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Dear RIIO-3 team

Draft determinations: Advanced Procurement Mechanism (APM) re-opener

We welcome the opportunity to respond to this consultation. We are responding in our role as the statutory advocate for energy, and have focused our response on the areas most relevant to this role.

We have not answered Ofgem's specific questions. This is due, in part, to the limitations of our role, which is not focused on engineering, supply chains or real-world insight of Transmission Operator (TO) procurement or building processes. Additionally, we do not feel that there is sufficient information provided by Ofgem to analyse this proposal in full. We do recognise, however, that this may be partly or wholly unavoidable due to the commercially sensitive nature of the data.

We have provided our overall thoughts on this proposal and questions for Ofgem below.

Support for the APM

We would like to stress our overall support for both the principle of the Advanced Procurement Mechanism (APM), and the design of the mechanism itself. In a time of increasing transmission investment, and with inflation currently above-target, the APM could act as a valuable tool to secure needed supplies early, and reduce the overall cost for consumers. We also note that this re-opener will not increase consumer bills as the APM cap remains at £4 billion (in 2023/24 prices).

Bespoke allowances

We recognise that there is a risk in declining TO requests for increased bespoke allowances, or in delaying their approval. Either action could mean that essential build will overrun in cost or timing, and ultimately increase constraint costs for consumers. However, as Ofgem has acknowledged, the risk of stranded assets must also be considered. This is especially relevant to bespoke procurement, as the possibility of interoperability or redeployment is reduced. To fairly balance between companies and consumers the risk of inefficient planning, Ofgem could introduce a mechanism alongside increased bespoke allowances that shares the cost, rather than fully passing through.

Ofgem asks in this consultation whether modular substations should be categorised as Flexible or Bespoke-only under the APM criteria. In light of our concerns around bespoke allowances, our preference would be for the flexible criteria to apply. 'Modular' implies that these assets could be standardised, and this would benefit consumers by introducing a regulatory pressure for TOs to to design efficiently.

Transparency

While we accept that commercially sensitive data is not appropriate for publishing publicly, we would welcome more information to be shared. It may be possible for Ofgem to share more information bilaterally with key stakeholders, perhaps under a Non-Disclosure Agreement. As a specific example where more information would improve transparency, it isn't clear for the reasons behind all three TOs seeking increased bespoke allowances at this point.

Our response to this type of consultation would differ depending on the extent to which the companies are facing genuine engineering or supply chain challenges, or if a lack of standardised designs or inefficient procurement processes are behind this request. The former is a genuine problem that could merit a change in the allowance in a way that the latter would not.

Should the bespoke allowances increase, we would like to see greater ex-post transparency, which could take the form of annual reporting from the TOs. This could outline the bespoke equipment procured under the APM, and link it to the specific project it was used for, and whether the equipment was successfully deployed.

Ofgem has emphasised transparency as an important part of its regulatory approach. We would welcome more transparency around the re-opener process in general. We will engage with Ofgem and the TOs on ways to improve consumer confidence.

Yours sincerely,

Alice Williams