM Register if new market constraints are identified, and to allow items to be removed from the APM Register if market conditions improve. It could also be used to update the allowances for eligible procurement in light of changes to the TOs' procurement pipelines – typically to increase their allowances as new projects enter their project pipelines.
- 3.33 The APM Re-opener could also be used to provide allowances on a case-by-case basis for bespoke procurement, as discussed in Section 2.
- 3.34 We are proposing that the APM Re-opener will comprise:

- a one week-long re-opener window in April of the relevant year for TO applications; and
- the ability for Ofgem to trigger the APM Re-opener at other times as deemed appropriate, including based on information provided by the TOs.

3.35 The main benefit of an annual re-opener window is that it allows us certainty over when to receive submissions. This certainty will allow us to prepare for the TOs' submissions such that we can make the decision in a timely manner. Nonetheless, we recognise that the TOs may identify more urgent procurement needs that cannot wait until the next re-opener window, and so we are open to triggering the APM re-opener at other times.

3.36 We propose that the APM Governance Document will set out what information the TOs need to provide with their application for a re-opener, focusing on the requirement for the TOs to be able to demonstrate the three requirements to support our evaluation as set out from paragraph 2.5.

4. Governance

- Q12. What are your views on how we should approach in-period updates to the APM?
- Q13. Do you agree with our proposal regarding retrospective application of the APM?
- Q14. Do you agree that the publication of detailed APM costs and volumes could be commercially detrimental to TOs, and by extension consumers? If so, why?

APM Governance Document

- 4.1 We propose that the operation of the APM through TOs' licence conditions will be supported by an associated APM Governance Document.
- 4.2 We propose that the APM Governance Document would have the following functions:
- It would describe what the TOs must include in their applications for APM funding, and how we would assess those applications. This, alongside the licence conditions, will ensure that TOs can only access funding when they are implementing the consumer mitigations described in the document, especially around flexible and fungible procurement.
 - It would detail the reporting requirements, including timelines the TOs will need to stick to.
 - It would set out how costs incurred under the APM UIOLI will be reconciled against final project allowances (see cost reconciliation section for our current views on this).
 - It would describe how the APM Re-opener will operate, and how the APM allowances and APM Register will be updated.
 - It would describe process by which we would update the confidential annexes to the TOs licence, and how these can be updated.
- 4.3 We welcome views on the governance of the APM and what should be included in the APM Governance Document.

Licence

Introducing the condition

- 4.4 Subject to the outcome of this consultation, we are proposing to introduce the APM through a statutory modification to the RIIO-ET2 licences in early 2025, to allow the TOs to begin to use the APM as soon as possible.

In-period licence/APM updates

- 4.5 As set out in Chapter 3, we are proposing to introduce the APM Re-opener in order to enable periodic updates to APM allowances and the list of eligible APM

equipment/services. We would want to ensure that these updates are done as swiftly as possible in order to maximise how responsive the APM is to changing market conditions.

4.6 With a mind to maximising how reactive we can be, we are considering the best means to adapt the list of eligible APM equipment/services, ie turning the items identified in Table 1 'on' or 'off' for APM usage. As such, we welcome views from respondents, particularly the TOs, on how they would want the list to be amended, outlining any risks or issues different approaches pose to them.

4.7 This is distinct from any updates to allowances – we would consult publicly when updating the value of the respective TO allowances assigned to the APM.

Retrospective application

4.8 Given the urgency of addressing supply chain constraints, we anticipate that the TOs may wish to go proceed with paying deposits to secure capacity reservations before the APM UIOLI would be formally activated (ie following any licence change and 56-day statutory standstill period).

4.9 The TOs are able to make procurement arrangements with their suppliers at any time, regardless of the APM, and any such expenditure is typically incurred at their own risk.

4.10 In the case of the APM, recognising the large volume of procurement required, we are open to considering retrospective inclusion of spend in the APM. To be eligible, we propose that any spend must:

- relate to contracts that were signed no earlier than the publication date of this consultation;
- fit the eligibility requirements for the APM as set out in our subsequent decision and associated APM Governance Document; and
- be reported to Ofgem within one month of commencement of the licence taking effect.

4.11 We emphasise that we are at consultation stage. Any spend prior to a licence modification being formally activated would be at risk and retrospective approvals are not guaranteed.

Confidentiality

4.12 It will be important to ensure that there is transparency over the allowances made available, and subsequently used, under the APM. Expenditure through the APM is done with some risk of waste, and we recognise that providing information to the public and wider industry on our decision making in this area

is an important part of our fulfilment of our statutory duties and our commitment to accountability.¹⁵

4.13 We do, however, recognise that the information in the APM Register may be commercially sensitive, and/or that publishing it may have a detrimental impact on a TOs' competitiveness in the market. As such, we intend to keep the APM Register as a private annex to the licence which would only be accessible to us and the respective TO.

4.14 In summary we propose that:

- We would publish the total sum of the APM allowance and spend across all three TOs and a list of the equipment allowed under this, with equipment listed to at least an Asset Category level.¹⁶
- We would not publish allowances or spend disaggregated across TOs, Asset Categories or projects.

¹⁵ See Ofgem's statement on transparency: [Transparency of Ofgem data – A Statement of our Policy | Ofgem](#).

¹⁶ Asset Category as defined in Sheet "1.8 Asset Possibilities", available in Annex 7 of our [RIIO-3 Business Plan Guidance | Ofgem](#).

5. Your response, data and confidentiality

Consultation stages

Outline the key stages the consultation will progress through to get to a final decision. Mention any events/workshops your team may be running as part of the process.

- 5.1 The consultation will be open until 18th December 2024. Responses will be reviewed and the consultation decision will be published in early 2025.

How to respond

- 5.2 We want to hear from anyone interested in this consultation. Please send your response to RIIO3@ofgem.gov.uk.
- 5.3 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 5.4 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

- 5.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 5.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 5.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

5.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

5.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit.

[ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)

Notify me +

Would you like to be kept up to date with *Consultation name will appear here*? subscribe to notifications:

Email*

Submit >

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendix 1 Consultation Questions

- Q1. Do you agree with our proposal to introduce the Advanced Procurement Mechanism to address supply chain constraints faced by the transmission owners?
- Q2. Do you agree with our proposed framework for evaluating eligibility?
- Q3. Do you agree with how we have defined supply chain constraints?
- Q4. What are your views on which equipment types are most constrained, which are at risk of future constraint, and which are less of a concern, and what are your views on the items we should include within the scope of the APM?
- Q5. What are your views on our intention to exclude strategic procurement from the APM, and the potential benefits of later expanding the APM to include it?
- Q6. Do you agree with how we have characterised fungible, flexible and bespoke procurement, and our proposed treatments of each of these? Do these definitions reflect real world contracting and engineering realities?
- Q7. Do you agree with our proposed approach to funding services contracts through the APM?
- Q8. Do you agree with our rationale for using a UIOLI mechanism for the majority of APM expenditure, rather than other regulatory tools?
- Q9. Do you agree with our proposal for the APM allowance to be capped at 20% of the estimated equipment cost?
- Q10. Do you agree with the use of a re-opener to update the APM in-period?
- Q11. What are your views on our proposed approach to cost reconciliation?
- Q12. What are your views on how we should approach in-period updates to the APM?
- Q13. Do you agree with our proposal regarding retrospective application of the APM?
- Q14. Do you agree that the publication of detailed APM costs and volumes could be commercially detrimental to TOs, and by extension consumers? If so, why?

Appendix 2 Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[Ofgem privacy promise](#)”.