
Notice of statutory consultation on the Advanced Procurement Mechanism (APM)

To:

Scottish Hydro Electric Transmission

National Grid Electricity Transmission

Scottish Power Transmission

Electricity Act 1989

Section 11A(2)

Notice of statutory consultation on our proposal to modify the special conditions of the electricity transmission licence held by each of the above licensees

1. The Gas and Electricity Markets Authority (the 'Authority') proposes to modify the electricity transmission licence (the 'licence') held by each of the above licensees (the 'licensees') granted or treated as granted under section 6 (1)(b) of the Electricity Act 1989 by introducing Special Condition 3.42 in the manner set out in Schedule 1.
2. We are proposing these modifications to give effect to our Advanced Procurement Mechanism (the 'APM') decision of 20 March 2025 (the 'APM decision').
3. The reasons and effects of the proposed modifications, together with the full text of the proposed modifications, are published alongside this notice at www.ofgem.gov.uk, alternatively they are available from foi@ofgem.gov.uk. In addition, further details on the proposed modifications are set out in the APM decision.
4. The purpose of the proposed modification is to calculate APMt (APM use it or lose it allowance and Re-opener allowance term) and APMDt (the APM disallowance term).

5. The effect of this licence modification is to:
 - a) specify the APM use it or lose it allowance (APM Allowance);
 - b) provide for an APM Re-opener;
 - c) require the licensee to submit specified information in relation to the use of the APM allowance;
 - d) provide for disallowance of ineligible APM expenditure under the APM Allowance;
 - e) prescribe the process the Authority will follow when directing any changes to the appendices to this licence condition or when issuing or amending the APM Governance Document; and
 - f) require licensees to comply with the APM Governance Document.
6. Any representations with respect to the proposed licence modifications must be made on or before 17th April 2025 to RIIO@ofgem.gov.uk.
7. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be easily placed on our website.
8. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

Kind regards

Joe Slater

Head of RIIO-ET3 Policy

Network Price Controls

Schedule 1: Proposed new Special Condition 3.42

Special Condition 3.42. Advanced Procurement Mechanism (APM) use it or lose it allowance and Re-opener (APM_t)

Introduction

- 1.1.1 The purpose of this condition is to calculate the APM_t (Advanced Procurement Mechanism (APM) use it or lose it allowance and Re-opener allowance term).
- 1.1.2 The effect of this condition is to:
- (a) specify the Advanced Procurement Mechanism use it or lose it allowance (APM Allowance);
 - (b) provide for a use it or lose it allowance adjustment (APM Re-opener).
 - (c) require the licensee to submit specified information in relation to use of the APM Allowance;
 - (d) provide for disallowance of ineligible APM expenditure under the APM Allowance;
 - (e) prescribe the process the Authority will follow when directing any changes to the appendices to this licence condition or when issuing or amending the APM Governance Document; and
 - (f) require the licensee to comply with the APM Governance Document.

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

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

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

Where:

APM_t means the APM Allowance term;

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

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

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

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

Part B: APM Re-opener of APM Cost Categories

- 1.1.4 The licensee may apply to the Authority to make amendments to the APM Governance Document by direction with respect to additions of new, or modifications of existing, APM Cost Categories.
- 1.1.5 The licensee must make any application under this Part in writing to the Authority and must include, for each proposed amendment to an APM Cost Category, evidence:
- (a) explaining how the APM can help to avoid delays to project delivery or increased project costs;
 - (b) of whether the APM Cost Category is being proposed as Flexible Procurement or Bespoke Procurement, and evidence to justify categorisation as Flexible Procurement;
 - (c) of how the licensee will undertake tracking of expenditure of any APM Allowance (including as part of any complex contractual arrangements) to ensure that it can comply with the reporting requirements as set out in Part G; and
 - (d) of any further information as required in the APM Governance Document.
- 1.1.6 An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or such other time as the Authority may direct.
- 1.1.7 The Authority will make a direction adding new APM Cost Categories to the APM Governance Document where it considers that the requirements under paragraph 1.1.5 have been satisfied.

Part C: APM Re-opener of Bespoke Procurement Allowances

- 1.1.8 The licensee may apply to the Authority to make amendments to the value in Appendix 2 by direction.
- 1.1.9 The licensee must make any application under this Part in writing to the Authority and must include, for each proposed amendment to the value in Appendix 2:
- (a) details setting out the licensee's calculation of the value of the proposed amendment, including relevant APM Cost Categories and reference to the relevant projects;

- (b) project details relevant to the likelihood of stranded procurement (for example equipment that is procured but is not used), including project timelines, and the eligibility criteria as set out in Paragraph 1.1.5; and
 - (c) any further information as set out as required in the APM Governance Document.
- 1.1.10 An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or such other time as the Authority may direct.
- 1.1.11 The Authority will make a direction amending the value in Appendix 2 where it considers that the requirements under paragraph 1.1.9 have been satisfied.

