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# Supply Chain Resilience Strategy

December 2024







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# **Our Ambition**

Our mission is to deliver a network for net zero. Supply Chain Resilience is a critical enabler in achieving this. To meet 2030 targets, on the road to net zero, we have developed an ambitious approach that will foster a resilient and sustainable supply chain, which is capable of delivering the unprecedented investment required for our network.

# **About This Document**

Our Supply Chain Resilience Strategy (herein referred to as the "Strategy") sets out how we are securing long-term capacity and maintaining maximum competitive tension.

- The Strategy Overview section highlights key outcomes and enablers.
- The remainder of the document expands upon our four focus areas, details the implementation of our Strategy, and confirms our commitment to work with Ofgem to provide information that will measure progress.



Supply Chain Resilience Strategy



# **1. Strategy Overview**

Our mission is to deliver a network for net zero, unlocking the north of Scotland's potential as a renewable energy powerhouse.

The Pathway to 2030 and to clean power, depends upon a safe, reliable and resilient electricity transmission system that connects homes and businesses with renewable generators. The north of Scotland, with its vast renewable energy resources, will continue to play a critical role in the energy transition. Our goals are for our network to have the capability to meet 20% of the GB demand for clean power by 2030, while maintaining a 100% reliable supply, and delivering transformative, lasting benefits for local communities, our economy and nature. This ambitious plan requires investment in network growth and collaboration with stakeholders to ensure a fair and sustainable transition.

We recognise that the RIIO-T3 period will be significantly shaped by unprecedented growth in the transmission and energy sectors. Large-scale investments, both in the UK and internationally, have created a market where demand exceeds supply when it comes to procurement of works. The high volume of recent large-value regulated framework events has led to tender fatigue, prompting supply chain partners to be selective about the opportunities and clients they choose to engage with.

### 1.1 Outcomes and Enablers

Our Strategy aims to secure, maintain, grow, and develop a resilient and sustainable supply chain to support the unprecedented investment required for our network, within a challenging procurement environment. The Strategy aims to deliver against three key outcomes:

- 1. Deliver long-term and sustainable supply chain capacity
- 2. Execute at pace
- 3. Ensure value for money.



These outcomes will be achieved through four key enablers: Evidence-led Procurement, Building Relationships, Commercial Resilience, and Good Governance. A fifth enabler, Attracting and Retaining the Best Talent is addressed in our Workforce Resilience Strategy.



**Evidence-led Procurement:** We continuously leverage market evidence and insights to guide our actions to make the **right decisions at the right times**.



**Building Relationships:** We aim to strengthen our relationships across all tiers of the supply chain, and to develop new ones, positioning ourselves as the **customer of choice** for all investments.



**Commercial Resilience:** Ensuring best value for money by applying **robust commercial rigour** during all contract negotiations.



**Good Governance:** We adhere strictly to internal governance procedures and external regulations to ensure **consistent**, effective, and efficient execution. As a regulated utility, we comply with the Utilities Contract (Scotland) Regulations.

These outcomes and enablers will allow us to navigate the challenging market conditions that are set to continue through the RIIO-T3 period.

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# 2. Context: The Need to Evolve

The context in which our supply chains are being built and managed has changed significantly since the start of RIIO-T1, and particularly since 2021. This has resulted in a critical requirement to evolve our approach to supply chain management.

#### 2013 to 2021: Market Stability

The 2013 to 2021 period was marked by relative stability in terms of demand and cost. During this time, we delivered RIIO-T1 and submitted the RIIO-T2 Business Plan, along with tenders and awards related to our Strategic Wider Works (SWW) projects such as Caithness Moray and Shetland HVDC Links.

It was common during this period to tender contracts and receive multiple bids. These could be one-off contracts or through mini-competitions through competitively tendered framework agreements. Tenders were sent to multiple bidders based on a high scope definition, which informed the supply chain's pricing. Historically this competitive procurement environment allowed for an approach in which risk was passed on to the supply chain, where appropriate. This enabled us to demonstrate efficiency through competitive fixed-price contracts (with limited to no contract price adjustment mechanisms).

The RIIO-T1 portfolio predominantly used uncommitted framework agreements and the above procurement approach outlined was implemented with great success.

