

To all holders of an electricity
transmission licence and other
interested stakeholders

Email: RII03@ofgem.gov.uk

Date: 20th March 2025

Dear licensees and stakeholders,

Statutory consultation on our proposal to modify the special conditions of the electricity transmission licence to implement Ofgem's decision to introduce the Advanced Procurement Mechanism

We are proposing changes to the electricity transmission licences (the "**licence**") held by each of the Transmission Owners ("**TOs**") (National Grid Electricity Transmission, Scottish Hydro Electric Transmission and Scottish Power Transmission) to implement the Advanced Procurement Mechanism (the "**APM**") by introducing special condition 3.42. Our decision to implement the APM was published on 20 March 2025, following our policy consultation on the APM published on 20 November 2024.

Background

In November 2024 we consulted on our proposal to introduce the APM, designed to mitigate current and future supply chain constraints which might otherwise delay project delivery or increase project costs. We considered that there is material risk of consumer detriment if the TOs are unable to deliver planned network build out due to supply chain constraints, therefore justifying the intervention of the APM. After reviewing consultation responses and engaging with stakeholders, we have decided to implement the APM.

The APM will provide each TO with an allowance which can be used to procure equipment and services in advance of when they are needed, in line with the requirements established in the licence condition and associated APM Governance Document.

Our proposed licence modifications

The reason for modifying the licences of all three TOs is to implement our decision to introduce the APM by creating a special condition to allow expenditure under the APM.

The purpose of the condition is to calculate the APM_t (APM use it or lose it allowance and Re-opener allowance term) and $APMD_t$ (the APM disallowance term).

The effect of this condition is to:

- a) specify the Advanced Procurement Mechanism 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 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.

APM Governance Document

Alongside this proposed licence modification, we are also consulting on the APM Governance Document. The proposed APM Governance Document sets out the day-to-day operation of the APM and provides the TOs with clarity on how to use the APM. The proposed APM Governance Document describes:

- a) what information is needed from TOs in their application funding, and how we would assess those applications;
- b) reporting requirements, including timelines;
- c) how costs incurred under the APM UIOLI would be reconciled against final project views;
- d) how the APM Re-opener would operate, and how allowances and the APM register would be updated;
- e) how licences will be updated to reflect the APM.

Statutory consultation

We are seeking views on:

- 1) the proposed new special condition 3.42 to be inserted into the electricity transmission licence held by the TOs, as required under section 11A(2) of the Electricity Act 1989; and
- 2) the APM Governance Document for the proposed new special condition 3.42 (the APM Governance Document itself is not subject to statutory consultation, but we welcome your views on the document as part of this consultation).

Our proposed licence changes can be found in Schedule 1 of the Notice of statutory consultation on our proposal to modify the special conditions of the electricity transmission licence held by each of the TOs, published alongside this consultation.

Our proposed APM Governance Document is published alongside this consultation.

Next steps

If you wish to respond to this consultation, please do so on or before **17th April 2025**. Please email your response to RIIO3@ofgem.gov.uk. 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 responses in electric forms so they can be placed easily on our website.

If we make the proposed licence modification, it 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