Part D: APM Re-opener of the APM cap

- 1.1.12 The licensee may apply to the Authority to make amendments to the value in Appendix 1.
- 1.1.13 The licensee must make any application under this Part in writing to the Authority and must include, for each proposed amendment to the value in Appendix 1:
- (a) details setting out why the APM cap is insufficient to enable the licensee to procure effectively;
 - (b) details setting out why the APM cap may put at risk the objectives of the APM;
 - (c) details regarding the progress towards full regulatory approval of projects that the APM Allowance has been used to procure for; and
 - (d) any further information as set out as required in the APM Governance Document.
- 1.1.14 An APM Re-opener application under this Part may only be submitted during the first five working days of April 2026, April 2027, April 2028, April 2029 or April 2030, or such other time as the Authority may direct.
- 1.1.15 A modification under this Part will be made under section 11A of the Act.

Part E: Authority-triggered Re-opener

- 1.1.16 The Authority may make amendments to any APM Cost Category by direction where:
- (a) with respect to the addition of a potential new APM Cost Category, it considers that the requirements set out in Paragraph 1.1.5 are satisfied; or
 - (b) with respect to removal of an existing APM Cost Category, it considers that the requirements set out in Paragraph 1.1.5 are no longer satisfied.
- 1.1.17 Where an APM Cost Category is removed, existing procurement undertaken prior to when the Authority consults on the removal of that APM Cost Category would remain eligible for APM Allowances.

- 1.1.18 The Authority may amend the value shown in Appendix 2 by direction where the licensee reports through the Annual Iteration Process that a portion of the Bespoke Procurement allowance specified in Appendix 2 has been allocated to the APMR_t since the last Annual Iteration Process. In such instances the amendment of the value shown in Appendix 2 directed by the Authority will be equal to the portion of the Bespoke Procurement allowance that has been allocated to the APMR_t since the last Annual Iteration Process.
- 1.1.19 The Authority may amend the value of APMC_t set out in Appendix 1 under section 11A of the Act where it considers that such an amendment will:
- (a) when increasing the value of APMC_t, ensure that the licensee has sufficient APM Allowances to engage the supply chain at the scale required to avoid delays to project delivery or increased project costs; or
 - (b) when reducing the value of APMC_t, ensure that the reduction will not introduce delays to project delivery or cause increases in project cost.

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

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

Part G: Reporting requirements

- 1.1.22 The licensee must report any expenditure it has incurred against the APM Allowance to the Authority through the Annual Iteration Process in the manner specified in the APM Governance Document, which will include:
- (a) the relevant APM Cost Categories the expenditure has been incurred against;
 - (b) the number of units procured against each APM Cost Category;
 - (c) the relevant contract value(s) procured against each APM Cost Category;
 - (d) the expected delivery date for the equipment or service, or range of delivery dates permitted under the contract(s);

- (e) where known, the named project that the equipment or service is intended be allocated to; and
- (f) the key contractual commitments or milestones.

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

1.1.23 As part of any application to the Authority for allowances under Chapter 3 to deliver a project that will use equipment procured in-whole or in-part using allowances specified in Appendix 1, the licensee must report to the Authority as part of that re-opener application:

- (a) the final cost of the equipment; and
- (b) details of the APM Allowance specifying the relevant entry or entries in the APM Register.

Part I: Status of expenditure

1.1.24 No determination of an allowance specified in Appendix 1, 2 or 3 constitutes approval of any project to which the allowance relates.