#### 2021 to 2023: Market Reaction to Global Events

At this time, markets started to experience inflation pressures due to the easing of COVID-19 restrictions and the impacts of geopolitical unrest. These events, coupled with significant growth in the energy sector, caused a shift in market conditions that included limited appetite from suppliers to continue to bid to win works. For example, procurement for the Skye Reinforcement project highlighted challenges in obtaining multi-party competitive fixed price tender returns and significantly impacted our originally intended delivery.

Limited tender returns for the Skye Reinforcement project: Out of the five suppliers shortlisted and issued with the Invitation to Tender for the Overhead Line works, only one supplier submitted a tender. This limited market interest has been observed across all Skye work packages, with a maximum of two bidders for each of the remaining main work packages (Substation, Wood Pole, and Underground Cable). This situation has significantly impacted our originally intended delivery approach as the strategy was to divide the work across multiple Overhead Line suppliers. Additionally, all contractors have requested multiple extensions for tender submission dates due to the high volume of industry tendering activity. This trend has prolonged procurement programmes.

This challenging environment has necessitated an evolution in our procurement approach, such as those developed for the ASTI programme.

#### 2024 and Beyond: Continuing Increase in Demand Trends

Whilst our demand for works and goods is expected to continue to grow across RIIO-T3, total volumes are low relative to international competitors that are attempting to secure the same assets. Supply chain feedback and intelligence indicates that suppliers across all asset categories are experiencing supply issues and are expecting these to worsen over the coming years. The increase in demand is already reflected in rising lead times; over half of the assets studied have seen a significant increase in lead times compared to the start of RIIO-T2. Even once equipment has been secured following long lead times, project deliverability and mobilisation are being threatened by a shortage of onshore transmission workers. This environment led to suppliers' increased selectivity, reduced appetite towards risk (for example limited fixed price proposals with an increased use of price adjustment mechanism) and less competitive tendering. There is therefore a real need to become the customer of choice and introduce new methods of demonstrating efficient expenditure.

The key outcomes and enablers mitigate these present-day risks by making the right decisions at the right time that build on the successful ASTI procurement that has secured supply to achieve 2030 targets.



# **3. Evidence-led Procurement**

### **3.1 Strategic Procurement**

Application of SSEN Transmission's consistent procurement methodology was used to develop the Strategy to deliver 2030 and beyond. This includes tCSNP2<sup>1</sup>, ongoing connections, and the T3 Baseline Plan, with necessary adaptations. This methodology has been recently applied with great success in securing capacity for the ASTI programme.

Through extensive demand planning (understanding works and goods requirements) and market intelligence, we can make deliberate decisions to select the best strategic procurement strategy. A key outcome requires that we move quickly to secure the limited available capacity with a high proportion of the baseline programme secured through our existing framework agreements. This will require careful management and reliance on Supplier Relation Management (see Building Relationships section below).

Key strategic procurement decisions are:

- **Routes to market:** Use existing frameworks to execute at pace and retain existing supplier capacity.
- Maximise competitive tension through strategic introduction of 'new' capacity: Introduce new 'tier 2' capacity, and undertake procurement events within the non-energy building space together with new equipment frameworks, and new capacity developed in the Customer Connections space.
- Allocation and contracting models: Direct allocation and use of early contractor involvement models under long-term frameworks. This facilitates supply chain investment, and allows for innovative design and construction where we will be open to different ideas, which ensures the best outcomes for consumers.
- **Standardisation:** Adopt standardised solutions to maximise efficiency of design and procurement.
- Advanced procurement and early financial commitments: Secure key equipment and contractor capacity early which will involve working with Ofgem on the development of an 'Advanced Procurement Mechanism' that will provide a valuable means of securing equipment and contractor capacity early.
- **Risk allocation:** Supply chains are unable to fix prices due to the geopolitical environment. Suppliers are therefore seeking methods to protect against price inflation using price adjustment mechanisms and / or different pricing approaches which will impact cost certainty throughout the RIIO-T3 period. Therefore, the regulatory framework needs to provide a layered and flexible consumer cost protection framework, made up of existing regulatory mechanisms, that is structured and calibrated to better protect consumers and networks from this cost uncertainty<sup>2</sup>.

<sup>1</sup>Second Transitional Centralised Network Plan (tCSNP2).

<sup>2</sup>Further information on these mechanisms can be found in Section 5 of our Cost Assessment & Benchmarking Annex





### Worked Example 1: Evolving Allocation Strategy

The new transformer framework offers mini-competition and direct allocation options, in contrast with RIIO-T2 which solely allowed for mini-competition route. For ASTI projects, direct allocation was chosen to secure units within the required delivery timescales. This route aligns with current market conditions and ensures we are upholding our 'customer of choice' status among the supply chain. With tendering resource scarce, direct allocation and advanced procurement is ensuring that resources are being utilised to their full potential. As part of the direct allocation process numerous factors were considered, including the technical capabilities of the suppliers (as some of the ASTI units are the largest that we have ever purchased for our network) and the capacity available at each factory to ensure delivery dates could be met. Commercial aspects were also considered. For example, we have driven efficiencies by standardising the unit types across ASTI and not changing designs per project, thus driving design efficiencies (in terms of both cost and time).

#### Allocation Benefits

Clear visibility and accuracy of demand and capacity

Enables Delivery Partners to commit to long term local investments

Supports collaborative relationships with Supply Chain

Ensures logistical challenges can be planned & managed in remote locations

#### Forecast Route to Market (Portion of Spend)



The two pillars that underpin strategic decisions are demand planning and gathering market intelligence.

### 3.2 Demand Planning

Ensuring certainty over future demand, extending beyond this decade, is essential for signalling to supply chain partners that they can confidently expand their capacity. This enables us to proactively secure long-term factory capacity and create a labour workforce that mitigates the disruptive cycles of mobilisation and demobilisation.

RIIO-T3 will be delivered alongside our c£26bn+ LOTI<sup>3</sup>, ASTI and tCSNP2 investments, set against a backdrop of high global demand. This is in contrast to the lower demand environment in which we established our RIIO-T2 baseline. The current context makes it even more critical to map the demand which will help us understand specifically where to target our supply chain to signal the opportunities. This involves breaking down the RIIO-T3 baseline programme spend into asset categories which showcases some notable differences from the RIIO-T2 asset categories; which is primarily driven by a focus on resilience activities. This includes plans for traditional building construction projects such as training schools and depots. Due to the already high workload being delivered by existing traditional principal contractors on overhead line, substation and cable schemes, the intention is to introduce new capacity in this space to deliver building projects. This will allow us to expand the supplier base to more specialist building contractors which in turn provides opportunities for these contractors to enter the energy sector.

#### 3.3 Market Intelligence

Market intelligence is the other cornerstone which informs our strategic procurement decisions. One such example is the Deloitte study commissioned during May - June 2024 to gather and analyse data on supply chain constraints which impact network renewal projects, with a focus on potential solutions. This in-depth study provided valuable insights to inform our Strategy and ongoing actions, particularly in two areas: capacity and the need for collaboration over competition to secure supply.

Findings revealed near-full supply chain capacity in substations, OHL, cables, and asset refurbishment projects until 2031, with some available capacity in civil and non-energy spaces. This intelligence is combined with our demand for works and goods to inform our strategic procurement decision. This identified the need to execute at pace to secure the limited available capacity with a high proportion of the baseline programme secured through our existing framework agreements and introducing new routes to market. New routes to market will be centred around additional equipment frameworks, adding tier 2 capacity to support customer connections, and specialist buildings contractors. Our focus on Building Relationships will go some of the way to help address sector issues related to workforce requirements and assist in securing long-lead equipment.

<sup>3</sup>Large Onshore Transmission Investment (LOTI) and Accelerated Strategic Transmission Investment (ASTI).



# **4. Building Relationships**

The ability to create long-term capacity hinges on strong relationships at all tiers of the supply chain. Our Supplier Relationship Management (SRM) function is therefore crucial to our Strategy. This is especially important in the current challenging environment, where suppliers are becoming increasingly selective as demand grows, both in the energy sector and in other emerging markets. SRM ensures we build and nurture long-term relationships with delivery partners, in a focused and controlled manner, thereby ensuring stability and reliability in our supply chain.

### 4.1 Focused SRM Function

Our SRM function has evolved to adapt to changes in the supplier landscape through the introduction of a dedicated Supply Chain team. Supplier landscape changes include increased customer selectivity, emergence of new markets, reduced appetite towards risk, and less competitive tendering. The team provides a focus on relationship management, gathers key supplier data, provides comprehensive insights into supply chain activities, and delivers up-to-date market intelligence such as capacity information, market demand and live lead-in times that support programme deliverability.