Part J: Ineligible APM expenditure

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

- (a) procured equipment or services using its APM Allowance in a manner which did not constitute Flexible Procurement or Bespoke Procurement;
- (b) procured equipment or services in relation to a cost area not included in the APM Register at the time the procurement occurred;
- (c) procured volumes of equipment or services significantly in excess of what it could have reasonably expected to use, resulting in, five years after the spend was first incurred by the licensee, 25% of the procured volumes of equipment and/or services remaining unused by the licensee on a project;
- (d) procured services for which use of the services was not possible to link to an APM Cost Category in the APM Register;
- (e) procured equipment or services for a project which had, at the date of procurement, been designated a CATO Project;
- (f) procured equipment or services for a project where the licensee has also received Early Construction Funding as provided for in Special Condition 3.41;
- (g) is able to financially benefit from novating or otherwise transferring procurement undertaken through the APM to another licensee or a third party;

- (h) the procured equipment or services were not or cannot be tracked by the licensee through the APM Register to provide evidence to the Authority that there is no double-funding across the price control; or
 - (i) there is evidence of double funding across the price control.
- 1.1.26 The licensee is only eligible to receive, on average (arithmetic mean) across the portfolio of APM Cost Categories, 20% of the expected cost of the equipment and service procured using the APM. Where the licensee incurs more than 20% the Authority may disallow the expenditure above 20%. The Authority will review licensee performance against this requirement during each Annual Iteration Process.
- 1.1.27 A modification under this Part will be made under section 11A of the Act.

Part K: APM Governance Document

- 1.1.28 The licensee must comply with the APM Governance Document when incurring expenditure against the APM Allowance.
- 1.1.29 The Authority will issue and amend the APM Governance Document by direction.
- 1.1.30 The Authority will publish the APM Governance Document on the Authority's Website.
- 1.1.31 The APM Governance Document will make provision about the governance and administration of the APM use it or lose it allowance and Re-opener, including:
- (a) the eligibility criteria and what evidence the licensee should provide in respect of the criteria, in respect of expenditure incurred in relation to the allowance provided by this licence condition; and
 - (b) the reporting obligations in respect of expenditure incurred in relation to the APM which the licensee must meet.
- 1.1.32 Before the Authority directs that the APM Governance Document comes into effect, the Authority will publish on the Authority's Website:
- (a) the text of the proposed APM Governance Document;
 - (b) the date on which the Authority intends the APM Governance Document to come into effect; and
 - (c) a period during which representations may be made on the content of the APM Governance Document, which will not be less than 28 days.
- 1.1.33 Before directing an amendment to the APM Governance Document, the Authority will publish on the Authority's Website:
- (a) the text of the amended APM Governance Document;
 - (b) the date on which the Authority intends the amended APM Governance Document to come into effect;
 - (c) the reasons for the amendments to the APM Governance Document; and

a period during which representations may be made on the amendments to the APM Governance Document, which will not be less than 28 days.

APPENDIX 1

Values of APMC_t

	Value of term (£m)
APMC _t	Confidential – shared directly with licensee through APM Register

APPENDIX 2 (confidential)

Bespoke Procurement allowance

Value of Bespoke Procurement allowance (£m)
Confidential – shared directly with licensee through APM Register

APPENDIX 3

Value of APMD_t

Term	APM Allowance value (£m)
APMD _t	Confidential – shared directly with licensee through APM Register

Special Condition 3.42 definitions to be added to the licence

Term	Definition	Is this already defined?
APM Allowance	means the Advanced Procurement Mechanism Use it or lose it (UIOLI) Allowance, established by Part A of Special Licence Condition 3.42. This includes any allowances for Bespoke Procurement, as set out in Appendix 2.	No , in this licence condition as it will only be used here
APM Cost Category	means an expenditure category that the Authority has deemed eligible for the licensee to use its APM allowance against as set out in the APM Governance Document.	No , in this licence condition as it will only be used here
APM Governance Document	means the document issued by the Authority in accordance with Part K of Special Condition 3.42.	No , in this licence condition as it will only be used here
APM Register	means a licensee-specific document held and updated by the Authority based on information provided by the licensee in relation to its use of APM Allowances, shared only with the licensee and otherwise kept confidential.	No , in this licence condition as it will only be used here
APM Re-opener	means the Advanced Procurement Mechanism Re-opener, established by Part B, Part C, Part D and Part E of Special Licence Condition 3.42.	No , in this licence condition as it will only be used here
Bespoke Procurement	means procurement that is not Flexible Procurement, or is procurement that the Authority otherwise decides to be bespoke and is thus assessed for APM eligibility on a project-specific basis by the Authority, and is specified as such in the APM Register.	No , in this licence condition as it will only be used here
CATO Project	means a project which the Authority has decided should be delivered by a Competitively Appointed Transmission Owner.	No , in this licence condition as it will only be used here
Flexible Procurement	means procurement for equipment or services which, at the time APM Allowance was used to secure the equipment or services, did not have project-specific design characteristics that would prevent the equipment or services being used on multiple different projects.	No , in this licence condition as it will only be used here