Implementation of SRM has positioned SSEN Transmission as a leading global Transmission Operator and preferred customer of choice. This is despite our relatively low demand relative to the high-demand market as illustrated below<sup>4</sup>.

We are now advancing SRM to cultivate and strengthen industry-wide relationships to support the successful procurement and delivery of all projects. The plans to advance SRM to support delivery of our ambitions include:

- A focus on supply chain growth, development of a resilient workforce plan, and multi-party collaboration to achieve the common Pathway to 2030 goal that will be achieved through a Supply Chain Forum and appointing a full-time Transmission Engagement Manager.
- **Safeguarding supply chains**. We rely on a healthy supply chain, so our Executive Directors meet with strategic partners and suppliers to discuss and action material issues. This has been achieved by developing a Supplier Engagement Strategy for each contractor, focused on performance through gold, silver and bronze categorisation within SSE Group and SSEN Transmission.
- **Supplier performance management** will continue to be used to monitor and manage supplier performance against new delivery targets and evolving business requirements including growth, innovation, and sustainability. This will enable us to intervene and make informed decisions to efficiently manage our portfolio of programmes and projects.



<sup>4</sup>RIIO-T3 Network Renewal Supply Chain Insights

#### SRM Highlights

- Partnering with a leading manufacturer on a world first 'SF6-free circuit breaker'
- Well attended supplier events
- Supplier chains' willingness to support our RIIO-T3 plan
- Executive engagement to discuss material issues
- Growing supplier base through Tier 2 and traditional building contractors.





### 4.2 Wider Industry Engagement

The Strategy includes robust stakeholder engagement. SSEN Transmission engage with the entire industry from suppliers to government, including other Transmission Operators (TOs). This engagement fosters open and collaborative networks to collectively address industry challenges.

#### **Government Bodies and Industry Experts**

We work alongside Government bodies by sharing our market intelligence and actively participate at forums that include Utility Regulation Reform.

We are actively exploring innovative concepts, including the establishment of an Advisory and Assurance Forum. This forum would comprise leading industry experts who will leverage their collective market intelligence to offer continual challenge and support. By doing so, the forum could play a crucial role in helping us maintain our position as a leading Transmission Operator.

#### **Transmission Operators**

We are engaging with other GB TOs to discuss their approaches to supply chain challenges. This aims to develop an industry-led action plan for strategic collaboration. This initiative seeks to build momentum, avoid duplication of effort and agree how best to provide supply chain certainty to ensure sufficient workforce skills are developed. The work of the initiative includes the development of an Advance Procurement Mechanism that builds on the successful access to Early Construction Funding (ECF) under the ASTI licence. ECF has allowed for early procurement commitments, whilst being mindful of the risk to consumers, with appropriate measures in place to reduce consumer exposure to risk as far as possible. This is essential for securing both manufacturing and people capacity, to achieve delivery dates.

#### Industry-wide Events

We will continue to proactively engage with Research & Development teams at suppliers' global factories. This will help us remain at the forefront of technology development and become the preferred customer when piloting new technologies. For example, Hitachi Energy and SSEN Transmission recently announced a 'joint world first' SF6-free circuit breaker procurement for a connections scheme, following several months of dedicated effort. We have and will continue to attend international events such as CIGRE forums to stay connected with industry trends and innovations.

#### Supply Chain: Skills Development

As well as engaging with other TOs on skills development, we are currently engaging with the senior Human Resource teams across our supply chain partners through a quarterly working group, sharing best practice with a focus on key topics such as; strategic workforce planning, development, retention, recruitment, STEM and early career activities. We are also identifying where it's appropriate to collaborate and where we can potentially complement each other in local areas through this engagement. This will be fundamental in addressing one of the key challenges facing the industry in terms of supply chain resilience and is therefore a key action set out in our Workforce Resilience Strategy.

### 4.3 Delivery Charter: Strengthening Supply Chain Resilience

The requirement to secure supply chain capacity to deliver the identified growth opportunities within SSEN Transmission can only be delivered in partnership with the supply chain. Partnership between delivery partners and ourselves was expressed through key delivery partners signing up to a new ASTI Delivery Charter (the "Charter"). The Charter, which was introduced in 2023, has bolstered our strategic approach by fostering a culture of collaboration with our supply chain partners. Through this initiative we have created a set of common working principles to be applied to everything we aim to deliver by 2030. The Charter also encourages our partners to work together towards common goals which will become topics within SRM forums. This will ensure alignment and mutual support across the supply chain.

#### ASTI GOAL: DELIVER THE SSEN TRANSMISSION ASTI SCHEMES BY 2030

WORKING TOGETHER, BUILDING ONE COMMUNITY, WE ARE COMMITTED TO:



Zero lost time injuries and ensuring everyone gets home safely



Driving value for the UK consumer by



Leaving a legacy and making a positive impact to communities

Delivering on time and

under budget



Relentlessly pursuing better ways of working through challenge and innovation



Acting in a spirit of trust, openness and in full collaboration with each other

#### CREATING A HEALTHY, HAPPY, AND SAFE WORKPLACE IF IT'S NOT SAFE, WE DON'T DO IT



# **5. Commercial Resilience**

### 5.1 Rigorous Negotiations

The Procurement & Commercial (P&C) function aims to be a world-class provider of procurement and commercial services, supporting our business strategic ambitions by:

- Delivering value and executing with speed
- Attracting and retaining top talent
- Ensuring resilient and sustainable supply chains, along with robust pre- and postcontract commercial management services

To achieve this, we operate under a Procurement Policy which commits to maximising value throughout project lifecycles and competitive procurement of goods, works and services as appropriate whilst acting ethically, sustainably and within the law in any jurisdiction in which it operates.

This ambition permeates to everything we do within P&C at SSEN Transmission. This includes our ability to negotiate with suppliers both pre- and post-contract. Negotiations have become increasingly difficult post-2021. Whilst the prevailing supply chain constraints impact our ability to negotiate, SSEN Transmission work hard to seek betterment to both contract terms and price. Both the SRM function and good governance enable improvements that essentially provide value for money to the UK consumer.



### 5.2 Demonstrating Efficient Expenditure

To protect consumers' money, we will secure prices via competitive tenders. Where this is not appropriate or possible (e.g. direct allocation at low scope definition to secure capacity and achieve project delivery dates), other new practices that result in the same or similar outcomes to competitive tenders that can demonstrate efficient expenditure will be adopted, as highlighted in the diagram. Procurement Strategy, Building Relationships and Rigorous negotiations are key to demonstrating efficient expenditure. Other aspects include:

#### **Pricing Policy**

We have developed an Open Book Pricing Procedure that outlines a collaborative approach for preparing cost estimates and developing the Contract Price. This approach ensures estimates accurately reflect the project's forecast outturn cost, enabling early identification of potential cost escalations and promoting greater cost control. The procedure provides transparency and insight into supply chain partners' subcontract procurement plans and requires an assessment and justification for deviation from competitive tendering. In cases where single sourcing is more practical and results in better value and efficiency, the strategy will include robust justification for single sourcing and how it delivers better value than the counter-factual approach.

#### Cost Assurance

We will align pricing procedures and project costs with industry best practices and benchmarks respectively. The Open Book Pricing Procedure obligates supply chain partners to support us by providing benchmarking and robust justification when we go outside industry ranges. Additionally, we aim to employ a third-party auditing body to ensure compliance with our Open Book policy and provide industry benchmarks.

#### Governance & Performance

We have developed a new business role that will provide oversight and enable us to demonstrate efficient expenditure. This role will enable a consistent review and approval of estimates process, and will establish and report on Key Performance Indicators, together with resolving or escalating performance issues.



#### Worked Example 2: Evolving Tender Award Criteria

Tendering is a key control mechanism for achieving procurement objectives. One key difference when comparing the procurement framework agreements for RIIO-T2 against recent approaches such as the ASTI main works is the award criteria. The award criteria in recent events were weighted 70% technical and 30% commercial, reversing the historic 30% technical and 70% commercial approach. The historic method focused on high-scope definitions to refine supply chain prices and demonstrate value for money through fixed-price returns. Given the need to secure capacity earlier where lower levels of pricing exist it is becoming increasingly more appropriate to weight the award criteria more towards technical aspects (technical and project management capability, quality product delivery, and social value). Despite the technical focus, new methods for demonstrating efficient expenditure have retained value for money.

## 6. Governance

It is critical that all major investment projects are governed, developed, approved, and executed in a consistent and effective manner whilst striving to achieve safe, sustainable, and timely execution. The governance threshold for Large Capital Projects (LCP) in SSE is a project investment value greater than £10m.

The Strategy for RIIO-T3 will be subject to our governance procedures and will require approval from the Transmission Executive Committee and the SSEN Transmission Board. This provides the highest-level governance for the SSEN Transmission business.

At a project level, a stage and gate procedure governs the entire lifecycle, which must undergo five stages to completion. The LCP Governance Framework Process is phased with six gates (0-5) at appropriate decision points, with clear consistent deliverables for each gate.



P&C staff working on our projects are involved in all project stages to support stakeholder needs, and are accountable for the P&C activities, both pre- and post-contract as established though SSE's Procurement Code of Practice and Commercial Manuals.

The Commercial Manual sets out the processes in the management and administration of contracts. The manual has been developed in accordance with the existing company procurement and financial policies and procedures, and accepted industry best practices. It provides a set of guidelines and flow diagrams mapping out the required steps to be followed when dealing with the commercial aspects of managing contracts. Key P&C accountabilities under LCP Governance include:

- **Cost Estimation:** Cost estimates are completed in line with SSE's LCP Governance Framework Manual up to Gate 3. As the project definition is refined the cost estimate progresses from strategic evaluation and feasibility to financial approval, budget preparation and project control.
- **Commercial / Contract Management Strategy:** A commercial and contracting strategy is developed and agreed at each stage as required (Gates 1, 2 and 3) of each project. Additionally, procurement strategies are required to be in place and approved for each procurement activity associated with the project in accordance with the relevant SSE procurement procedure. The Commercial and Contracting Strategy includes appropriate procurement, commercial and contract management approaches for the project.
- **Procurement, Insurance, and Legal (PIL) Review:** Integrated PIL recommendations on project risks and opportunities are critical for supporting project objectives. These reviews occur at each project phase and can be initiated as needed. At Gate 2, options are assessed, and a preferred solution is chosen. The strategy is finalised at Gate 3 with main approvals and contract awards.



# 7. Implementing Our Strategy

The Strategy continues to overcome post-2021 challenges by building on successful implementation of the ASTI strategy. This is achieved by continuing to make the right decisions at the right time through evidence led procurement decisions, building industry-wide relationships, commercial resilience, and good governance.

The Strategy is deliverable as evidenced through an allocation exercise that was undertaken in parallel to the demand planning. This has demonstrated that the portfolio can be delivered effectively and efficiently. We have a plan to secure a large portion of the RIIO-T3 baseline through existing framework agreements, therefore we believe we are in a great place to deliver our business plan. Key actions will include conclusion of the work allocation to secure supply through advanced ordering, and procurement of new framework agreements.

#### Worked Example 3: Evolving Contracting Strategy

Early Contractor Engagement for supply chain stakeholders to have sight of market capacity constraints that did not exist pre-2021. An example from our ASTI programme includes the availability of Overhead Line components, including tower steel, insulator sets, conductors, optical ground wire (OPGW), and fittings. Specifically, UK capacity for steel tower fabrication is limited, with bottlenecks in tower type testing and galvanising. ASTI projects estimate over 65,000 tonnes of raw material is required for towers.

These constraints result in significant lead times for OHL components, particularly steel towers. The limited number of UK suppliers of these components exacerbates this issue. We prefer to use UK fabricators to support the UK transmission supply chain, encourage inward investment, and avoid quality issues seen with global manufacturers. Approximately 1,600 steel towers are needed, subject to final design.

Given current UK fabricator capacity, it could take around five years to produce the full required OHL steelwork for ASTI projects. Without factoring in ASTI volumes, UK tower manufacturers project capacity will be booked out from 2025 onwards, necessitating urgent capacity reservations to ensure successful ASTI delivery. Delaying steelwork purchases would impact the wider ASTI portfolio.

### 7.1 Measuring Progress

We commit to working with Ofgem to determine what information they would see value in to understand the wider market intelligence and on our progress against our strategy. This information would be explicitly for Ofgem, rather than for wider stakeholders given the commercially sensitive information.











TRANSMISSION